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 June 30, 2018

or

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

For the transition period from _____to_____

Commission File No. 0-14710

XOMA Corporation

(Exact name of registrant as specified in its charter)

Delaware	**52-2154066**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
2200 Powell Street, Suite 310 Emeryville, California 94608	**(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 August 2, 2018**
Common Stock, $0.0075 par value	**8,387,163**

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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)

	June 30, 2018 (unaudited)	December 31, 2017 (Note 1)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 38,690	$ 43,471
Trade and other receivables	480	397
Prepaid expenses and other current assets	588	327
Total current assets	39,758	44,195
Property and equipment, net	74	83
Long-term equity securities	553	—
Other assets	831	657
Total assets	$ 41,216	$ 44,935
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,082	$ 1,679
Accrued and other liabilities	1,142	2,675
Income taxes payable	—	1,637
Unearned revenue recognized under units-of-revenue method – current	171	615
Contract liabilities	798	798
Accrued interest on long-term debt – current	—	18
Total current liabilities	3,193	7,422
Unearned revenue recognized under units-of-revenue method – non-current	17,592	17,123
Long-term debt	14,853	14,572
Other liabilities – non-current	726	32
Total liabilities	36,364	39,149
Commitments and Contingencies (Note 10)		
Stockholders' equity:		
Convertible preferred stock, $0.05 par value, 1,000,000 shares authorized, 5,003 shares issued and outstanding at June 30, 2018 and December 31, 2017	—	—
Common stock, $0.0075 par value, 277,333,332 shares authorized, 8,379,163 and 8,249,158 shares issued and outstanding at June 30, 2018 and December 31, 2017, respectively	63	62
Additional paid-in capital	1,189,601	1,184,783
Accumulated deficit	(1,184,812)	(1,179,059)
Total stockholders' equity	4,852	5,786
Total liabilities and stockholders' equity	$ 41,216	$ 44,935

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

(Note 1) The condensed consolidated balance sheet as of December 31, 2017 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, 2017.

XOMA CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE (LOSS) INCOME

(unaudited)

(in thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Revenues:				
Revenue from contracts with customers	$ 2,341	$ 10,780	$ 2,743	$ 10,930
Revenue recognized under units-of-revenue method	(86)	110	(25)	220
Total revenues	2,255	10,890	2,718	11,150
Operating expenses:				
Research and development	376	2,916	808	6,908
General and administrative	4,411	5,203	9,579	10,370
Restructuring	459	1,460	459	3,480
Total operating expenses	5,246	9,579	10,846	20,758
(Loss) income from operations	(2,991)	1,311	(8,128)	(9,608)
Other income (expense):				
Interest expense	(178)	(297)	(348)	(906)
Loss on extinguishment of debt	—	—	—	(515)
Other income (expense), net	1,222	(729)	2,723	600
Net (loss) income and comprehensive (loss) income	$ (1,947)	$ 285	$ (5,753)	$ (10,429)
Net (loss) income and comprehensive (loss) income available to common stockholders, basic and diluted	$ (1,947)	$ 172	$ (5,753)	$ (16,032)
Basic net (loss) income per share available to common stockholders	$ (0.23)	$ 0.02	$ (0.69)	$ (2.21)
Diluted net (loss) income per share available to common stockholders	$ (0.23)	$ 0.02	$ (0.69)	$ (2.21)
Weighted average shares used in computing basic net (loss) income per share available to common stockholders	8,362	7,588	8,338	7,240
Weighted average shares used in computing diluted net (loss) income per share available to common stockholders	8,362	7,643	8,338	7,240

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

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

	Six Months Ended June 30,	
	2018	2017
Cash flows used in operating activities:		
Net loss	$ (5,753)	$ (10,429)
Adjustments to reconcile net loss to net cash used in operating activities:		
Fair value of Rezolute common stock shares received as consideration for license agreement	(955)	—
Stock-based compensation expense	2,186	2,855
Common stock contribution to 401(k)	20	506
Depreciation and amortization	15	231
Amortization of debt issuance costs, debt discount and final payment on debt	12	405
Loss on sublease	591	—
Loss on extinguishment of debt	—	515
Unrealized loss on foreign currency exchange	—	1,199
Gain on sale and disposal of equipment	—	(1,226)
Change in fair value of long-term equity securities	402	—
Other	(20)	57
Changes in assets and liabilities:		
Trade and other receivables	(83)	(10,065)
Prepaid expenses and other assets	(193)	275
Accounts payable and accrued liabilities	(2,421)	(6,961)
Accrued interest on long-term debt	281	102
Unearned revenue recognized under units-of-revenue method	25	(219)
Income tax payable	(1,637)	—
Other liabilities	342	—
Net cash used in operating activities	(7,188)	(22,755)
Cash flows from investing activities:		
Proceeds from sale of equipment	—	1,614
Net cash provided by investing activities	—	1,614
Cash flows from financing activities:		
Proceeds from issuance of convertible preferred stock, net of issuance costs	—	20,072
Proceeds from issuance of common stock, net of issuance costs	2,331	5,400
Proceeds from exercise of options	481	—
Debt issuance costs and loan fees	(181)	—
Principal payments – debt	—	(16,380)
Payment of final fee related to loan extinguishment	—	(1,150)
Principal payments – capital lease	(7)	(51)
Taxes paid related to net share settlement of equity awards	(237)	—
Net cash provided by financing activities	2,387	7,891
Effect of exchange rate changes on cash	20	(27)
Net decrease in cash and cash equivalents	(4,781)	(13,277)
Cash and cash equivalents at the beginning of the period	43,471	25,742
Cash and cash equivalents at the end of the period	$ 38,690	$ 12,465
Supplemental Cash Flow Information:		
Cash paid for interest	$ —	$ 396
Cash paid for taxes	$ 1,637	$ —
Non-cash investing and financing activities:		
Fair value of Rezolute common stock shares received as consideration for license agreement	$ 955	$ —
Interest added to principal balance on long-term debt	$ 281	$ 236
Prepaid financing cost related to issuance of common stock	$ 100	$ —
Issuance of common stock warrant under SVB loan	$ 139	$ —

The accompanying notes are an integral part of these 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. Over the Company's 37-year history, it built an extensive portfolio of fully-funded programs by advancing product candidates into the earlier stages of development and then licensing them to licensees who assumed the responsibilities of later stage development, approval and commercialization. Fully-funded programs are those for which the Company's partners pay all of the development and commercialization costs. As licensees advance these programs, the Company is eligible for potential milestone and royalty payments. As part of the Company's royalty aggregator business model, the Company intends to expand its portfolio of fully-funded programs by acquiring potential milestone and royalty revenue streams on additional product candidates.

Liquidity and Financial Condition

With the exception of the year ended December 31, 2017, the Company has typically incurred significant operating losses and negative cash flows from operations since its inception. As of June 30, 2018, the Company had cash of $38.7 million. The Company has evaluated and concluded there are no conditions or events, considered in the aggregate, that raise substantial doubt about its ability to continue as a going concern for a period of one year following the date that these financial statements are issued.

2. Basis of Presentation and Significant Accounting Policies

Basis of Presentation

The condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany accounts and transactions among consolidated entities were eliminated upon consolidation. The unaudited 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, 2017, filed with the U.S. Securities and Exchange Commission ("SEC") on March 7, 2018.

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, long-term equity securities, debt amendments, 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 past government contracts and amortization of the payments received from HealthCare Royalty Partners II, L.P. ("HCRP"). Under the Company's contracts with the National Institute of Allergy and Infectious Diseases ("NIAID"), a part of the National Institutes of Health ("NIH"), the Company billed using NIH's provisional rates and thus is subject to future audits at the discretion of NIAID's contracting office. These audits can result in an adjustment to revenue previously reported which potentially could be material. In addition, under the contracts with HCRP, the amortization for the reporting period is calculated based on the payments expected to be made by the licensees to HCRP over the term of the arrangement. Any changes to the estimated payments by the licensees to HCRP can result in a material adjustment to revenue previously reported.

Restructuring and Impairment Charges

Restructuring costs are primarily comprised of severance costs related to workforce reductions, contract termination costs, lease-related liability 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.

For lease-related liability, the Company recognizes the present value of facility lease-related obligations, net of estimated sublease income and other costs, when the Company has future payments with no future economic benefit. In future periods the Company will record accretion expense to increase the liability to an amount equal to the estimated future cash payments necessary to exit the leases. This requires judgment and management estimation to determine the expected time frame for securing a subtenant, the amount of sublease income to be received and the appropriate discount rate to calculate the present value of the future cash flows. Should actual lease costs differ from estimates, the Company may be required to adjust the restructuring charge which will impact operating expenses in the period any adjustment is recorded.

Revenue Recognition

Effective January 1, 2018, the Company adopted Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers* ("ASC 606") using the modified retrospective transition method and applied the standard only to contracts that are still active or in place at that date. Also, as permitted, the Company applied the practical expedient under ASC 606 which permits the Company to treat all contract modifications that occurred prior to the adoption in aggregate when determining the performance obligations, transaction price and its allocation. Except for the Company's license agreement with Rezolute, Inc. (formerly AntriaBio, Inc.) ("Rezolute"), the Company did not have any other contracts with customers for which the Company had not completed its performance obligations as of the adoption date January 1, 2018. The license agreement with Rezolute was not considered a contract under ASC 606 as it is not probable that the Company will collect substantially all of the consideration to which it will be entitled in exchange for the goods or services that will be transferred to Rezolute and there was no consideration exchanged upon execution of the arrangement or as of January 1, 2018 (see Note 4). Thus, the Company determined that the adoption of ASC 606 did not have a financial impact on the Company's consolidated financial statements. In addition, the adoption of ASC 606 has no material impact for tax purposes. This standard applies to all contracts with customers, except for contracts that are within the scope of other standards, such as leases, insurance, collaboration arrangements and financial instruments. Under ASC 606, the Company recognizes revenue when its customer obtains control of promised goods or services, in an amount that reflects the consideration which the Company expects to receive in exchange for those goods or services.

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

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

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

Milestone payments: At the inception of each arrangement that includes development and regulatory milestone payments, the Company evaluates whether the milestones are considered probable of being reached and estimates the amount to be included in the transaction price. ASC 606 suggests two alternatives to use when estimating the amount of variable consideration: the expected value method and the most likely amount method. Under the expected value method, an entity considers the sum of probability-weighted amounts in a range of possible consideration amounts. Under the most likely amount method, an entity considers the single most likely amount in a range of possible consideration amounts. The Company expects to use the most likely amount method for development and regulatory milestone payments. If it is probable that a significant cumulative revenue reversal would not occur, the associated milestone value is included in the transaction price. Milestone payments that are not within the control of the Company or the licensee, such as regulatory approvals, are not considered probable of being achieved until those approvals are received. The transaction price is then allocated to each performance obligation on a relative stand-alone selling price basis. The Company recognizes revenue as or when the performance obligations under the contract are satisfied. At the end of each subsequent reporting period, the Company re-evaluates the probability or achievement of each such milestone and any related constraint, and if necessary, adjusts its estimates of the overall transaction price. Any such adjustments are recorded on a cumulative catch-up basis, which would affect revenue and earnings in the period of adjustment.

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

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

Sale of Future Revenue Streams

The Company has sold its rights to receive certain milestones and royalties on product sales. In the circumstance where the Company has sold its rights to future milestones and royalties under a license agreement and also maintains limited continuing involvement in the arrangement (but not significant continuing involvement in the generation of the cash flows that are due to the purchaser), the Company defers recognition of the proceeds it receives for the sale of milestone or royalty streams and recognizes such unearned revenue as revenue under units-of-revenue method over the life of the underlying license agreement.. Under the units-of-revenue method, amortization for a reporting period is calculated by computing a ratio of the proceeds received from the purchaser to the total payments expected to be made to the purchaser over the term of the agreement, and then applying that ratio to the period's cash payment.

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

Stock-Based Compensation

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

The Company records compensation expense for service-based awards over the vesting period of the award on a straight-line basis. For awards with performance-based conditions, the Company records the expense over the remaining service period when management determines that achievement of the milestone is probable. Management evaluates when the achievement of a performance-based condition is probable based on the expected satisfaction of the performance conditions as of the reporting date. The amount of stock-based compensation expense recognized during a period is based on the value of the portion of the awards that are ultimately expected to vest.

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

Equity Securities

Effective January 1, 2018, the Company adopted Accounting Standards Update ("ASU") 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*. The amendment requires equity investments (except those accounted for under the equity method, those that result in consolidation of the investee and certain other investments) to be measured at fair value with any changes in fair value recognized in net (loss) income. For equity investments that do not have readily determinable fair values and do not qualify for the existing practical expedient in ASC 820, *Fair Value Measurements*, to estimate fair value using the net asset value per share of the investment, the Company may choose to measure those investments at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. In February 2018, the Financial Accounting Standards Board ("FASB") also issued ASU 2018-03, *Recognition and Measurement of Financial Assets and Financial Liabilities* (ASU 2018-03), which made improvements to address certain aspects of recognition, measurement, presentation and disclosure of financial instruments. ASU 2018-03 is effective for fiscal years beginning after December 15, 2017, and interim periods beginning after June 15, 2018, but may be adopted concurrently with ASU 2016-01. As permitted, the Company adopted ASU 2016-01 and ASU 2018-03 concurrently on January 1, 2018. The adoption had no impact on the condensed consolidated financial statements as the Company did not have any equity investments that existed as of the adoption date.

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

Net (Loss) Income per Share Available to Common Stockholders

Basic net (loss) income per share available to common stockholders is based on the weighted average number of shares of common stock outstanding during the period. Net (loss) income available to common stockholders consists of net (loss) income, as adjusted for the convertible preferred stock deemed dividends related to the beneficial conversion feature on this instrument at issuance. For the six months ended June 30, 2017, the convertible preferred stock had a deemed dividend which represented the accretion of a beneficial conversion feature. As such, the net loss for the six months ended June 30, 2017 was adjusted for the convertible preferred stock deemed dividend related to the beneficial conversion feature on these shares at issuance.

During periods of income, the Company allocates participating securities a proportional share of net income, after deduction of any deemed dividends on preferred stock, determined by dividing total weighted average participating securities by the sum of the total weighted average number of common stock and participating securities (the "two-class method"). The Company's convertible preferred stock participates in any dividends declared by the Company on its common stock and are therefore considered to be participating securities.

During periods of loss, the Company allocates no loss to participating securities because they have no contractual obligation to share in the losses of the Company. Diluted net (loss) income per share 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, and the exercise of certain stock options, RSUs, and warrants for common stock. The calculation of diluted (loss) income 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 any outstanding options, RSUs or warrants and the presumed exercise of such securities are dilutive to earnings (loss) per share available to common stockholders for the period. 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. As of June 30, 2018, the Company had no cash equivalents. As of December 31, 2017, cash equivalents consist of money market funds which were held by major financial institutions which management believes are of high credit quality. The Company has not encountered any such liquidity issues during 2018.

The Company has not experienced any significant credit losses and does not generally require collateral on receivables. For the three months ended June 30, 2018, two partners represented 80% and 11% of total revenues. For the six months ended June 30, 2018, two partners represented 66% and 22% of total revenues. For the three months ended June 30, 2017, one partner represented 92% of total revenues. For the six months ended June 30, 2017, one partner represented 90% of total revenues. As of June 30, 2018, two partners represented 84% and 16% of the trade receivables balance, respectively. As of December 31, 2017, one partner represented 95% of the trade receivables balance.

Recent Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. ASU 2016-02 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 2016-02 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.

In June 2018, the FASB issued ASU 2018-07, *Compensation- Stock Compensation (Topic 718) "Improvements to Nonemployee Share-Based Payment Accounting,"* which expands the scope of Topic 718 to include all share-based payment transactions for acquiring goods and services from nonemployees An entity should apply the requirements of Topic 718 to nonemployee awards except for certain exemptions specified in the amendment. ASU 2018-07 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, but no earlier than an entity's adoption date of Topic 606. The Company elected to early adopt this standard on June 30, 2018. The adoption did not have a material impact on the condensed consolidated financial statements.

3. Condensed Consolidated Financial Statements Detail

Cash and Cash Equivalents

As of June 30, 2018, cash consisted of demand deposits of $38.7million. As of December 31, 2017, cash and cash equivalents consisted of demand deposits of $34.9 million and money market funds of $8.6 million with maturities of less than 90 days at the date of purchase.

Long-term Equity Securities

As of June 30, 2018, long-term equity securities consisted of an investment in Rezolute's common stock of $0.6 million (see Note 4). The Company recognized a loss of $0.4 million due to the change in fair value of its investment in Rezolute's common stock in other income (expense), net line item of the consolidated statement of operations and comprehensive loss for the three and six months ended June 30, 2018.

Property and Equipment, net

During the six months ended June 30, 2017, the Company completed the sale of equipment and disposal of certain equipment located in one of its leased facilities for total proceeds of $1.6 million. The total carrying value of the equipment sold and disposed of was $0.4 million. Accordingly, the Company recorded a loss of $88,000 and a gain of $1.2 million on the sale and disposal of equipment in the other income (expense), net line of the condensed consolidated statements of operations and comprehensive (loss) income) for the three and six months ended June 30, 2017, respectively.

Accrued and Other Liabilities

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

	June 30, 2018	December 31, 2017
Accrued legal and accounting fees	$ 259	$ 431
Accrued restructuring	217	130
Accrued incentive compensation	194	229
Deferred rent	182	765
Liability related to sublease	147	800
Accrued payroll and other benefits	108	141
Other	35	179
Total	$ 1,142	$ 2,675

Net (loss) Income Per Share Available to Common Stockholders

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Numerator				
Net (loss) income	$ (1,947)	$ 285	$ (5,753)	$ (10,429)
Less: Deemed dividend on convertible preferred stock	—	—	—	(5,603)
Less: Allocation of undistributed earnings to participating securities	—	(113)	—	—
Net (loss) income available to common stockholders, basic and diluted	$ (1,947)	$ 172	$ (5,753)	$ (16,032)
Denominator				
Weighted average shares used in computing basic net (loss) income per share available to common stockholders	8,362	7,588	8,338	7,240
Effect of dilutive stock options	—	55	—	—
Weighted average shares used in computing diluted net (loss) income per share available to common stockholders	8,362	7,643	8,338	7,240

Potentially dilutive securities are excluded from the calculation of diluted net (loss) income per share available to common stockholders if their inclusion is anti-dilutive. The following table shows the weighted-average outstanding securities considered anti-dilutive and therefore excluded from the computation of diluted net (loss) income per share available to common stockholders (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Convertible preferred stock	5,003	—	5,003	3,732
Common stock options and RSUs	1,625	1,138	1,635	1,391
Warrants for common stock	21	19	19	19
Total	6,649	1,157	6,657	5,142

4. Licensing and Other Arrangements

Novartis – Gevokizumab and IL-1 Beta

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

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

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

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

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

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

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

The Company concluded that the development and regulatory milestone payments are solely dependent on Novartis' performance and achievement of specified events. The Company determined that it is not probable that a significant cumulative revenue reversal will not occur in future periods for these future payments. Therefore, the development and regulatory milestones are fully constrained and excluded from the transaction price as of June 30, 2018. Any consideration related to commercial milestones (including royalties) will be recognized when the related sales occur as they were determined to relate predominantly to the licenses granted to Novartis and therefore, have also been excluded from the transaction price. At the end of each reporting period, the Company will update its assessment of whether an estimate of variable consideration is constrained and update the estimated transaction price accordingly.

As of June 30, 2018, and December 31, 2017, there are no contract assets or contract liabilities related to this arrangement. In addition, the Company did not recognize any revenue related to this arrangement during the three and six months ended June 30, 2018. None of the costs to obtain or fulfill the contract were capitalized.

Novartis International – Anti-TGFβ Antibody

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

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

During the three months ended June 30, 2017, Novartis International achieved a clinical development milestone pursuant to the License Agreement and, as a result, the Company earned a $10.0 million milestone payment which was recognized as license fees in the consolidated statement of comprehensive income. As of June 30, 2018, the Company is eligible to receive up to a total of $470.0 million in development, regulatory and commercial milestones.

The Company concluded that the development and regulatory milestone payments are solely dependent on Novartis' performance and achievement of the specified events. The Company determined that it is not probable that a significant cumulative revenue reversal will not occur in future periods for these future payments. Therefore, the development and regulatory milestones are fully constrained and excluded from the transaction price as of June 30, 2018. Any consideration related to commercial milestones (including royalties) will be recognized when the related sales occur as they were determined to relate predominantly to the licenses granted to Novartis and therefore, have also been excluded from the transaction price. At the end of each reporting period, the Company will update its assessment of whether an estimate of variable consideration is constrained and update the estimated transaction price accordingly.

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

As of June 30, 2018, and December 31, 2017, there are no contract assets or contract liabilities related to this arrangement. In addition, the Company did not recognize any revenue related to this arrangement during the three and six months ended June 30, 2018. None of the costs to obtain or fulfill the contract were capitalized.

Rezolute

On December 6, 2017, the Company entered into a license agreement with Rezolute pursuant to which the Company granted an exclusive global license to Rezolute to develop and commercialize X358 (now "RZ358") for all indications. The Company and Rezolute also entered into a common stock purchase agreement pursuant to which Rezolute agreed to issue to the Company, as consideration for receiving the license for RZ358, a certain number of its common stock related to its future financing activities.

Under the terms of the license agreement, Rezolute is responsible for all development, regulatory, manufacturing and commercialization activities associated with RZ358 and is required to make certain development, regulatory and commercial milestone payments to the Company of up to $232.0 million in the aggregate based on the achievement of pre-specified criteria. Under the license agreement, the Company is also eligible to receive royalties ranging from the high single digits to the mid-teens based upon annual net sales of any commercial product incorporating RZ358. Rezolute is obligated to take customary steps to advance RZ358, including using diligent efforts to commence the next clinical study for RZ358 by a certain deadline and to meet certain spending requirements on an annual basis for the program until a marketing approval application for RZ358 is accepted by the Food and Drug Administration. Rezolute's obligation to pay royalties with respect to a particular RZ358 product and country will continue for the longer of the date of expiration of the last valid patent claim covering the product in that country, or twelve years from the date of the first commercial sale of the product in that country. Rezolute has an option through June 1, 2019 to obtain an exclusive license for their choice of one of the Company's preclinical monoclonal antibody fragments, including X129, in exchange for a $1.0 million upfront option fee and additional clinical, regulatory and commercial milestone payments to the Company of up to $237.0 million in the aggregate based on the achievement of pre-specified criteria as well as royalties ranging from the high single digits to the mid-teens based on annual net sales.

Pursuant to the license agreement and common stock purchase agreement, the Company is eligible to receive $6.0 million in cash and $12.0 million of Rezolute's common stock contingent on the completion of Rezolute's financing activities. Further, in the event that Rezolute does not complete a financing that raises at least $20.0 million in aggregate gross proceeds ("Qualified Financing") by March 31, 2019 (the "2019 Closing"), the Company will receive an additional number of shares of Rezolute's common stock equal to $7.0 million divided by the weighted average of the closing bid and ask prices or the average closing prices of Rezolute's common stock on the ten-day trading period prior to March 31, 2019. Finally, in the event that Rezolute is unable to complete a Qualified Financing by March 31, 2020, the Company is eligible to receive $15.0 million in cash in order to maintain the license. Under the common stock purchase agreement, Rezolute granted the Company the right and option to sell the greater of (i) 5,000,000 shares of common stock or (ii) one third of the aggregate shares held by the Company upon failure by Rezolute to list its shares of its common stock on the Nasdaq Stock Market or a similar national exchange on or prior to December 31, 2018.

In addition, under the terms of the license agreement, the Company is eligible to receive a low single digit royalty on sales of Rezolute's other products from its current programs. Rezolute's obligation to pay royalties with respect to a particular Rezolute product and country will continue for the longer of twelve years from the date of the first commercial sale of the product in that country or for so long as Rezolute or its licensee is selling such product in such country, provided that such royalty will terminate upon the termination of the licensee's obligation to make payments to Rezolute based on sales of such product in such country.

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

On March 30, 2018, the Company and Rezolute amended the license agreement and common stock purchase agreement. The license agreement was amended to add terms specifying the financial responsibility for certain tasks related to the technology transfer of RZ358 license. The common stock purchase agreement was amended as follows: (1) adjusted the total shares due upon the Initial Closing (as defined in the common stock purchase agreement) from $5.0 million in value to 7,000,000 shares; (2) increase the shares due upon a Qualified Financing from $7.0 million in value to $8.5 million in value; and (3) increase the shares due upon the 2019 Closing from $7.0 million in value to $8.5 million in value. All other terms of the license agreement and common stock purchase agreement remain unchanged.

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

Upon execution of the arrangement, the Company determined that it is not probable that the Company will collect substantially all of the consideration to which it will be entitled in exchange for the goods or services that will be transferred to Rezolute. Therefore, the Company determined that there was no contract on December 6, 2017 under ASC 606.

During the three months ended March 31, 2018, Rezolute completed an Interim Financing Closing as defined in the common stock purchase agreement resulting in consideration due to XOMA consisting of 69,252 shares of Rezolute's common stock and cash of $50,000. In addition, during the three months ended March 31, 2018, the Company completed the delivery of the license and related materials, product data/filing, process and know-how to Rezolute. However, the Company determined that the achievement of the Interim Financing Closing and related consideration as well as the amendment in March 2018 were not substantive to overcome the collectability criterion required to establish a contract under ASC 606. Thus, there was no contract as of March 31, 2018 and no revenue was recognized during the three months ended March 31, 2018 under the arrangement.

On April 3, 2018, Rezolute closed a debt financing activity for gross proceeds of $4.0 million, which triggered the Initial Closing defined under the amended common stock purchase agreement between the Company and Rezolute. As such, pursuant to the terms of the amended common stock purchase agreement with Rezolute, the Company received 8,023,758 shares of Rezolute's common stock and cash of $0.5 million. The cash and share consideration in connection with the Interim Financing Closing during the three months ended March 31, 2018 and Initial Closing as noted above were received in April 2018. Under the amended license agreement, XOMA was also entitled to receive $0.3 million of reimbursable technology transfer expenses from Rezolute. The Company concluded that the payment associated with the Initial Closing represent substantially all consideration for the delivered license and technology to Rezolute. Therefore, the Company determined that a contract exists between Rezolute and XOMA under ASC 606 on April 3, 2018.

The amended license agreement and amended common stock purchase agreement were accounted for as one arrangement because they were entered into at the same time in contemplation of each other. The Company concluded that there are multiple promised goods and services under the combined arrangement, including the license to RZ358, the transfer of RZ358 materials and product data/filing, and the transfer of process and know-how related to RZ358, which were determined to represent one combined performance obligation. The Company determined that the Additional Product Option is not an option with material right because there was no upfront consideration to the Company that would result to an incremental discount for the future opt in payments. Therefore, the Company concluded that the Additional Product Option is not a performance obligation. The option fee will be recognized as revenue when, and if, Rezolute exercises its option because the Company has no further performance obligations at that point.

On April 3, 2018, the Company determined that the transaction price under the arrangement was $1.8 million, which consisted of the8,093,010 shares of Rezolute's common stock valued at $1.0 million, $0.5 million in cash, and reimbursable technology transfer expenses of $0.3 million. During the three months ended June 30, 2018, the Company recognized the entire transaction price of $1.8 million as revenue upon completion of the delivery of the licenses and related materials, product data/filing, process and know-how. The change in fair value of Rezolute's common stock after the contract inception date was due to the form of the consideration and therefore, not included in the transaction price pursuant to the accounting guidance. The Company accounted for the loss due to change in the fair value of its investment in Rezolute's common stock of $0.4 million in other income (expense), net line item of the consolidated statement of operations and comprehensive loss for the three months ended June 30, 2018.

The Company concluded that the development and regulatory milestone payments are solely dependent on Rezolute's performance and achievement of the specified events. The Company determined that it is not probable that a significant cumulative revenue reversal will not occur in future periods for these future payments. Therefore, the development and regulatory milestones are fully constrained and excluded from the transaction price as of June 30, 2018. Any consideration related to commercial milestones (including royalties) will be recognized when the related sales occur as they were determined to relate predominantly to the licenses granted to Rezolute and therefore, have also been excluded from the transaction price. At the end of each reporting period, the Company will update its assessment of whether the estimate of variable consideration is constrained and update the estimated transaction price accordingly.

As of June 30, 2018, the Company has a receivable from Rezolute related to the reimbursable technology transfer expenses of $0.3 million included in trade and other receivables on the condensed consolidated balance sheet. As of June 30, 2018, there was no contract liability related to this arrangement. As of December 31, 2017, there were no contract assets or contract liability related to this arrangement. None of the costs to obtain or fulfill the contract were capitalized.

NIAID

Prior to the sale of the Company's biodefense business discussed in Note 6, the Company performed services under a $64.8 million multiple-year contract funded with federal funds from NIAID (Contract No. HHSN272200800028C), for development of anti-botulinum antibody product candidates. The contract work was being performed on a cost plus fixed fee basis over a three-year period. The Company recognized revenue under the arrangement as the services were performed on a proportional performance basis. Consistent with the Company's other contracts with the U.S. government, invoices were provisional until finalized. The Company operated under provisional rates from 2010 through 2014, subject to adjustment based on actual rates upon agreement with the government. In 2014, upon completion of NIAID's review of hours and external expenses, XOMA agreed to exclude certain hours and external expenses resulting in a $0.4 million receivable and $0.8 million deferred revenue balances. As of December 31, 2017, the Company wrote off the $0.4 million receivable from NIAID as the likelihood of collection is remote. The Company classified $0.8 million as contract liabilities on the consolidated balance sheets as of June 30, 2018 and December 31, 2017, respectively.

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 (subsequently acquired by Pfizer, Inc. ("Pfizer")) for an upfront cash payment of $6.5 million, plus potential additional payments totaling $4.0 million in the event three specified net sales milestones are met in 2017, 2018 and 2019. The 2017 sales milestone was not achieved. The Company remains eligible to receive up to $3.0 million if specified net sales milestones are achieved in 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 unearned revenue, to be recognized as revenue under units-of-revenue method over the life of the license agreements because of the Company's limited continuing involvement in the Acquisition Agreements. Such limited continuing involvement is related to the Company's undertaking to cooperate with HCRP in the event of litigation or a dispute related to the license agreements. Because the transaction was structured as a non-cancellable sale, the Company does not have significant continuing involvement in the generation of the cash flows due to HCRP and there are no guaranteed rates of return to HCRP, the Company recorded the total proceeds of $18.0 million as unearned revenue recognized under units-of-revenue method. The Company allocated the total proceeds between the two Acquisition Agreements based on the relative fair value of expected payments to be made to HCRP under the license agreements. The unearned revenue is being recognized as revenue over the life of the underlying license agreements under the "units-of-revenue" method. Under this method, amortization for a reporting period is calculated by computing a ratio of the allocated proceeds received from HCRP to the payments expected to be made by the licensees to HCRP over the term of the Acquisition Agreements, and then applying that ratio to the period's cash payment. During the three and six months ended June 30, 2018, the Company recognized $43,000 and $197,000, respectively, of revenue under the units-of-revenue method. Due to lower than projected product sales, the Company reversed revenue recognized in prior periods under units-of-revenue method under these arrangements by $129,000 and $222,000 during the three and six months ended June 30, 2018, respectively. The change in estimate of product sales resulted in net revenue of $(86,000) and $(25,000) during the three and six months ended June 30, 2018, respectively. The Company recognized $0.1 million and $0.2 million as revenue under units-of-revenue method under these arrangements during the three and six months ended June 30, 2017, respectively. As of June 30, 2018, the current and non-current portion of the remaining unearned revenue recognized under units-of-revenue method was $0.2 million and $17.6 million, respectively. As of December 31, 2017, the Company classified $0.6 million and $17.1 million as current and non-current unearned revenue recognized under units-of-revenue method, respectively.

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 June 30, 2018 Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
Long-term equity securities	$ —	$ —	$ 553	$ 553

	Fair Value Measurements at December 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)	$ 34,907	$ —	$ —	$ 34,907

(1) Included in cash and cash equivalents

During the six-month period ended June 30, 2018, there were no transfers between Level 1, Level 2, or Level 3 assets reported at fair value on a recurring basis and the valuation techniques used did not change compared to the Company's established practice.

The following table provides a summary of changes in the estimated fair value of the Company's Level 3 financial assets for the six months ended June 30, 2018 (in thousands):

Balance at December 31, 2017	$ —
Fair value of long-term equity securities at contract inception	955
Change in fair value	(402)
Balance at June 30, 2018	$ 553

The equity securities consisted of an investment in Rezolute's common stock and are classified as long-term assets on the condensed consolidated balance sheet as of June 30, 2018. The long-term equity securities are revalued each reporting period with changes in fair value recorded in other income (expense), net line item of the condensed consolidated statement of operations and comprehensive (loss) income. The Company and its valuation specialist used a probability-weighted expected return model ("PWERM") to measure the fair value of the securities. The PWERM considers various scenarios for the expected payout of the securities covering the full range of the potential outcomes. The PWERM determines the value of an asset based upon an analysis of future values for the subject asset and full range of its potential values. The asset value is based upon the present value of the probability of each future outcome becoming available to the asset and the economic rights and preferences of each asset. This valuation methodology is based on unobservable estimates and judgements, and therefore is classified as a Level 3 fair value measurement. Scenarios and probabilities were based on Company management estimates and were incorporated into the determination of the fair value of the equity securities.

The estimated fair value of the equity securities was calculated based on the following assumptions as of the contract inception date of April 3, 2018 and at June 30, 2018:

	April 3, 2018	June 30, 2018
Discount for lack of marketability	30%	32%
Estimated time to liquidity of shares	1.45 years	1.45 years
Scenario probabilities		
Liquidation	65%	75%
Near-term sale	5%	5%
Near-term financing	30%	20%

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

The estimated fair value of the Company's outstanding long-term debt is estimated using the net present value of the payments, discounted at an interest rate that is consistent with market interest rates, which is a Level 2 input. The carrying amount and the estimated fair value of the Company's outstanding long-term debt at June 30, 2018, and December 31, 2017, are as follows (in thousands):

	June 30, 2018		December 31, 2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Novartis note	$ 14,853	$ 14,460	$ 14,572	$ 14,178

6. Dispositions

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

In February 2017, the Company executed an Amendment and Restatement to both the asset purchase agreement and Ology Bioservices License Agreement primarily to (i) remove the obligation to issue 23,008 shares of Ology Bioservices 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 Ology Bioservices License Agreement. Of the $4.5 million, $3.0 million was contingent upon Ology Bioservices achieving certain specified future operating objectives. In the first quarter of 2017, the Company became entitled to receive $1.6 million under the agreement that will be received in quarterly payments through September 2018. In the third quarter of 2017, Ology Bioservices achieved the specified operating objectives and the Company earned the $3.0 million milestone fee that will be received in monthly payments through July 2018. The Company received $1.0 million and $2.0 million during the three and six months ended June 30, 2018, and $0.3 million and $0.4 million during the three and six months ended June 30, 2017, respectively, which was recognized as other income in the condensed consolidated statements of operations and comprehensive (loss) income.

7. Restructuring Charges

On December 19, 2016, the Board of Directors approved a restructuring of the Company's 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. In early 2017, the Company further revised its strategy to prioritize out-licensing activities and further curtail research and development spending and terminated five additional employees. Charges related to these initiatives were complete by the end of fiscal 2017.

At June 30, 2018, the Company completely vacated one of its two leased facilities in Berkeley, California and subleased the majority of the leased space to two subtenants. In connection with the sublease agreement executed in April 2018, the Company recognized a loss on the sublease of $0.6 million, which was recorded in the restructuring charges line item of the condensed consolidated statements of operations and comprehensive loss for the three and six months ended June 30, 2018(see Note 10). In connection with vacating this space, the Company recorded a discounted lease-related restructuring liability of $0.4 million as of June 30, 2018, which was calculated as the present value of the estimated future facility costs for which the Company would obtain no future economic benefit over the term of the lease, net of estimated future sublease income, and adjusted for the remaining balance of deferred rent of $0.6 million. This resulted in the Company recording a credit to restructuring costs of $0.1 million in its condensed consolidated statements of operations and comprehensive loss for the three and six months ended June 30, 2018.

The Company classified the current portion of the combined lease-related liabilities of $0.4 million within accrued and other liabilities and the non-current portion of $0.5 million within other liabilities- non-current in its condensed consolidated balance sheet as of June 30, 2018.

8. Long-Term Debt

Novartis Note

In May 2005, the Company executed a secured note agreement (the "Note Agreement") with Novartis, which was due and payable in full in June 2015. Under the Note Agreement, the Company borrowed semi-annually to fund up to 75% of the Company's research and development and commercialization costs under its collaboration arrangement with Novartis, not to exceed $50.0 million in aggregate principal amount. Interest on the principal amount of the loan accrued at six-month LIBOR plus 2%, which was equal to 4.50% at June 30, 2018 is payable semi-annually in June and December of each year. Additionally, the interest rate resets in June and December of each year. At the Company's election, the semi-annual interest payments could be added to the outstanding principal amount, in lieu of a cash payment, as long as the aggregate principal amount did not exceed $50.0 million. The Company made this election for all interest payments. Loans under the Note Agreement were secured by the Company's interest in its collaboration with Novartis, including any payments owed to it thereunder.

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

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

As of June 30, 2018 and December 31, 2017, the outstanding principal balance under the Secured Note Amendment was $14.9 million and $14.6 million, respectively, and was included in long-term debt in the accompanying condensed 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 €15.0 million (or $19.5 million at the exchange rate on the date of funding). The loan was 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 was calculated at a floating rate based on a Euro Inter-Bank Offered Rate ("EURIBOR") and subjected to a cap.

The Company and Servier executed multiple amendments to the Servier Loan Agreement in 2015 and 2017 primarily to revise the timing of the payments and the maturity date of the loan. On August 25, 2017, NIBR settled the Servier Loan in cash by paying directly to Servier $14.3 million which represented the outstanding balance of the loan based on a euro to dollar exchange rate of 1.1932. The funds that NIBR paid directly to Servier were a portion of the upfront payment due to XOMA under the XOMA-052 License Agreement (see Note 4). As a result of the debt being fully paid, the intellectual property securing the Servier Loan Agreement was released. A loss on extinguishment of $0.1 million from the payoff of the loan was recognized in the condensed consolidated statement of operations and comprehensive income during the three months ended September 30, 2017.

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%. 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.

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 operations and 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 warrants are classified in stockholders' equity on the condensed consolidated balance sheets. As of June 30, 2018, all of these warrants were outstanding.

Silicon Valley Bank Loan Agreement

On May 7, 2018 (the "Effective Date"), the Company executed a Loan and Security Agreement (the "Loan Agreement") with Silicon Valley Bank ("SVB"). Under the Loan Agreement, upon the Company's request, SVB may make advances (each, a "Term Loan Advance") available to the Company up to $20.0 million (the "Term Loan"). The available fund may be increased up to $40.0 million upon the Company's request and approval by the bank subject to the Company's compliance with certain internal and credit requirements. The Company may borrow advances under the Term Loan from the Effective Date until the earlier of March 31, 2019 or an event of default (the "Draw Period"). Unless an event of default occurs, the period to draw may be extended to March 31, 2020, if the Company receives $20.0 million in gross cash proceeds from milestone/licensing payments by March 31, 2019. In the event of a default related to the Note Agreement with Novartis, SVB's obligation to make any credit extensions to the Company under the Loan Agreement will immediately terminate. The interest rate will be calculated at a rate equal to the greater of (i) 4.75%, and (ii) 0.25% plus the prime rate as reported from time to time in The Wall Street Journal.

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

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

Under the Loan Agreement, the Company may be obligated to pay a fee equal to 1% of the unused portion of the Term Loan upon the earlier of (i) the termination of the Loan Agreement, or (ii) the Draw Period if the aggregate original principal amount of the Term Loan Advances is less than $5.0 million.

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

As of June 30, 2018 the Company has not borrowed any advances under the Loan Agreement, and as such, no amount has been included in long-term debt in the accompanying condensed consolidated balance sheet.

In connection with the Loan Agreement, the Company issued a warrant to SVB which is exercisable in whole or in part for up to an aggregate of 6,332 shares of common stock with an exercise price of $23.69 per share (the "Warrant"). The Warrant may be exercised on a cashless basis and is exercisable within 10 years from the date of issuance or upon the consummation of certain acquisitions of the Company. The fair value of the Warrant issued to SVB was determined using the Black-Scholes Model and was estimated to be $0.1 million. As of June 30, 2018, the Warrant is outstanding. In addition, the Company incurred debt issuance costs of $0.2 million in connection with the Loan Agreement.

As the Company has no outstanding Term Loan Advance as of June 30, 2018, the fair value of the Warrant of $0.1 million and debt issuance costs of $0.2 million were accounted as deferred charges. The fair value of the Warrant was recognized as credit to additional paid-in capital. The deferred charges are being amortized, on a straight-line basis, to interest expense over the term of the Loan Agreement. Once the first Term Loan Advance is drawn, the entire unamortized amount of deferred charges will be reclassified as a discount against the debt and then amortized to interest expense over the term of the Term Loan Advance using the effective interest method. The Company recorded non-cash interest expense resulting from the amortization of the deferred charges of $12,000 for the three months ended June 30, 2018.

Interest Expense

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Novartis note	$ 144	$ 119	$ 283	$ 236
Servier loan	—	178	—	355
Hercules loan	—	—	—	311
SVB loan	12	—	12	—
Other	22	—	53	4
Total interest expense	$ 178	$ 297	$ 348	$ 906

9. Common Stock Warrants

As of June 30, 2018 and December 31, 2017, the following common stock warrants were outstanding:

Issuance Date	Expiration Date	Balance Sheet Classification	Exercise Price per Share	June 30, 2018	December 31, 2017
February 2015	February 2020	Stockholders' equity	$ 66.20	9,063	9,063
February 2016	February 2021	Stockholders' equity	$ 15.40	8,249	8,249
May 2018	May 2028	Stockholders' equity	$ 23.69	6,332	-
				23,644	17,312

10. 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 by the Company's licensees. 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.

Lease Agreements

The Company leases facilities and office equipment under operating leases expiring on various dates through April 2023. These leases require the Company to pay taxes, insurance, maintenance and minimum lease payments. For each facility lease, the Company has two successive renewal options to extend the lease for five years upon the expiration of the initial lease term.

On November 21, 2017, the Company entered into a non-cancellable sublease agreement for a portion of one of its three leased facilities. The term of the sublease agreement commenced on December 26, 2017. Under the term of the sublease agreement, the Company will receive $5.1 million over the term of the sublease, which ends at the same time as the original lease in April 2023. Under the sublease agreement, the Company's future sublease income will be equal to the amount required to be paid to the Company's landlord. In addition, the sublease provides for a tenant improvement allowance of $0.8 million to the subtenant, which was funded by the Company in January 2018. Upon execution of the sublease agreement, the Company recognized a loss on the sublease equal to the tenant improvement allowance. Under the sublease agreement, the sub-lessee executed a standby letter of credit naming the Company as the beneficiary amounting to $1.0 million as security under the sublease in the event of uncured default by the sub-lessee. As of June 30, 2018, the Company has not drawn any funds from the letter of credit as there was no default by the sub-lessee. During the three and six months ended June 30, 2018, the Company recognized $0.4 million and $0.7 million of sublease income under this agreement, respectively.

On April 14, 2018, the Company entered into a non-cancellable sublease agreement for a portion of one of its three leased facilities. The term of the sublease agreement commenced on May 1, 2018. Under the term of the sublease agreement, the Company will receive $1.1 million over the term of the sublease, which ends at the same time as the original lease in April 2023. Under the sublease agreement, the Company's future sublease income is less than the amount required to be paid to the Company's landlord. In addition, the sublease provides for a tenant improvement allowance of $65,000 to the subtenant, and payment of broker commissions of $89,000.Upon execution of the sublease agreement, the Company recognized a loss on the sublease of $0.6 million, which was recorded in the restructuring chargesline item of the consolidated statements of operations and comprehensive loss for the three and six months ended June 30, 2018 (see Note7). During the three and six months ended June 30, 2018, the Company recognized $0.1 million of sublease income under this agreement.

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

Stock options generally vest monthly over three to 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 and six months ended June 30, 2018 and 2017, was estimated based on the following weighted average assumptions:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Dividend yield	0 %	0 %	0 %	0 %
Expected volatility	102 %	100 %	101 %	100 %
Risk-free interest rate	2.98 %	1.78 %	2.71 %	1.78 %
Expected term	5.55 years	5.55 years	5.60 years	5.55 years

Stock option activity for the six months ended June 30, 2018, was as follows:

	Number of shares	Weighted Average Exercise Price Per Share	Weighted Average Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at beginning of year	1,622,065	$ 24.54		
Granted	233,208	28.98		
Exercised	(44,400)	5.49		
Forfeited, expired or cancelled	(202,941)	44.07		
Outstanding at end of period	1,607,932	$ 23.25	8.2	$ 16,650
Exercisable at end of period	922,333	$ 28.96	7.5	$ 10,411

As of June 30, 2018, $6.4 million of total unrecognized compensation expense related to stock options is expected to be recognized over a weighted average period of 2.0 years.

Performance-Based Stock Options

As of June 30, 2018, the Company had 82,500 shares related to outstanding performance-based stock options with a grant date fair value of $0.4 million that will vest based on the achievement of corporate goals set by the Compensation Committee of the Company's Board of Directors. Of this amount, options related to 41,250 shares were deemed probable of achievement as of June 30, 2018 and therefore, the related expense is being recognized over the service period. During the three and six months ended June 30, 2018, the Company recognized stock-based compensation expense of $55,000 and $0.1 million, respectively, related to these stock options. As of June 30, 2018, there was $0.3 million unrecognized compensation costs related to these outstanding performance-based stock options.

In December 2017, the Company granted 130,000 stock options to executives with corporate performance-based vesting conditions. During the three months ended March 31, 2018, the Board of Directors approved a modification of 80,000 of these options from performance-based vesting to service-based vesting. The remaining 50,000 stock options were cancelled in conjunction with an executive's resignation.

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 six months ended June 30, 2018, is summarized below:

Restricted Stock Units:	Number of Shares	Weighted-Average Grant-Date Fair Value
Unvested balance at January 1, 2018	18,480	$ 18.00
Granted	—	—
Vested	(17,614)	18.54
Forfeited	—	—
Unvested balance at June 30, 2018	866	$ 7.02

As of June 30, 2018, $4,000 of unrecognized compensation expense related to employee RSUs is expected to be recognized over a weighted average period of 1.3 years.

Stock-based Compensation Expense

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Research and development	$ 95	$ 231	$ 199	$ 672
General and administrative	675	1,623	1,987	2,183
Total stock-based compensation expense	$ 770	$ 1,854	$ 2,186	$ 2,855

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 $24.8 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 June 30, 2018, BVF owned approximately 17.9% of the Company's total outstanding shares, and if all of the Series X convertible preferred shares were converted, BVF would own 48.6% of the Company's total outstanding common shares. As of June 30, 2018, 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, and determined 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 Agreement

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, and 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 six months ended June 30, 2018, the Company sold a total of 67,658 shares of common stock under the 2015 ATM Agreement for aggregate gross proceeds of $2.4 million. Total offering costs of $0.1 million were offset against the proceeds upon the sale of common stock. For the six months ended June 30, 2017, the Company sold a total of 110,252 shares of common stock under the 2015 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. The shares subject to 2015 ATM Agreement were registered on the shelf registration statement on Form S-3 that expired in February 2018.

Common Stock Purchase Agreement

In August 2017, in connection with the XOMA-052 License Agreement, the Company and Novartis entered into a Common Stock Purchase Agreement under which Novartis purchased 539,131 shares of the Company's common stock, at a price per share of $9.2742 for the aggregate purchase price of $5.0 million in cash. The fair market value of the common stock issued to Novartis AG was $4.8 million, based on the closing stock price of $8.93 per share on the effective date of the Common Stock Purchase Agreement, or August 24, 2017. The excess of the purchase price over the fair market value of the common stock represents a premium of $0.2 million which was accounted for as additional consideration to the license agreements (see Note 4 for further discussion). The shares issued to Novartis are unregistered securities and the Company agreed to use commercially reasonable efforts to make and keep public information available and timely file all reports and other documents with the SEC as required of the Company under the Securities Exchange Act of 1934, as amended. Under the Common Stock Purchase Agreement, upon a request by Novartis, the Company will use commercially reasonable efforts to register the shares for resale under the Securities Act on a registration statement on Form S-3, to be filed within 60 days of the written request, and will use commercially reasonable efforts to keep such registration statement continuously effective under the Securities Act until the date all of the shares of common stock covered by such registration statement have been sold or can be sold publicly without restriction or limitation under Rule 144.

13. Income Taxes

No provision was made for federal income tax since the Company has incurred net operating losses during the six months ended June 30, 2018 and 2017, respectively. As of June 30, 2018 and December 31, 2017, the Company had a total of $4.5 million of net unrecognized tax benefits, none of which would affect the effective tax rate upon realization. The Company does not expect its unrecognized tax benefits to change significantly over the next twelve months.

In accordance with SAB 118, the effects of the Tax Cuts and Jobs Act of 2017 (the "Tax Act") may be adjusted within a one-year measurement period from the enactment date for items that were previously reported as provisional, or where a provisional estimate could not be made. As described in the footnotes to the Annual Report on Form 10-K, the Company's accounting for the tax effects of enactment of the Tax Reform Act is being assessed; the Company made a reasonable estimate of the effects on its existing deferred tax balances and valuation allowance. The Company determined that the re-measurement of certain deferred tax assets and liabilities and corresponding valuation allowance was a provisional amount at December 31, 2017. The income tax provision for the six months ended June 30, 2018 did not reflect any adjustment to the previously assessed Tax Act enactment effect. The Company will continue to assess forthcoming guidance and accounting interpretations on the effects of the Tax Act and expects to complete its analysis within the measurement period in accordance with the SEC guidance.

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

Forward Looking Statements

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

The following discussion and analysis should be read in conjunction with the unaudited financial statements and notes thereto included in Part I, Item 1 of this Quarterly Report on Form 10-Q and with the audited consolidated financial statements and related notes thereto included as part of our Annual Report on Form 10-K for the year ended December 31, 2017.

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. Over our 37-year history, we built an extensive portfolio of fully-funded programs by advancing product candidates into the earlier stages of development and then licensing them to licensees who assumed the responsibilities of later stage development, approval and commercialization. Fully-funded programs are those for which our partners pay all of the development and commercialization costs. As licensees advance these programs, we are eligible for potential milestone and royalty payments. As part of our royalty aggregator business model, we intend to expand our portfolio of fully-funded programs by acquiring potential milestone and royalty revenue streams on additional product candidates.

Recent Business Developments

Rezolute

On April 3, 2018, Rezolute, Inc. ("Rezolute") closed a debt financing activity for gross proceeds of $4.0 million, which triggered the Initial Closing defined under the amended common stock purchase agreement between us and Rezolute. As such, pursuant to the terms of the amended common stock purchase agreement with Rezolute, we received 8,023,758 shares of Rezolute's common stock and cash of $0.5 million. In addition, in April 2018, we received from Rezolute the 69,252 shares of common stock and cash of $50,000 in connection with the Interim Financing Closing that occurred during the three months ended March 31, 2018. Under the amended license agreement, we are also entitled to receive $0.3 million of reimbursable technology transfer expenses from Rezolute.

Silicon Valley Bank Loan Agreement

In May 2018, we executed a Loan and Security Agreement (the "Loan Agreement") with Silicon Valley Bank ("SVB"). Under the Loan Agreement, upon our request, SVB may make advances available to us up to $20.0 million. The available funds may be increased up to $40.0 million upon our request and approval by the bank subject to our compliance of certain internal and credit requirements. As of June 30, 2018, we have not borrowed any advances under the Loan 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 March 2017, we transformed our business model to become a royalty aggregator where we focus on expanding our portfolio of fully-funded programs by out-licensing our internally developed product candidates and acquiring potential milestone and royalty revenue streams on additional product candidates. We combined our royalty aggregator model with a significantly reduced corporate cost structure to further build value for our shareholders. Our long-term prospects depend upon 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, and stock-based compensation to be critical policies. Except for the adoption of the new revenue recognition standard on January 1, 2018, as described below and in Note 2 to the Condensed Consolidated Financial Statements, there have been no significant changes in our critical accounting policies during the six months ended June 30, 2018, as compared with those previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2017, filed with the SEC on March 7, 2018.

Revenue Recognition

Effective January 1, 2018, we adopted Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers* ("ASC 606") using the modified retrospective transition method and applied the standard only to contracts are still active or in place at that date. Also, as permitted, we applied the practical expedient under ASC 606 which permits us to treat all contract modifications that occurred prior to the adoption in aggregate when determining the performance obligations, transaction price and its allocation. Except for the license agreement with Rezolute, Inc. (formerly AntriaBio, Inc.), we did not have any other contracts with customers for which we have not completed our performance obligations, as of the adoption date January 1, 2018. The license agreement with Rezolute was not considered a contract under ASC 606 as it is not probable that the Company will collect substantially all of the consideration to which it will be entitled in exchange for the goods or services that will be transferred to Rezolute and there was no consideration exchanged upon execution of the arrangement or as of January 1, 2018. Thus, we determined that the adoption of ASC 606 did not have a financial impact on our consolidated financial statements. In addition, the adoption of ASC 606 has no material impact for tax purposes.

We have certain license arrangements in the scope of ASC 606. The terms of these agreements may contain multiple performance obligations, which primarily include transfer of our licenses. Prior to recognizing revenue, we make estimates of the transaction price, including variable consideration that is subject to a constraint. Amounts of variable consideration are included in the transaction price to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur and when the uncertainty associated with the variable consideration is subsequently resolved. Variable consideration may include payments based upon the achievement of specified milestones, and royalty payments based on product sales derived from the license agreements. If there are multiple distinct performance obligations, we allocate the transaction price to each distinct performance obligation based on its relative standalone selling price. All licenses we grant to customers are unique, as each uses a specific technology of XOMA or is geared towards a specific unique product candidate. Thus, there is no observable evidence of standalone selling price for the licenses. The standalone selling price is generally determined using a valuation approach based on discounted cash flow analysis.For licenses that are bundled with other promises, we utilize judgement to assess the nature of the combined performance obligation to determine whether the combined performance obligation is satisfied over time or at a point in time. Under our license agreements, the nature of the combined performance obligation is the granting of licenses to the customers. As such, we recognize revenue related to the combined performance obligation upon transfer of the license to the customers or completion of the transfer of related materials and services (i.e., point in time).

Results of Operations

Revenues

Total revenues for the three and six months ended June 30, 2018 and 2017, were as follows (in thousands):

	Three Months Ended June 30,		2017-2018	Six Months Ended June 30,		2017-2018
	2018	2017	Change	2018	2017	Change
Revenue from contracts with customers	$ 2,341	$ 10,780	$ (8,439)	$ 2,743	$ 10,930	$ (8,187)
Revenue recognized under units-of-revenue method	(86)	110	(196)	(25)	220	(245)
Total revenues	$ 2,255	$ 10,890	$ (8,635)	$ 2,718	$ 11,150	$ (8,432)

Revenue from Contracts with Customers

Revenue from contracts with customers includes upfront fees, milestone payments and royalties related to the out-licensing of our product candidates and technologies. The decrease for the three and six months ended June 30, 2018, as compared to the same periods of 2017, was primarily due to $10.0 million in milestone revenue earned under our license agreement with Novartis International Pharmaceutical Ltd. in the second quarter of 2017, partially offset by $1.8 million recognized under our license agreement and common stock purchase agreement with Rezolute recognized during the second quarter of 2018.

Revenue recognized under units-of-revenue method

Revenues include the amortization of unearned revenue from the sale of royalty interests to HealthCare Royalty Partners II, L.P. in December 2016. During the three and six months ended June 30, 2018, we recognized $43,000 and $197,000, respectively, of revenue under the units-of-revenue method. Due to lower than projected sales of Trumenba, we reversed revenue recognized in prior periods under units-of-revenue method under these arrangements by $129,000 and $222,000 during the three and six months ended June 30, 2018, respectively. The change in estimate of product sales resulted in net revenue of ($86,000) and ($25,000) during the three and six months ended June 30, 2018, respectively.

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.

Research and Development Expenses

Research and development ("R&D") expenses were $0.4 million and $0.8 million for the three and six months ended June 30, 2018, compared with $2.9 million and $6.9 million for the same periods in 2017. The overall decrease for the three and six months ended June 30, 2018 compared to the same periods in 2017 was primarily due to the implementation of our royalty-aggregator business model during the first quarter of 2017, which included the cessation of substantially all development activities. The decrease of $2.5 million for the three months ended June 30, 2018, as compared to the same period of 2017, was primarily due to decreases of $1.0 million in clinical trial costs, $0.4 million in consulting costs, $0.4 million in the allocation of facilities costs, $0.4 million in costs of external manufacturing activities and $0.1 million in stock-based compensation. The decrease of $6.1 million for the six months ended June 30, 2018, as compared to the same period of 2017, was primarily due to decreases of $1.9 million in clinical trial costs, $1.2 million in consulting costs, $1.0 million in the allocation of facilities costs, $0.7 million in costs of external manufacturing activities, $0.5 million in stock-based compensation, and $0.3 million in salaries and related expenses. The decrease in allocation of facilities costs is a result of a decreased proportion of R&D employees as a result of our restructuring activities in December 2016 (the "2016 Restructuring") and June 2017 (the "2017 Restructuring").

We expect our R&D spending during the remainder of 2018 will be reduced as compared with 2017 levels due to the implementation of our royalty aggregator business model and related discontinuation of clinical trial activities.

General and Administrative Expenses

General and administrative ("G&A") expenses include salaries and related personnel costs, facilities costs and professional fees. G&A expenses were $4.4 million and $9.6 million for the three and six months ended June 30, 2018, compared with $5.2 million and $10.4 million for the same periods in 2017. The decrease of $0.8 million for the three months ended June 30, 2018, as compared to the same period of 2017, was due primarily to decreases of $0.9 million in stock-based compensation, $0.2 million in legal and accounting fees, and $0.1 million in information technology costs, partially offset by increases of $0.2 million in consulting services and $0.4 million in the allocation of facilities costs due to a greater proportion of G&A personnel compared to R&D personnel after our restructuring activities. The decrease of $0.8 million for the six months ended June 30, 2018, as compared to the same period of 2017, was primarily due to decreases of $0.2 million in stock-based compensation, $0.5 million in legal and accounting fees, $0.6 million in consulting services, and $0.3 million in information technology costs, partially offset by an increase of $1.0 million in the allocation of facilities costs due to a greater proportion of G&A personnel compared to R&D personnel after our restructuring activities.

We expect our personnel related and facilities costs during the remainder of 2018 to decrease as compared with 2017 levels due to our restructuring activities in 2016 and 2017. To support our royalty aggregator business model, we engage third parties to assist in our evaluation of potential acquisitions of milestone and royalty streams. While we expect our personnel related and facilities costs to decrease as compared with 2017, consulting expenses may increase in response to an increase in the volume of acquisition targets evaluated or completed.

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. In early 2017, we further revised our strategy to prioritize out-licensing activities and further curtail research and development spending and we eliminated an additional five employees with an effective termination date of June 30, 2017. During the three and six months ended June 30, 2017, we recorded a charge of $1.5 million and $3.5 million, related to severance, other termination benefits and outplacement services for the 2016 Restructuring and 2017 Restructuring activities. There were no such charges during the three and six months ended June 30, 2018.

During the three months ended June 30, 2018, we completely vacated one of our two leased facilities in Berkeley, California and met the criteria of a cease-use date. We recorded a lease-related restructuring liability of $0.4 million as of June 30, 2018, which was adjusted for the remaining balance of deferred rent of $0.6 million. This resulted in us recording a credit to lease-related restructuring charges of $0.1 million for the three and six months ended June 30, 2018. In addition, in connection with the sublease agreement executed in April 2018, we recognized a loss on the sublease of $0.6 million for the three and six months ended June 30, 2018.

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 and six months ended June 30, 2018 and 2017 (in thousands):

	Three Months Ended June 30,		2017-2018	Six Months Ended June 30,		2017-2018
	2018	2017	Change	2018	2017	Change
Novartis note	$ 144	$ 119	$ 25	$ 283	$ 236	$ 47
Servier loan	—	178	(178)	—	355	(355)
Hercules loan	—	—	—	—	311	(311)
SVB loan	12	—	12	12	—	12
Other	22	—	22	53	4	49
Total interest expense	$ 178	$ 297	$ (119)	$ 348	$ 906	$ (558)

The decrease in interest expense is due to the repayment of the Hercules term loan and Servier loan in 2017.

We expect interest expense during the remainder of 2018 to decrease as compared with 2017 due to the March 2017 payoff of the Hercules loan and August 2017 payoff of the Servier Loan. On May 7, 2018, we executed a loan agreement with SVB and our interest expense may increase if we choose to access the funds.

Other Income (Expense), Net

The following table shows the activity in other income (expense), net for the three and six months ended June 30, 2018 and 2017 (in thousands):

	Three Months Ended June 30,		2017-2018	Six Months Ended June 30,		2017-2018
	2018	2017	Change	2018	2017	Change
Other income, net						
Income under the agreement with Ology Bioservices	$ 1,000	$ 250	$ 750	$ 2,000	$ 400	$ 1,600
Sublease income	424	—	424	779	28	751
Change in fair value of long-term equity securities	(402)	—	(402)	(402)	—	(402)
Unrealized foreign exchange loss	—	(938)	938	—	(1,199)	1,199
(Loss) gain on sale and disposal of equipment	—	(88)	88	—	1,226	(1,226)
Other	200	47	153	346	145	201
Total other income, net	$ 1,222	$ (729)	$ 1,951	$ 2,723	$ 600	$ 2,123

During the three months ended June 30, 2018, we received long-term equity securities which consisted of an investment in Rezolute's common stock. As of June 30, 2018, the fair value of the long-term equity securities decreased and we recognized a loss of $0.4 million. The income under the agreement with Ology Bioservices was due to payments we received from Ology Bioservices during the three and six months ended June 30, 2018 and 2017 related to the disposition of our biodefense business in March 2016. The gain on sale of equipment of $1.2 million for the six months ended June 30, 2017 is related to the sale and disposal of equipment located in one of our leased facilities.

Loss on Extinguishment of Debt

In March 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.

Provision for Income Taxes

No provision was made for federal income tax since we have incurred net operating losses during the six months ended June 30, 2018 and 2017, respectively. As of June 30, 2018 and December 31, 2017, we had a total of $4.5 million of net unrecognized tax benefits, none of which would affect the effective tax rate upon realization. We do not expect our unrecognized tax benefits to change significantly over the next twelve months.

In accordance with SAB 118, the effects of the Tax Cuts and Jobs Act of 2017 (the "Tax Act") may be adjusted within a one-year measurement period from the enactment date for items that were previously reported as provisional, or where a provisional estimate could not be made. As described in the footnotes to our Annual Report on Form 10-K, the accounting for the tax effects of enactment of the Tax Reform Act is being assessed; we made a reasonable estimate of the effects on our existing deferred tax balances and valuation allowance. We determined that the re-measurement of certain deferred tax assets and liabilities and corresponding valuation allowance was a provisional amount at December 31, 2017. Our income tax provision for the six months ended June 30, 2018 did not reflect any adjustment to the previously assessed Tax Act enactment effect. We will continue to assess forthcoming guidance and accounting interpretations on the effects of the Tax Act and expect to complete our analysis within the measurement period in accordance with the SEC guidance.

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):

	June 30, 2018	December 31, 2017	Change
Cash and cash equivalents	$ 38,690	$ 43,471	$ (4,781)
Working capital	$ 36,565	$ 36,773	$ (208)

	Six Months Ended June 30,		2017-2018
	2018	2017	Change
Net cash used in operating activities	$ (7,188)	$ (22,755)	$ 15,567
Net cash provided by investing activities	—	1,614	(1,614)
Net cash provided by financing activities	2,387	7,891	(5,504)
Effect of exchange rate changes on cash	20	(27)	47
Net decrease in cash and cash equivalents	$ (4,781)	$ (13,277)	$ 8,496

Cash Used in Operating Activities

The change in net cash from operating activities for the six months ended June 30, 2018, as compared with the same period in 2017, was primarily due to reduced spending as a result of the implementation of our royalty aggregator business model.

Cash Provided by Investing Activities

Net cash provided by investing activities for the six months ended June 30, 2017 of $1.6 million was due to the proceeds from the sale and disposal of equipment.

Cash Provided by Financing Activities

Net cash provided by financing activities for the six months ended June 30, 2018 of $2.4 million was primarily related to the sale of common stock for net proceeds of $2.3 million.

Net cash provided by financing activities for the six months ended June 30, 2017 of $7.9 million was primarily related to the sale of preferred stock and common stock to BVF for total net proceeds of $24.8 million. This increase was partially offset by the payoff of our outstanding loan with Hercules of $17.5 million.

SVB Loan Agreement

On May 7, 2018 (the "Effective Date"), we executed the Loan Agreement with SVB. Under the Loan Agreement, upon our request, SVB may make advances (each, a "Term Loan Advance") available to us up to $20.0 million (the "Term Loan"). The available fund may be increased up to $40.0 million upon our request and approval by the bank subject to our compliance of certain internal and credit requirements. We may borrow advances under the Term Loan until the earlier of March 31, 2019 or an event of default (the "Draw Period"). Unless an event of default occurs, the period to draw may be extended to March 31, 2020, if we receive $20.0 million in gross cash proceeds from milestone/licensing payments by March 31, 2019. In the event of a default related to our note agreement with Novartis Pharma AG ("Novartis"), SVB's obligation to make any credit extensions to us under the Loan Agreement will immediately terminate. As of June 30, 2018, we have not borrowed any advances under the Loan Agreement. The interest rate will be calculated at a rate equal to the greater of (i) 4.75%, and (ii) 0.25% plus the prime rate as reported from time to time in The Wall Street Journal.

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

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

Under the Loan Agreement, we may be obligated to pay a fee equal to 1% of the unused portion of the Term Loan upon the earlier of (i) the termination of the Loan Agreement, or (ii) the Draw Period if the aggregate original principal amount of the Term Loan Advances is less than $5.0 million.

* * *

We have incurred significant operating losses since our inception and have an accumulated deficit of $1.2 billion as of June 30, 2018. As of June 30, 2018, we had $38.7 million in cash, which will enable us to maintain our operations for a period of at least 12 months following the filing date of this report.

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.

Changes in Contractual Obligations

Our future contractual obligations were reported in our Annual Report on Form 10-K for the year ended December 31, 2017, 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, 2017.

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 June 30, 2018, have not changed materially from those discussed in Item 7A of our Form 10-K for the year ended December 31, 2017 filed with the SEC.

Foreign Currency Risk

We incur expenses denominated in foreign currencies. The amount of 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 expense increases, and when the U.S. Dollar strengthens against these currencies, the U.S. dollar value of the foreign-currency denominated expense decreases. A hypothetical 10% change in foreign exchange rates would not have had a material impact on our consolidated financial statements.

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 Exchange Act. Our Chief Executive Officer and our Chief Financial Officer have concluded, based on the evaluation of the effectiveness of our disclosure controls and procedures by our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, as of the end of the period covered by this report, that our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control

There have been no changes in our internal controls over financial reporting as defined in Rule 13a-15(f) under the Exchange Act during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 1A. RISK FACTORS

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

We have marked with an asterisk (*) those risks described below that reflect substantive changes from, or additions to, the risks described in our Annual Report on Form 10-K for the year ended December 31, 2017.

Risks Related to our Recently Undertaken Royalty Aggregator Strategy

Our planned acquisition of royalties may not produce anticipated revenues, and if such transactions are secured by collateral, we may be, or may become, under-secured by the collateral or such collateral may lose value and we will not be able recuperate our capital expenditures in the acquisition.

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

Some of these acquisitions may expose us to credit risk in the event of default by the counterparty. To mitigate this risk, on occasion, we may obtain a security interest as collateral in the assets of such counterparty. Our credit risk in respect of such counterparty may be exacerbated when the collateral held by us cannot be realized upon or is liquidated at prices not sufficient to recover the full amount we are due pursuant to the terms of the particular assets. This could occur in circumstances where the original collateral was not sufficient to cover a complete loss (e.g., our interests were only partially secured) or may result from the deterioration in value of the collateral, so that, in either such case, we are unable to recuperate our full capital outlay. Any such losses resulting therefrom could materially and adversely affect our financial condition and results of operations.

Many of our potential royalty acquisitions are in companies or assets that have no approved or commercialized products or are dependent on the actions of unrelated third parties, which may negatively impact our investment returns.

As part of our recently launched royalty aggregator strategy, we will likely make investments in royalty assets, such as an upfront payment for a profit share or royalty stream in the biotech industry, many of which investments are in companies that, at the time of investment, have limited or no approved or commercialized products. If the assets are not successfully developed and subsequently commercialized, the value of our investments will be negatively affected. The ultimate success of our royalty aggregator strategy will depend on the ability of the counterparty to innovate, develop and commercialize their products, in increasingly competitive and highly regulated markets. Their inability to do so would negatively affect our investment. In addition, we are dependent, to a large extent, on third parties to enforce certain rights for our benefit, such as protection of a patent estate, and their failure to do so would negatively impact our investment returns.

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

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

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

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

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

As we continue to develop our business, our mix of assets and our sources of income may require that we register with the SEC as an "investment company" in accordance with the Investment Company Act of 1940.

We have not been and have no current intention to register as an "investment company" under the Investment Company Act of 1940, or the '40 Act, because we believe the nature of our operations currently exclude us from the definition of an investment company under the '40 Act. Accordingly, we do not believe we are currently subject to the provisions of the '40 Act, such as compliance with the '40 Act's registration and reporting requirements, capital structure requirements, affiliate transaction restrictions, conflict of interest rules, requirements for disinterested directors, and other substantive provisions. Generally, to avoid being a company that is an "investment company" under the '40 Act, it must both: (a) not be or hold itself out as being engaged primarily in the business of investing, reinvesting or trading in securities, and (b) either (i) not be engaged or propose to engage in the business of investing in securities or own or propose to acquire investment securities having a value exceeding 40% of the value of its total assets (exclusive of U.S. government securities and cash items) on an unconsolidated basis or (ii) not have more than 45% of the value of its total assets (exclusive of government securities and cash items) consist of or more than 45% of its net income after taxes (for the last four fiscal quarters combined) be derived from certain types of securities. In addition, we would not be an "investment company" if an exception, exemption, or safe harbor under the '40 Act applies.

We monitor our assets and income for compliance with the tests under the '40 Act and seek to conduct our business activities to ensure that we do not fall within its definitions of "investment company." If we were to become an "investment company" and be subject to the restrictions of the '40 Act, those restrictions would likely require changes in the way we do business and add significant administrative burdens to our operations. To ensure that we do not fall within the '40 Act, we may need to take various actions which we might otherwise not pursue. These actions may include restructuring the Company and/or modifying our mixture of assets and income.

Specifically, our mixture of securities vs. royalty assets will be important to our classification as an "investment company". While we currently believe that none of the definitions of "investment company" apply to us, we may in the future rely on an exception under the '40 Act provided by Section 3(c)(5)(A). To qualify under Section 3(c)(5)(A), as interpreted by the staff of the SEC, we would be required to have at least 55% of our total assets in "notes, drafts, acceptances, open accounts receivable, and other obligations representing part or all of the sales price of merchandise, insurance, and services" (or Qualifying Assets). The SEC staff has stated in a no action letter that royalty interests are Qualifying Assets under this exception. If the SEC or its staff in the future adopts a contrary interpretation or otherwise restricts the conclusions in the staff's no-action letter such that our royalty interests are no longer Qualifying Assets for purposes of Section 3(c)(5)(A), or if we fail to have 55% of our total assets in Qualifying Assets, we could be required to register under the '40 Act.

The rules and interpretations of the SEC and the courts, relating to the definition of "investment company" are very complex. While we currently intend to conduct our operations so that we will not be an investment company under applicable SEC interpretations, we can provide no assurance that the SEC would not take the position that the Company would be required to register under the '40 Act.

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.

With the exception of the year ended December 31, 2017, we have incurred significant operating losses and negative cash flows from operations since our inception. For the three and six months ended June 30, 2018, we had net losses of $1.9 million and $5.8 million, respectively. For the three and six months ended June 30, 2017, we had a net income of $0.3 million and a net loss of $10.4 million, respectively. As of June 30, 2018, we had an accumulated deficit of $1.2 billion.

We do not know whether we will ever achieve sustained profitability or whether cash flow from future operations will be sufficient to meet our needs.

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

Our new strategy may require us to raise additional funds to acquire royalty assets; we cannot be certain that funds will be available, and if they are not available, we may be unsuccessful in acquiring assets to sustain the business in the future.

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

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

- reduce or eliminate royalty aggregation efforts; or
- further reduce our capital or operating expenditures; or
- curtail our spending on protecting our intellectual property.

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

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

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, we approved a restructuring of our business based on our decision to focus our efforts on clinical development, with an initial focus on the X358 clinical program. The restructuring included a reduction-in-force in which we terminated 57 employees. In early 2017, we implemented a royalty aggregator business model, which resulted in the termination of five additional employees effective June 30, 2017.

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 or capitalize on future opportunities and we may incur expenses in excess of what we anticipate. Any of these outcomes could prevent us from meeting our strategic objectives and could adversely impact our results of operations and financial condition.

Risks Related to Our Reliance on Third Parties

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

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

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

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

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

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

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

Under our contract with NIAID, a part of the National Institute of Health ("NIH"), we invoiced using NIH provisional rates, and these are subject to future audits at the discretion of NIAID's contracting office. These audits can result in an adjustment to revenue previously reported, which potentially could be material.

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

Our licensees may rely on third party manufacturers and such contract manufacturersare required to produce clinical product candidates under current Good Manufacturing Practices ("cGMP") to meet acceptable standards for use in clinical trials and for commercial sale, as applicable. If such standards change, the ability of contract manufacturers to produce our and our licensee's product candidates on the schedule required for our clinical trials or to meet commercial requirements may be affected. In addition, contract manufacturers may not perform their obligations under their agreements with our licensees or may discontinue their business before the time required by us to successfully produce clinical and commercial supplies of our licensee's 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 licensee's product candidates or any failure of our licensees' contractors to maintain compliance with the applicable regulations and standards could increase costs, reduce revenue, make our licensees postpone or cancel clinical trials, prevent or delay regulatory approval by the FDA and corresponding state and foreign authorities, prevent the import and/or export of our licensee's product candidates, or cause any of our licensee's product candidates that may be approved for commercial sale to be recalled or withdrawn.

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

We have licensed technologies from third parties. These technologies include phage display technologies licensed to us in connection with our bacterial cell expression technology licensing program and antibody products. However, our and our licensees' use of these technologies is limited by certain contractual provisions in the licenses relating to them, and although we have obtained numerous licenses, intellectual property rights in the area of phage display are particularly complex. If we are unable to maintain our licenses, patents or other intellectual property, we could lose important protections that are material to continuing our operations and for future prospects. Our licensors also may seek to terminate our license, which could cause us and our licensees to lose the right to use the licensed intellectual property and adversely affect our ability to commercialize our technologies, products or services.

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

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

For example, in connection with our dispositions or license arrangements, we have in the past out of necessity agreed to accept equity securities of the licensee in payment of fees. The future value of these shares 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, 2018, through August 2, 2018, the share price of our common stock has ranged from a high of $36.86 to a low of $19.09. Additionally, we have two significant holders of our stock that could affect the liquidity of our stock and have a significant negative impact on our stock price if one or both of the holders were to quickly sell their ownership positions.

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 complied 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 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, 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 liquidityof our common stock would be adversely affected and the market price of our common stock could decrease.

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

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

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

We expect that significant additional capital will be needed in the future to continue our planned operations. To the extent we raise additional capital by issuing equity securities, our stockholders may experience substantial dilution. We may sell common stock, convertible securities or other equity securities in one or more transactions at prices and in such a manner as we determine from time to time. 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 August 2, 2018. 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 8,387,163 were issued and outstanding as of August 2, 2018. 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, 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 SEC, including us, are subject to the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 ("SOX"). Section 404 requires management to establish and maintain a system of internal control over financial reporting, and annual reports on Form 10-K filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), must contain a report from management assessing the effectiveness of our internal control over financial reporting. Ensuring we have adequate internal financial and accounting controls and procedures in place to produce accurate financial statements on a timely basis is a time-consuming effort that needs to be re-evaluated frequently. Failure on our part to have effective internal financial and accounting controls would cause our financial reporting to be unreliable, could have a material adverse effect on our business, operating results, and financial condition, and could cause the trading price of our common stock to fall.

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

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

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

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

Under the newly enacted federal income tax law, federal net operating losses incurred in 2018 and in future years may be carried forward indefinitely, but the deductibility of such federal net operating losses is limited. It is uncertain if and to what extent various states will conform to the newly enacted federal tax law. In addition, Section 382 of the U.S. Internal Revenue Code of 1986, as amended, and corresponding provisions of state law, generally limit the ability of a corporation that undergoes an "ownership change" to utilize its net operating loss carry-forwards ("NOLs") and certain other tax attributes against any taxable income in taxable periods after the ownership change. The amount of taxable income in each taxable year after the ownership change that may be offset by pre-change NOLs and certain other pre-change tax attributes is generally equal to the product of (a) the fair market value of the corporation's outstanding shares (or, in the case of a foreign corporation, the fair market value of items treated as connected with the conduct of a trade or business in the United States) immediately prior to the ownership change and (b) the long-term tax exempt rate (i.e., a rate of interest established by the U.S. Internal Revenue Service that fluctuates from month to month). In general, an "ownership change" occurs whenever the percentage of the shares of a corporation owned, directly or indirectly, by "5-percent shareholders" (within the meaning of Section 382 of the Internal Revenue Code) increases by more than 50 percentage points over the lowest percentage of the shares of such corporation owned, directly or indirectly, by such "5-percent shareholders" at any time over the preceding three years.

Based on an analysis under Section 382 of the Internal Revenue Code (which subjects the amount of pre-change NOLs and certain other pre-change tax attributes that can be utilized to an annual limitation), we experienced ownership changes in 2009 and 2012, which substantially limit the future use of our pre-change NOLs and certain other pre-change tax attributes per year. In February 16, 2017, we completed an equity financing for net proceeds of $24.8 million which triggered an additional ownership change under Section 382 that significantly impacted the availability of our tax attributes against future income. Further, due to the existence of a net unrealized built-in loss at the ownership change date, Section 382 further limits our ability to fully utilize the tax deductions associated with certain of our assets, including depreciation and amortization deductions recognized during the 60-month period following the ownership change ending in 2022. Although these deductions will occur in the post-change period, Section 382 treats the deductions as pre-change losses subject to the annual 382 limitation. As of December 31, 2017, 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.

The recently passed comprehensive tax reform bill could adversely affect our business and financial condition.

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 was signed into law that significantly revises the Internal Revenue Code of 1986, as amended. The newly enacted federal income tax law, among other things, contains significant changes to corporate taxation, including reduction of the corporate tax rate from a top marginal rate of 35% to a flat rate of 21%, limitation of the tax deduction for interest expense to 30% of adjusted earnings (except for certain small businesses), limitation of the deduction for net operating losses to 80% of current year taxable income and elimination of net operating loss carrybacks, one time taxation of offshore earnings at reduced rates regardless of whether they are repatriated, immediate deductions for certain new investments instead of deductions for depreciation expense over time, and modifying or repealing many business deductions and credits (including reducing the business tax credit for certain clinical testing expenses incurred in the testing of certain drugs for rare diseases or conditions). Notwithstanding the reduction in the corporate income tax rate, the overall impact of the new federal tax law is uncertain and our business and financial condition could be adversely affected. In addition, it is uncertain if and to what extent various states will conform to the newly enacted federal tax law. The impact of this tax reform on holders of our common stock is also uncertain and could be adverse. We urge our stockholders to consult with their legal and tax advisors with respect to this legislation and the potential tax consequences of investing in or holding our common stock.

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

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

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

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

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

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

- research and spending priorities of potential licensing partners;
- willingness of, and the resources available to, pharmaceutical and biotechnology companies to in-license 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/or royalty fees when anticipated, it may adversely affect our liquidity, which in turn may harm our business.

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

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

- clinical development and testing;
- manufacturing;
- labeling;
- storage;
- record keeping;

- promotion and marketing; and
- importing and exporting.

In the United States, the FDA regulates pharmaceutical products under the Federal Food, Drug, and Cosmetic Act and other laws, including, in the case of biologics, the Public Health Service Act. 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.

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

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

Changes in the regulatory approval policy during the development period, changes in, or the enactment of additional regulations or statutes, or changes in regulatory review for a submitted product application may cause delays in the approval or rejection of an application.

The FDA and other regulatory agencies have substantial discretion in both the product approval process and manufacturing facility approval process, and as a result of this discretion and uncertainties about outcomes of testing, we cannot predict at what point, or whether, the FDA or other regulatory agencies will be satisfied with our licensees' submissions or whether the FDA or other regulatory agencies will raise questions that may be material and delay or preclude product approval or manufacturing facility approval. In light of this discretion and the complexities of the scientific, medical and regulatory environment, our or our licensees' interpretation or understanding of the FDA's or other regulatory agencies' requirements, guidelines or expectations may prove incorrect, which also could delay further or increase the cost of the approval process.

Our licensees face uncertain results of clinical trials of product candidates.

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

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

- our licensees' future filings will be delayed;
- our licensees' preclinical studies will be successful;
- our licensees will be successful in generating viable product candidates;

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

The timing of the commencement, continuation and completion of clinical trials by our licensees may be subject to significant delays relating to various causes, including failure to complete preclinical testing and earlier-stage clinical trials in a timely manner, inability to engage contract research organizations and other service providers, scheduling conflicts with participating clinicians and clinical institutions, changes in key personnel at clinical institutions, difficulties in identifying and enrolling patients who meet trial eligibility criteria and shortages of available drug supply. In addition, since we license our product candidates to others to fund and conduct clinical trials, we have limited control over how quickly and efficiently such licensees advance those trials. Patient enrollment is a function of many factors, including the size of the patient population, the proximity of patients to clinical sites, the concentration of patients in specialist centers, the eligibility criteria for the trial, the existence of competing clinical trials and the availability of alternative or new treatments. Regardless of the initial size or relative complexity of a clinical trial, the costs of such trial may be higher than expected due to increases in duration or size of the trial, changes in the protocol under which the trial is being conducted, additional or special requirements of one or more of the healthcare centers where the trial is being conducted, or changes in the regulatory requirements applicable to the trial or in the standards or guidelines for approval of the product candidate being tested or for other unforeseen reasons.

In addition, our licensees may conduct clinical trials in foreign countries, which may subject 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.

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

Developments by others may render our licensees' product candidates or technologies obsolete or uncompetitive. Technologies developed and utilized by the biotechnology and pharmaceutical industries are changing continuously and substantially. Competition in antibody-based technologies is intense and is expected to increase in the future as a number of established biotechnology firms and large chemical and pharmaceutical companies advance in these fields. Many of these competitors may be able to develop products and processes competitive with or superior to our 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 and our licensees may not be able to track development of competitive products, particularly at the early stages.

Positive developments in connection with a potentially competing product may have an adverse impact on our revenue derived from development milestones. For example, if another product is perceived to have a competitive advantage, or another product's failure is perceived to increase the likelihood that our licensed product will fail, our licensees may halt development of our licensed product candidates.

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

If our third-party licensees succeed in bringing our product candidates to the market, they may not be considered cost effective, and reimbursement to the patient may not be available or may not be sufficient to allow 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 licensees' ability to compete in the market will be harmed, and we may not realize our profit potential.

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

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

Because of the length of time and the expense associated with bringing new products to the marketplace, we and our 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 or products, and our competitors could commercialize our technologies or products, which could result in a decrease in our licensees' sales and market share that would harm our business and operating results. Specifically, the patent position of biotechnology companies generally is highly uncertain and involves complex legal and factual questions. The legal standards governing the validity of biotechnology patents are in transition, and current defenses as to issued biotechnology patents may not be adequate 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 our licensees from using our technology or product candidates.

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

Due to the uncertainties regarding biotechnology patents, we also have relied and will continue to rely upon trade secrets, know-how and continuing technological advancement to develop and maintain our competitive position. Our employees and contractors are typically required to sign confidentiality agreements under which they agree not to use or disclose any of our proprietary information. Research and development contracts and relationships between us and our scientific consultants and potential licensees provide access to aspects of our know-how that are protected generally under confidentiality agreements. These confidentiality agreements may be breached or may not be enforced by a court. To the extent proprietary information is divulged to competitors or to the public generally, such disclosure may affect our licensees' 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, or our licensees, are infringing other parties' patents. If such claims are resolved against us, we or our licensees may be enjoined from developing, manufacturing, selling or importing products, processes or services unless we obtain a license from the other party. Such license may not be available on reasonable terms, thus preventing us, or our licensees, from using these products, processes or services and adversely affecting our revenue.

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 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 focused company with limited resources, we may not be able to attract and retain qualified personnel.

After a series of restructuring activities during 2016 and 2017, we had 13 employees as of August 2, 2018. We may require additional experienced executive, accounting, legal, administrative and other personnel from time to time in the future. There is intense competition for the services of these personnel, especially in California. Moreover, we expect that the high cost of living in the San Francisco Bay Area, where our headquarters 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 business may suffer and we may be unable to implement our current initiatives or grow effectively.

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

Our principal operations are located in Northern California, including our corporate headquarters in Emeryville, 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 which could expose us to liability under federal or state privacy laws. Cyber-attacks can result in the theft of proprietary information which could be used to compete against us and could cause us to incur significant remediation costs, result in product development delays, disrupt key business operations and divert attention of management and key information technology resources. These incidents could also subject us to liability, expose us to significant expense and cause significant harm to our reputation and business.

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

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

In addition, our data security and information technology systems, as well as those of our partners and contractors, are potentially vulnerable to data security breaches, whether by employees or others, that may expose sensitive data or personal information to unauthorized persons. Effective May 25, 2018, the European Union ("EU") will implement the General Data Protection Regulation ("GDPR") a broad data protection framework that expands the scope of current EU data protection law to non-European Union entities that process, or control the processing of, the personal information of EU subjects, including clinical trial data. The GDPR allows for the imposition of fines and/or corrective action on entities that improperly use or disclose the personal information of EU subjects, including through a data security breach. Accordingly, data security breaches experienced by us, our partners or contractors could lead to significant fines, required corrective action, the loss of trade secrets or other intellectual property, public disclosure of sensitive clinical or commercial data, and the exposure of personally identifiable information (including sensitive personal information) of our employees, partners, and others. A data security breach or privacy violation that leads to disclosure or modification of, or prevents access to, patient information, including personally identifiable information or protected health information, could result in fines, increased costs or loss of revenue as a result of:

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

If we are unable to prevent such data security breaches or privacy violations or implement satisfactory remedial measures, our operations could be disrupted, and we may suffer loss of reputation, financial loss and other regulatory penalties because of lost or misappropriated information, including sensitive patient data. In addition, these breaches and other inappropriate access can be difficult to detect, and any delay in identifying them may lead to increased harm of the type described above. Moreover, the prevalent use of mobile devices that access confidential information increases the risk of data security breaches, which could lead to the loss of confidential information, trade secrets or other intellectual property. While we have implemented security measures to protect our data security and information technology systems, such measures may not prevent such events.

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

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

It is possible that suits will be filed, or allegations received from stockholders, naming us and/or our officers and directors as defendants. These potential lawsuits are subject to inherent uncertainties, and the actual defense and disposition costs will depend upon many unknown factors. The outcome of these lawsuits 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. It is possible that we could, in the future, incur judgments or enter into settlements of claims for monetary damages. A decision adverse to our interests on these actions could result in the payment of substantial damages, or possibly fines, and could have a material adverse effect on our cash flow, results of operations and financial position.

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

Risks Related to Government Regulation

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

Even if 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 European Medicines Agency ("EMA"), or another regulatory agency may impose, as a condition of the approval, ongoing requirements for post-approval studies or post-approval obligations, including additional research and development and clinical trials, and the FDA, EMA or other regulatory agency subsequently may withdraw approval based on these additional trials.

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

Furthermore, marketing approval of a product may be withdrawn by the FDA, the EMA or another regulatory agency or such product may be withdrawn voluntarily by 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. In addition, given the uncertainties related to the Trump Administration's stated goal of letting the Affordable Care Act (the "ACA") fail, we cannot be certain that current provisions of the ACA will continue to cover prescription drug products.

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 imposes 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; as well as 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.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit Number	Exhibit Description	Incorporation By Reference			
		Form	SEC File No.	Exhibit	Filing Date
3.1	Certificate of Incorporation of XOMA Corporation	8-K	000-14710	3.1	01/03/2012
3.2	Certificate of Amendment of Certificate of Incorporation of XOMA Corporation	8-K	000-14710	3.1	05/31/2012
3.3	Certificate of Amendment of Amended Certificate of Incorporation of XOMA Corporation	8-K	000-14710	3.1	05/28/2014
3.4	Certificate of Amendment to the Amended Certificate of Incorporation of XOMA Corporation	8-K	000-14710	3.1	10/18/2016
3.5	Certificate of Designation of Preferences, Rights and Limitations of Series X Convertible Preferred Stock	8-K	000-14710	3.1	02/16/2017
3.6	By-laws of XOMA Corporation	8-K	000-14710	3.2	01/03/2012
4.1	Reference is made to Exhibits 3.1, 3.2, 3.3, 3.4, 3.5 and 3.6				
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 (February 2015 Warrants)	10-Q	000-14710	4.10	05/07/2015
4.5	Form of Warrant (February 2016 Warrant)	10-Q	000-14710	4.9	05/04/2016
4.6+	Form of Warrant (May 2018 Warrant)				
10.1#	Amendment No. 1, dated March 30, 2018, to theLicense Agreement, dated December 6, 2017, between XOMA (US) LLC and Rezolute, Inc. (formerly AntriaBio, Inc.)	10-Q	000-14710	10.1	05/09/2018
10.2#	Amendment No. 1, dated March 30, 2018, to the Common Stock Purchase Agreement, dated December 6, 2017, between XOMA Corporation and Rezolute, Inc. (formerly AntriaBio, Inc.)	10-Q/A	000-14710	10.2	07/05/2018
10.3#	License Agreement dated December 6, 2017, between XOMA (US) LLC and Rezolute, Inc. (formerly AntriaBio)	10-K	000-14710	10.66	03/07/2018
10.4#	Common Stock Purchase Agreement dated December 6, 2017, between XOMA Corporation and Rezolute, Inc. (formerly AntriaBio)	10-K	000-14710	10.65	03/07/2018
10.5+	Loan and Security Agreement dated May 7, 2018, between XOMA Corporation, XOMA (US) LLC and XOMA Technology, Ltd. and Silicon Valley Bank				
10.6+	Officer Employment Agreement, dated April 27, 2018, between XOMA Corporation and Deepshikha Datta				

10.7+	Change of Control Severance Agreement, dated April 27, 2018, between XOMA Corporation and Deepshikha Datta
10.8+	Amendment No. 1, dated July 19, 2018, to the Officer Employment Agreement, dated April 27, 2018, between XOMA Corporation and Deepshikha Datta
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

+ Filed herewith

Confidential treatment has been requested for certain provisions omitted from this Exhibit pursuant to Rule 406 promulgated under the Securities Act. The omitted information has been filed separately with the SEC.

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

SIGNATURES

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

XOMA Corporation

Date: August 7, 2018

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

Date: August 7, 2018

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

Exhibit 4.6

THIS WARRANT AND THE SHARES ISSUABLE HEREUNDER HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "**ACT**"), OR THE SECURITIES LAWS OF ANY STATE AND, EXCEPT AS SET FORTH IN SECTIONS 5.3 AND 5.4 BELOW, MAY NOT BE OFFERED, SOLD , PLEDGED OR OTHERWISE TRANSFERRED UNLESS AND UNTIL REGISTERED UNDER SAID ACT AND LAWS OR, IN THE OPINION OF LEGAL COUNSEL IN FORM AND SUBSTANCE SATISFACTORY TO THE ISSUER , SUCH OFFER, SALE , PLEDGE OR OTHER TRANSFER IS EXEMPT FROM SUCH REGISTRATION.

WARRANT TO PURCHASE STOCK

Company: XOMA Corporation, a Delaware corporation
Number of Shares: 6,332, subject to adjustment
Type/Series of Stock: Common Stock, $0.0075 par value per share
Warrant Price: $23.69 per Share, subject to adjustment
Issue Date: May 7, 2018
Expiration Date: May 6, 2028 **See also Section 5.1(b).**
Credit Facility: This Warrant to Purchase Stock ("**Warrant**") is issued in connection with that certain Loan and Security Agreement of even date herewith among Silicon Valley Bank, the Company and XOMA (US) LLC (as amended and/or modified and in effect from time to time, the "**Loan Agreement**").

THIS WARRANT CERTIFIES THAT, for good and valuable consideration, SILICON VALLEY BANK (together with any successor or permitted assignee or transferee of this Warrant or of any shares issued upon exercise hereof, "**Holder**") is entitled to purchase up to such number of fully paid and non-assessable shares (the "**Shares**") of the above-stated Type/Series of Stock (the "**Class**") of the above-named company (the "**Company**") as determined pursuant to Paragraph A(1) below, at the above-stated Warrant Price, all as set forth above and subject to the provisions and upon the terms and conditions set forth in this Warrant. Reference is made to Section 5.4 of this Warrant whereby Silicon Valley Bank shall transfer this Warrant to its parent company, SVB Financial Group.

SECTION 1. EXERCISE.

1.1 Method of Exercise . Holder may at any time and from time to time exercise this Warrant , in whole or in part, by delivering to the Company the original of this Warrant together with a duly executed Notice of Exercise in substantially the form attached hereto as Appendix 1 and, unless Holder is exercising this Warrant pursuant to a cashless exercise set forth in Section 1.2, a check, wire transfer of same-day funds (to an account designated by the Company), or other form of payment acceptable to the Company for the aggregate Warrant Price for the Shares being purchased.

1.2 Cashless Exercise. On any exercise of this Warrant, in lieu of payment of the aggregate Warrant Price in the manner as specified in Section 1.1 above, but otherwise in accordance with the requirements of Section 1.1, Holder may elect to receive Shares equal to the value of this Warrant, or portion hereof as to which this Warrant is being exercised. Thereupon, the Company shall issue to the Holder such number of fully paid and non-assessable Shares as are computed using the following formula:

$$X = Y(A-B)/A$$

where:

X =the number of Shares to be issued to the Holder;

Y = the number of Shares with respect to which this Warrant is being exercised (inclusive of the Shares surrendered to the Company in payment of the aggregate Warrant Price);

A = the Fair Market Value (as determined pursuant to Section 1.3 below) of one Share; and

B =the Warrant Price.

1.3Fair Market Value. If shares of the Class are then traded or quoted on a nationally recognized securities exchange, inter-dealer quotation system or over-the-counter market (a "**Trading Market**"), the fair market value of a Share shall be the closing price or last sale price of a share of the Class reported for the Business Day immediately before the date on which Holder delivers this Warrant together with its Notice of Exercise to the Company. If shares of the Class are not then traded in a Trading Market , the Board of Directors of the Company shall determine the fair market value of a Share in its reasonable good faith judgment.

1.4Delivery of Certificate and New Warrant. Within a reasonable time after Holder exercises this Warrant in the manner set forth in Section 1.1 or 1.2 above , the Company shall deliver to Holder a certificate representing the Shares issued to Holder upon such exercise (which certificate may be in the form of an electronic certificate or DTC entry, to the extent used by the Company at the time of such exercise) and, if this Warrant has not been fully exercised and has not expired, a new warrant of like tenor representing the Shares not so acquired.

1.5 Replacement of Warrant . On receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant and, in the case of loss, theft or destruction, on delivery of an indemnity agreement reasonably satisfactory in form , substance and amount to the Company or, in the case of mutilation, on surrender of this Warrant to the Company for cancellation , the Company shall, within a reasonable time, execute and deliver to Holder , in lieu of this Warrant, a new warrant of like tenor and amount.

1.6 Treatment of Warrant Upon Acquisition of Company.

(a) Acquisition. For the purpose of this Warrant, "**Acquisition**" means any transaction or series of related transactions involving : (i) the sale, lease, exclusive license, or other disposition of all or substantially all of the assets of the Company; (ii) any merger or consolidation of the Company into or with another person or entity (other than a merger or consolidation effected exclusively to change the Company's

domicile), or any other corporate reorganization, in which the stockholders of the Company in their capacity as such immediately prior to such merger, consolidation or reorganization, own less than a majority of the Company' s (or the surviving or successor entity's) outstanding voting power immediately after such merger, consolidation or reorganization (or, if such Company stockholders beneficially own a majority of the outstanding voting power of the surviving or successor entity as of immediately after such merger, consolidation or reorganization, such surviving or successor entity is not the Company); or (iii) any sale or other transfer by the stockholders of the Company of shares representing at least a majority of the Company' s then-total outstanding combined voting power.

(b) Treatment of Warrant at Acquisition . In the event of an Acquisition in which the consideration to be received by the Company's stockholders consists solely of cash, solely of Marketable Securities or a combination of cash and Marketable Securities (a "**Cash/Public Acquisition**"), and the fair market value of one Share as determined in accordance with Section 1.3 above would be greater than the Warrant Price in effect on such date immediately prior to such Cash/Public Acquisition, and Holder has not exercised this Warrant pursuant to Section 1.1 above as to all Shares, then this Warrant shall automatically be deemed to be Cashless Exercised pursuant to Section 1.2 above as to all Shares effective immediately prior to and contingent upon the consummation of a Cash/Public Acquisition. In connection with such Cashless Exercise, Holder shall be deemed to have restated each of the representations and warranties in Section 4 of the Warrant as of the date thereof and the Company shall promptly notify the Holder of the number of Shares (or such other securities) issued upon exercise. In the event of a Cash/Public Acquisition where the fair market value of one Share as determined in accordance with Section 1.3 above would be less than the Warrant Price in effect immediately prior to such Cash/Public Acquisition, then this Warrant will expire immediately prior to the consummation of such Cash/Public Acquisition.

(c) Upon the closing of any Acquisition other than a Cash/Public Acquisition , the acquiring, surviving or successor entity shall assume the obligations of this Warrant, and this Warrant shall thereafter be exercisable for the same securities and /or other property as would have been paid for the Shares issuable upon exercise of the unexercised portion of this Warrant as if such Shares were outstanding on and as of the closing of such Acquisition, subject to further adjustment from time to time in accordance with the provisions of this Warrant.

(d) As used in this Warrant, "**Marketable Securities**" means securities meeting all of the following requirements: (i) the issuer thereof is then subject to the reporting requirements of Section 13 or Section 15(d) of the Securities Exchange Act of 1934, as amended (the "**Exchange Act**"), and is then current in its filing of all required reports and other information under the Act and the Exchange Act; (ii) the class and series of shares or other security of the issuer that would be received by Holder in connection with the Acquisition were Holder to exercise this Warrant on or prior to the closing thereof is then traded in a Trading Market, and (iii) following the closing of such Acquisition, Holder would not be restricted from publicly re-selling all of the issuer's shares and/or other securities that would be received by Holder in such Acquisition were Holder to exercise this Warrant in full on or prior to the closing of such Acquisition, except to the extent that any such restriction (x) arises solely under federal or state securities laws, rules or regulations, and (y) does not extend beyond six (6) months from the closing of such Acquisition.

SECTION 2. ADJUSTMENTS TO THE SHARES AND WARRANT PRICE.

2.1 Stock Dividends, Splits, Etc. If the Company declares or pays a dividend or distribution on the outstanding shares of the Class payable in additional shares of the Class or other securities or property (other than cash) , then upon exercise of this Warrant, for each Share acquired, Holder shall receive, without additional cost to Holder, the total number and kind of securities and property which Holder would have

received had Holder owned the Shares of record as of the date the dividend or distribution occurred. If the Company subdivides the outstanding shares of the Class by reclassification or otherwise into a greater number of shares, the number of Shares purchasable hereunder shall be proportionately increased and the Warrant Price shall be proportionately decreased. If the outstanding shares of the Class are combined or consolidated, by reclassification or otherwise, into a lesser number of shares, the Warrant Price shall be proportionately increased and the number of Shares shall be proportionately decreased.

2.2 Reclassification, Exchange, Combinations or Substitution . Upon any event whereby all of the outstanding shares of the Class are reclassified, exchanged, combined, substituted, or replaced for, into, with or by Company securities of a different class and/or series, then from and after the consummation of such event, this Warrant will be exercisable for the number, class and series of Company securities that Holder would have received had the Shares been outstanding on and as of the consummation of such event, and subject to further adjustment thereafter from time to time in accordance with the provisions of this Warrant. The provisions of this Section 2.2 shall similarly apply to successive reclassifications, exchanges, combinations, substitutions, replacements or other similar events.

2.3 No Fractional Share . No fractional Share shall be issuable upon exercise of this Warrant and the number of Shares to be issued shall be rounded down to the nearest whole Share. If a fractional Share interest arises upon any exercise of the Warrant, the Company shall eliminate such fractional Share interest by paying Holder in cash the amount computed by multiplying the fractional interest by (i) the fair market value (as determined in accordance with Section 1.3 above) of a full Share , less (ii) the then-effective Warrant Price.

2.4 Notice/Certificate as to Adjustments. Upon each adjustment of the Warrant Price, Class and/or number of Shares, the Company, at the Company's expense, shall notify Holder in writing within a reasonable time setting forth the adjustments to the Warrant Price, Class and/or number of Shares and facts upon which such adjustment is based. The Company shall, upon written request from Holder, furnish Holder with a certificate of its Chief Financial Officer, including computations of such adjustment and the Warrant Price, Class and number of Shares in effect upon the date of such adjustment.

SECTION 3. REPRESENTATIONS AND COVENANTS OF THE COMPANY.

3.1 Representations and Warranties. The Company represents and warrants to, and agrees with, the Holder as follows:

(a) All Shares which may be issued upon the exercise of this Warrant shall, upon issuance, be duly authorized, validly issued, fully paid and non-assessable , and free of any liens and encumbrances except for restrictions on transfer provided for herein or under applicable federal and state securities laws.

(b) The Company covenants that it shall at all times cause to be reserved and kept available out of its authorized and unissued capital stock such number of shares of the Class and other securities as will be sufficient to permit the exercise in full of this Warrant.

3.2 Notice of Certain Events. If the Company proposes at any time to:

(a) declare any dividend or distribution upon the outstanding shares of the Class, whether in cash, property, stock, or other securities and whether or not a regular cash dividend;

(b) offer for subscription or sale pro rata to the holders of the outstanding shares of the Class any additional shares of any class or series of the Company' s stock (other than pursuant to contractual pre-emptive rights);

(c) effect any reclassification, exchange, combination, substitution, reorganization or recapitalization of the outstanding shares of the Class; or

(d) effect an Acquisition or to liquidate, dissolve or wind up;

then, in connection with each such event, the Company shall give Holder notice thereof at the same time and in the same manner as given to holders of the outstanding shares of the Class.

SECTION 4. REPRESENTATIONS, WARRANTIES OF THE HOLDER.

The Holder represents and warrants to the Company as follows:

4.1Purchase for Own Account. Except for the one-time transfer by Silicon Valley Bank to its parent corporation SVB Financial Group described in Section 5.4 below, this Warrant and the Shares to be acquired upon exercise of this Warrant by Holder are being acquired for investment for Holder's account, not as a nominee or agent, and not with a view to the public resale or distribution within the meaning of the Act. Holder also represents that it has not been formed for the specific purpose of acquiring this Warrant or the Shares.

4.2Disclosure of Information. Holder is aware of the Company's business affairs and financial condition and has received or has had full access to all the information it considers necessary or appropriate to make an informed investment decision with respect to the acquisition of this Warrant and its underlying securities. Holder further has had an opportunity to ask questions and receive answers from the Company regarding the terms and conditions of the offering of this Warrant and its underlying securities and to obtain additional information (to the extent the Company possessed such information or could acquire it without unreasonable effort or expense) necessary to verify any information furnished to Holder or to which Holder has access.

4.3Investment Experience. Holder understands that the purchase of this Warrant and its underlying securities involves substantial risk. Holder has experience as an investor in securities of companies in the development stage and acknowledges that Holder can bear the economic risk of such Holder's investment in this Warrant and its underlying securities and has such knowledge and experience in financial or business matters that Holder is capable of evaluating the merits and risks of its investment in this Warrant and its underlying securities and/or has a preexisting personal or business relationship with the Company and certain of its officers, directors or controlling persons of a nature and duration that enables Holder to be aware of the character, business acumen and financial circumstances of such persons.

4.4Accredited Investor Status. Holder is an "accredited investor" within the meaning of Regulation D promulgated under the Act.

4.5 The Act. Holder understands that this Warrant and the Shares issuable upon exercise hereof have not been registered under the Act in reliance upon a specific exemption therefrom, which exemption depends upon, among other things, the bona fide nature of the Holder's investment intent as expressed herein. Holder understands that this Warrant and the Shares issued upon any exercise hereof must be held indefinitely unless subsequently registered under the Act and qualified under applicable state securities laws, or unless exemption from such registration and qualification are otherwise available. Holder is aware of the provisions of Rule 144 promulgated under the Act.

4.6 No Shareholder Rights. Without limiting any provision of this Warrant, Holder agrees that as a Holder of this Warrant it will not have any rights (including, but not limited to, voting rights) as a shareholder of the Company with respect to the Shares issuable hereunder unless and until the exercise of this Warrant and then only with respect to the Shares issued on such exercise.

SECTION 5. MISCELLANEOUS.

5.1 Term; Automatic Cashless Exercise Upon Expiration .

(a) Term. Subject to the provisions of Section 1.6 above, this Warrant is exercisable in whole or in part at any time and from time to time on or before 6:00 PM, Pacific time, on the Expiration Date and shall be void thereafter.

(b) Automatic Cashless Exercise upon Expiration. In the event that, upon the Expiration Date, the fair market value of one Share as determined in accordance with Section 1.3 above is greater than the Warrant Price in effect on such date, then this Warrant shall automatically be deemed on and as of such date to be exercised pursuant to Section 1.2 above as to all Shares for which it shall not previously have been exercised, and the Company shall, within a reasonable time, deliver a certificate representing the Shares issued upon such exercise to Holder (which certificate may be in the form of an electronic certificate or DTC entry, to the extent used by the Company at the time of such exercise).

5.2Legends. Each certificate evidencing Shares shall be imprinted with a legend in substantially the following form:

THE SHARES EVIDENCED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "**ACT**") , OR THE SECURITIES LAWS OF ANY STATE AND, EXCEPT A S SET FORTH IN THAT CERTAIN WARRANT TO PURCHASE STOCK ISSUED BY THE ISSUER TO SILICON VALLEY BANK DATED MAY 7, 2018 , MAY NOT BE OFFERED, SOLD , PLEDGED OR OTHERWISE TRANSFERRED UNLESS AND UNTIL REGISTERED UNDER SAID ACT AND LAWS OR, IN THE OPINION OF LEGAL COUNSEL IN FORM AND SUBSTANCE SATISFACTORY TO THE ISSUER , SUCH OFFER, SALE , PLEDGE OR OTHER TRANSFER IS EXEMPT FROM SUCH REGISTRATION.

5.3Compliance with Securities Laws on Transfer. This Warrant and the Shares issued upon exercise of this Warrant may not be transferred or assigned in whole or in part except in compliance with applicable federal and state securities laws by the transferor and the transferee (including, without limitation, the delivery of investment representation letters and legal opinions reasonably satisfactory to the Company, as reasonably requested by the Company). The Company shall not require Holder to provide an opinion of counsel if the transfer is to SVB Financial Group (Silicon Valley Bank's parent company) or any other affiliate

of Holder, provided that any such transferee is an "accredited investor" as defined in Regulation D promulgated under the Act. Additionally, the Company shall also not require an opinion of counsel if there is no material question as to the availability of Rule 144 promulgated under the Act.

5.4 Transfer Procedure. After receipt by Silicon Valley Bank of the executed Warrant, Silicon Valley Bank will transfer all of this Warrant to its parent company, SVB Financial Group . By its acceptance of this Warrant, SVB Financial Group hereby makes to the Company each of the representations and warranties set forth in Section 4 hereof and agrees to be bound by all of the terms and conditions of this Warrant as if the original Holder hereof. Subject to the provisions of Section 5.3 and upon providing the Company with written notice, SVB Financial Group and any subsequent Holder may transfer all or part of this Warrant to any transferee, provided, however, in connection with any such transfer, SVB Financial Group or any subsequent Holder will give the Company notice of the portion of the Warrant being transferred with the name, address and taxpayer identification number of the transferee and Holder will surrender this Warrant to the Company for reissuance to the transferee(s) (and Holder if applicable); and provided further, that any subsequent transferee of this Warrant or of any portion hereof other than SVB Financial Group shall agree in writing with the Company to be bound by all of the terms and conditions of this Warrant.

5.5Notices . All notices and other communications hereunder from the Company to the Holder, or vice versa, shall be deemed delivered and effective (i) when given personally, (ii) on the third (3rd) Business Day after being mailed by first-class registered or certified mail, postage prepaid, (iii) upon actual receipt if given by facsimile or electronic mail and such receipt is confirmed in writing by the recipient, or (iv) on the first Business Day following delivery to a reliable overnight courier service, courier fee prepaid, in any case at such address as may have been furnished to the Company or Holder, as the case may be, in writing by the Company or such Holder from time to time in accordance with the provisions of this Section 5.5. All notices to Holder shall be addressed as follows until the Company receives notice of a change of address in connection with a transfer or otherwise:

SVB Financial Group
Attn: Treasury Department
3003 Tasman Drive, HC 215
Santa Clara, CA 95054
Telephone: (408) 654-7400
Facsimile: (408) 988-8317
Email address: derivatives@svb.com

Notice to the Company shall be addressed as follows until Holder receives notice of a change in address:

XOMA Corporation
Attn: Chief Financial Officer
2200 Powell Street, Suite 310
Emeryville, CA 94608
Telephone: (510) 204-7200
Facsimile:
Email:

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

Cooley LLP
Attn: Michael E. Tenta
3175 Hanover Street
Palo Alto, CA 94304
Telephone: (650) 843-5636
Facsimile:
Email: mtenta@cooley.com

5.6 Waiver. This Warrant and any term hereof may be changed, waived, discharged or terminated (either generally or in a particular instance and either retroactively or prospectively) only by an instrument in writing signed by the party against which enforcement of such change, waiver, discharge or termination is sought.

5.7 Attorneys' Fees. In the event of any dispute between the parties concerning the terms and provisions of this Warrant, the party prevailing in such dispute shall be entitled to collect from the other party all costs incurred in such dispute, including reasonable attorneys' fees.

5.8 Counterparts; Facsimile/Electronic Signatures. This Warrant may be executed in counterparts, all of which together shall constitute one and the same agreement. Any signature page delivered electronically or by facsimile shall be binding to the same extent as an original signature page with regards to any agreement subject to the terms hereof or any amendment thereto.

5.9 Governing Law. This Warrant shall be governed by and construed in accordance with the laws of the State of California, without giving effect to its principles regarding conflicts of law.

5.10 Headings. The headings in this Warrant are for purposes of reference only and shall not limit or otherwise affect the meaning of any provision of this Warrant.

5.11 Business Days. "**Business Day**" is any day that is not a Saturday, Sunday or a day on which Silicon Valley Bank is closed.

[Remainder of page left blank intentionally]
[Signature page follows]

IN WITNESS WHEREOF, the parties have caused this Warrant to Purchase Stock to be executed by their duly authorized representatives effective as of the Issue Date written above.

"COMPANY"

XOMA CORPORATION

By: _____

Name:_____
(Print)
Title:

"HOLDER"

SILICON VALLEY BANK

By:_____

Name:_____
(Print)
Title:

APPENDIX 1

NOTICE OF EXERCISE

1. The undersigned Holder hereby exercises its right to purchase _____ shares of the Common/Series _____ Preferred [circle one] Stock of _____ (the "**Company**") in accordance with the attached Warrant To Purchase Stock, and tenders payment of the aggregate Warrant Price for such shares as follows:

[ ] check in the amount of $_____ payable to order of the Company enclosed herewith

[ ] Wire transfer of immediately available funds to the Company's account

[ ] Cashless Exercise pursuant to Section 1.2 of the Warrant

[ ] Other [Describe] _____

2. Please issue a certificate or certificates representing the Shares in the name specified below:

_____
Holder's Name

_____

_____
(Address)

3. By its execution below and for the benefit of the Company, Holder hereby restates each of the representations and warranties in Section 4 of the Warrant to Purchase Stock as of the date hereof.

HOLDER:

_____

By:_____

Name:_____

Title:_____

(Date):_____

Exhibit 10.5

LOAN AND SECURITY AGREEMENT

THIS LOAN AND SECURITY AGREEMENT (this "**Agreement**") dated as of May 7, 2018 (the "**Effective Date**") among (a) **SILICON VALLEY BANK**, a California corporation with a loan production office located at 505 Howard Street, 3rd Floor, San Francisco, California 94105 ("**Bank**"), and (b) (i) **XOMA CORPORATION**, a Delaware corporation ("**XOMA**"), (ii) **XOMA (US) LLC**, a Delaware limited liability company ("**XOMA US**"), and (iii) **XOMA TECHNOLOGY LTD.**, a Bermuda exempted company ("**Bermuda Borrower**"; together with XOMA and XOMA US, individually and collectively, jointly and severally, the "**Borrower**"), provides the terms on which Bank shall lend to Borrower and Borrower shall repay Bank. The parties agree as follows:

1. ACCOUNTING AND OTHER TERMS

Accounting terms not defined in this Agreement shall be construed following GAAP. Calculations and determinations must be made following GAAP. Capitalized terms not otherwise defined in this Agreement shall have the meanings set forth in Section 13. All other terms contained in this Agreement, unless otherwise indicated, shall have the meaning provided by the Code to the extent such terms are defined therein.

2. LOAN AND TERMS OF PAYMENT

2.1 Promise to Pay. Borrower hereby unconditionally promises to pay Bank the outstanding principal amount of all Credit Extensions and accrued and unpaid interest thereon as and when due in accordance with this Agreement.

2.1.1 Term Loan.

(a) Availability. Subject to the terms and conditions of this Agreement, upon Borrower's request, during the Draw Period, Bank shall make advances (each, a "**Term Loan Advance**" and collectively, the "**Term Loan Advances**") available to Borrower in an aggregate original principal amount not to exceed the Term Loan Amount. Each Term Loan Advance may not exceed Two Million Dollars ($2,000,000.00) (provided that, in Bank's sole and absolute discretion, Bank may increase such amount to Seven Million Five Hundred Thousand Dollars ($7,500,000.00) in connection with a particular Permitted Acquisition ("**Bank's Increase Option**"), provided that the aggregate original principal amount of all Term Loan Advances shall not exceed the Term Loan Amount) and the maximum aggregate amount of Term Loan Advances advanced in a single fiscal quarter of Borrower may not exceed Five Million Dollars ($5,000,000.00) (the "**Quarterly Advance Limit**") (provided that the Quarterly Advance Limit may increase accordingly to reflect Bank's exercise of Bank's Increase Option). After repayment, no Term Loan Advance (or any portion thereof) may be reborrowed.

(b) Interest Payments. Commencing on the first (1st) Payment Date of the month following the Funding Date of each Term Loan Advance, and continuing on each Payment Date of each month thereafter, Borrower shall make monthly payments of interest, in arrears, on the principal amount of such Term Loan Advance at the rate set forth in Section 2.2(a).

(c) Repayment. Commencing on the applicable Term Loan Amortization Date and continuing on each Payment Date thereafter, Borrower shall repay each Term Loan Advance in (i) twenty-four (24) consecutive equal monthly installments of principal, plus (ii) monthly payments of accrued interest at the rate set forth in Section 2.2.(a). All outstanding principal and accrued and unpaid interest under each Term Loan Advance, and all other outstanding Obligations with respect to such Term Loan Advance, are due and payable in full on the applicable Term Loan Maturity Date.

(d) Permitted Prepayment of Term Loan Advances. Borrower shall have the option to prepay all, but not less than all, of each Term Loan Advance advanced by Bank under this Agreement, provided Borrower (i) provides written notice to Bank of its election to prepay such Term Loan Advance at least thirty (30) days prior to such prepayment, and (ii) pays, on the date of such prepayment (A) all outstanding principal plus accrued and unpaid interest with respect to such Term Loan Advance, (B) the Final Payment with respect to such Term Loan Advance, (C) the Prepayment Premium with respect to such Term Loan Advance, plus (D) all other sums, if any, that shall have become due and payable, including interest at the Default Rate with respect to any past due amounts.

(e) Mandatory Prepayment Upon an Acceleration. If the Term Loan Advances are accelerated following the occurrence of an Event of Default, Borrower shall immediately pay to Bank an amount equal to the sum of: (i) all outstanding principal plus accrued and unpaid interest, (ii) the Final Payment, (iii) the Prepayment Premium, plus (iv) all other sums, if any, that shall have become due and payable, including interest at the Default Rate with respect to any past due amounts.

2.2 Payment of Interest on the Credit Extensions.

(a) Interest Rate. Subject to Section 2.2(b), the principal amount outstanding under each Term Loan Advance shall accrue interest at a floating per annum rate equal to the greater of (i) four and three-quarters of one percent (4.75%) and (ii) one-quarter of one percent (0.25%) above the Prime Rate, which interest shall be payable monthly in accordance with Section 2.2(d) below.

(b) Default Rate. Immediately upon the occurrence and during the continuance of an Event of Default, Obligations shall bear interest at a rate per annum which is four percent (4.0%) above the rate that is otherwise applicable thereto (the "**Default Rate**"). Fees and expenses which are required to be paid by Borrower pursuant to the Loan Documents (including, without limitation, Bank Expenses) but are not paid when due shall bear interest until paid at a rate equal to the highest rate applicable to the Obligations. Payment or acceptance of the increased interest rate provided in this Section 2.2(b) is not a permitted alternative to timely payment and shall not constitute a waiver of any Event of Default or otherwise prejudice or limit any rights or remedies of Bank.

(c) Adjustment to Interest Rate. Changes to the interest rate of any Credit Extension based on changes to the Prime Rate shall be effective on the effective date of any change to the Prime Rate and to the extent of any such change.

(d) Payment; Interest Computation. Interest is payable monthly on the Payment Date and shall be computed on the basis of a 360-day year for the actual number of days elapsed. In computing interest, (i) all payments received after 12:00 p.m. Pacific time on any day shall be deemed received at the opening of business on the next Business Day, and (ii) the date of the making of any Credit Extension shall be included and the date of payment shall be excluded; provided, however, that if any Credit Extension is repaid on the same day on which it is made, such day shall be included in computing interest on such Credit Extension.

2.3 Fees. Borrower shall pay to Bank:

(a) Final Payment. The Final Payment, when due hereunder;

(b) Prepayment Premium. The Prepayment Premium, when due hereunder;

(c) Unused Term Loan Fee. Upon the earlier to occur of (i) the termination of this Agreement or (ii) the expiration of the Draw Period, if the aggregate original principal amount of the Term

Loan Advances is less than Five Million Dollars ($5,000,000.00), in addition to the payment of any other amounts then owing, an unused fee equal to one percent (1.0%) of the unused portion of the Term Loan Amount (the "**Unused Term Loan Fee**"); and

(d) Bank Expenses. All Bank Expenses (including reasonable attorneys' fees and expenses for documentation and negotiation of this Agreement) incurred through and after the Effective Date, when due (or, if no stated due date, upon demand by Bank).

Unless otherwise provided in this Agreement or in a separate writing by Bank, Borrower shall not be entitled to any credit, rebate, or repayment of any fees earned by Bank pursuant to this Agreement notwithstanding any termination of this Agreement or the suspension or termination of Bank's obligation to make loans and advances hereunder. Bank may deduct amounts owing by Borrower under the clauses of this Section 2.3 pursuant to the terms of Section 2.4(c). Bank shall provide Borrower written notice of deductions made from the Designated Deposit Account pursuant to the terms of the clauses of this Section 2.3.

2.4 Payments; Application of Payments; Debit of Accounts.

(a) All payments to be made by Borrower under any Loan Document shall be made in immediately available funds in Dollars, without setoff or counterclaim, before 12:00 p.m. Pacific time on the date when due. Payments of principal and/or interest received after 12:00 p.m. Pacific time are considered received at the opening of business on the next Business Day. When a payment is due on a day that is not a Business Day, the payment shall be due the next Business Day, and additional fees or interest, as applicable, shall continue to accrue until paid.

(b) Bank has the exclusive right to determine the order and manner in which all payments with respect to the Obligations may be applied. Borrower shall have no right to specify the order or the accounts to which Bank shall allocate or apply any payments required to be made by Borrower to Bank or otherwise received by Bank under this Agreement when any such allocation or application is not specified elsewhere in this Agreement.

(c) Bank may debit any of Borrower's deposit accounts, including the Designated Deposit Account, for principal and interest payments or any other amounts Borrower owes Bank when due. These debits shall not constitute a set-off.

2.5 Withholding. Payments received by Bank from Borrower under the Loan Documents will be made free and clear of and without deduction for any and all present or future taxes, levies, imposts, duties, deductions, withholdings, assessments, fees or other charges imposed by any Governmental Authority (including any interest, additions to tax or penalties applicable thereto). Specifically, however, if at any time any Governmental Authority, applicable law, regulation or international agreement requires Borrower to make any withholding or deduction from any such payment or other sum payable under the Loan Documents to Bank, Borrower hereby covenants and agrees that the amount due from Borrower with respect to such payment or other sum payable under the Loan Documents will be increased to the extent necessary to ensure that, after the making of such required withholding or deduction, Bank receives a net sum equal to the sum which it would have received had no withholding or deduction been required, and Borrower shall pay the full amount withheld or deducted to the relevant Governmental Authority. Borrower will, upon request, furnish Bank with proof reasonably satisfactory to Bank indicating that Borrower has made such withholding payment; provided, however, that Borrower need not make any withholding payment if the amount or validity of such withholding payment is contested in good faith by appropriate and timely proceedings and as to which payment in full is bonded or reserved against by Borrower. The agreements and obligations of Borrower contained in this Section 2.5 shall survive the termination of this Agreement.

2.6 **Commitment to Lend.** Upon the occurrence of a Novartis Debt Default, which is not cured or waived in writing in accordance with the provisions of this Agreement, Bank's obligation to make any Credit Extensions to Borrower under this Agreement, including, without limitation, Term Loan Advances, shall immediately terminate.

3. CONDITIONS OF LOANS

3.1 **Conditions Precedent to Initial Credit Extension**. Bank's obligation to make the initial Credit Extension is subject to the condition precedent that Bank shall have received, in form and substance satisfactory to Bank, such documents, and completion of such other matters, as Bank may reasonably deem necessary or appropriate, including, without limitation:

(a) duly executed original signatures to the Loan Documents;

(b) duly executed original signatures to the Warrant;

(c) Reserved;

(d) the Operating Documents and long-form good standing certificates (or, in the case of Bermuda Borrower, a certificate of compliance and tax assurance certificate) of each Borrower certified by the Secretary of State of Delaware (or equivalent agency of Borrower's jurisdiction of organization) and in each jurisdiction in which each Borrower is qualified to conduct business, each as of a date no earlier than thirty (30) days prior to the Effective Date;

(e) duly executed original signatures to the completed Borrowing Resolutions for each Borrower;

(f) certified copies, dated as of a recent date, of Lien searches, as Bank may request, accompanied by written evidence (including any UCC termination statements and any deed of release) that the Liens indicated in any such financing statements or other filings either constitute Permitted Liens or have been or, in connection with the initial Credit Extension, will be terminated or released;

(g) the Perfection Certificate of each Borrower, together with the duly executed original signature thereto;

(h) Intellectual Property search results and completed exhibits to the IP Agreement for each Borrower;

(i) legal opinions of Borrower's US counsel and Bank's Bermuda counsel dated as of the Effective Date, together with the duly executed signatures thereto;

(j) evidence satisfactory to Bank that the insurance policies and endorsements required by Section 6.5 hereof are in full force and effect, together with appropriate evidence showing additional insured clauses or endorsements in favor of Bank; and

(k) payment of the fees and Bank Expenses then due as specified in Section 2.3 hereof.

3.2 **Conditions Precedent to all Credit Extensions**. Bank's obligations to make each Credit Extension, including the initial Credit Extension, is subject to the following conditions precedent:

(a) Except as otherwise provided in Section 3.4, timely receipt of an executed Payment/Advance Form;

(b) the representations and warranties in this Agreement and the Bermuda Collateral Documents shall be true, accurate, and complete in all material respects on the date of the Payment/Advance Form and on the Funding Date of each Credit Extension; provided, however, that such materiality qualifier shall not be applicable to any representations and warranties that already are qualified or modified by materiality in the text thereof; and provided, further that those representations and warranties expressly referring to a specific date shall be true, accurate and complete in all material respects as of such date, and no Event of Default shall have occurred and be continuing or result from the Credit Extension. Each Credit Extension is Borrower's representation and warranty on that date that the representations and warranties in this Agreement and the Bermuda Collateral Documents remain true, accurate, and complete in all material respects; provided, however, that such materiality qualifier shall not be applicable to any representations and warranties that already are qualified or modified by materiality in the text thereof; and provided, further that those representations and warranties expressly referring to a specific date shall be true, accurate and complete in all material respects as of such date; and

(c) Bank determines to its satisfaction that there has not been any material impairment in the general affairs, management, results of operation, financial condition or the prospect of repayment of the Obligations, or any material adverse deviation by Borrower from the most recent business plan of Borrower presented to and accepted by Bank.

3.3 Covenant to Deliver . Borrower agrees to deliver to Bank each item required to be delivered to Bank under this Agreement as a condition precedent to any Credit Extension. Borrower expressly agrees that a Credit Extension made prior to the receipt by Bank of any such item shall not constitute a waiver by Bank of Borrower's obligation to deliver such item, and the making of any Credit Extension in the absence of a required item shall be in Bank's sole discretion.

3.4 Procedures for Borrowing. Subject to the prior satisfaction of all other applicable conditions to the making of a Credit Extension set forth in this Agreement, to obtain a Credit Extension, Borrower shall notify Bank (which notice shall be irrevocable) by electronic mail, facsimile, or telephone by 12:00 p.m. Pacific time at least two (2) Business Days prior to the proposed Funding Date of the Credit Extension. Together with any such electronic or facsimile notification, Borrower shall deliver to Bank by electronic mail or facsimile a completed Payment/Advance Form executed by an Authorized Signer and information related to such Permitted Acquisition, including, without limitation, documentation required pursuant to clause (e) of the definition of Permitted Acquisition, and as Bank may request in its sole discretion. Bank may rely on any telephone notice given by a person whom Bank reasonably believes is an Authorized Signer. Bank shall credit the Credit Extensions to the Designated Deposit Account. Bank may make Credit Extensions under this Agreement based on instructions from an Authorized Signer or without instructions if the Credit Extensions are necessary to meet Obligations which have become due.

4. CREATION OF SECURITY INTEREST

4.1 Grant of Security Interest. Borrower hereby grants Bank, to secure the payment and performance in full of all of the Obligations, a continuing security interest in, and pledges to Bank, the Collateral, wherever located, whether now owned or hereafter acquired or arising, and all proceeds and products thereof.

Borrower acknowledges that it previously has entered, and/or may in the future enter, into Bank Services Agreements with Bank. Regardless of the terms of any Bank Services Agreement, Borrower agrees that any amounts Borrower owes Bank thereunder shall be deemed to be Obligations hereunder and that it is the intent of Borrower and Bank to have all such Obligations secured by the first priority perfected security interest

in the Collateral granted herein and under the Bermuda Collateral Documents (subject only to Permitted Liens that are permitted pursuant to the terms of this Agreement to have superior priority to Bank's Lien in this Agreement).

If this Agreement is terminated, Bank's Lien in the Collateral shall continue until the Obligations (other than inchoate indemnity obligations) are repaid in full in cash. Upon payment in full in cash of the Obligations (other than inchoate indemnity obligations) and at such time as Bank's obligation to make Credit Extensions has terminated, Bank shall, at the sole cost and expense of Borrower, release its Liens in the Collateral and all rights therein shall revert to Borrower. In the event (x) all Obligations (other than inchoate indemnity obligations), except for Bank Services, are satisfied in full, and (y) this Agreement and the Bermuda Collateral Documents are terminated, Bank shall terminate the security interest granted herein and under the Bermuda Collateral Documents upon Borrower providing cash collateral acceptable to Bank in its good faith business judgment for Bank Services, if any. In the event such Bank Services consist of outstanding Letters of Credit, Borrower shall provide to Bank cash collateral in an amount equal to (x) if such Letters of Credit are denominated in Dollars, then at least one hundred five percent (105.0%); and (y) if such Letters of Credit are denominated in a Foreign Currency, then at least one hundred ten percent (110.0%), of the Dollar Equivalent of the face amount of all such Letters of Credit plus, in each case, all interest, fees, and costs due or to become due in connection therewith (as estimated by Bank in its business judgment), to secure all of the Obligations relating to such Letters of Credit.

4.2 **Priority of Security Interest**. Borrower represents, warrants, and covenants that the security interest granted herein and in the Bermuda Collateral Documents are and shall at all times continue to be a first priority perfected security interest in the Collateral (subject only to Permitted Liens that are permitted pursuant to the terms of this Agreement to have superior priority to Bank's Lien under this Agreement). If Borrower shall acquire a commercial tort claim with an anticipated value in excess of Two Hundred Fifty Thousand Dollars ($250,000.00), Borrower shall promptly notify Bank in a writing signed by Borrower of the general details thereof and grant to Bank in such writing a security interest therein and in the proceeds thereof, all upon the terms of this Agreement, with such writing to be in form and substance reasonably satisfactory to Bank.

4.3 **Authorization to File Financing Statements**. Borrower hereby authorizes Bank to file financing statements and other similar forms, without notice to Borrower, with all appropriate jurisdictions to perfect or protect Bank's interest or rights hereunder, including a notice that any disposition of the Collateral, by each Borrower or any other Person, shall be deemed to violate the rights of Bank under the Code. Such financing statements and such other similar forms may indicate the Collateral as "all assets of the Debtor" or words of similar effect, or as being of an equal or lesser scope, or with greater detail, all in Bank's discretion.

5. REPRESENTATIONS AND WARRANTIES

Borrower represents and warrants as follows:

5.1 **Due Organization, Authorization; Power and Authority** . Borrower is duly existing and in good standing as a Registered Organization in its jurisdiction of formation and is qualified and licensed to do business and is in good standing in any jurisdiction in which the conduct of its business or its ownership of property requires that it be qualified except where the failure to do so could not reasonably be expected to have a material adverse effect on Borrower's business. In connection with this Agreement, each Borrower has delivered to Bank a completed certificate signed by such Borrower, entitled "Perfection Certificate". Each Borrower represents and warrants to Bank that (a) Borrower's exact legal name is that indicated on the Perfection Certificate and on the signature page hereof; (b) such Borrower is an organization of the type and is organized in the jurisdiction set forth in the Perfection Certificate; (c) the Perfection Certificate accurately sets forth Borrower's organizational identification number or accurately states that Borrower has none; (d) the Perfection Certificate accurately sets forth such Borrower's place of business, or, if more than one, its chief

executive office as well as such Borrower's mailing address (if different than its chief executive office); (e) Borrower (and each of its predecessors) has not, in the past five (5) years, changed its jurisdiction of formation, organizational structure or type, or any organizational number assigned by its jurisdiction; and (f) all other information set forth on the Perfection Certificate pertaining to such Borrower and each of its Subsidiaries is accurate and complete in all material respects (it being understood and agreed that Borrower may from time to time update certain information in the Perfection Certificate after the Effective Date to the extent such updates result from actions, transactions, circumstances or events are not prohibited by this Agreement). If any Borrower is not now a Registered Organization but later becomes one, such Borrower shall promptly notify Bank of such occurrence and provide Bank with such Borrower's organizational identification number.

The execution, delivery and performance by Borrower of the Loan Documents to which it is a party have been duly authorized, and do not (i) conflict with any of Borrower's organizational documents, (ii) contravene, conflict with, constitute a default under or violate any material Requirement of Law, (iii) contravene, conflict or violate any applicable order, writ, judgment, injunction, decree, determination or award of any Governmental Authority by which Borrower or any of its Subsidiaries or any of their property or assets may be bound or affected, (iv) require any action by, filing, registration, or qualification with, or Governmental Approval from, any Governmental Authority (except such Governmental Approvals which have already been obtained and are in full force and effect (or are being obtained pursuant to Section 6.1(b) and any filings required by the Loan Documents in connection with security interests granted herein)) or (v) conflict with, contravene, constitute a default or breach under, or result in or permit the termination or acceleration of, any material agreement by which Borrower is bound. Borrower is not in default under any agreement to which it is a party or by which it is bound in which the default could reasonably be expected to have a material adverse effect on Borrower's business.

5.2 Collateral. Borrower has good title to, rights in, and the power to transfer each item of the Collateral upon which it purports to grant a Lien under this Agreement and under the Bermuda Collateral Documents, free and clear of any and all Liens except Permitted Liens. Borrower has no Collateral Accounts at or with any bank or financial institution other than Bank or Bank's Affiliates except for the Collateral Accounts described in the Perfection Certificate delivered to Bank in connection herewith and which Borrower has taken such actions as are necessary to give Bank a perfected security interest therein, pursuant to the terms of Section 6.6(b). The Accounts are bona fide, existing obligations of the Account Debtors.

The Collateral is not in the possession of any third party bailee (such as a warehouse) except as otherwise provided in the Perfection Certificate or as permitted pursuant to Section 7.2. None of the components of the Collateral shall be maintained at locations other than as provided in the Perfection Certificate or as permitted pursuant to Section 7.2.

All Inventory is in all material respects of good and marketable quality, free from material defects.

Borrower is the sole owner of the Intellectual Property which it owns or purports to own except for (a) licenses not prohibited hereunder, (b) over-the-counter software that is commercially available to the public, and (c) material Intellectual Property licensed to Borrower and noted on the Perfection Certificate or as may be updated from time to time in accordance with Section 5.1 hereof. Each Patent which it owns or purports to own and which is material to Borrower's business is valid and enforceable, and no part of the Intellectual Property which Borrower owns or purports to own and which is material to Borrower's business has been judged invalid or unenforceable, in whole or in part. To the best of Borrower's knowledge, no claim has been made that any part of the Intellectual Property violates the rights of any third party except to the extent such claim would not reasonably be expected to have a material adverse effect on Borrower's business.

Except as noted on the Perfection Certificate or updated per Section 6.7(c), Borrower is not a party to, nor is it bound by, any Restricted License.

5.3 **Litigation**. Except as disclosed on the Perfection Certificate, there are no actions or proceedings pending or, to the knowledge of any Responsible Officer, threatened in writing by or against Borrower or any of its Subsidiaries involving more than, individually or in the aggregate, Two Hundred Fifty Thousand Dollars ($250,000.00).

5.4 **Financial Statements; Financial Condition**. All consolidated financial statements for Borrower and any of its Subsidiaries delivered to Bank fairly present in all material respects Borrower's consolidated financial condition and Borrower's consolidated results of operations as of the relevant date or period. There has not been any material deterioration in Borrower's consolidated financial condition since the date of the most recent financial statements submitted to Bank.

5.5 **Solvency**. Borrower is able to pay its debts (including trade debts) as they mature.

5.6 **Regulatory Compliance**. Borrower is not an "investment company" or a company "controlled" by an "investment company" under the Investment Company Act of 1940, as amended. Borrower is not engaged as one of its important activities in extending credit for margin stock (under Regulations X, T and U of the Federal Reserve Board of Governors). Borrower (a) has complied in all material respects with all Requirements of Law, and (b) has not violated any Requirements of Law the violation of which could reasonably be expected to have a material adverse effect on its business. None of Borrower's or any of its Subsidiaries' properties or assets has been used by Borrower or any Subsidiary or, to the best of Borrower's knowledge, by previous Persons, in disposing, producing, storing, treating, or transporting any hazardous substance other than legally. Borrower and each of its Subsidiaries have obtained all consents, approvals and authorizations of, made all declarations or filings with, and given all notices to, all Governmental Authorities that are necessary to continue their respective businesses as currently conducted, except where the failure to do so could not reasonably be expected to have a material adverse effect on Borrower's business operations.

5.7 **Subsidiaries; Investments**. Borrower does not own any stock, partnership, or other ownership interest or other equity securities except for Permitted Investments.

5.8 **Tax Returns and Payments; Pension Contributions**. Borrower has timely filed all required tax returns and reports, subject to any validly filed extensions, and Borrower has timely paid all foreign, federal, state and local taxes, assessments, deposits and contributions owed by Borrower except (a) to the extent such taxes are being contested in good faith by appropriate proceedings promptly instituted and diligently conducted, so long as such reserve or other appropriate provision, if any, as shall be required in conformity with GAAP shall have been made therefor, or (b) if such taxes, assessments, deposits and contributions do not, individually or in the aggregate, exceed Twenty Five Thousand Dollars ($25,000.00).

To the extent Borrower defers payment of any contested taxes, Borrower shall (i) notify Bank in writing of the commencement of, and any material development in, the proceedings, and (ii) post bonds or take any other steps required to prevent the governmental authority levying such contested taxes from obtaining a Lien upon any of the Collateral that is other than a "Permitted Lien." Borrower is unaware of any claims or adjustments proposed for any of Borrower's prior tax years which could result in additional taxes becoming due and payable by Borrower. Borrower has paid all amounts necessary to fund all present pension, profit sharing and deferred compensation plans in accordance with their terms, and Borrower has not withdrawn from participation in, and has not permitted partial or complete termination of, or permitted the occurrence of any other event with respect to, any such plan which could reasonably be expected to result in any liability of

Borrower, including any liability to the Pension Benefit Guaranty Corporation or its successors or any other governmental agency.

5.9 **Use of Proceeds**. Borrower shall use the proceeds of the Credit Extensions for Permitted Acquisitions and to fund its general business requirements and not for personal, family, household or agricultural purposes.

5.10 **Full Disclosure**. No written representation, warranty or other statement of Borrower in any certificate or written statement given to Bank, as of the date such representation, warranty, or other statement was made, taken together with all such written certificates and written statements given to Bank, contains any untrue statement of a material fact or omits to state a material fact necessary to make the statements contained in the certificates or statements not misleading when made (it being recognized by Bank that the projections and forecasts provided by Borrower in good faith and based upon reasonable assumptions are not viewed as facts and that actual results during the period or periods covered by such projections and forecasts may differ from the projected or forecasted results).

5.11 **Definition of "Knowledge."** For purposes of the Loan Documents, whenever a representation or warranty is made to Borrower's knowledge or awareness, to the "best of" Borrower's knowledge, or with a similar qualification, knowledge or awareness means the actual knowledge, after reasonable investigation, of any Responsible Officer.

6. AFFIRMATIVE COVENANTS

Borrower shall do all of the following:

6.1 **Government Compliance.**

(a) Maintain its and all its Subsidiaries' legal existence and good standing in their respective jurisdictions of formation and maintain qualification in each jurisdiction in which the failure to so qualify would reasonably be expected to have a material adverse effect on Borrower's business or operations, provided that any Subsidiary (which is not a Borrower) may liquidate or dissolve so long as such liquidation or dissolution would not reasonably be expected to have a material adverse effect on Borrower's consolidated business or operations, and provided that in connection with such liquidation or dissolution all assets and property of any such Subsidiary (which is not a Borrower) shall be transferred to Borrower. Borrower shall comply, and have each Subsidiary comply, in all material respects, with all laws, ordinances and regulations to which it is subject, noncompliance with which could reasonably be expected to have a material adverse effect on Borrower's business.

(b) Obtain all of the Governmental Approvals necessary for the performance by Borrower of its obligations under the Loan Documents to which it is a party and the grant of a security interest to Bank in all of its property. Borrower shall promptly provide copies of any such obtained Governmental Approvals to Bank.

6.2 **Financial Statements, Reports, Certificates.** Provide Bank with the following:

(a) Monthly Financial Statements. As soon as available, but no later than thirty (30) days after the last day of each month (except for each month at the end of each fiscal quarter), a company prepared consolidated balance sheet and income statement covering XOMA and its Subsidiaries' consolidated operations for such month certified by a Responsible Officer and in a form acceptable to Bank (the "**Monthly Financial Statements**");

(b) Compliance Certificate. Along with each of the Monthly Financial Statements, Quarterly Financial Statements and Annual Financial Statements, as applicable, a duly completed Compliance Certificate signed by a Responsible Officer, certifying that as of the end of the last month for each financial period, Borrower was in full compliance with all of the terms and conditions of this Agreement, and setting forth calculations showing compliance with the financial covenants (if any) set forth in this Agreement and such other information as Bank may reasonably request;

(c) 10-Q. As soon as available, and in any event within forty-five (45) days after the end of each fiscal quarter of Borrower (except for the last fiscal quarter of each fiscal year), company prepared consolidated balance sheet and income statement covering XOMA and its Subsidiaries' consolidated operations for such quarter certified by a Responsible Officer consistent with such quarterly financial statements submitted to the SEC, and in a form acceptable to Bank (the "**Quarterly Financial Statements**"); provided, however, Borrower shall deliver the Quarterly Financial Statements for the last fiscal quarter of each fiscal year of Borrower to Bank within ninety (90) days after the end of such fiscal quarter;

(d) 10-K. As soon as available, and in any event within ninety (90) days after the end of each fiscal year of Borrower, company prepared consolidated balance sheet and income statement covering XOMA and its Subsidiaries' consolidated operations for such year certified by a Responsible Officer consistent with such annual financial statements submitted to the SEC, and in a form acceptable to Bank (the "**Annual Financial Statements**");

(e) Board Projections. As soon as available, but no later than sixty (60) days after the last day of each fiscal year of Borrower, and contemporaneously with any updates or changes thereto, annual Board approved operating budgets and financial projections in a form acceptable to Bank;

(f) Other Statements. Within five (5) days of delivery, copies of all material statements, reports and notices made available to any holders of Subordinated Debt;

(g) SEC Filings. Within five (5) days of filing, copies of all periodic and other reports, proxy statements and other materials filed by Borrower with the SEC, any Governmental Authority succeeding to any or all of the functions of the SEC or with any national securities exchange, or distributed to its shareholders, as the case may be. Documents required to be delivered pursuant to the terms hereof (to the extent any such documents are included in materials otherwise filed with the SEC) may be delivered electronically and if so delivered, shall be deemed to have been delivered on the date on which Borrower posts such documents, or provides a link thereto, on Borrower's website on the Internet at Borrower's website address; provided, however, Borrower shall promptly notify Bank in writing (which may be by electronic mail) of the posting of any such documents;

(h) Legal Action Notice. A prompt report of any legal actions pending or threatened in writing against Borrower or any of its Subsidiaries that could reasonably be expected to result in damages or costs to Borrower or any of its Subsidiaries of, individually or in the aggregate, Two Hundred Fifty Thousand Dollars ($250,000.00) or more; and

(i) Other Financial Information. Other financial information reasonably requested by Bank.

6.3 Inventory; Returns. Keep all Inventory in good and marketable condition, free from material defects. Returns and allowances between Borrower and its Account Debtors shall follow Borrower's customary practices as they exist at the Effective Date. Borrower must promptly notify Bank of all returns, recoveries, disputes and claims that involve more than Fifty Thousand Dollars ($50,000.00).

6.4 **Taxes; Pensions**. Timely file, and require each of its Subsidiaries to timely file, all required tax returns and reports (or validly filed extensions) and timely pay, and require each of its Subsidiaries to timely pay, all foreign, federal, state and local taxes, assessments, deposits and contributions owed by Borrower and each of its Subsidiaries, subject to validly filed extensions and except for deferred payment of any taxes contested pursuant to the terms of Section 5.8 hereof, and shall deliver to Bank, on demand, appropriate certificates attesting to such payments, and pay all amounts necessary to fund all present pension, profit sharing and deferred compensation plans in accordance with their terms.

6.5 **Insurance.**

(a) Keep its business and the Collateral insured for risks and in amounts standard for companies in Borrower's industry and location and as Bank may reasonably request. Insurance policies shall be in a form, with financially sound and reputable insurance companies that are not Affiliates of Borrower, and in amounts that are satisfactory to Bank. All property policies shall have a lender's loss payable endorsement showing Bank as the sole lender loss payee. All liability policies shall show, or have endorsements showing, Bank as an additional insured. Bank shall be named as lender loss payee and/or additional insured with respect to any such insurance providing coverage in respect of any Collateral.

(b) Ensure that, proceeds payable under any property policy are, at Bank's option, payable to Bank on account of the Obligations. Notwithstanding the foregoing, (a) so long as no Event of Default has occurred and is continuing, Borrower shall have the option of applying the proceeds of any casualty policy up to Two Hundred Fifty Thousand Dollars ($250,000.00) with respect to any loss, but not exceeding Five Hundred Thousand Dollars ($500,000.00) in the aggregate for all losses under all casualty policies in any one (1) year, toward the replacement or repair of destroyed or damaged property; provided that any such replaced or repaired property (i) shall be of equal or like value as the replaced or repaired Collateral and (ii) shall be deemed Collateral in which Bank has been granted a first priority security interest (except for purchase money liens permitted under clause (c) of the definition of "Permitted Liens"), and (b) after the occurrence and during the continuance of an Event of Default, all proceeds payable under such casualty policy shall, at the option of Bank, be payable to Bank on account of the Obligations.

(c) At Bank's request, Borrower shall deliver certified copies of insurance policies and evidence of all premium payments. Each provider of any such insurance required under this Section 6.5 shall agree, by endorsement upon the policy or policies issued by it or by independent instruments furnished to Bank, that it will give Bank twenty (20) days (ten (10) days for non-payment of premium) prior written notice before any such policy or policies shall be canceled. If Borrower fails to obtain insurance as required under this Section 6.5 or to pay any amount or furnish any required proof of payment to third persons and Bank, Bank may make all or part of such payment or obtain such insurance policies required in this Section 6.5, and take any action under the policies Bank deems prudent.

6.6 **Operating Accounts.**

(a) Maintain its and its Subsidiaries' primary operating, depository and securities/investment accounts with Bank and Bank's Affiliates, provided that accounts in the name of Borrower maintained with Bank and Bank's Affiliates shall represent at least seventy-five percent (75.0%) of the aggregate dollar value of Borrower's and such Subsidiaries' accounts at all financial institutions as of the Effective Date. Upon the expiration of the Transition Period, accounts in the name of Borrower maintained with Bank and Bank's Affiliates shall represent one hundred percent (100.0%) of the aggregate dollar value of Borrower's and such Subsidiaries' accounts at all financial institutions. Notwithstanding the foregoing, Borrower shall be permitted to maintain (i) one (1) securities account with Treasury Partners and (ii) one (1) escrow account with Bay Area Escrow Services (escrow number 939822PM), provided that the balance in such account does not at any time

exceed Eight Hundred Thousand Dollars ($800,000.00) (the "**Escrow Account**"). In addition, Borrower shall conduct all of its cash management, letters of credit, and foreign exchange banking with Bank.

(b) Provide Bank five (5) days prior written notice before establishing any Collateral Account at or with any bank or financial institution other than Bank or Bank's Affiliates. For each Collateral Account that Borrower at any time maintains, Borrower shall cause the applicable bank or financial institution (other than Bank) at or with which any Collateral Account is maintained to execute and deliver a Control Agreement or other appropriate instrument with respect to such Collateral Account to perfect Bank's Lien in such Collateral Account in accordance with the terms hereunder which Control Agreement or other applicable instrument may not be terminated without the prior written consent of Bank. The provisions of the previous sentence shall not apply to (i) the Escrow Account or (ii) deposit accounts exclusively used for payroll, payroll taxes and other employee wage and benefit payments to or for the benefit of Borrower's employees and identified to Bank by Borrower as such.

6.7 Protection and Registration of Intellectual Property Rights.

(a) (i) Use commercially reasonable efforts to protect, defend and maintain the validity and enforceability of its Intellectual Property material to Borrower's business; (ii) promptly advise Bank in writing of material infringements of which Borrower becomes aware or any other event that could reasonably be expected to materially and adversely affect the value of its Intellectual Property material to Borrower's business; and (iii) not allow any Intellectual Property material to Borrower's business to be abandoned, forfeited or dedicated to the public without Bank's written consent (which consent shall not be unreasonably withheld).

(b) To the extent not already disclosed in writing to Bank, if Borrower (i) obtains any Patent, registered Trademark, registered Copyright, registered mask work, or any pending application for any of the foregoing, whether as owner, licensee or otherwise, or (ii) applies for any Patent or the registration of any Trademark, then Borrower shall immediately provide written notice thereof to Bank contemporaneously with the delivery of the Compliance Certificate and shall execute such intellectual property security agreements and other documents and take such other actions as Bank may request in its good faith business judgment to perfect and maintain a first priority perfected security interest in favor of Bank in such property. If Borrower decides to register any Copyrights or mask works in the United States Copyright Office, Borrower shall: (x) provide Bank with at least five (5) Business Days prior written notice of Borrower's intent to register such Copyrights or mask works together with a copy of the application it intends to file with the United States Copyright Office (excluding exhibits thereto); (y) execute an intellectual property security agreement and such other documents and take such other actions as Bank may request in its good faith business judgment to perfect and maintain a first priority perfected security interest in favor of Bank in the Copyrights or mask works intended to be registered with the United States Copyright Office; and (z) record such intellectual property security agreement with the United States Copyright Office contemporaneously with filing the Copyright or mask work application(s) with the United States Copyright Office. Borrower shall promptly (but no later than within two (2) Business Days) provide to Bank copies of all applications that it files for Patents or for the registration of Trademarks, Copyrights or mask works, together with evidence of the recording of the intellectual property security agreement required for Bank to perfect and maintain a first priority perfected security interest in such property.

(c) Provide written notice to Bank within thirty (30) days of entering or becoming bound by any Restricted License (other than over-the-counter software that is commercially available to the public). Borrower shall take such steps as Bank requests to obtain the consent of, or waiver by, any person whose consent or waiver is necessary for (i) any Restricted License to be deemed "Collateral" and for Bank to have a security interest in it that might otherwise be restricted or prohibited by law or by the terms of any such Restricted License, whether now existing or entered into in the future, and (ii) Bank to have the ability in the

event of a liquidation of any Collateral to dispose of such Collateral in accordance with Bank's rights and remedies under this Agreement and the other Loan Documents.

6.8 **Litigation Cooperation**. From the date hereof and continuing through the termination of this Agreement, make available to Bank, without expense to Bank, Borrower and its officers, employees and agents and Borrower's books and records, to the extent that Bank may deem them reasonably necessary to prosecute or defend any third-party suit or proceeding instituted by or against Bank with respect to any Collateral or relating to Borrower.

6.9 **Access to Collateral; Books and Records**. Allow Bank, or its agents, at reasonable times, on five (5) Business Days' notice (provided no notice is required if an Event of Default has occurred and is continuing), to inspect the Collateral and audit and copy Borrower's Books. Such inspections or audits shall be conducted no more often than once every twelve (12) months unless an Event of Default has occurred and is continuing in which case such inspections and audits shall occur as often as Bank shall determine is necessary. The foregoing inspections and audits shall be at Borrower's expense, and the charge therefor shall be One Thousand Dollars ($1,000.00) per person per day (or such higher amount as shall represent Bank's then-current standard charge for the same), plus reasonable and documented out-of-pocket expenses. In the event Borrower and Bank schedule an audit more than ten (10) days in advance, and Borrower cancels or seeks to reschedule the audit with less than ten (10) days written notice to Bank, then (without limiting any of Bank's rights or remedies), Borrower shall pay Bank a fee of One Thousand Dollars ($1,000.00) plus any out-of-pocket expenses incurred by Bank to compensate Bank for the anticipated costs and expenses of the cancellation or rescheduling. Notwithstanding anything to the contrary herein, fees and expenses due hereunder shall not exceed Fifty Thousand Dollars ($50,000.00) over the term of this Agreement.

6.10 **Further Assurances**. Execute any further instruments and take further action as Bank reasonably requests to perfect or continue Bank's Lien in the Collateral or to effect the purposes of this Agreement. Deliver to Bank, within five (5) days after the same are sent or received, copies of all correspondence, reports, documents and other filings with any Governmental Authority regarding compliance with or maintenance of Governmental Approvals or Requirements of Law or that could reasonably be expected to have a material effect on any of the Governmental Approvals or otherwise on the operations of Borrower or any of its Subsidiaries.

6.11 **Post-Closing Requirements**. Deliver to Bank, on or before the date that is thirty (30) days after the Effective Date, (i) the duly executed signatures to a Control Agreement from Treasury Partners, in form and substance satisfactory to Bank and (ii) evidence satisfactory to Bank that the lender loss payable insurance endorsement required by Section 6.5 hereof is in full force and effect, together with appropriate evidence showing lender loss payable clauses or endorsements in favor of Bank.

7. NEGATIVE COVENANTS

Borrower shall not do any of the following without Bank's prior written consent:

7.1 **Dispositions.** Convey, sell, lease, transfer, assign, or otherwise dispose of (collectively, "Transfer"), or permit any of its Subsidiaries to Transfer, all or any part of its business or property, except for Permitted Transfers.

7.2 **Changes in Business, Management, Control, or Business Locations.** (a) Engage in or permit any of its Subsidiaries to engage in any business other than the businesses currently engaged in by Borrower and such Subsidiary, as applicable, or reasonably related, complementary or incidental thereto; (b) liquidate or dissolve; (c) fail to provide notice to Bank of any Key Person departing from or ceasing to be employed by

Borrower within five (5) Business Days after such Key Person's departure from Borrower; or (d) permit or suffer any Change in Control.

Borrower shall not, without at least ten (10) days prior written notice to Bank: (1) add any new offices or business locations, including warehouses (unless such new offices or business locations contain less than Two Hundred Fifty Thousand Dollars ($250,000.00) in Borrower's assets or property) or deliver any portion of the Collateral valued, individually or in the aggregate, in excess of Two Hundred Fifty Thousand Dollars ($250,000.00) to a bailee at a location other than to a bailee and at a location already disclosed in the Perfection Certificate, (2) change its jurisdiction of organization, (3) change its organizational structure or type, (4) change its legal name, or (5) change any organizational number (if any) assigned by its jurisdiction of organization. If Borrower intends to deliver any portion of the Collateral valued, individually or in the aggregate, in excess of Two Hundred Fifty Thousand Dollars ($250,000.00) to a bailee, and Bank and such bailee are not already parties to a bailee agreement governing both the Collateral and the location to which Borrower intends to deliver the Collateral, then Borrower will cause such bailee to execute and deliver a bailee agreement in form and substance satisfactory to Bank; provided that no such bailee waiver or landlord waiver shall be required if the non-US local jurisdiction of such bailee location or leased location does not recognize bailee waivers or landlord waivers.

7.3 **Mergers or Acquisitions.** Merge or consolidate, or permit any of its Subsidiaries to merge or consolidate, with any other Person, or acquire, or permit any of its Subsidiaries to acquire, all or substantially all of the capital stock or property of another Person (including, without limitation, by the formation of any Subsidiary), except to the extent constituting a Permitted Acquisition or Permitted Investment. A Subsidiary may merge or consolidate into another Subsidiary or into Borrower.

7.4 **Indebtedness.** Create, incur, assume, or be liable for any Indebtedness, or permit any Subsidiary to do so, other than Permitted Indebtedness.

7.5 **Encumbrance.** Create, incur, allow, or suffer any Lien on any of its property, or assign or convey any right to receive income, including the sale of any Accounts, or permit any of its Subsidiaries to do so, except for Permitted Liens, permit any Collateral not to be subject to the first priority security interest granted herein and under the Bermuda Collateral Documents (subject only to Permitted Liens that are permitted pursuant to the terms of this Agreement to have superior priority to Bank's Lien under this Agreement), or enter into any agreement, document, instrument or other arrangement (except with or in favor of Bank) with any Person which directly or indirectly prohibits or has the effect of prohibiting Borrower or any Subsidiary from assigning, mortgaging, pledging, granting a security interest in or upon, or encumbering any of Borrower's or any Subsidiary's Intellectual Property, except as is otherwise permitted in Section 7.1 hereof and the definition of "Permitted Liens" herein and Permitted Negative Pledges.

7.6 **Maintenance of Collateral Accounts.** Maintain any Collateral Account except pursuant to the terms of Section 6.6(b) hereof.

7.7 **Distributions; Investments.** (a) Pay any dividends or make any distribution or payment or redeem, retire or purchase any capital stock, except for Permitted Distributions; or (b) directly or indirectly make any Investment (including, without limitation, by the formation of any Subsidiary) other than Permitted Investments, or permit any of its Subsidiaries to do so.

7.8 **Transactions with Affiliates.** Directly or indirectly enter into or permit to exist any material transaction with any Affiliate of Borrower, except for transactions that are in the ordinary course of Borrower's business, upon fair and reasonable terms that are no less favorable to Borrower than would be obtained in an arm's length transaction with a non-affiliated Person.

7.9 **Subordinated Debt.** (a) Make or permit any payment on any Subordinated Debt, except under the terms of the subordination, intercreditor, or other similar agreement to which such Subordinated Debt is subject, or (b) amend any provision in any document relating to the Subordinated Debt which would increase the amount thereof, provide for earlier or greater principal, interest, or other payments thereon, or adversely affect the subordination thereof to Obligations owed to Bank.

7.10 **Compliance.** Become an "investment company" or a company controlled by an "investment company", under the Investment Company Act of 1940, as amended, or undertake as one of its important activities extending credit to purchase or carry margin stock (as defined in Regulation U of the Board of Governors of the Federal Reserve System), or use the proceeds of any Credit Extension for that purpose; fail to (a) meet the minimum funding requirements of ERISA, (b) prevent a Reportable Event or Prohibited Transaction, as defined in ERISA, from occurring, or (c) comply with the Federal Fair Labor Standards Act, the failure of any of the conditions described in clauses (a) through (c) which could reasonably be expected to have a material adverse effect on Borrower's business; or violate any other law or regulation, if the violation could reasonably be expected to have a material adverse effect on Borrower's business, or permit any of its Subsidiaries to do so; the failure of any of the conditions described above which could reasonably be expected to have a material adverse effect on Borrower's business; or violate any other law or regulation, if the violation could reasonably be expected to have a material adverse effect on Borrower's business; withdraw or permit any Subsidiary to withdraw from participation in, permit partial or complete termination of, or permit the occurrence of any other event with respect to, any present pension, profit sharing and deferred compensation plan which could reasonably be expected to result in any liability of Borrower, including any liability to the Pension Benefit Guaranty Corporation or its successors or any other governmental agency.

8. EVENTS OF DEFAULT

Any one of the following shall constitute an event of default (an "**Event of Default**") under this Agreement:

8.1 **Payment Default**. Borrower fails to (a) make any payment of principal or interest on any Credit Extension when due, or (b) pay any other Obligations within three (3) Business Days after such Obligations are due and payable (which three (3) Business Day cure period shall not apply to payments due on the Term Loan Maturity Date). During the cure period, the failure to make or pay any payment specified under clause (b) hereunder is not an Event of Default (but no Credit Extension will be made during the cure period);

8.2 **Covenant Default.**

(a) Borrower fails or neglects to perform any obligation in Sections 6.2, 6.4, 6.5, 6.6, 6.7, or 6.11, or violates any covenant in Section 7; or

(b) Borrower fails or neglects to perform, keep, or observe any other term, provision, condition, covenant or agreement contained in this Agreement or any Loan Documents, and as to any default (other than those specified in this Section 8) under such other term, provision, condition, covenant or agreement that can be cured, has failed to cure the default within ten (10) days after the occurrence thereof; provided, however, that if the default cannot by its nature be cured within the ten (10) day period or cannot after diligent attempts by Borrower be cured within such ten (10) day period, and such default is likely to be cured within a reasonable time, then Borrower shall have an additional period (which shall not in any case exceed thirty (30) days) to attempt to cure such default, and within such reasonable time period the failure to cure the default shall not be deemed an Event of Default (but no Credit Extensions shall be made during such cure period). Cure periods provided under this section shall not apply, among other things, to financial covenants or any other covenants set forth in clause (a) above;

8.3 **Material Adverse Change**. A Material Adverse Change occurs;

8.4 **Attachment; Levy; Restraint on Business.**

(a) (i) The service of process seeking to attach, by trustee or similar process, any funds of Borrower or of any entity under the control of Borrower (including a Subsidiary), or (ii) a notice of lien or levy is filed against any of Borrower's assets by any Governmental Authority, and the same under subclauses (i) and (ii) hereof are not, within ten (10) days after the occurrence thereof, discharged or stayed (whether through the posting of a bond or otherwise); provided, however, no Credit Extensions shall be made during any ten (10) day cure period; or

(b) (i) any material portion of Borrower's assets is attached, seized, levied on, or comes into possession of a trustee or receiver, or (ii) any court order enjoins, restrains, or prevents Borrower from conducting all or any material part of its business;

8.5 **Insolvency**. (a) Borrower is unable to pay its debts (including trade debts) as they become due or otherwise becomes insolvent; (b) Borrower begins an Insolvency Proceeding; or (c) an Insolvency Proceeding is begun against Borrower and is not dismissed or stayed within forty-five (45) days (but no Credit Extensions shall be made while any of the conditions described in clause (a) exist and/or until any Insolvency Proceeding is dismissed);

8.6 **Other Agreements**. There is, under any agreement to which Borrower is a party with a third party or parties, (a) any default resulting in a right by such third party or parties, whether or not exercised, to accelerate the maturity of any Indebtedness in an amount individually or in the aggregate in excess of Two Hundred Fifty Thousand Dollars ($250,000.00); or (b) any breach or default by Borrower, the result of which could reasonably be expected to have a material adverse effect on Borrower's business, provided, however, that the Event of Default under this Section 8.6 caused by the occurrence of a breach or default under such other agreement shall be cured or waived for purposes of this Agreement upon Bank receiving written notice from the party asserting such breach or default of such cure or waiver of the breach or default under such other agreement, if at the time of such cure or waiver under such other agreement (x) Bank has not declared an Event of Default under this Agreement and/or exercised any rights with respect thereto; (y) any such cure or waiver does not result in an Event of Default under any other provision of this Agreement or any Loan Document; and (z) in connection with any such cure or waiver under such other agreement, the terms of any agreement with such third party are not modified or amended in any manner which could in the good faith business judgment of Bank be materially less advantageous to Borrower or any Guarantor;

8.7 **Judgments; Penalties**. One or more fines, penalties or final judgments, orders or decrees for the payment of money in an amount, individually or in the aggregate, of at least Two Hundred Fifty Thousand Dollars ($250,000.00) (not covered by independent third-party insurance as to which liability has been accepted by such insurance carrier) shall be rendered against Borrower by any Governmental Authority, and the same are not, within ten (10) days after the entry, assessment or issuance thereof, discharged, satisfied, or paid, or after execution thereof, stayed or bonded pending appeal, or such judgments are not discharged prior to the expiration of any such stay (provided that no Credit Extensions will be made prior to the satisfaction, payment, discharge, stay, or bonding of such fine, penalty, judgment, order or decree);

8.8 **Misrepresentations**. Borrower or any Person acting for Borrower makes any representation, warranty, or other statement now or later in this Agreement, any Loan Document or in any writing delivered to Bank or to induce Bank to enter this Agreement or any Loan Document, and such representation, warranty, or other statement is incorrect in any material respect when made;

8.9 **Subordinated Debt**. Any document, instrument, or agreement evidencing any Subordinated Debt shall for any reason be revoked or invalidated or otherwise cease to be in full force and effect, any Person shall be in breach thereof or contest in any manner the validity or enforceability thereof or deny that it has any further liability or obligation thereunder, or the Obligations shall for any reason be subordinated or shall not have the priority contemplated by this Agreement; or

8.10 **Governmental Approvals.** Any Governmental Approval shall have been (a) revoked, rescinded, suspended, modified in an adverse manner or not renewed in the ordinary course for a full term or (b) subject to any decision by a Governmental Authority that designates a hearing with respect to any applications for renewal of any of such Governmental Approval or that could result in the Governmental Authority taking any of the actions described in clause (a) above, and such decision or such revocation, rescission, suspension, modification or non-renewal (i) cause, or could reasonably be expected to cause, a Material Adverse Change, or (ii) materially adversely affects the legal qualifications of Borrower to hold such Governmental Approval in any applicable jurisdiction and such revocation, rescission, suspension, modification or non-renewal could reasonably be expected to materially adversely affect the status of or legal qualifications of Borrower to hold any Governmental Approval in any other jurisdiction.

9. BANK'S RIGHTS AND REMEDIES

9.1 **Rights and Remedies**. Upon the occurrence and during the continuance of an Event of Default, Bank may, without notice or demand, do any or all of the following:

(a) declare all Obligations immediately due and payable (but if an Event of Default described in Section 8.5 occurs all Obligations are immediately due and payable without any action by Bank);

(b) stop advancing money or extending credit for Borrower's benefit under this Agreement or under any other agreement between Borrower and Bank;

(c) demand that Borrower (i) deposit cash with Bank in an amount equal to at least (x) one hundred five percent (105.0%) of the Dollar Equivalent of the aggregate face amount of all Letters of Credit denominated in Dollars remaining undrawn, and (y) one hundred ten percent (110.0%) of the Dollar Equivalent of the aggregate face amount of all Letters of Credit denominated in a Foreign Currency remaining undrawn (plus, in each case, all interest, fees, and costs due or to become due in connection therewith (as estimated by Bank in its good faith business judgment)), to secure all of the Obligations relating to such Letters of Credit, as collateral security for the repayment of any future drawings under such Letters of Credit, and Borrower shall forthwith deposit and pay such amounts, and (ii) pay in advance all letter of credit fees scheduled to be paid or payable over the remaining term of any Letters of Credit;

(d) terminate any FX Contracts;

(e) verify the amount of, demand payment of and performance under, and collect any Accounts and General Intangibles, settle or adjust disputes and claims directly with Account Debtors for amounts on terms and in any order that Bank considers advisable, and notify any Person owing Borrower money of Bank's security interest in such funds;

(f) make any payments and do any acts it considers necessary or reasonable to protect the Collateral and/or its security interest in the Collateral. Borrower shall assemble the Collateral if Bank requests and make it available as Bank designates. Bank may enter premises where the Collateral is located, take and maintain possession of any part of the Collateral, and pay, purchase, contest, or compromise any Lien which

appears to be prior or superior to its security interest and pay all expenses incurred. Borrower grants Bank a license to enter and occupy any of its premises, without charge, to exercise any of Bank's rights or remedies;

(g) apply to the Obligations (i) any balances and deposits of Borrower it holds, or (ii) any amount held by Bank owing to or for the credit or the account of Borrower;

(h) ship, reclaim, recover, store, finish, maintain, repair, prepare for sale, advertise for sale, and sell the Collateral. Bank is hereby granted a non-exclusive, royalty-free license or other right to use, without charge, Borrower's labels, Patents, Copyrights, mask works, rights of use of any name, trade secrets, trade names, Trademarks, and advertising matter, or any similar property as it pertains to the Collateral, in completing production of, advertising for sale, and selling any Collateral and, in connection with Bank's exercise of its rights under this Section, Borrower's rights under all licenses and all franchise agreements inure to Bank's benefit;

(i) place a "hold" on any account maintained with Bank and/or deliver a notice of exclusive control, any entitlement order, or other directions or instructions pursuant to any Control Agreement or similar agreements providing control of any Collateral;

(j) demand and receive possession of Borrower's Books; and

(k) exercise all rights and remedies available to Bank under the Loan Documents or at law or equity, including all remedies provided under the Code (including disposal of the Collateral pursuant to the terms thereof).

9.2 Power of Attorney. Borrower hereby irrevocably appoints Bank as its lawful attorney-in-fact, exercisable upon the occurrence and during the continuance of an Event of Default, to: (a) endorse Borrower's name on any checks or other forms of payment or security; (b) sign Borrower's name on any invoice or bill of lading for any Account or drafts against Account Debtors; (c) settle and adjust disputes and claims about the Accounts directly with Account Debtors, for amounts and on terms Bank determines reasonable; (d) make, settle, and adjust all claims under Borrower's insurance policies; (e) pay, contest or settle any Lien, charge, encumbrance, security interest, and adverse claim in or to the Collateral, or any judgment based thereon, or otherwise take any action to terminate or discharge the same; and (f) transfer the Collateral into the name of Bank or a third party as the Code permits. Borrower hereby appoints Bank as its lawful attorney-in-fact to sign Borrower's name on any documents necessary to perfect or continue the perfection of Bank's security interest in the Collateral regardless of whether an Event of Default has occurred until all Obligations have been satisfied in full and Bank is under no further obligation to make Credit Extensions hereunder. Bank's foregoing appointment as Borrower's attorney in fact, and all of Bank's rights and powers, coupled with an interest, are irrevocable until all Obligations have been fully repaid and performed and Bank's obligation to provide Credit Extensions terminates.

9.3 Protective Payments. If Borrower fails to obtain the insurance called for by Section 6.5 or fails to pay any premium thereon or fails to pay any other amount which Borrower is obligated to pay under this Agreement or any other Loan Document or which may be required to preserve the Collateral, Bank may obtain such insurance or make such payment, and all amounts so paid by Bank are Bank Expenses and immediately due and payable, bearing interest at the then highest rate applicable to the Obligations, and secured by the Collateral. Bank will make reasonable efforts to provide Borrower with notice of Bank obtaining such insurance at the time it is obtained or within a reasonable time thereafter. No payments by Bank are deemed an agreement to make similar payments in the future or Bank's waiver of any Event of Default.

9.4 **Application of Payments and Proceeds Upon Default**. If an Event of Default has occurred and is continuing, Bank shall have the right to apply in any order any funds in its possession, whether from Borrower account balances, payments, proceeds realized as the result of any collection of Accounts or other disposition of the Collateral, or otherwise, to the Obligations. Bank shall pay any surplus to Borrower by credit to the Designated Deposit Account or to other Persons legally entitled thereto; Borrower shall remain liable to Bank for any deficiency. If Bank, directly or indirectly, enters into a deferred payment or other credit transaction with any purchaser at any sale of Collateral, Bank shall have the option, exercisable at any time, of either reducing the Obligations by the principal amount of the purchase price or deferring the reduction of the Obligations until the actual receipt by Bank of cash therefor.

9.5 **Bank's Liability for Collateral**. So long as to the extent that Bank complies with reasonable banking practices and acts in accordance with Requirements of Law regarding the safekeeping of the Collateral in the possession or under the control of Bank, Bank shall not be liable or responsible for: (a) the safekeeping of the Collateral; (b) any loss or damage to the Collateral; (c) any diminution in the value of the Collateral; or (d) any act or default of any carrier, warehouseman, bailee, or other Person. Borrower bears all risk of loss, damage or destruction of the Collateral.

9.6 **No Waiver; Remedies Cumulative**. Bank's failure, at any time or times, to require strict performance by Borrower of any provision of this Agreement or any other Loan Document shall not waive, affect, or diminish any right of Bank thereafter to demand strict performance and compliance herewith or therewith. No waiver hereunder shall be effective unless signed by the party granting the waiver and then is only effective for the specific instance and purpose for which it is given. Bank's rights and remedies under this Agreement and the other Loan Documents are cumulative. Bank has all rights and remedies provided under the Code, by law, or in equity. Bank's exercise of one right or remedy is not an election and shall not preclude Bank from exercising any other remedy under this Agreement or any other Loan Document or other remedy available at law or in equity, and Bank's waiver of any Event of Default is not a continuing waiver. Bank's delay in exercising any remedy is not a waiver, election, or acquiescence.

9.7 **Demand Waiver**. Borrower waives demand, notice of default or dishonor, notice of payment and nonpayment, notice of any default, nonpayment at maturity, release, compromise, settlement, extension, or renewal of accounts, documents, instruments, chattel paper, and guarantees held by Bank on which Borrower is liable.

9.8 **Borrower Liability**. Each Borrower may, acting singly, request Credit Extensions hereunder. Each Borrower hereby appoints the other as agent for the other for all purposes hereunder, including with respect to requesting Credit Extensions hereunder. Each Borrower hereunder shall be jointly and severally obligated to repay all Credit Extensions made hereunder, regardless of which Borrower actually receives said Credit Extension, as if each Borrower hereunder directly received all Credit Extensions. Each Borrower waives (a) any suretyship defenses available to it under the Code or any other applicable law, including, without limitation, the benefit of California Civil Code Section 2815 permitting revocation as to future transactions and the benefit of California Civil Code Sections 1432, 2809, 2810, 2819, 2839, 2845, 2847, 2848, 2849, 2850, and 2899 and 3433, and (b) any right to require Bank to: (i) proceed against any Borrower or any other person; (ii) proceed against or exhaust any security; or (iii) pursue any other remedy. Bank may exercise or not exercise any right or remedy it has against any Borrower or any security it holds (including the right to foreclose by judicial or non-judicial sale) without affecting any Borrower's liability. Notwithstanding any other provision of this Agreement or other related document, each Borrower irrevocably waives all rights that it may have at law or in equity (including, without limitation, any law subrogating Borrower to the rights of Bank under this Agreement) to seek contribution, indemnification or any other form of reimbursement from any other Borrower, or any other Person now or hereafter primarily or secondarily liable for any of the Obligations, for any payment made by Borrower with respect to the Obligations in connection with this Agreement or otherwise and all rights

that it might have to benefit from, or to participate in, any security for the Obligations as a result of any payment made by Borrower with respect to the Obligations in connection with this Agreement or otherwise. Any agreement providing for indemnification, reimbursement or any other arrangement prohibited under this Section shall be null and void. If any payment is made to a Borrower in contravention of this Section, such Borrower shall hold such payment in trust for Bank and such payment shall be promptly delivered to Bank for application to the Obligations, whether matured or unmatured.

10. NOTICES

All notices, consents, requests, approvals, demands, or other communication by any party to this Agreement or any other Loan Document must be in writing and shall be deemed to have been validly served, given, or delivered: (a) upon the earlier of actual receipt and three (3) Business Days after deposit in the U.S. mail, first class, registered or certified mail return receipt requested, with proper postage prepaid; (b) upon transmission, when sent by electronic mail or facsimile transmission; (c) one (1) Business Day after deposit with a reputable overnight courier with all charges prepaid; or (d) when delivered, if hand-delivered by messenger, all of which shall be addressed to the party to be notified and sent to the address, facsimile number, or email address indicated below. Bank or Borrower may change its mailing or electronic mail address or facsimile number by giving the other party written notice thereof in accordance with the terms of this Section 10.

If to Borrower: XOMA Corporation
XOMA (US) LLC
XOMA Technology Ltd.
2200 Powell Street, Suite 310
Emeryville, California 94608
Attn: Chief Financial Officer
Email: burns@xoma.com

with a copy to: Cooley LLP
3175 Hanover Street
Palo Alto, CA 94304
Attn:Michael Tenta
Email:mtenta@cooley.com

If to Bank: Silicon Valley Bank
505 Howard Street, 3rd Floor
San Francisco, California 94105
Attn: Jackie Spencer
Email: JSpencer@svb.com

with a copy to: Riemer & Braunstein LLP
Three Center Plaza
Boston, Massachusetts 02108
Attn:David A. Ephraim, Esquire
Fax:(617) 880-3456
Email:DEphraim@riemerlaw.com

11. CHOICE OF LAW, VENUE, JURY TRIAL WAIVER, AND JUDICIAL REFERENCE

Except as otherwise expressly provided in any of the Loan Documents, California law governs the Loan Documents without regard to principles of conflicts of law. Borrower and Bank each submit to the exclusive jurisdiction of the State and Federal courts in Santa Clara County, California; provided, however, that nothing

in this Agreement shall be deemed to operate to preclude Bank from bringing suit or taking other legal action in any other jurisdiction to realize on the Collateral or any other security for the Obligations, or to enforce a judgment or other court order in favor of Bank. Borrower expressly submits and consents in advance to such jurisdiction in any action or suit commenced in any such court, and Borrower hereby waives any objection that it may have based upon lack of personal jurisdiction, improper venue, or forum non conveniens and hereby consents to the granting of such legal or equitable relief as is deemed appropriate by such court. Borrower hereby waives personal service of the summons, complaints, and other process issued in such action or suit and agrees that service of such summons, complaints, and other process may be made by registered or certified mail addressed to Borrower at the address set forth in, or subsequently provided by Borrower in accordance with, Section 10 of this Agreement and that service so made shall be deemed completed upon the earlier to occur of Borrower's actual receipt thereof or three (3) days after deposit in the U.S. mails, proper postage prepaid.

TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, BORROWER AND BANK EACH WAIVE THEIR RIGHT TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION ARISING OUT OF OR BASED UPON THIS AGREEMENT, THE LOAN DOCUMENTS OR ANY CONTEMPLATED TRANSACTION, INCLUDING CONTRACT, TORT, BREACH OF DUTY AND ALL OTHER CLAIMS. THIS WAIVER IS A MATERIAL INDUCEMENT FOR BOTH PARTIES TO ENTER INTO THIS AGREEMENT. EACH PARTY HAS REVIEWED THIS WAIVER WITH ITS COUNSEL.

WITHOUT INTENDING IN ANY WAY TO LIMIT THE PARTIES' AGREEMENT TO WAIVE THEIR RESPECTIVE RIGHT TO A TRIAL BY JURY, if the above waiver of the right to a trial by jury is not enforceable, the parties hereto agree that any and all disputes or controversies of any nature between them arising at any time shall be decided by a reference to a private judge, mutually selected by the parties (or, if they cannot agree, by the Presiding Judge of the Santa Clara County, California Superior Court) appointed in accordance with California Code of Civil Procedure Section 638 (or pursuant to comparable provisions of federal law if the dispute falls within the exclusive jurisdiction of the federal courts), sitting without a jury, in Santa Clara County, California; and the parties hereby submit to the jurisdiction of such court. The reference proceedings shall be conducted pursuant to and in accordance with the provisions of California Code of Civil Procedure §§ 638 through 645.1, inclusive. The private judge shall have the power, among others, to grant provisional relief, including without limitation, entering temporary restraining orders, issuing preliminary and permanent injunctions and appointing receivers. All such proceedings shall be closed to the public and confidential and all records relating thereto shall be permanently sealed. If during the course of any dispute, a party desires to seek provisional relief, but a judge has not been appointed at that point pursuant to the judicial reference procedures, then such party may apply to the Santa Clara County, California Superior Court for such relief. The proceeding before the private judge shall be conducted in the same manner as it would be before a court under the rules of evidence applicable to judicial proceedings. The parties shall be entitled to discovery which shall be conducted in the same manner as it would be before a court under the rules of discovery applicable to judicial proceedings. The private judge shall oversee discovery and may enforce all discovery rules and orders applicable to judicial proceedings in the same manner as a trial court judge. The parties agree that the selected or appointed private judge shall have the power to decide all issues in the action or proceeding, whether of fact or of law, and shall report a statement of decision thereon pursuant to California Code of Civil Procedure § 644(a). Nothing in this paragraph shall limit the right of any party at any time to exercise self-help remedies, foreclose against collateral, or obtain provisional remedies. The private judge shall also determine all issues relating to the applicability, interpretation, and enforceability of this paragraph.

This Section 11 shall survive the termination of this Agreement.

12. GENERAL PROVISIONS

12.1 **Termination Prior to Term Loan Maturity Date; Survival**. All covenants, representations and warranties made in this Agreement continue in full force until this Agreement has terminated pursuant to its terms and all Obligations have been satisfied. So long as Borrower has satisfied the Obligations (other than inchoate indemnity obligations, any other obligations which, by their terms, are to survive the termination of this Agreement, and any Obligations under Bank Services Agreements that are cash collateralized in accordance with Section 4.1 of this Agreement), this Agreement may be terminated prior to the Term Loan Maturity Date by Borrower, effective three (3) Business Days after written notice of termination is given to Bank. Those obligations that are expressly specified in this Agreement as surviving this Agreement's termination shall continue to survive notwithstanding this Agreement's and the Bermuda Collateral Documents' termination.

12.2 **Successors and Assigns**. This Agreement binds and is for the benefit of the successors and permitted assigns of each party. Borrower may not assign this Agreement or any rights or obligations under it without Bank's prior written consent (which may be granted or withheld in Bank's discretion). Bank has the right, without the consent of or notice to Borrower, to sell, transfer, assign, negotiate, or grant participation in all or any part of, or any interest in, Bank's obligations, rights, and benefits under this Agreement and the other Loan Documents (other than the Warrant, as to which assignment, transfer and other such actions are governed by the terms thereof). Notwithstanding the foregoing, prior to the occurrence of an Event of Default, Bank shall not assign any interest in this Agreement to any company which is a direct competitor of Borrower.

12.3 **Indemnification**. Borrower agrees to indemnify, defend and hold Bank and its directors, officers, employees, agents, attorneys, or any other Person affiliated with or representing Bank (each, an "**Indemnified Person**") harmless against: (i) all obligations, demands, claims, and liabilities (collectively, "**Claims**") claimed or asserted by any other party in connection with the transactions contemplated by the Loan Documents; and (ii) all losses or expenses (including Bank Expenses) in any way suffered, incurred, or paid by such Indemnified Person as a result of, following from, consequential to, or arising from transactions between Bank and Borrower (including reasonable attorneys' fees and expenses), except for Claims and/or losses directly caused by such Indemnified Person's gross negligence or willful misconduct.

This Section 12.3 shall survive until all statutes of limitation with respect to the Claims, losses, and expenses for which indemnity is given shall have run.

12.4 **Time of Essence**. Time is of the essence for the performance of all Obligations in this Agreement.

12.5 **Severability of Provisions**. Each provision of this Agreement is severable from every other provision in determining the enforceability of any provision.

12.6 **Correction of Loan Documents**. Bank may correct patent errors and fill in any blanks in the Loan Documents consistent with the agreement of the parties.

12.7 **Amendments in Writing; Waiver; Integration**. No purported amendment or modification of any Loan Document, or waiver, discharge or termination of any obligation under any Loan Document, shall be enforceable or admissible unless, and only to the extent, expressly set forth in a writing signed by the party against which enforcement or admission is sought. Without limiting the generality of the foregoing, no oral promise or statement, nor any action, inaction, delay, failure to require performance or course of conduct shall operate as, or evidence, an amendment, supplement or waiver or have any other effect on any Loan Document. Any waiver granted shall be limited to the specific circumstance expressly described in it, and shall not apply to any subsequent or other circumstance, whether similar or dissimilar, or give rise to, or evidence, any obligation or commitment to grant any further waiver. The Loan Documents represent the entire agreement about this subject matter and supersede prior negotiations or agreements. All prior agreements, understandings,

representations, warranties, and negotiations between the parties about the subject matter of the Loan Documents merge into the Loan Documents.

12.8 **Counterparts**. This Agreement may be executed in any number of counterparts and by different parties on separate counterparts, each of which, when executed and delivered, is an original, and all taken together, constitute one Agreement.

12.9 **Confidentiality**. In handling any confidential information, Bank shall exercise the same degree of care that it exercises for its own proprietary information, but disclosure of information may be made: (a) to Bank's Subsidiaries or Affiliates (such Subsidiaries and Affiliates, together with Bank, collectively, "**Bank Entities**"); (b) to prospective transferees or purchasers of any interest in the Credit Extensions (provided, however, Bank shall use its best efforts to obtain any prospective transferee's or purchaser's agreement to the terms of this provision); (c) as required by law, regulation, subpoena, or other order; (d) to Bank's regulators or as otherwise required in connection with Bank's examination or audit; (e) as Bank considers appropriate in exercising remedies under the Loan Documents; and (f) to third-party service providers of Bank so long as such service providers have executed a confidentiality agreement with Bank with terms no less restrictive than those contained herein. Confidential information does not include information that is either: (i) in the public domain or in Bank's possession when disclosed to Bank, or becomes part of the public domain (other than as a result of its disclosure by Bank in violation of this Agreement) after disclosure to Bank; or (ii) disclosed to Bank by a third party, if Bank does not know that the third party is prohibited from disclosing the information.

Bank Entities may use anonymous forms of confidential information for aggregate datasets, for analyses or reporting, and for any other uses not expressly prohibited in writing by Borrower. The provisions of the immediately preceding sentence shall survive termination of this Agreement.

12.10 **Right of Set Off.** Borrower hereby grants to Bank, a lien, security interest and right of set off as security for all Obligations to Bank, whether now existing or hereafter arising upon and against all deposits, credits, collateral and property, now or hereafter in the possession, custody, safekeeping or control of Bank or any entity under the control of Bank (including a Bank subsidiary) or in transit to any of them. At any time after the occurrence and during the continuance of an Event of Default, without demand or notice, Bank may set off the same or any part thereof and apply the same to any liability or obligation of Borrower even though unmatured and regardless of the adequacy of any other collateral securing the Obligations. ANY AND ALL RIGHTS TO REQUIRE BANK TO EXERCISE ITS RIGHTS OR REMEDIES WITH RESPECT TO ANY OTHER COLLATERAL WHICH SECURES THE OBLIGATIONS, PRIOR TO EXERCISING ITS RIGHT OF SETOFF WITH RESPECT TO SUCH DEPOSITS, CREDITS OR OTHER PROPERTY OF BORROWER ARE HEREBY KNOWINGLY, VOLUNTARILY AND IRREVOCABLY WAIVED.

12.11 **Attorneys' Fees, Costs and Expenses**. In any action or proceeding between Borrower and Bank arising out of or relating to the Loan Documents, the prevailing party shall be entitled to recover its reasonable attorneys' fees and other costs and expenses incurred, in addition to any other relief to which it may be entitled.

12.12 **Electronic Execution of Documents**. The words "execution," "signed," "signature" and words of like import in any Loan Document shall be deemed to include electronic signatures or the keeping of records in electronic form, each of which shall be of the same legal effect, validity and enforceability as a manually executed signature or the use of a paper-based recordkeeping systems, as the case may be, to the extent and as provided for in any applicable law, including, without limitation, any state law based on the Uniform Electronic Transactions Act.

12.13 **Captions**. The headings used in this Agreement are for convenience only and shall not affect the interpretation of this Agreement.

12.14 **Construction of Agreement**. The parties mutually acknowledge that they and their attorneys have participated in the preparation and negotiation of this Agreement. In cases of uncertainty this Agreement shall be construed without regard to which of the parties caused the uncertainty to exist.

12.15 **Relationship**. The relationship of the parties to this Agreement is determined solely by the provisions of this Agreement. The parties do not intend to create any agency, partnership, joint venture, trust, fiduciary or other relationship with duties or incidents different from those of parties to an arm's-length contract.

12.16 **Third Parties**. Nothing in this Agreement, whether express or implied, is intended to: (a) confer any benefits, rights or remedies under or by reason of this Agreement on any persons other than the express parties to it and their respective permitted successors and assigns; (b) relieve or discharge the obligation or liability of any person not an express party to this Agreement; or (c) give any person not an express party to this Agreement any right of subrogation or action against any party to this Agreement.

13. DEFINITIONS

13.1 **Definitions**. As used in the Loan Documents, the word "shall" is mandatory, the word "may" is permissive, the word "or" is not exclusive, the words "includes" and "including" are not limiting, the singular includes the plural, and numbers denoting amounts that are set off in brackets are negative. As used in this Agreement, the following capitalized terms have the following meanings:

"**Account**" is any "account" as defined in the Code or any other applicable law with such additions to such term as may hereafter be made, and includes, without limitation, all accounts receivable and other sums owing to Borrower.

"**Account Debtor**" is any "account debtor" as defined in the Code or any other applicable law with such additions to such term as may hereafter be made.

"**Acquisition**" is the purchase or acquisition of milestone and/or royalty streams of any other Person.

"**Affiliate**" is, with respect to any Person, each other Person that owns or controls directly or indirectly the Person, any Person that controls or is controlled by or is under common control with the Person, and each of that Person's senior executive officers, directors, partners and, for any Person that is a limited liability company, that Person's managers and members.

"**Agreement**" is defined in the preamble hereof.

"**Antibody Libraries and Related Assets**" means (a) specific collections of polynucleotides encoding antibodies and their associated biological materials, (b) intellectual property and know-how related thereto or to the use thereof, (c) materials, intellectual property and know-how embodying the Targeted Affinity Enhancement™ technology or other technology made available by a Borrower or its Subsidiaries for improving or enhancing the affinity of antibodies and (d) the informatics and other materials-handling systems, associated software applications and related data systems and know-how related thereto made available by a Borrower or its Subsidiaries for use in connection therewith.

"**Authorized Signer**" is any individual listed in Borrower's Borrowing Resolution who is authorized to execute the Loan Documents, including any Credit Extension request, on behalf of Borrower.

"**Bank**" is defined in the preamble hereof.

"**Bank Entities**" is defined in Section 12.9.

"**Bank Expenses**" are all audit fees and expenses, costs, and expenses (including reasonable attorneys' fees and expenses) for preparing, amending, negotiating, administering, defending and enforcing the Loan Documents (including, without limitation, those incurred in connection with appeals or Insolvency Proceedings) or otherwise incurred with respect to Borrower.

"**Bank Services**" are any products, credit services, and/or financial accommodations previously, now, or hereafter provided to Borrower or any of its Subsidiaries by Bank or any Bank Affiliate, including, without limitation, any letters of credit, cash management services (including, without limitation, merchant services, direct deposit of payroll, business credit cards, and check cashing services), interest rate swap arrangements, and foreign exchange services as any such products or services may be identified in Bank's various agreements related thereto (each, a "**Bank Services Agreement**").

"**Bank Services Agreement**" is defined in the definition of Bank Services.

"**Bank's Increase Option**" is defined in Section 2.1.1(a).

"**Bermuda Borrower**" is defined in the preamble hereof.

"**Bermuda Collateral Documents**" means (a) the Bermuda law share charge dated on or around the date of this Agreement between XOMA and Bank in respect of the entire issued share capital of Bermuda Borrower and (b) the Bermuda law fixed and floating charge dated on or around the date of this Agreement between Bermuda Borrower and Bank, in each case in respect of the Obligations, as each may be amended, modified, supplemented and/or restated from time to time.

"**Board**" means Borrower's board of directors.

"**Borrower**" is defined in the preamble hereof.

"**Borrower's Books**" are all Borrower's books and records including ledgers, federal and state tax returns, records regarding Borrower's assets or liabilities, the Collateral, business operations or financial condition, and all computer programs or storage or any equipment containing such information.

"**Borrowing Resolutions**" are, with respect to any Person, those resolutions adopted by such Person's board of directors (or the limited liability company equivalent thereof) (and, if required under the terms of such Person's Operating Documents, stockholders, or other equity holders) and delivered by such Person to Bank approving the Loan Documents to which such Person is a party and the transactions contemplated thereby, together with a certificate executed by (in the case of XOMA and XOMA US) its secretary or manager (as applicable and appropriate) and (in the case of Bermuda Borrower) its secretary or a director on behalf of such Person certifying (a) such Person has the authority to execute, deliver, and perform its obligations under each of the Loan Documents to which it is a party, (b) that set forth as a part of or attached as an exhibit to such certificate is a true, correct, and complete copy of the resolutions then in full force and effect authorizing and ratifying the execution, delivery, and performance by such Person of the Loan Documents to which it is a party, (c) the name(s) of the Person(s) authorized to execute the Loan Documents, including any Credit Extension request, on behalf of such Person, together with a sample of the true signature(s) of such Person(s) in the form of (in respect of Bermuda Borrower) a certificate of incumbency, (d) in respect of Bermuda Borrower, confirming that borrowing or guarantying or securing, as appropriate, the Obligations would not cause any borrowing, guaranty, security or similar limit binding on it to be exceeded, (e) in respect of Bermuda Borrower,

that each copy document relating to it specified in clauses (d) and (e) in Section 3.1 is correct, complete and in full force and effect as at a date no earlier than the date of this Agreement, and (f) that Bank may conclusively rely on such certificate unless and until such Person shall have delivered to Bank a further certificate canceling or amending such prior certificate.

"**Business Day**" is any day that is not a Saturday, Sunday or a day on which Bank is closed.

"**Cash Equivalents**" means (a) marketable direct obligations issued or unconditionally guaranteed by the United States or any agency or any State thereof having maturities of not more than one (1) year from the date of acquisition; (b) commercial paper maturing no more than one (1) year after its creation and having the highest rating from either Standard & Poor's Ratings Group or Moody's Investors Service, Inc.; and (c) Bank's certificates of deposit issued maturing no more than one (1) year after issue.

"**Change in Control**" means (a) at any time, any "person" or "group" (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act), shall become, or obtain rights (whether by means of warrants, options or otherwise) to become, the "beneficial owner" (as defined in Rules 13(d)-3 and 13(d)-5 under the Exchange Act), directly or indirectly, of forty-nine percent (49.0%) or more of the ordinary voting power for the election of directors of Borrower (determined on a fully diluted basis) other than by the sale of Borrower's equity securities in a public offering or to venture capital or private equity investors so long as Borrower identifies to Bank the venture capital or private equity investors at least seven (7) Business Days prior to the closing of the transaction and provides to Bank a description of the material terms of the transaction; (b) during any period of twelve (12) consecutive months, a majority of the members of the board of directors or other equivalent governing body of Borrower cease to be composed of individuals (i) who were members of that board or equivalent governing body on the first day of such period, (ii) whose election or nomination to that board or equivalent governing body was approved by individuals referred to in clause (i) above constituting at the time of such election or nomination at least a majority of that board or equivalent governing body or (iii) whose election or nomination to that board or other equivalent governing body was approved by individuals referred to in clauses (i) and (ii) above constituting at the time of such election or nomination at least a majority of that board or equivalent governing body; or (c) at any time, Borrower shall cease to own and control, of record and beneficially, directly or indirectly, one hundred percent (100.0%) of each class of outstanding capital stock of each Subsidiary of Borrower free and clear of all Liens (except Liens created by this Agreement) or the Bermuda Collateral Documents.

"**CIMZIA Royalty Purchase Agreement**" means that certain Royalty Purchase Agreement dated as of August 12, 2010, by and among XOMA CDRA LLC, XOMA US and the purchaser named therein, as in effect as of the Effective Date.

"**Claims**" is defined in Section 12.3.

"**Code**" is (a) with respect to the XOMA and XOMA US, or any assets located in the United States, the Uniform Commercial Code, as the same may, from time to time, be enacted and in effect in the State of California; provided, that, to the extent that the Code is used to define any term herein or in any Loan Document and such term is defined differently in different Articles or Divisions of the Code, the definition of such term contained in Article or Division 9 shall govern; provided further, that in the event that, by reason of mandatory provisions of law, any or all of the attachment, perfection, or priority of, or remedies with respect to, Bank's Lien on any Collateral is governed by the Uniform Commercial Code in effect in a jurisdiction other than the State of California, the term "**Code**" shall mean the Uniform Commercial Code as enacted and in effect in such other jurisdiction solely for purposes of the provisions thereof relating to such attachment, perfection, priority, or remedies and for purposes of definitions relating to such provisions; and (b) with respect to Bermuda Borrower, or any assets located outside of the United States, any applicable law.

"**Collateral**" is (a) any and all properties, rights and assets of Borrower described on Exhibit A and (b) any and all properties, rights, and assets subject to a Lien granted by Bermuda Borrower and XOMA to Bank as set forth in the Bermuda Collateral Documents.

"**Collateral Account**" is any Deposit Account, Securities Account, or Commodity Account.

"**Commodity Account**" is any "commodity account" as defined in the Code or any other applicable law with such additions to such term as may hereafter be made.

"**Compliance Certificate**" is that certain certificate in the form attached hereto as Exhibit B.

"**Contingent Obligation**" is, for any Person, any direct or indirect liability, contingent or not, of that Person for (a) any indebtedness, lease, dividend, letter of credit or other obligation of another such as an obligation, in each case, directly or indirectly guaranteed, endorsed, co-made, discounted or sold with recourse by that Person, or for which that Person is directly or indirectly liable; (b) any obligations for undrawn letters of credit for the account of that Person; and (c) all obligations from any interest rate, currency or commodity swap agreement, interest rate cap or collar agreement, or other agreement or arrangement designated to protect a Person against fluctuation in interest rates, currency exchange rates or commodity prices; but "Contingent Obligation" does not include endorsements in the ordinary course of business. The amount of a Contingent Obligation is the stated or determined amount of the primary obligation for which the Contingent Obligation is made or, if not determinable, the maximum reasonably anticipated liability for it determined by the Person in good faith; but the amount may not exceed the maximum of the obligations under any guarantee or other support arrangement.

"**Control Agreement**" is any control agreement entered into among the depository institution at which Borrower maintains a Deposit Account or the securities intermediary or commodity intermediary at which Borrower maintains a Securities Account or a Commodity Account, Borrower, and Bank pursuant to which Bank obtains control (within the meaning of the Code or any other applicable law) over such Deposit Account, Securities Account, or Commodity Account.

"**Copyrights**" are any and all copyright rights, copyright applications, copyright registrations and like protections in each work of authorship and derivative work thereof, whether published or unpublished and whether or not the same also constitutes a trade secret.

"**Credit Extension**" is any Term Loan Advance or any other extension of credit by Bank for Borrower's benefit.

"**Default Rate**" is defined in Section 2.2(b).

"**Deposit Account**" is any "deposit account" as defined in the Code or any other applicable law with such additions to such term as may hereafter be made.

"**Designated Deposit Account**" is the multicurrency account denominated in Dollars, account number 310 (last three digits), maintained by Borrower with Bank.

"**Dollars**," "**dollars**" or use of the sign "**$**" means only lawful money of the United States and not any other currency, regardless of whether that currency uses the "$" sign to denote its currency or may be readily converted into lawful money of the United States.

"**Dollar Equivalent**" is, at any time, (a) with respect to any amount denominated in Dollars, such amount, and (b) with respect to any amount denominated in a Foreign Currency, the equivalent amount therefor

in Dollars as determined by Bank at such time on the basis of the then-prevailing rate of exchange in San Francisco, California, for sales of the Foreign Currency for transfer to the country issuing such Foreign Currency.

"**Draw Period**" is the period of time from the Effective Date through the earlier to occur of (a) the Draw Period End Date or (b) an Event of Default.

"**Draw Period End Date**" is March 31, 2019; provided, however, upon the occurrence of the Milestone Event, the Draw Period End Date shall be March 31, 2020.

"**Effective Date**" is defined in the preamble hereof.

"**Equipment**" is all "equipment" as defined in the Code or any other applicable law with such additions to such term as may hereafter be made, and includes without limitation all machinery, fixtures, goods, vehicles (including motor vehicles and trailers), and any interest in any of the foregoing.

"**ERISA**" is the Employee Retirement Income Security Act of 1974, and its regulations.

"**Escrow Account**" is defined in Section 6.6(a).

"**Event of Default**" is defined in Section 8.

"**Exchange Act**" is the Securities Exchange Act of 1934, as amended.

"**Excluded Assets**" is defined on Exhibit A.

"**Final Payment**" is a payment (in addition to and not in substitution for the regular monthly payments of principal plus accrued interest) equal to the original principal amount of each Term Loan Advance extended by Bank to Borrower hereunder multiplied by eight and one-half of one percent (8.50%), due on the earliest to occur of (a) the applicable Term Loan Maturity Date, (b) the payment in full of such Term Loan Advance, (c) as required by to Section 2.1.1(d) or 2.1.1(e), or (d) the termination of this Agreement.

"**Foreign Currency**" means lawful money of a country other than the United States.

"**Funding Date**" is any date on which a Credit Extension is made to or for the account of Borrower which shall be a Business Day.

"**FX Contract**" is any foreign exchange contract by and between Borrower and Bank under which Borrower commits to purchase from or sell to Bank a specific amount of Foreign Currency on a specified date.

"**GAAP**" is generally accepted accounting principles set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or in such other statements by such other Person as may be approved by a significant segment of the accounting profession, which are applicable to the circumstances as of the date of determination.

"**General Intangibles**" is all "general intangibles" as defined in the Code or any other applicable law in effect on the date hereof with such additions to such term as may hereafter be made, and includes without limitation, all Intellectual Property, claims, income and other tax refunds, security and other deposits, payment intangibles, contract rights, options to purchase or sell real or personal property, rights in all litigation presently or hereafter pending (whether in contract, tort or otherwise), insurance policies (including without limitation

key man, property damage, and business interruption insurance), payments of insurance and rights to payment of any kind.

"**Governmental Approval**" is any consent, authorization, approval, order, license, franchise, permit, certificate, accreditation, registration, filing or notice, of, issued by, from or to, or other act by or in respect of, any Governmental Authority.

"**Governmental Authority**" is any nation or government, any state or other political subdivision thereof, any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative functions of or pertaining to government, any securities exchange and any self-regulatory organization.

"**Guarantor**" is any Person providing a Guaranty in favor of Bank.

"**Guaranty**" is any guarantee of all or any part of the Obligations, as the same may from time to time be amended, released, modified or otherwise supplemented.

"**HCRP**" means HealthCare Royalty Partners II, L.P.

"**HCRP Protective Rights Agreements**" means the Protective Rights Agreements, each dated as of December 21, 2016, between XOMA US and HCRP.

"**HCRP Royalty Purchase Agreements**" means, collectively (i) that certain Royalty Interest Acquisition Agreement, dated as of December 20, 2016, by and among Borrower and HCRP, pursuant to which HCRP purchased certain royalty streams associated with the Pfizer License Agreement and (ii) that certain Royalty Interest Acquisition Agreement, dated as of December 20, 2016, by and among Borrower and HCRP, pursuant to which HCRP purchased certain royalty streams associated with the Shire License Agreement, each as in effect as of the Effective Date.

"**IL-2**" is defined in the definition of Permitted Transfers.

"**Increase Approval**" means the occurrence of all of the following: (a) Borrower has requested an increase to the Term Loan Amount, (b) Bank has received all necessary internal and credit approvals for such increase, (c) Borrower has delivered financial and other information required by Bank, which shall be satisfactory to Bank in its sole discretion, (d) Borrower has agreed to any modifications to the terms of the Loan Documents proposed by Bank in its sole but reasonable discretion, (e) no Event of Default exists at the time the requested increase is to go into effect or would exist as a result of such increase, and (f) Bank has provided written approval in its sole discretion that such increase will occur. For clarity, upon satisfaction of each of the conditions in (a) through (e), the determination of whether to provide any such increase shall be in Bank's sole discretion and shall in no event occur automatically.

"**Increase Event**" occurs when both (a) the Increase Approval has occurred and (b) Bank has confirmed to Borrower in writing that the Term Loan Amount will be increased.

"**Indebtedness**" is (a) indebtedness for borrowed money or the deferred price of property or services, such as reimbursement and other obligations for surety bonds and letters of credit, (b) obligations evidenced by notes, bonds, debentures or similar instruments, (c) capital lease obligations (as such term is understood under GAAP as in effect on the date of this Agreement), and (d) Contingent Obligations.

"**Indemnified Person**" is defined in Section 12.3.

"**Insolvency Proceeding**" is any proceeding by or against any Person under the United States Bankruptcy Code, or any other bankruptcy or insolvency law, including assignments for the benefit of creditors, compositions, extensions generally with its creditors, or proceedings seeking reorganization, arrangement, or other relief.

"**Intellectual Property**" means, with respect to any Person, all of such Person's right, title, and interest in and to the following:

(a) its Copyrights, Trademarks and Patents;

(b) any and all trade secrets and trade secret rights, including, without limitation, any rights to unpatented inventions, know-how, and operating manuals;

(c) any and all source code;

(d) any and all design rights which may be available to such Person;

(e) any and all claims for damages by way of past, present and future infringement of any of the foregoing, with the right, but not the obligation, to sue for and collect such damages for said use or infringement of the Intellectual Property rights identified above; and

(f) all amendments, renewals and extensions of any of the Copyrights, Trademarks or Patents.

"**Inventory**" is all "inventory" as defined in the Code or any other applicable law in effect on the date hereof with such additions to such term as may hereafter be made, and includes without limitation all merchandise, raw materials, parts, supplies, packing and shipping materials, work in process and finished products, including without limitation such inventory as is temporarily out of Borrower's custody or possession or in transit and including any returned goods and any documents of title representing any of the above.

"**Investment**" is any beneficial ownership interest in any Person (including stock, partnership interest or other securities), and any loan, advance or capital contribution to any Person.

"**IP Agreement**" is, collectively (i) that certain Intellectual Property Security Agreement by and between XOMA and Bank dated as of the Effective Date, (ii) that certain Intellectual Property Security Agreement by and between XOMA US and Bank dated as of the Effective Date, and (iii) that certain Intellectual Property Security Agreement by and between Bermuda Borrower and Bank dated as of the Effective Date, in each case, as may be amended, modified, supplemented and/or restated from time to time.

"**Key Person**" is each of Borrower's (a) Chief Executive Officer, who is James R. Neal as of the Effective Date, and (b) Chief Financial Officer, who is Tom Burns as of the Effective Date.

"**Letter of Credit**" is a standby or commercial letter of credit issued by Bank upon request of Borrower based upon an application, guarantee, indemnity, or similar agreement.

"**Lien**" is a claim, mortgage, deed of trust, levy, charge, pledge, security interest or other encumbrance of any kind, whether voluntarily incurred or arising by operation of law or otherwise against any property.

"**Loan Documents**" are, collectively, this Agreement and any schedules, exhibits, certificates, notices, and any other documents related to this Agreement, the Warrant, the Perfection Certificate, the IP Agreement, any Control Agreements, the Bermuda Collateral Documents, any Bank Services Agreement, any subordination

agreement, any note, or notes or guaranties executed by Borrower, and any other present or future agreement by Borrower with or for the benefit of Bank in connection with this Agreement or Bank Services, all as amended, restated, or otherwise modified.

"**Material Adverse Change**" is (a) a material impairment in the perfection or priority of Bank's Lien in the Collateral or in the value of such Collateral; (b) a material adverse change in the business, operations, or condition (financial or otherwise) of Borrower; or (c) a material impairment of the prospect of repayment of any portion of the Obligations.

"**Milestone Event**" means delivery by Borrower to Bank of evidence satisfactory to Bank, in Bank's sole but reasonable discretion, after the Effective Date, but on or prior to March 31, 2019, that Borrower has received at least Twenty Million Dollars ($20,000,000.00) in unrestricted and unencumbered gross cash proceeds from milestone/licensing payments for the period commencing on the Effective Date and ending on or prior to March 31, 2019.

"**Monthly Financial Statements**" is defined in Section 6.2(a).

"**NIAID**" means the National Institute of Allergy and Infectious Diseases.

"**Novartis**" means Novartis Institutes for BioMedical Research, Inc., a Delaware corporation.

"**Novartis AG**" means Novartis Pharma AG, a company incorporated under the laws of Switzerland.

"**Novartis Antibody License**" is defined in the definition of Novartis Debt Documents.

"**Novartis Assets**" means XOMA US' interest in the Collateral (as defined by the Novartis Security Agreement), provided that once any of the Novartis Assets are converted into cash or proceeds in any account with Bank or Bank's Affiliates, such cash and proceeds shall not constitute Novartis Assets, and shall be subject to a first priority perfected security interest in favor of Bank.

"**Novartis Debt**" is defined in clause (g) of the definition of "Permitted Indebtedness" hereunder.

"**Novartis Debt Default**" is defined in clause (g) of the definition of "Permitted Indebtedness" hereunder.

"**Novartis Debt Documents**" means, collectively, (a) the Novartis Security Agreement, (b) that certain Secured Note Agreement, dated as of May 26, 2005, by and between XOMA US and Novartis, as each are in effect on the Effective Date, (c) that certain Amendment to Secured Note Agreement, executed September 22, 2015, by and between Novartis and XOMA US, (d) that certain Amendment to Secured Note Agreement, dated as of September 30, 2015, by and between Novartis and XOMA US, (e) that certain Amended and Restated Research, Development and Commercialization Agreement with Novartis effective as of July 1, 2008 (as in effect as of the Effective Date, the "**NVDI License**"), (f) that certain Letter Agreement, dated June 19, 2015, by and between XOMA US and Novartis, (g) that certain License Agreement, dated September 30, 2015, between XOMA US and Novartis (the "**Novartis Antibody License**"), (h) that certain Guaranty dated as of August 24, 2017, by XOMA in favor of Novartis AG (the "**Novartis Guarantee**"), each as in effect as of the Effective Date, and (i) the XOMA-052 License Agreement.

"**Novartis Guarantee**" is defined in the definition of Novartis Debt Documents.

"**Novartis License Agreements**" means, collectively, (i) that certain License Agreement, dated as of August 24, 2017, by and between XOMA US and Novartis AG, under which XOMA US granted to Novartis

AG an exclusive, worldwide, royalty-bearing license to gevokizumab, a novel anti-Interleukin-1 beta allosteric monoclonal antibody and related know-how and patents (the "**XOMA-052 License Agreement**"), (ii) that certain IL-1 Target License Agreement, dated as of August 24, 2017, by and between XOMA US and Novartis AG, under which XOMA US granted to Novartis AG a non-exclusive licenses to its intellectual property covering the use of IL-1 beta targeting antibodies in the treatment and prevention of cardiovascular disease and other diseases and conditions, (iii) the Novartis Antibody License, and (iv) the NVDI License, each as in effect as of the Effective Date.

"**Novartis Security Agreement**" means that certain Security Agreement dated as of May 26, 2005, by and between XOMA US and Novartis, as in effect as of the Effective Date.

"**NVDI License**" is defined it the definition of Novartis Debt Documents.

"**Obligations**" are Borrower's obligations to pay when due any debts, principal, interest, fees, the Final Payment, the Prepayment Premium, the Unused Term Loan Fee, Bank Expenses, and other amounts Borrower owes Bank now or later, whether under this Agreement, the other Loan Documents (other than the Warrant), or otherwise, including, without limitation, any interest accruing after Insolvency Proceedings begin and debts, liabilities, or obligations of Borrower assigned to Bank, and to perform Borrower's duties under the Loan Documents (other than the Warrant).

"**Ology License Agreement**" means that certain License Agreement, dated March 23, 2016, between XOMA US and Ology Bioservices, Inc. (formerly Nanotherapeutics Inc.), as amended, amended and restated, supplemented or otherwise modified from time to time.

"**Operating Documents**" are, for any Person, such Person's formation documents (including any change of name certificates), as certified by the Secretary of State (or equivalent agency) of such Person's jurisdiction of organization on a date that is no earlier than thirty (30) days prior to the Effective Date, and, (a) if such Person is a corporation, its bylaws or bye-laws and (if applicable) memorandum of association each in current form, (b) if such Person is a limited liability company, its limited liability company agreement (or similar agreement), and (c) if such Person is a partnership, its partnership agreement (or similar agreement), each of the foregoing with all current amendments or modifications thereto.

"**Patents**" means all patents, patent applications and like protections including without limitation improvements, divisions, continuations, renewals, reissues, extensions and continuations-in-part of the same.

"**Payment/Advance Form**" is that certain form attached hereto as Exhibit C.

"**Payment Date**" is the first (1st) calendar day of each month.

"**Perfection Certificate**" is defined in Section 5.1.

"**Permitted Acquisition**" is any Acquisition by Borrower or any Subsidiary of Borrower, disclosed to Bank, provided that each of the following shall be applicable to any such Acquisition:

(a) no Event of Default shall have occurred and be continuing or would result from the consummation of the proposed Acquisition;

(b) the Acquisition is approved by the Board;

(c) Borrower shall remain a surviving entity after giving effect to such Acquisition;

(d) if, as a result of such Acquisition, a new Subsidiary of Borrower is formed or acquired, Borrower shall cause such Subsidiary to provide to Bank a joinder to this Agreement to cause such Subsidiary to become a co-borrower hereunder, together with such documents, all in form and substance satisfactory to Bank and sufficient to grant Bank a first priority Lien in and to the assets of such Subsidiary;

(e) Borrower shall provide Bank with written notice of the proposed Acquisition at least ten (10) Business Days prior to the anticipated closing date of the proposed Acquisition; and not less than five (5) Business Days prior to the anticipated closing date of the proposed Acquisition, Borrower shall provide Bank with copies of the acquisition agreement and all other material documents relative to the proposed Acquisition (or if such acquisition agreement and other material documents are not in final form, drafts of such acquisition agreement and other material documents; provided that Borrower shall deliver final forms of such acquisition agreement and other material documents promptly upon completion), and such other financial information, financial analysis, documentation or other information relating to such transaction as Bank shall reasonably request;

(f) (i) the total cash consideration payable (including, without limitation, any earn-out payment obligations) plus the total Indebtedness for each such Acquisition does not exceed Two Million Dollars ($2,000,000.00) (provided that such amount may increase accordingly to reflect Bank's exercise of Bank's Increase Option) and (ii) the total non-cash consideration payable for each such Acquisition does not exceed Twenty Million Dollars ($20,000,000.00);

(g) such purchase or Acquisition shall not constitute an Unfriendly Acquisition; and

(h) no Indebtedness will be incurred, assumed, or would exist with respect to Borrower or its Subsidiaries as a result of the contemplated Acquisition, other than Permitted Indebtedness, and no Liens will be incurred, assumed, or would exist with respect to the assets of Borrower or its Subsidiaries as a result of the contemplated Acquisition, other than Permitted Liens.

"**Permitted Distributions**" means:

(a) without duplication of the amounts set forth in clause (c) below, (i) purchases of capital stock from former or current employees, officers, consultants and directors pursuant to repurchase agreements or other similar agreements, (ii) purchases of capital stock in connection with the exercise of stock options or stock appreciation rights by way of cashless exercise or in connection with the satisfaction of withholding tax obligations or repurchases pursuant to the terms of employee stock purchase plans, employee restricted stock agreements, stockholder rights, plans, director or consultant stock option plans, or similar plans, provided that the aggregate amount of such purchases in clauses (i)-(ii) above shall not exceed Two Million Dollars ($2,000,000.00) during the term of this Agreement or (iii) purchases of capital stock pledged as collateral for loans to employees;

(b) distributions or dividends consisting solely of Borrower's shares of stock or equity interests;

(c) purchases of fractional shares of capital stock arising out of stock dividends, splits or combinations or business combinations not to exceed Two Hundred Fifty Thousand Dollars ($250,000.00) in the aggregate; and

(d) conversions of any of its convertible securities into other securities pursuant to the terms of such convertible securities or otherwise in exchange thereof).

"**Permitted Indebtedness**" is:

(a) Borrower's Indebtedness to Bank under this Agreement and the other Loan Documents;

(b) Indebtedness existing on the Effective Date which is shown on the Perfection Certificate;

(c) Subordinated Debt;

(d) unsecured Indebtedness to trade creditors incurred in the ordinary course of business;

(e) Indebtedness incurred as a result of endorsing negotiable instruments received in the ordinary course of business;

(f) Indebtedness secured by Liens permitted under clauses (a) and (c) of the definition of "Permitted Liens" hereunder;

(g) XOMA US' Indebtedness to Novartis pursuant to the terms and conditions of the Novartis Debt Documents (the "**Novartis Debt**") provided that (i) no payments of any kind may be made with respect to the Novartis Debt (including, without limitation, payments of principal and interest) (but excluding payments in the form of set-off from scheduled milestone payments paid to Borrower under the Novartis Debt Documents in an amount not to exceed Seven Million Three Hundred Thousand Dollars ($7,300,000.00) in the aggregate, provided such applications are made simultaneously with the deemed payment of such milestone payments and no cash of Borrower is used to make such payments) and (ii) if a default or an event of default (however defined) occurs under the Novartis Debt (the "**Novartis Debt Default**"), all outstanding liabilities and obligations of Borrower to Bank shall immediately be repaid in full;

(h) unsecured Indebtedness of XOMA pursuant to the Novartis Guaranty;

(i) reimbursement obligations in connection with corporate credit cards and existing letters of credit that are secured by cash or cash equivalents and issued on behalf of the Borrower or a Subsidiary thereof in an amount not to exceed Three Hundred Fifty Thousand Dollars ($350,000.00) at any time outstanding;

(j) Indebtedness relating to financing insurance premiums;

(k) Indebtedness of Borrower to any Subsidiary and Contingent Obligations of any Subsidiary with respect to obligations of Borrower (provided that the primary obligations are not prohibited hereby), and Indebtedness of any Subsidiary to Borrower or any other Subsidiary and Contingent Obligations of any Subsidiary with respect to obligations of any other Subsidiary (provided that the primary obligations are not prohibited hereby);

(l) other unsecured Indebtedness in an amount not to exceed Two Hundred Fifty Thousand Dollars ($250,000.00) at any time outstanding;

(m) Indebtedness consisting of Permitted Investments;

(n) overdrafts paid within ten (10) days;

(o) Indebtedness incurred in the ordinary course of business under performance, surety, statutory, or appeal bonds in an aggregate principal amount not to exceed One Hundred Thousand Dollars ($100,000.00) in any fiscal year; and

(p) extensions, refinancings, modifications, amendments and restatements of any items of Permitted Indebtedness (a) through (o) above, provided that the principal amount thereof is not increased or the terms thereof are not modified to impose more burdensome terms upon Borrower or its Subsidiary, as the case may be.

"**Permitted Investments**" are:

(a) Investments (including, without limitation, Subsidiaries) existing on the Effective Date which are shown on the Perfection Certificate;

(b) (i) Investments consisting of Cash Equivalents and (ii) any Investments permitted by Borrower's investment policy, as amended from time to time, provided that such investment policy (and any such amendment thereto) has been approved in writing by Bank:

(c) Investments pursuant to Permitted Acquisitions;

(d) Investments constituting Permitted Transfers;

(e) Investments (including debt obligations) received in connection with the bankruptcy or reorganization of customers or suppliers and in settlement of delinquent obligations of, and other disputes with, customers or suppliers arising in the ordinary course of business;

(f) Investments consisting of notes receivable of, or prepaid royalties and other credit extensions, to customers and suppliers who are not Affiliates, in the ordinary course of business; provided that this paragraph (e) shall not apply to Investments of Borrower in any Subsidiary;

(g) Investments consisting of (i) travel advances and employee relocation loans and other employee loans and advances in the ordinary course of business, and (ii) loans to employees, officers or directors relating to the purchase of equity securities of Borrower or its Subsidiaries pursuant to employee stock purchase plans or agreements approved by Borrower's Board;

(h) joint ventures or strategic alliances in the ordinary course of Borrower's business consisting of the non-exclusive licensing of technology, the development of technology or the providing of technical support, provided that any cash investments by Borrower do not exceed One Hundred Thousand Dollars ($100,000.00) in the aggregate in any fiscal year;

(i) Investments by and between one or more Borrower or secured Guarantor;

(j) Investments consisting of the endorsement of negotiable instruments for deposit or collection or similar transactions in the ordinary course of Borrower;

(k) Investments in the common stock of Rezolute in connection with the Rezolute License Agreement;

(l) Investments consisting of the creation of a Subsidiary for the purpose of consummating a merger transaction permitted by Section 7.3 of this Agreement, which is otherwise a Permitted Investment;

(m) Investments (including debt obligations) received in connection with the bankruptcy or reorganization of customers or suppliers and in settlement of delinquent obligations of, and other disputes with, customers or suppliers arising in the ordinary course of business;

(n) Investments consisting of notes receivable of, or prepaid royalties and other credit extensions, to customers and suppliers who are not Affiliates, in the ordinary course of business; provided that this paragraph (n) shall not apply to Investments of Borrower in any Subsidiary; and

(o) additional Investments that do not exceed One Hundred Thousand Dollars ($100,000.00) in the aggregate.

"**Permitted Liens**" are:

(a) Liens existing on the Effective Date which are shown on the Perfection Certificate or arising under this Agreement and the other Loan Documents;

(b) Liens for taxes, fees, assessments or other government charges or levies, either (i) not due and payable or (ii) being contested in good faith and for which Borrower maintains adequate reserves on its Books, provided that no notice of any such Lien has been filed or recorded under the Internal Revenue Code of 1986, as amended, and the Treasury Regulations adopted thereunder;

(c) purchase money Liens or capital leases (i) on Equipment acquired or held by Borrower incurred for financing the acquisition of the Equipment securing no more than One Hundred Thousand Dollars ($100,000.00) in the aggregate amount outstanding, or (ii) existing on Equipment when acquired, if the Lien is confined to the property and improvements and the proceeds of the Equipment;

(d) Liens in favor of Novartis securing the Novartis Debt, provided, however, that such Liens are only permitted to the extent that they only encumber the Novartis Assets and provided further that once any of the Novartis Assets are converted into cash or proceeds and deposited into any account of Borrower maintained with Bank or Bank's Affiliates, such cash and proceeds shall not constitute Novartis Assets and such Lien shall not be a Permitted Lien and the Lien on the cash and proceeds in favor of Novartis shall automatically terminate without any action of Novartis, and such cash and proceeds shall at all times be subject to a first priority perfected security interest in favor of Bank;

(e) Liens of carriers, warehousemen, suppliers, or other Persons that are possessory in nature arising in the ordinary course of business so long as such Liens attach only to Inventory and which are not delinquent or remain payable without penalty or which are being contested in good faith and by appropriate proceedings which proceedings have the effect of preventing the forfeiture or sale of the property subject thereto;

(f) Liens arising from attachments or judgments, orders, or decrees in circumstances not constituting an Event of Default under Sections 8.4 and 8.7;

(g) Liens to secure payment of workers' compensation, employment insurance, old-age pensions, social security and other like obligations incurred in the ordinary course of business (other than Liens imposed by ERISA);

(h) Liens securing the payment of financed insurance premiums that are promptly paid on or before the date they become due provided that such Liens extend only to the insurance policies and all money due Borrower thereunder (including the return of premiums and dividends) and not to any other property or assets;

(i) easements, zoning restrictions, rights-of-way and similar encumbrances on real property imposed by law or arising in the ordinary course of business so long as they do not materially impair the value or marketability of the related property;

(j) Liens on cash or cash equivalents security obligations relating to existing letter of credit and corporate credit card reimbursement obligations not to exceed Three Hundred Fifty Thousand Dollars ($350,000.00) in the aggregate;

(k) purported Liens evidenced by the filing of precautionary UCC financing statements relating solely to operating leases of personal property entered into in the ordinary course of business to the extent such lease is not otherwise prohibited hereunder;

(l) licenses permitted under Section 7.1 hereunder;

(m) leases or subleases of real property granted in the ordinary course of Borrower's business (or, if referring to another Person, in the ordinary course of such Person's business), and leases, subleases, non-exclusive licenses or sublicenses of personal property (other than Intellectual Property) granted in the ordinary course of Borrower's business (or, if referring to another Person, in the ordinary course of such Person's business), if the leases, subleases, licenses and sublicenses do not prohibit granting Bank a security interest therein;

(n) Liens in favor of other financial institutions arising in connection with Borrower's deposit and/or securities accounts held at such institutions, provided that (i) Bank has a first priority perfected security interest in the amounts held in such deposit and/or securities accounts (other than Liens securing customary fees and expenses of the depository or investment institution) and (ii) such accounts are permitted to be maintained pursuant to Section 6.6 of this Agreement;

(o) Liens on the Escrow Account, provided that the cash subject to such Liens shall not at any time exceed Eight Hundred Thousand Dollars ($800,000.00) in the aggregate;

(p) Liens on assets pledged in connection with the CIMZIA Royalty Purchase Agreement, provided that if any of such assets are converted into cash or proceeds in any account with Bank or Bank's Affiliates, such Lien shall not be a Permitted Lien, and such cash and proceeds shall at all times be subject to a first priority perfected security interest in favor of Bank;

(q) Liens on the assets pledged in connection with the HCRP Royalty Purchase Agreement and HCRP Protective Rights Agreements so long as such Liens do not extend to any property of XOMA US other than the Pfizer License Agreement and the Shire License Agreement and XOMA US' rights thereunder, and provided further that if any of such assets are converted into cash or proceeds in any account with Bank or Bank's Affiliates, such Lien shall not be a Permitted Lien, and such cash and proceeds shall at all times be subject to a first priority perfected security interest in favor of Bank; and

(r) Liens incurred in the extension, renewal or refinancing of the indebtedness secured by Liens described in (a) through (o), but any extension, renewal or replacement Lien must be limited to the property encumbered by the existing Lien and the principal amount of the indebtedness may not increase.

"**Permitted Negative Pledges**" means the following agreements not to encumber specified Intellectual Property (or related) assets: (i) negative pledges on the assets that are the subject of clauses (p) and (q) of Permitted Liens, in each case so long as such negative pledges and other restrictions do not extend to any property of Borrower other than the assets thereof that are the subject of the applicable Permitted Liens under clauses (p) and (q); (ii) negative pledges on the assets that are the subject of clause (j) of Permitted Liens, so long as such negative pledges and other restrictions do not extend to any property of Borrower other than the assets thereof that are the subject of the applicable Permitted Liens under clause (j); (iii) negative pledges in favor of PRLA on the assets licensed pursuant to the License Agreement (and no other assets of Borrower),

dated August 9, 2017, between PrLA Pharma, Inc., and XOMA US, as in effect as of the Effective Date; and (iv) customary anti-assignment provisions in contracts or licenses, provided that such restrictions do not prohibit the granting of a security interest in Borrower's Intellectual Property in favor of Bank and provided further that such contracts or licenses do not grant a security interest in Borrower's Intellectual Property.

"**Permitted Transfers**" means: (i) sales of Inventory in the ordinary course of business; (ii) non-exclusive licenses and exclusive licenses for the use of the property of Borrower or its Subsidiaries in the ordinary course of business, (iii) transfers of Antibody Libraries and Related Assets in the ordinary course of business, on arms-length terms, to unaffiliated third parties; (iv) non-exclusive licenses of the Anti-Botulism Antibody Products granted to the NIAID or another agency of the United States government; (v) transfers of assets to Borrower and transfers of assets between Borrower's Subsidiaries which is not a Borrower; (vi) dispositions of worn-out, obsolete or surplus Equipment at fair market value in the ordinary course of business; (vii) Permitted Liens and Permitted Investments; (viii) non-exclusive Transfers of non-material assets by Borrower in the ordinary course of business to a third party of all of its right, title and interest in and to certain improvements to Intellectual Property owned or controlled by such third party and joint inventions made pursuant to license and commercialization agreements; (ix) licenses that could not result in a legal transfer of title of the licensed property under the Rezolute License Agreement, Ology License Agreement and Novartis License Agreements; (x) the sale, transfer or disposition of interleukin 2, anti-parathyroid receptor portfolio that includes several unique functional antibody antagonists targeting PTH1R, XMetA, proprietary human antibody phage display libraries ("**IL-2**"); and (xi) other Transfers of non-material assets (excluding Intellectual Property) having a fair market value of not more than Two Hundred Fifty Thousand Dollars ($250,000.00) in the aggregate in any fiscal year.

"**Person**" is any individual, sole proprietorship, partnership, limited liability company, joint venture, company, trust, unincorporated organization, association, corporation, institution, public benefit corporation, firm, joint stock company, estate, entity or government agency.

"**Pfizer**" means Pfizer Inc.

"**Pfizer License Agreement**" means that certain License Agreement dated as of August 18, 2005 by and between XOMA US, assignee of XOMA Ireland Limited and Wyeth Pharmaceuticals Division (subsequently acquired by Pfizer) for non-exclusive, worldwide rights for certain of XOMA US' patented bacterial cell expression technology for vaccine manufacturing, as in effect as of the Effective Date.

"**Prepayment Premium**" shall be an additional fee, payable to Bank, with respect to each Term Loan Advance, in an amount equal to:

(a) for a prepayment of a Term Loan Advance made on or prior to the first (1st) anniversary of the Effective Date, three percent (3.0%) of the outstanding principal amount of such Term Loan Advance as of the date immediately and prior to the date of such prepayment;

(b) for a prepayment of a Term Loan Advance made after the first (1st) anniversary of the Effective Date, but on or prior to the second (2nd) anniversary of the Effective Date, two percent (2.0%) of the outstanding principal amount of such Term Loan Advance as of the date immediately and prior to the date of such prepayment; and

(c) for a prepayment of a Term Loan Advance made after the second (2nd) anniversary of the Effective Date, but prior to the applicable Term Loan Maturity Date, one percent (1.0%) of the outstanding principal amount of such Term Loan Advance as of the date immediately and prior to the date of such prepayment.

Notwithstanding the foregoing, provided no Event of Default has occurred and is continuing, the Prepayment Premium shall be waived by Bank if Bank closes on the refinance and redocumentation of this Agreement (in its sole and absolute discretion) prior to the applicable Term Loan Maturity Date.

"**Prime Rate**" is the rate of interest per annum from time to time published in the money rates section of The Wall Street Journal or any successor publication thereto as the "prime rate" then in effect; provided that, in the event such rate of interest is less than zero, such rate shall be deemed to be zero for purposes of this Agreement; and provided further that if such rate of interest, as set forth from time to time in the money rates section of The Wall Street Journal, becomes unavailable for any reason as determined by Bank, the "Prime Rate" shall mean the rate of interest per annum announced by Bank as its prime rate in effect at its principal office in the State of California (such Bank announced Prime Rate not being intended to be the lowest rate of interest charged by Bank in connection with extensions of credit to debtors); provided that, in the event such rate of interest is less than zero, such rate shall be deemed to be zero for purposes of this Agreement.

"**Quarterly Advance Limit**" is defined in Section 2.1.1(a).

"**Quarterly Financial Statements**" is defined in Section 6.2(c).

"**Registered Organization**" is any "registered organization" as defined in the Code or any other applicable law with such additions to such term as may hereafter be made.

"**Requirement of Law**" is as to any Person, the organizational or governing documents of such Person, and any law (statutory or common), treaty, rule or regulation or determination of an arbitrator or a court or other Governmental Authority, in each case applicable to or binding upon such Person or any of its property or to which such Person or any of its property is subject.

"**Rezolute License Agreement**" means that certain License Agreement, dated as of December 6, 2017, between XOMA US and Rezolute, Inc., formerly AntriaBio, Inc. ("**Rezolute**"), as in effect as of the Effective Date.

"**Responsible Officer**" is any of the Chief Executive Officer, President, Chief Financial Officer and Controller of Borrower.

"**Restricted License**" is any material license or other agreement with respect to which Borrower is the licensee (a) that prohibits or otherwise restricts Borrower from granting a security interest in Borrower's interest in such license or agreement or any other property, or (b) for which a default under or termination of could interfere with the Bank's right to sell any Collateral.

"**SEC**" shall mean the Securities and Exchange Commission, any successor thereto, and any analogous Governmental Authority.

"**Securities Account**" is any "securities account" as defined in the Code or any other applicable law with such additions to such term as may hereafter be made.

"**Shire License Agreement**" means that certain Amended and Restated License Agreement, dated effective as of October 27, 2006, between XOMA US and Shire PLC, formerly DYAX, Corp., as in effect as of the Effective Date.

"**Subordinated Debt**" is indebtedness incurred by Borrower subordinated to all of Borrower's now or hereafter indebtedness to Bank (pursuant to a subordination, intercreditor, or other similar agreement in form

and substance satisfactory to Bank entered into between Bank and the other creditor), on terms acceptable to Bank.

"**Subsidiary**" is, as to any Person, a corporation, partnership, limited liability company or other entity of which shares of stock or other ownership interests having ordinary voting power (other than stock or such other ownership interests having such power only by reason of the happening of a contingency) to elect a majority of the board of directors or other managers of such corporation, partnership or other entity are at the time owned, or the management of which is otherwise controlled, directly or indirectly through one or more intermediaries, or both, by such Person. Unless the context otherwise requires, each reference to a Subsidiary herein shall be a reference to a Subsidiary of Borrower.

"**Term Loan Advance**" and "**Term Loan Advances**" are each defined in Section 2.1.1(a).

"**Term Loan Amortization Date**" is, for each Term Loan Advance, the date which is the first (1 st) Payment Date following the twelve (12) month anniversary of the Funding Date of such Term Loan Advance.

"**Term Loan Amount**" is (a) prior to the occurrence of the Increase Event, Twenty Million Dollars ($20,000,000.00), and (b) upon and after the occurrence of the Increase Event, Forty Million Dollars ($40,000,000.00).

"**Term Loan Maturity Date**" is, for each Term Loan Advance, the earlier to occur of (i) the Payment Date that is twenty-three (23) months after the applicable Term Loan Amortization Date for such Term Loan Advance, (ii) March 1, 2023, or (iii) thirty (30) days prior to the earliest maturity of any portion of the Novartis Debt, unless otherwise agreed to by Bank in writing in its sole and absolute discretion.

"**Trademarks**" means any trademark and servicemark rights, whether registered or not, applications to register and registrations of the same and like protections, and the entire goodwill of the business of Borrower connected with and symbolized by such trademarks.

"**Transfer**" is defined in Section 7.1.

"**Transition Period**" is the period of time commencing on the Effective Date and continuing through the earlier to occur of (a) July 6, 2018 or (b) an Event of Default.

"**Unfriendly Acquisition**" is any Acquisition that has not, at the time of the first public announcement of an offer relating thereto, been approved by the board of directors (or other legally recognized governing body) of the Person to be acquired.

"**Unused Term Loan Fee**" is defined in Section 2.3(c).

"**Warrant**" is that certain warrant to purchase stock dated as of the Effective Date by and between XOMA and Bank, as may be amended, modified, supplemented and/or restated from time to time.

"**XOMA**" is defined in the preamble hereof.

"**XOMA-052 License Agreement**" is defined in the definition of Novartis License Agreements.

"**XOMA US**" is defined in the preamble hereof.

[Signature page follows.**]**

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the Effective Date.

BORROWER:

XOMA CORPORATION

By_____
Name:_____
Title:_____

XOMA (US) LLC

By_____
Name:_____
Title:_____

XOMA TECHNOLOGY LTD.

By:
Name:
Title:

BANK:

SILICON VALLEY BANK

By_____
Name:_____
Title:_____

EXHIBIT A – COLLATERAL DESCRIPTION

The Collateral consists of all of Borrower's right, title and interest in and to the following personal property:

All goods, Accounts (including health-care receivables), Equipment, Inventory, contract rights or rights to payment of money, leases, license agreements, franchise agreements, General Intangibles, commercial tort claims, documents, instruments (including any promissory notes), chattel paper (whether tangible or electronic), cash, deposit accounts, certificates of deposit, fixtures, letters of credit rights (whether or not the letter of credit is evidenced by a writing), securities, and all other investment property, supporting obligations, and financial assets, whether now owned or hereafter acquired, wherever located; and

all Borrower's Books relating to the foregoing, and any and all claims, rights and interests in any of the above and all substitutions for, additions, attachments, accessories, accessions and improvements to and replacements, products, proceeds and insurance proceeds of any or all of the foregoing.

Notwithstanding the foregoing, the Collateral does not include (a) any intent-to-use trademarks at all times prior to the first use thereof, whether by the actual use thereof in commerce, the recording of a statement of use with the United States Patent and Trademark Office or otherwise, (b) any interest of Borrower as a lessee under an Equipment lease if Borrower is prohibited by the terms of such lease from granting a security interest in such lease or under which such an assignment or Lien would cause a default to occur under such lease; *provided, however*, that upon termination of such prohibition, such interest shall immediately become Collateral without any action by Borrower or Bank, (c) rights held under a license that are not assignable by their terms without the consent of the licensor thereof (but only to the extent such restriction on assignment is enforceable under applicable law), (d) IL-2, (e) any assets thereof that are the subject of the Liens permitted under clauses (j), (o), (p) and (q) of Permitted Liens or any assets that are the subject of clause (iii) of Permitted Negative Pledges, provided that upon the termination by the applicable holder thereof or expiration of any prohibition on the granting of Liens or negative pledges thereon, such assets shall automatically be subject to the first priority perfected security interest granted in favor of Bank hereunder and become Collateral without any action by Borrower or Bank, and provided further that, proceeds of the assets that are the subject of the Liens or negative pledges permitted under clauses (p) and (q) of Permitted Liens or clause (iii) of Permitted Negative Pledges in accounts of Borrower at Bank or Bank's Affiliates shall not constitute Excluded Assets, and are Collateral and subject to a first priority perfected security interest in favor of Bank hereunder, (f) the Novartis Assets, provided, however, proceeds of the Novartis Assets in accounts of Borrower at Bank or Bank's Affiliates shall not constitute Excluded Assets, and are Collateral and subject to a first priority perfected security interest in favor of Bank hereunder, or (g) equity or ownership interest in XOMA CDRA LLC, provided that as of June 1, 2018, such equity or ownership interests shall automatically be subject to the first priority perfected security interest granted in favor of Bank hereunder and become Collateral without any action by Borrower or Bank ((a) through (g) are collectively, the "**Excluded Assets**").

EXHIBIT B

COMPLIANCE CERTIFICATE

TO: SILICON VALLEY BANK Date: _____
FROM: XOMA CORPORATION, XOMA (US) LLC and XOMA TECHNOLOGY LTD.

The undersigned authorized officer of XOMA CORPORATION, XOMA (US) LLC and XOMA TECHNOLOGY LTD. (jointly and severally, individually and collectively, "Borrower") certifies that under the terms and conditions of the Loan and Security Agreement between Borrower and Bank (the "Agreement"):

(1) Borrower is in complete compliance for the period ending _____ with all required covenants except as noted below; (2) there are no Events of Default; (3) all representations and warranties in the Agreement are true and correct in all material respects on this date except as noted below; provided, however, that such materiality qualifier shall not be applicable to any representations and warranties that already are qualified or modified by materiality in the text thereof; and provided, further that those representations and warranties expressly referring to a specific date shall be true, accurate and complete in all material respects as of such date; (4) Borrower, and each of its Subsidiaries, has timely filed all required tax returns and reports, and Borrower has timely paid all foreign, federal, state and local taxes, assessments, deposits and contributions owed by Borrower except as otherwise permitted pursuant to the terms of Section 5.8 of the Agreement; and (5) no Liens have been levied or claims made against Borrower or any of its Subsidiaries relating to unpaid employee payroll or benefits of which Borrower has not previously provided written notification to Bank.

Attached are the required documents supporting the certification. The undersigned certifies that these are prepared in accordance with GAAP consistently applied from one period to the next except as explained in an accompanying letter or footnotes. The undersigned acknowledges that no borrowings may be requested at any time or date of determination that Borrower is not in compliance with any of the terms of the Agreement, and that compliance is determined not just at the date this certificate is delivered. Capitalized terms used but not otherwise defined herein shall have the meanings given them in the Agreement.

Please indicate compliance status by circling Yes/No under "Complies" column.

Reporting Covenants	**Required**	**Complies**
Monthly Financial Statements	Monthly within 30 days	Yes No
Compliance Certificates	Monthly within 30 days	Yes No
10-Q	Quarterly within 45 days (Q4 within 90 days)	Yes No
10-K	FYE within 90 days	Yes No
Board Projections	FYE within 60 days and as amended/updated	Yes No
SEC Filings	Within 5 days after filing with SEC	Yes No

The following Intellectual Property was registered (or a registration application submitted) [after the Effective Date] [after the date of the last delivered Compliance Certificate] (if no registrations, state "None")

_____
_____

Other Matters

Have there been any amendments of or other changes to the capitalization table of Borrower and to the Operating Documents of Borrower or any of its Subsidiaries? If yes, provide copies of any such amendments or changes with this Compliance Certificate. Yes No

The following are the exceptions with respect to the certification above: (If no exceptions exist, state "No exceptions to note.")

XOMA CORPORATION

By: _____
Name: _____
Title: _____

XOMA (US) LLC

By: _____
Name: _____
Title: _____

XOMA TECHNOLOGY LTD.

By: _____
Name: _____
Title: _____

BANK USE ONLY

Received by: _____
authorized signer
Date: _____

Verified: _____
authorized signer
Date: _____

Compliance Status: Yes No

EXHIBIT C – LOAN PAYMENT/ADVANCE REQUEST FORM

Deadline for same day processing is Noon Pacific Time

Fax To: Date: _____

Loan Payment: XOMA CORPORATION, XOMA (US) LLC, AND XOMA TECHNOLOGY LTD.
From Account #_____ To Account #_____
(Deposit Account #) (Loan Account #)
Principal $_____ and/or Interest $_____
Authorized Signature: _____ Phone Number: _____
Print Name/Title: _____

Loan Advance:
Complete *Outgoing Wire Request* section below if all or a portion of the funds from this loan advance are for an outgoing wire.
From Account #_____ To Account #_____
(Loan Account #) (Deposit Account #)
Amount of Advance $_____
All Borrower's representations and warranties in the Loan and Security Agreement are true, correct and complete in all material respects on the date of the request for an advance; provided, however, that such materiality qualifier shall not be applicable to any representations and warranties that already are qualified or modified by materiality in the text thereof; and provided, further that those representations and warranties expressly referring to a specific date shall be true, accurate and complete in all material respects as of such date:

Authorized Signature: _____ Phone Number: _____
Print Name/Title: _____

Outgoing Wire Request:
Complete only if all or a portion of funds from the loan advance above is to be wired.
Deadline for same day processing is noon, Pacific Time

Beneficiary Name: _____ Amount of Wire: $_____
Beneficiary Bank: _____ Account Number: _____
City and State: _____
Beneficiary Bank Transit (ABA) #: Beneficiary Bank Code (Swift, Sort, Chip, etc.):
(For International Wire Only)
Intermediary Bank: _____ Transit (ABA) #: _____
For Further Credit to: _____
Special Instruction: _____

By signing below, I (we) acknowledge and agree that my (our) funds transfer request shall be processed in accordance with and subject to the terms and conditions set forth in the agreements(s) covering funds transfer service(s), which agreements(s) were previously received and executed by me (us).

Authorized Signature: _____ 2nd Signature (if required): _____
Print Name/Title: _____ Print Name/Title: _____
Telephone #: _____ Telephone #: _____

Exhibit 10.6

OFFICER EMPLOYMENT AGREEMENT

This Officer Employment Agreement ("Agreement") between Deepshikha Datta ("Employee") and XOMA Corporation ("XOMA") (collectively, the "Parties") is effective as of April 27, 2018 (the "Agreement Effective Date").

1. Employment. Employee's employment with XOMA in the position of Chief Business Officer shall commence on the Agreement Effective Date. Employee's employment with XOMA will be governed by the terms set forth in this Agreement.

2. Position and Responsibilities. Employee shall devote reasonable best efforts and substantially all of Employee's time and attention to employment with XOMA. Employee shall perform those duties and responsibilities as may be directed by James R. Neal ("Mr. Neal"), to whom Employee will report. While employed by XOMA, Employee may not accept consulting or other business or non-profit opportunities without first obtaining written approval from Mr. Neal. In addition, while employed by XOMA, except on behalf of XOMA, Employee will not directly or indirectly serve as an officer, director, stockholder, employee, partner, proprietor, investor, joint venturer, associate, representative or consultant of any other person, corporation, firm, partnership or other entity whatsoever known by Employee to compete with XOMA (or that is planning or preparing to compete with XOMA), anywhere in the world, in any line of business engaged in (or planned to be engaged in) by XOMA; *provided*, *however*, that Employee may purchase or otherwise acquire up to (but not more than) five percent (5%) of any class of securities of any enterprise (but without participating in the activities of such enterprise) if such securities are listed on any national or regional securities exchange.

3. Term of Employment. The term of Employee's employment with XOMA shall be the period from the Agreement Effective Date until Employee's employment is terminated pursuant to Section 7. Consistent with XOMA policy, Employee's employment relationship with XOMA is at-will. Accordingly, Employee may resign Employee's employment with XOMA at any time and for any reason whatsoever simply by notifying XOMA; and XOMA may terminate Employee's employment at any time, with or without Cause (as defined in Section 7(d)) or advance notice, subject to the provisions of Sections 7 and 8.

4. Compensation and Reimbursement of Expenses.

(a) Compensation. Employee will receive for services to be rendered hereunder base salary paid at the rate of $325,000 per year, less applicable payroll deductions and withholdings (the "Base Salary"), paid on XOMA's ordinary payroll cycle. In addition, Employee shall be eligible to participate in XOMA's Corporate Achievement Goals plan (" CAGs"), as it may be amended from time to time in accordance with its terms, at an initial target annual rate of 35% of Employee's Base Salary, *plus* a separate target annual rate of $100,000 that is tied to the deal-related component of the CAGs, to be determined from time to time by XOMA's Board of Directors (the "Board").

(b) Equity Awards . Employee has already been granted Stock Awards, which will continue to be governed by the terms of the applicable stock option and equity incentive award plans or agreements and grant notices. For purposes of this Agreement, "Stock Awards" shall mean all stock options, restricted stock and restricted stock units and such other awards granted pursuant to XOMA's stock option and equity incentive award plans or agreements and any shares of stock issued upon exercise thereof.

(c) Reimbursement of Expenses. XOMA shall reimburse Employee for all reasonable travel and other expenses incurred in performing Employee's obligations under this Agreement in a manner consistent with XOMA policies.

(d) Signing Bonus. Employee received a signing and retention bonus in the amount of $125,000, less standard payroll deductions and withholdings, on the first payroll date following the effective date of her employment (the "Signing Bonus"). This Signing Bonus was an advance and is being paid to Employee prior to being earned by Employee. Employee will earn the Signing Bonus pro rata each month over the first 18 months following the effective date of her employment. If, at any time during Employee's first 18 months of employment, Employee resigns her employment or the Company terminates Employee's employment for Cause, Employee agrees to repay to the Company within thirty (30) days following Employee's employment termination date a pro rata share of the Signing Bonus to the Company based on the number of months of service provided. Should this occur, XOMA will consider, and agrees to discuss with Employee, the potential for the balance owed to be used for exercise of any vested stock options held by Employee. Subject to Sections 7(f), 7(g) and 7(h) herein, and Employee's continued compliance with the terms of this Agreement, upon the occurrence of an event of termination of Employee's employment with XOMA as provided in Section 7(a) for Good Reason, Section 7(b), or Section 7(c) due to death or Permanent Disability, then Employee shall not be required to repay the Signing Bonus or any portion thereof. To the extent permitted by applicable law, Employee expressly authorizes the Company to deduct from her final paycheck any unearned amount of the Signing Bonus.

5. Participation in Benefit Plans. The payments provided in Section 4 are in addition to benefits Employee is entitled to under any employee benefit plan of XOMA for which Employee is or becomes eligible.

6. Compliance with Proprietary Information Agreement and XOMA Policies. As a condition of employment with XOMA, Employee must sign and comply with the Employee Confidential Information and Inventions Assignment Agreement attached hereto as Exhibit A (the "Confidentiality Agreement"), which prohibits unauthorized use or disclosure of XOMA proprietary information, among other obligations. In addition, Employee is required to abide by XOMA's policies and procedures (including but not limited to XOMA's Employee Handbook), as adopted or modified from time to time within XOMA's discretion; *provided*, *however*, that in the event the terms of this Agreement differ from or are in conflict with XOMA's general employment policies or practices, this Agreement shall control.

7. Termination of Employment.

(a) Termination by Employee. As provided in Section 3, Employee may resign Employee's employment with XOMA at any time and for any reason. Employee will not be entitled to any of the severance benefits set forth in Section 8 if Employee resigns, unless such resignation is for Good Reason. For purposes of this Agreement, Executive shall have "Good Reason" for resignation from employment with XOMA if any of the following actions are taken by XOMA without Employee's prior written consent: (i) a material reduction in Employee's Base Salary, unless pursuant to a salary reduction program applicable generally to XOMA's senior employees; (ii) a material reduction in Employee's duties (including responsibilities and/or authorities), *provided*, *however*, that a change in job position (including a change in title) shall not be deemed a "material reduction" in and of itself unless Employee's new duties are materially reduced from the prior duties; (iii) relocation of Employee's principal place of employment to a place that increases Employee's one-way commute by more than thirty (30) miles as compared to Employee's then-current principal place of employment immediately prior to such reloca

tion, or (iv) any other material breach of this Agreement, including, but not limited to, a breach of Section 12 of this Agreement. In order for Employee to resign for Good Reason, each of the following requirements must be met: (A) Employee must provide written notice to the Board within ninety (90) days after the first occurrence of the event giving rise to Good Reason setting forth the basis for Employee's resignation, (B) Employee must allow XOMA at least sixty (60) days from receipt of such written notice to cure such event, (C) such event is not reasonably cured by XOMA within such sixty (60) day period (the "Cure Period"), and (D) Employee must resign from all positions Employee then holds with XOMA not later than one hundred eighty (180) days following the first occurrence of the event giving rise to Good Reason. If Employee resigns for Good Reason, Employee shall be entitled to the severance benefits set forth in Section 8.

(b) Termination by XOMA Without Cause . Employee may be terminated by XOMA without Cause, but in such case, Employee shall be entitled to the severance benefits set forth in Section 8.

(c) Termination Upon Death or Permanent Disability. Except as required by law and as provided in Section 8, all benefits and other rights of Employee under this Agreement shall be terminated by Employee's death or Permanent Disability. For purposes of this Agreement, "Permanent Disability" is defined as Employee being incapable of performing duties to XOMA by reason of any medically determined physical or mental impairment that can be expected to last for a period of more than six (6) consecutive months from the first date of Employee's absence due to the disability. XOMA will give Employee at least four (4) weeks written notice of termination due to such disability.

(d) Termination by XOMA for Cause . XOMA may terminate Employee's employment for Cause, in which case, Employee will not be entitled to any severance benefits under Section 8. For purposes of this Agreement, XOMA will have Cause to terminate Employee's employment as the result of:

(i) willful material fraud or material dishonesty in connection with Employee's performance under this Agreement;

(ii) failure by Employee to materially perform the duties of Chief Business Officer;

(iii) material breach of this Agreement or of XOMA's Code of Ethics;

(iv) misappropriation of a material business opportunity of XOMA;

(v) misappropriation of any XOMA funds or property; or

(vi) conviction of, or the entering of a plea of guilty or no contest with respect to, a felony.

(e) Notice and Opportunity to Cure. It shall be a condition precedent to XOMA's right to terminate Employee's employment for the reasons set forth in Sections 7(d)(ii) or (iii) of this Agreement that (i) XOMA shall first have given Employee written notice stating with specificity the reason for the termination ("Breach") and (ii) if such Breach is capable of cure or remedy, Employee will have a period of thirty (30) days after the notice is given to remedy the Breach.

(f) Resignation from any XOMA Boards. Upon termination of employment for any reason, and as a precondition to Employee's receipt of the severance benefits set forth in Section 8, Employee shall resign from any and all positions Employee holds with any board of directors of XOMA subsidiaries, to be effective no later than the date of Employee's employment termination (or such other date requested or permitted by Mr. Neal).

(g) Return of XOMA Property. Upon termination of employment for any reason, and as a precondition to Employee's receipt of the severance benefits set forth in Section 8, Employee shall immediately return to XOMA all documents, telephones, computers, keys, credit cards, other property and records of XOMA, and all copies, within Employee's possession, custody or control.

(h) Release of Claims. As a condition of entering into this Agreement and receiving the severance benefits set forth in Section 8, Employee shall execute and deliver to XOMA a release of claims in favor of XOMA substantially in the form attached hereto as Exhibit B (the "Release Agreement") within the timeframe set forth in the Release Agreement, but not later than forty-five (45) days following Employee's employment termination date, and allow the Release Agreement to become effective according to its terms (by not invoking any legal right to revoke it) within any applicable time period set forth in the Release Agreement.

8. Severance Benefits. Subject to Sections 7(f), 7(g) and 7(h) and Employee's continued compliance with the terms of this Agreement, the following provisions of this Section 8 shall apply upon the occurrence of an event of termination of Employee's employment with XOMA as provided in Section 7(a) for Good Reason, Section 7(b), or Section 7(c) due to death or Permanent Disability.

(a) Cash Severance. XOMA shall pay Employee, or in the event of Employee's death or Permanent Disability, Employee's beneficiaries, as severance pay or liquidated damages, or both: (i) three-quarters (0.75) times Employee's Base Salary in effect as of Employee's employment termination date; and (ii) a prorated portion of Employee's target CAGs bonus for the fiscal quarter in which the termination occurs, calculated by multiplying the quarterly target CAGs bonus by a fraction, the numerator of which shall be the number of months (including a portion of a month) of the fiscal quarter during which Employee was employed prior to the occurrence of the termination, and the denominator of which shall be three (3). In addition, if Employee is terminated without Cause after the completion of any fiscal quarter for which Employee was eligible to receive a bonus payment under CAGs, but before such CAGs payment is made, Employee shall be entitled to receive a bonus payment for such quarter consistent with Employee's performance against CAGs objectives and the good faith determination by the Board that CAGs bonuses are payable for such quarter. Such payments shall be in lieu of any other severance payment to which Employee shall be entitled as a result of such termination under this Agreement, any other employment agreement with XOMA or any of its affiliates, or XOMA's or any of its affiliates' then existing severance plans and policies. However, in those circumstances where the provisions of the Parties' Amended and Restated Change of Control Severance Agreement, effective as of April 27, 2018 (the "CoC Agreement") apply, the provisions of the CoC Agreement providing for severance benefits to Employee as a result of such termination shall apply in lieu of the provisions of this Agreement. The severance payment described in Section 8(a)(i) shall be paid in monthly installments over twelve (12) months, with the first two (2) of such monthly installments being paid in a lump sum sixty (60) days after Employee's employment termination date, and the remaining installments being paid monthly thereafter until fully paid. The severance payments described in Section 8(a)(ii) shall be paid in a lump sum sixty (60) days after Employee's employment termination date.

(b) Group Health Coverage and Certain Other Benefits. For a period of nine (9) months following an event of termination under Section 7(a) for Good Reason only or under Section 7(b) (the "COBRA Premium Period"), XOMA shall pay the full cost of COBRA continuation coverage (the "COBRA Premiums") of Employee and Employee's spouse and eligible dependents (collectively "Covered Persons"), *provided*, *however*, that (A) each Covered Person constitutes a qualified beneficiary, as defined in Section 4980B(g)(1) of the Internal Revenue Code of 1986, as amended ("Code"); and (B) Employee elects continuation coverage within the prescribed time period under the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("COBRA "). The payments by XOMA for such group health coverage shall cease prior to the expiration of the twelve (12)-month period in this Section 8(b), upon commencement of substantially similar coverage for all Covered Persons as a result of the employment of Employee by another employer, or when Employee ceases to be eligible for COBRA continuation coverage for any reason, including plan termination. Notwithstanding the foregoing, if XOMA determines, in its sole discretion, that it cannot pay the COBRA Premiums without potentially incurring financial costs or penalties under applicable law (including, without limitation, Section 2716 of the Public Health Service Act), regardless of whether Covered Persons elect or are eligible for COBRA coverage, XOMA instead shall pay to Employee, on the first day of each calendar month following Employee's employment termination date, a fully taxable cash payment equal to the applicable COBRA premiums for that month (including the amount of COBRA premiums for all Covered Persons), less required payroll deductions and withholdings (such amount, the "Special Cash Payment"), for the remainder of the COBRA Premium Period. Employee may, but is not obligated to, use such Special Cash Payments toward the cost of COBRA premiums.

(c) Outplacement Program. Upon the occurrence of an event of termination under Section 7(a) for Good Reason only or under Section 7(b), Employee will be entitled to participate in a nine (9)-month executive outplacement program provided by an executive outplacement service selected by XOMA, at XOMA's expense not to exceed $15,000 and paid directly to the outplacement service (the "Outplacement Services"). The Outplacement Services will commence after the Effective Date of the Release Agreement (as defined therein).

(d) Section 409A of the Code. If Employee is deemed on the date of "separation from service" (under Treas. Reg. Section 1.409A-1(h)) to be a "specified employee" (under Treas. Reg. Section 1.409A-1(i)), then with regard to any payment or benefit that is considered deferred compensation under Section 409A of the Code payable on account of a "separation from service" that is required to be delayed under Section 409A(a)(2)(B) of the Code (after taking into account any applicable exceptions to such requirement), such payment or benefit shall be made or provided on the earlier of (i) the expiration of the six (6)-month period measured from the date of Employee's "separation from service," or (ii) the date of Employee's death ("Delay Period"). Upon expiration of the Delay Period, all payments and benefits delayed under this Section 8(d) shall be paid or reimbursed to Employee in a lump sum and any remaining payments and benefits due under this Agreement shall be paid or provided on the payment dates specified. For purposes of any provision of this Agreement providing for the payment of any amounts or benefits upon or following a termination of employment, references to Employee's "termination of employment" (and corollary terms) shall be construed to refer to Employee's "separation from service" (under Treas. Reg. Section 1.409A-1(h)).

9. Binding Agreement. This Agreement shall be binding upon, and inure to the benefit of, the Parties and their respective permitted successors and assigns.

10. Compliance with Section 409A of the Code.

(a) It is intended that this Agreement will comply with Section 409A of the Code and its regulations and guidelines (collectively, "Section 409A"), to the extent the Agreement is subject to Section 409A, and the Agreement shall be interpreted on a basis consistent with such intent. If an amendment of the Agreement is necessary in order for it to comply with Section 409A, the Parties will negotiate in good faith to amend the Agreement in a manner that preserves the original intent of the Parties to the extent reasonably possible. No action or failure to act under this Section 10 shall subject XOMA to any claim, liability, or expense, and XOMA shall not have any obligation to indemnify or otherwise protect Employee from the obligation to pay any taxes, interest or penalties under Section 409A.

(b) With respect to any reimbursement or in-kind benefit arrangements of XOMA and its subsidiaries that constitute deferred compensation for purposes of Section 409A, except as otherwise permitted by Section 409A, the following conditions shall be applicable: (A) the amount eligible for reimbursement, or in-kind benefits provided, under any such arrangement in one calendar year may not affect the amount eligible for reimbursement, or in-kind benefits to be provided, under such arrangement in any other calendar year (except that the benefit plans may impose a limit on the amount that may be reimbursed or paid), (B) any reimbursement must be made on or before the last day of the calendar year following the calendar year in which the expense was incurred, and (C) the right to reimbursement or in-kind benefits is not subject to liquidation or exchange for another benefit. Whenever payments under this Agreement are to be made in installments, each such installment shall be deemed to be a separate payment for purposes of Section 409A.

11. Notices. Notices and all other communications contemplated by this Agreement shall be in writing and shall be deemed to have been duly given upon actual confirmed receipt by mail, courier or email. In the case of Employee, mailed notices shall be addressed to Employee at the home or personal email address that Employee most recently communicated to XOMA in writing. In the case of XOMA, mailed notices shall be addressed to its corporate headquarters, and all notices shall be directed to the attention of its Secretary.

12. Successors.

(a) XOMA's Successors. Any successor to XOMA (direct or indirect, by purchase, lease, merger, amalgamation, consolidation, liquidation or otherwise) to all or substantially all of XOMA's business or assets shall assume XOMA's obligations under this Agreement and agree expressly to perform XOMA's obligations under this Agreement in the same manner and to the same extent as XOMA would be required to perform such obligations in the absence of a succession. For all purposes under this Agreement, the term "XOMA" shall include any successor to XOMA's business or assets which executes and delivers the assumption agreement described in this Section 12(a) or which becomes bound by the terms of this Agreement by operation of law.

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

13. Amendment of Agreement. Changes in Employee's employment terms, other than those changes expressly reserved to XOMA's or the Board's discretion in this Agreement, require a written modification approved by XOMA and signed by Employee and a duly authorized officer of XOMA other than Employee.

14. Waiver. Any party's failure to enforce any provision or provisions of the Agreement will not in any way be construed as a waiver of any such provision or provisions, nor prevent any party from thereafter enforcing each and every other provision of the Agreement. The rights granted to the Parties herein are cumulative and will not constitute a waiver of any party's right to assert all other legal remedies available to it under the circumstances.

15. Severability. In the event any provision of this Agreement is determined to be invalid or unenforceable, in whole or in part, this determination shall not affect any remaining part of such provision or any other provision of this Agreement and the provision in question shall be modified so as to be rendered enforceable in a manner consistent with the intent of the Parties insofar as possible under applicable law.

16. Governing Law. This Agreement shall be construed and enforced in accordance with the laws of the State of California without regard to conflicts of law principles. Employee expressly consents to personal jurisdiction and venue in the state and federal courts for Alameda County, California for any lawsuit filed there against Employee by XOMA arising from or related to this Agreement.

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

18. Counterparts. This Agreement may be executed in counterparts which shall be deemed to be part of one original, and facsimile and electronic signatures shall be equivalent to original signatures.

19. Complete Agreement. This Agreement, together with Employee's Confidentiality Agreement and the CoC Agreement, forms the complete and exclusive embodiment of the entire agreement between the Parties with regard to this subject matter, and supersedes and replaces any other agreements or promises made to Employee by anyone, whether oral or written.

COMPANY:

XOMA CORPORATION

By: _____

James R. Neal
Chief Executive Officer

EMPLOYEE:

_____

Deepshikha Datta

EXHIBIT A

EMPLOYEE CONFIDENTIAL INFORMATION AND INVENTIONS ASSIGNMENT AGREEMENT

EXHIBIT B

FORM RELEASE OF CLAIMS AGREEMENT

This Release of Claims Agreement ("Release Agreement") is entered into between XOMA Corporation ("XOMA") and Deepshikha Datta ("Employee"). XOMA and Employee (collectively, the "Parties") are parties to an Amended and Restated Officer Employment Agreement effective _____, 2018 ("Employment Agreement") and agree as follows:

1. Termination. Employee's employment with XOMA terminated on _____, 20__.

2. Release of Claims. In exchange for the compensation, benefits and other consideration to be provided to Employee under the Employment Agreement that Employee is not otherwise entitled to receive, Employee hereby generally and completely releases XOMA and XOMA (US) LLC, and their past and present officers, agents, directors, employees, investors, shareholders, administrators, partners, attorneys, agents, insurers, affiliates, divisions, subsidiaries, parents, predecessor and successor corporations, and assigns (collectively, the "Released Parties"), from, and agrees not to sue or otherwise institute any legal or administrative proceedings concerning, any and all claims, duties, liabilities, obligations and causes of action, both known and unknown, that arise out of or are in any way related to events, acts, conduct or omissions occurring prior to or on the date Employee signs this Release Agreement (collectively, the "Released Claims").

The Released Claims include but are not limited to:

(a) all claims arising out of or in any way related to Employee's employment with XOMA or the termination of that employment;

(b) all claims related to compensation or benefits from XOMA, including salary, bonuses, commissions, vacation, paid time off, expense reimbursements, severance pay, fringe benefits, stock, stock options, or any other ownership, equity or profits interests in XOMA (including but not limited to any right to purchase, or actual purchase, of shares of stock of XOMA);

(c) all claims for breach of contract, wrongful termination and breach of the implied covenant of good faith and fair dealing;

(d) all tort claims, including claims for fraud, defamation, emotional distress and discharge in violation of public policy;

(e) all federal, state and local statutory claims, including claims for discrimination, harassment, retaliation, attorneys' fees or other claims arising under the Federal Civil Rights Act of 1964, the federal Civil Rights Act of 1991, the federal Age Discrimination in Employment Act of 1967 (the "ADEA"), the federal Americans with Disabilities Act of 1990, the federal Fair Labor Standards Act, the federal the Employee Retirement Income Security Act of 1974, the federal Worker Adjustment and Retraining Notification Act, the California Fair Employment and Housing Act and the California Labor Code, and all amendments to and regulations issued under each such statute;

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

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

(h) all claims for attorneys' fees and costs.

3. Acknowledgment of Waiver of Claims under ADEA. Employee acknowledges that Employee is knowingly and voluntarily waiving and releasing any rights Employee may have under the ADEA, and that the consideration given for the waiver and release in this Section 3 is in addition to anything of value to which Employee is already entitled. Employee further acknowledges that Employee has been advised, as required by the ADEA, that: (a) Employee's waiver and release do not apply to any rights or claims that may arise after the date Employee signs this Release Agreement; (b) Employee should consult with an attorney prior to signing this Release Agreement (although Employee may choose voluntarily not to do so); (c) Employee has twenty-one (21) days to consider this Release Agreement (although Employee may choose voluntarily to sign it earlier); (d) Employee has seven (7) days following the date Employee signs this Release Agreement to revoke the Release Agreement (by providing written notice of Employee's revocation to the Legal Department at XOMA); and (e) this Release Agreement will not be effective until the date upon which the revocation period has expired, which will be the eighth (8th) day after the date that this Release Agreement is signed by Employee provided that Employee does not revoke it (the "Effective Date").

4. Waiver of Unknown Claims. In giving the releases set forth in this Release Agreement, which include claims which may be unknown to Employee at present, Employee acknowledges that Employee has read and understands Section 1542 of the California Civil Code which reads as follows:

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

Employee hereby expressly waives and relinquishes all rights and benefits under that section and any law or legal principle of similar effect in any jurisdiction with respect to Employee's release of claims herein, including but not limited to the release of unknown and unsuspected claims.

5. Excluded Claims. Notwithstanding the foregoing, the following are not included in the Released Claims (the "Excluded Claims"): (a) any rights or claims for indemnification Employee may have pursuant to any written indemnification agreement with XOMA to which Employee is a party or under applicable law; (b) any rights which cannot be waived as a matter of law; (c) any rights Employee has to file or pursue a claim for workers' compensation or unemployment insurance; and (d) any claims for breach of the Employment Agreement or this Release Agreement. **In addition, nothing in this Release Agreement prevents Employee from filing, cooperating with or participating in any proceedings before the Equal**

Employment Opportunity Commission, the Department of Labor, the California Department of Fair Employment and Housing or any analogous federal or state government agency, except that Employee acknowledges and agrees that Employee hereby waives Employee's right to any monetary benefits in connection with any such claim, charge or proceeding. Employee represents and warrants that, other than the Excluded Claims, Employee is not aware of any claims Employee has or might have against any of the Released Parties that are not included in the Released Claims.

6. Representations. Employee represents that Employee has been paid all compensation owed and for all time worked; Employee has received all the leave and leave benefits and protections for which Employee is eligible pursuant to the federal Family and Medical Leave Act, the California Family Rights Act, any applicable law or XOMA policy; and Employee has not suffered any on the job injury for which Employee has not already filed a workers' compensation claim.

7. Confidentiality. The provisions of this Release Agreement shall be held in strictest confidence by Employee and shall not be publicized or disclosed in any manner whatsoever; *provided*, *however*, that: (a) Employee may disclose this Release Agreement in confidence to Employee's immediate family; (b) Employee may disclose this Release Agreement in confidence to Employee's attorneys, accountants, auditors, tax preparers and financial advisors; and (c) Employee may disclose this Release Agreement insofar as such disclosure may be necessary to enforce its terms or as otherwise required by law. In particular, and without limitation, Employee agrees not to disclose the terms of this Release Agreement to any current or former employee, consultant or independent contractor of XOMA.

8. Nondisparagement. Employee agrees not to disparage XOMA, and XOMA's officers, directors, employees, shareholder, members and agents, in any manner likely to be harmful to them or their business, business reputation or personal reputation. Similarly, Employee understands that XOMA agrees to direct its directors and officers not to disparage Employee in any manner likely to be harmful to Employee's business reputation or personal reputation. Nothing in this provision, however, shall prevent either Employee or XOMA from responding accurately and fully to any request for information if required by legal process or in connection with a government investigation. In addition, nothing in this provision or this Release Agreement is intended to prohibit or restrain Employee in any manner from making disclosures that are protected under the whistleblower provisions of federal law or regulation or under other applicable law or regulation.

9. No Voluntary Adverse Action . Employee agrees that Employee will not voluntarily provide assistance, information or advice, directly or indirectly (including through agents or attorneys), to any person or entity in connection with any proposed or pending litigation, arbitration, administrative claim, cause of action, or other formal proceeding of any kind brought against XOMA, its parent or subsidiary entities, affiliates, officers, directors, employees or agents, nor shall Employee induce or encourage any person or entity to bring any such claims; *provided*, *however*, that Employee must respond accurately and truthfully to any question, inquiry or request for information when required by legal process (e.g., a valid subpoena or other similar compulsion of law) or as part of a government investigation.

10. Return of XOMA Property; Compliance with Proprietary Information Agreement. Employee represents that Employee has complied fully with Section 7(g) of the Employment Agreement and the provisions of Employee's Employee Confidential Information and Invention Assignment Agreement with XOMA (the "Confidentiality Agreement"), and further agrees to continue to abide by Employee's continuing obligations under the Confidentiality Agreement.

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

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

13. Severability. In the event any provision of this Release Agreement is determined to be invalid or unenforceable, in whole or in part, this determination shall not affect any remaining part of such provision or any other provision of this Release Agreement and the provision in question shall be modified so as to be rendered enforceable in a manner consistent with the intent of the Parties insofar as possible under applicable law.

14. Entire Agreement. This Release Agreement, together with the Employment Agreement, forms the complete and exclusive embodiment of the entire agreement between the Parties with regard to this subject matter. This Release Agreement may only be modified or amended in a writing signed by Employee and a duly authorized officer of XOMA other than Employee.

15. Governing Law. This Release Agreement shall be construed and enforced in accordance with the laws of the State of California without regard to conflicts of law principles. Employee expressly consents to personal jurisdiction and venue in the state and federal courts for Alameda County, California for any lawsuit filed there against Employee by XOMA arising from or related to this Release Agreement.

16. Counterparts. This Release Agreement may be executed in counterparts which shall be deemed to be part of one original, and facsimile and electronic signatures shall be equivalent to original signatures.

COMPANY:

XOMA CORPORATION

By: _____

James R. Neal
Chief Executive Officer

EMPLOYEE:

_____

Deepshikha Datta

Exhibit 10.7

CHANGE OF CONTROL SEVERANCE AGREEMENT

This Change of Control Severance Agreement (the "Agreement") is made and entered into effective as of April 27, 2018 (the "Effective Date"), by and between Deepshikha Datta (the "Employee") and XOMA Corporation, a Delaware corporation (the "Company").

A. It is expected that XOMA may from time to time consider the possibility of a Change of Control (as defined in Section 1(b)). XOMA's Board of Directors (the "Board") recognizes that such consideration could be a distraction to Employee and could cause Employee to consider alternative employment opportunities.

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

C. In order to provide Employee with enhanced financial security and sufficient encouragement to remain with XOMA despite the possibility of a Change of Control, the Parties have agreed to enter into this Agreement to provide Employee with certain severance benefits upon Employee's termination of employment in connection with a Change of Control.

D. The Parties have entered into an Officer Employment Agreement effective April 27, 2018 ("Employment Agreement"), that provides Employee with certain severance benefits upon termination of employment. The Parties intend that this Agreement shall operate in addition to, and not in replacement of (except as specifically provided therein or herein), the Employment Agreement.

In consideration of the mutual covenants contained in this Agreement and the continued employment of Employee by XOMA, the Parties agree as follows:

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

(a) "Cause" means that XOMA will have the right to terminate Employee's employment as the result of:

(i) willful material fraud or material dishonesty in connection with Employee's performance under this Agreement;

(ii) failure by Employee to materially perform the duties of Chief Business Officer;

(iii) material breach of this Agreement or XOMA's Code of Ethics;

(iv) misappropriation of a material business opportunity of XOMA;

(v) misappropriation of any XOMA funds or property; or

(vi) conviction of, or the entering of a plea of guilty or no contest with respect to, a felony.

(b) "Change of Control" means the occurrence of any of the following events:

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

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

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

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

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

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

(c) "Change of Control Protection Period" means the period commencing two (2) months prior to the execution of the definitive agreement for a Change of Control and terminating twelve (12) months following the closing of a Change of Control.

(d) "Code" means the Internal Revenue Code of 1986, as amended.

(e) "Involuntary Termination" means, during the Change of Control Protection Period, and in each case without Employee's written consent: (I) an involuntary termination of the Employee's employment with XOMA without Cause, or (II) Employee's resignation for Good Reason. For purposes of this Agreement, Executive shall have "Good Reason" for resignation from employment with XOMA if any of the following actions are taken by XOMA without Employee's prior written consent: (a) a material reduction in Employee's base salary, unless pursuant to a salary reduction program applicable generally to XOMA's senior employees; (b) a material reduction in Employee's duties (including responsibilities and/or authorities), *provided*, *however*, that a change in job position (in

cluding a change in title) shall not be deemed a "material reduction" in and of itself unless Employee's new duties are materially reduced from the prior duties; (c) relocation of Employee's principal place of employment to a place that increases Employee's one-way commute by more than thirty (30) miles as compared to Employee's then-current principal place of employment immediately prior to such relocation, or (d) any other material breach of this Agreement or the Employment Agreement including, but not limited to, a breach of Section 9 of this Agreement. In order for Employee to resign for Good Reason, each of the following requirements must be met: (i) Employee must provide written notice to the Board within ninety (90) days after the first occurrence of the event giving rise to Good Reason setting forth the basis for Employee's resignation, (ii) Employee must allow XOMA at least sixty (60) days from receipt of such written notice to cure such event, (iii) such event is not reasonably cured by XOMA within such sixty (60) day period (the "Cure Period"), and (iv) Employee must resign from all positions Employee then holds with XOMA not later than one hundred eighty (180) days following the first occurrence of the event giving rise to Good Reason.

2. Term of Agreement. This Agreement shall become effective on the Effective Date and terminate upon the date that all obligations of the Parties under this Agreement have been satisfied or, if earlier, on the date, prior to a Change of Control Protection Period, that Employee is no longer employed by XOMA.

3. Employment. The Parties acknowledge that Employee's employment with XOMA shall be governed by the Employment Agreement and applicable law. If Employee's employment with XOMA terminates after the Effective Date, for any reason, Employee shall not be entitled to any payments, benefits, damages, awards or compensation other than as provided by this Agreement or the Employment Agreement or as may otherwise be established under XOMA's then existing employee benefit plans at the time of termination.

4. Change of Control and Severance Benefits.

(a) Involuntary Termination Within Change of Control Protection Period. Subject to Sections 4(e), 4(f) and 4(g) and Employee's continued compliance with the terms of this Agreement and the Employment Agreement, Sections 4(a)(i)-(iv) shall apply upon the occurrence of an Involuntary Termination at any time within a Change of Control Protection Period.

(i) Equity Acceleration and Extended Option Exercise Period. (A) The vesting of all time-based equity awards granted to Employee by XOMA (including any such options granted or assumed by the surviving or continuing entity of the Change of Control) and still outstanding ("Time-Based Awards") shall automatically be accelerated so that all the Time-Based Awards may be exercised (if applicable) immediately upon such Involuntary Termination for any or all of the subject shares, and the post-termination exercise period of each Time-Based Award (if applicable) shall be extended to the greater of sixty (60) months or the remainder of the maximum term of such Time-Based Award); and (B) with respect to any performance-based stock awards ("Performance Awards") at the time of such termination, the Board (or its Compensation Committee) will assess in good faith

the level of achievement of any performance goals for such Performance Awards and will determine in its sole discretion the degree of achievement of the performance goal(s) underlying such Performance Awards and accelerate a pro rata portion of such Performance Awards based on (x) the number of days that have elapsed during the applicable performance period divided by the total number of days in the performance period and (y) the deemed level of achievement of such performance goal(s). The Time-Based Awards and Performance Awards shall continue to be subject to all other terms and conditions of the applicable equity incentive or share option plans and the applicable award agreements between the Parties.

(ii) Cash Severance. Employee shall be entitled to receive a severance payment of (A) one and one-half (1.5) times Employee's annual base salary in effect immediately prior to the Involuntary Termination, and (B) one and one-half (1.5) times Employee's target Corporate Achievement Goals ("CAGS") bonus in effect for the fiscal year in which the Involuntary Termination occurs. Such payments shall be in lieu of any other severance payment to which Employee shall be entitled as a result of such termination under this Agreement, the Employment Agreement, or XOMA's or any of its affiliates' then existing severance plans and policies. All such severance payments shall be subject to the requirements of Sections 4(b), 5 and 7. The severance payment described in Section 4(a)(ii)(A) shall be paid in monthly installments over twelve (12) months, with the first two (2) of such monthly installments being paid in a lump sum sixty (60) days after Employee's employment termination date, and the remaining installments being paid monthly thereafter until fully paid. The severance payments described in Section 4(a)(ii)(B) shall be paid in a lump sum sixty (60) days after Employee's employment termination date.

(iii) Group Health Coverage and Certain Other Benefits. For a period of eighteen (18) months following an event of termination as a result of an Involuntary Termination at any time within a Change of Control Protection Period (the "COBRA Premium Period"), XOMA shall pay the full cost of COBRA continuation coverage (the "COBRA Premiums") of Employee and Employee's spouse and eligible dependents (collectively "Covered Persons"), *provided*, *however*, that (A) each Covered Person constitutes a qualified beneficiary, as defined in Section 4980B(g)(1) of the Internal Revenue Code of 1986, as amended ("Code"); and (B) Employee elects continuation coverage within the prescribed time period under the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("COBRA"). The payments by XOMA for such group health coverage shall cease prior to the expiration of the eighteen (18) month period in this Section 4(a)(iii), upon commencement of substantially similar coverage for all Covered Persons as a result of the employment of Employee by another employer, or when Employee ceases to be eligible for COBRA continuation coverage for any reason, including plan termination. Notwithstanding the foregoing, if XOMA determines, in its sole discretion, that it cannot pay the COBRA Premiums without potentially incurring financial costs or penalties under applicable law (including, without limitation, Section 2716 of the Public Health Service Act), regardless of whether Covered Persons elect or are eligible for COBRA coverage, XOMA instead shall pay to Employee, on the first day of each calendar month following Employee's employment termination date, a fully

taxable cash payment equal to the applicable COBRA premiums for that month (including the amount of COBRA premiums for all Covered Persons), less required payroll deductions and with-holdings (such amount, the "Special Cash Payment"), for the remainder of the COBRA Premium Period. Employee may, but is not obligated to, use such Special Cash Payments toward the cost of COBRA premiums.

(iv) Outplacement Program. Employee will be entitled to participate in a twelve (12)-month executive outplacement program provided by an executive outplacement service selected by XOMA, at XOMA's expense not to exceed $15,000 and paid directly to the outplacement service (the "Outplacement Services"). The Outplacement Services will commence after the Effective Date of the Release Agreement (as defined in Section 4(g) and therein).

(b) Section 409A of the Code. If Employee is deemed on the date of "separation from service" (under Treas. Reg. Section 1.409A-1(h)) to be a "specified employee" (under Treas. Reg. Section 1.409A-1(i)), then with regard to any payment or benefit that is considered deferred compensation under Section 409A of the Code payable on account of a "separation from service" that is required to be delayed under Section 409A(a)(2)(B) of the Code (after taking into account any applicable exceptions to such requirement), such payment or benefit shall be made or provided on the earlier of (i) the expiration of the six(6)-month period measured from the date of Employee's "separation from service," or (ii) the date of Employee's death ("Delay Period"). Upon expiration of the Delay Period, all payments and benefits delayed under this Section 4(b) shall be paid or reimbursed to Employee in a lump sum and any remaining payments and benefits due under this Agreement shall be paid or provided on the payment dates specified. For purposes of any provision of this Agreement providing for the payment of any amounts or benefits upon or following a termination of employment, references to Employee's "termination of employment" (and corollary terms) shall be construed to refer to Employee's "separation from service" (under Treas. Reg. Section 1.409A-1(h)).

(c) Voluntary Resignation or Termination for Cause. If Employee's employment with XOMA terminates as a result of Employee's voluntary resignation which is not an Involuntary Termination or if Employee is terminated for Cause at any time, then Employee shall not be entitled to receive severance benefits under this Agreement.

(d) Permanent Disability or Death. If Employee's employment with XOMA terminates due to Employee's death or Permanent Disability, in either case, during the Change of Control Protection Period, then Employee shall not be entitled to receive severance benefits under this Agreement and shall instead be entitled to severance benefits as set forth in the Employment Agreement. In the event of Employee's death or Permanent Disability which occurs after termination of Employee's employment with XOMA as a result of an Involuntary Termination within a Change of Control Protection Period, Employee's legal representatives, executors, administrators, successors, heirs, devisees and legatees shall be entitled to receive severance benefits under this Agreement. For purposes of this Agreement, "Permanent Disability" is defined as Employee being incapable of performing duties to XOMA by reason of any medically determined physical or mental impairment that can be

expected to last for a period of more than six (6) consecutive months from the first date of Employee's absence due to the disability. XOMA will give Employee at least four (4) weeks written notice of termination due to such disability.

(e) Resignation from the Board. Upon termination of employment for any reason, and as a precondition to Employee's receipt of the severance benefits set forth in Section 4(a), Employee shall resign from any and all positions Employee holds with the Board, or the boards of any affiliates of XOMA, to be effective no later than the date of Employee's employment termination (or such other date requested or permitted by the Board).

(f) Return of XOMA Property. Upon termination of employment for any reason, and as a precondition to Employee's receipt of the severance benefits set forth in Section 4(a), Employee shall immediately return to XOMA all documents, telephones, computers, keys, credit cards, other property and records of XOMA, and all copies, within Employee's possession, custody or control.

(g) Release of Claims. As a condition of entering into this Agreement and receiving the severance benefits set forth in Sections 4(a), Employee shall execute and deliver to XOMA a release of claims in favor of XOMA substantially in the form attached hereto as Exhibit A (the "Release Agreement") within the timeframe set forth in the Release Agreement, but not later than forty-five (45) days following Employee's employment termination date, and allow the Release Agreement to become effective according to its terms (by not invoking any legal right to revoke it) within any applicable time period set forth in the Release Agreement.

5. Golden Parachute Excise Tax.

(a) In the event that the benefits provided for in this Agreement or otherwise with respect to a Change of Control (each, a "280G Payment"), would (i) constitute a "parachute payment" within the meaning of Section 280G of the Code, and (ii) but for this sentence, be subject to the excise tax imposed by Section 4999 of the Code ("Excise Tax"), then any such 280G Payment provided pursuant to this Agreement (a "Payment") shall be equal to the Reduced Amount. The "Reduced Amount" shall be either (x) the largest portion of the Payment that would result in no portion of the Payment (after reduction) being subject to the Excise Tax or (y) the largest portion, up to and including the total, of the Payment, whichever amount (i.e., the amount determined by clause (x) or by clause (y)), after taking into account all applicable federal, state and local employment taxes, income taxes, and the Excise Tax (all computed at the highest applicable marginal rate), results in Employee's receipt, on an after-tax basis, of the greater economic benefit notwithstanding that all or some portion of the Payment may be subject to the Excise Tax. If a reduction in a Payment is required pursuant to the preceding sentence and the Reduced Amount is determined pursuant to clause (x) of the preceding sentence, the reduction shall occur in the manner (the "Reduction Method") that results in the greatest economic benefit for Employee. If more than one method of reduction will result in the same economic benefit, the items so reduced will be reduced pro rata (the "Pro Rata Reduction Method").

(b) Notwithstanding any provision of Section 5(a) to the contrary, if the Reduction Method or the Pro Rata Reduction Method would result in any portion of the Payment being subject to taxes pursuant to Section 409A that would not otherwise be subject to taxes pursuant to Section 409A, then the Reduction Method and/or the Pro Rata Reduction Method, as the case may be, shall be modified so as to avoid the imposition of taxes pursuant to Section 409A as follows: (A) as a first priority, the modification shall preserve to the greatest extent possible, the greatest economic benefit for Employee as determined on an after-tax basis; (B) as a second priority, Payments that are contingent on future events (*e.g.*, being terminated without Cause), shall be reduced (or eliminated) before Payments that are not contingent on future events; and (C) as a third priority, Payments that are "deferred compensation" within the meaning of Section 409A shall be reduced (or eliminated) before Payments that are not deferred compensation within the meaning of Section 409A.

(c) Unless Employee and XOMA agree on an alternative accounting firm, XOMA's independent public accountants immediately prior to the Change of Control ("Accountants") shall perform the foregoing calculations. If the Accountants are serving as accountant or auditor for the individual, entity or group effecting the Change of Control transaction, XOMA shall appoint a nationally recognized accounting firm to make the determinations required by this Section 5. For purposes of making the calculations required by this Section 5, the Accountants may make reasonable assumptions and approximations and may rely on interpretations concerning the application of the Code for which there is a "substantial authority" tax reporting position. The Parties shall furnish such information and documents as the Accountants may reasonably request in order to make a determination under this Section 5. XOMA shall bear all reasonable costs the Accountants incur in connection with calculations contemplated by this Section 5. XOMA shall use commercially reasonable efforts to cause the Accountants to make the determinations hereunder to provide its calculations, together with detailed supporting documentation, to Employee and XOMA within fifteen (15) calendar days after the date on which Employee's right to a 280G Payment becomes reasonably likely to occur (if requested at that time by Employee or XOMA) or such other time as requested by Employee or XOMA.

(d) If Employee receives a Payment for which the Reduced Amount was determined pursuant to clause (x) of Section 5(a) and the Internal Revenue Service determines thereafter that some portion of the Payment is subject to the Excise Tax, Employee agrees to promptly return to XOMA a sufficient amount of the Payment (after reduction pursuant to clause (x) of Section 5(a)) so that no portion of the remaining Payment is subject to the Excise Tax. For the avoidance of doubt, if the Reduced Amount was determined pursuant to clause (y) of Section 5(a), Employee shall have no obligation to return any portion of the Payment pursuant to the preceding sentence.

6. Binding Agreement. This Agreement shall be binding upon, and inure to the benefit of, the Parties and their respective permitted successors and assigns.

7. Compliance with Section 409A of the Code.

(a) It is intended that this Agreement will comply with Section 409A of the Code and its regulations and guidelines (collectively, "Section 409A"), to the extent the Agreement is subject to Section 409A, and the Agreement shall be interpreted on a basis consistent with such intent. If an amendment of the Agreement is necessary in order for it to comply with Section 409A, the Parties will negotiate in good faith to amend the Agreement in a manner that preserves the original intent of the Parties to the extent reasonably possible. No action or failure to act under this Section 7 shall subject XOMA to any claim, liability, or expense, and XOMA shall not have any obligation to indemnify or otherwise protect Employee from the obligation to pay any taxes, interest or penalties under Section 409A.

(b) With respect to any reimbursement or in-kind benefit arrangements of XOMA and its subsidiaries that constitute deferred compensation for purposes of Section 409A, except as otherwise permitted by Section 409A, the following conditions shall be applicable: (A) the amount eligible for reimbursement, or in-kind benefits provided, under any such arrangement in one calendar year may not affect the amount eligible for reimbursement, or in-kind benefits to be provided, under such arrangement in any other calendar year (except that the benefit plans may impose a limit on the amount that may be reimbursed or paid), (B) any reimbursement must be made on or before the last day of the calendar year following the calendar year in which the expense was incurred, and (C) the right to reimbursement or in-kind benefits is not subject to liquidation or exchange for another benefit. Whenever payments under this Agreement are to be made in installments, each such installment shall be deemed to be a separate payment for purposes of Section 409A.

8. Notices. Notices and all other communications contemplated by this Agreement shall be in writing and shall be deemed to have been duly given upon actual confirmed receipt by mail, courier or email. In the case of Employee, mailed notices shall be addressed to Employee at the home or personal email address that Employee most recently communicated to XOMA in writing. In the case of XOMA, mailed notices shall be addressed to its corporate headquarters, and all notices shall be directed to the attention of its Secretary.

9. Successors.

(a) XOMA's Successors. Any successor to XOMA (direct or indirect, by purchase, lease, merger, amalgamation, consolidation, liquidation or otherwise) to all or substantially all of XOMA's business or assets shall assume XOMA's obligations under this Agreement and agree expressly to perform XOMA's obligations under this Agreement in the same manner and to the same extent as XOMA would be required to perform such obligations in the absence of a succession. For all purposes under this Agreement, the term "XOMA" shall include any successor to XOMA's business or assets which executes and delivers the assumption agreement described in this Section 9(a) or which becomes bound by the terms of this Agreement by operation of law.

(b) Employee's Successors. Without the written consent of XOMA, Employee shall not assign or transfer this Agreement or any right or obligation under this Agreement to any

other person or entity. However, except as otherwise set forth herein, the terms of this Agreement and all rights of Employee shall inure to the benefit of, and be enforceable by, Employee's personal or legal representatives, executors, administrators, successors, heirs, devisees and legatees.

10. Amendment of Agreement. This Agreement may only be modified or amended in a writing signed by Employee and a duly authorized officer of XOMA other than Employee.

11. Waiver. Any party's failure to enforce any provision or provisions of the Agreement will not in any way be construed as a waiver of any such provision or provisions, nor prevent any party from thereafter enforcing each and every other provision of the Agreement. The rights granted to the Parties herein are cumulative and will not constitute a waiver of any party's right to assert all other legal remedies available to it under the circumstances.

12. Severability. In the event any provision of this Agreement is determined to be invalid or unenforceable, in whole or in part, this determination shall not affect any remaining part of such provision or any other provision of this Agreement and the provision in question shall be modified so as to be rendered enforceable in a manner consistent with the intent of the Parties insofar as possible under applicable law.

13. Governing Law. This Agreement shall be construed and enforced in accordance with the laws of the State of California without regard to conflicts of law principles. Employee expressly consents to personal jurisdiction and venue in the state and federal courts for Alameda County, California for any lawsuit filed there against Employee by XOMA arising from or related to this Agreement.

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

15. Counterparts. This Agreement may be executed in counterparts which shall be deemed to be part of one original, and facsimile and electronic signatures shall be equivalent to original signatures.

16. Effect of Prior Agreements. This Agreement, together with the Employment Agreement, forms the complete and exclusive embodiment of the entire agreement between the Parties with regard to this subject matter, and supersedes and replaces any other agreements or promises made to Employee by anyone, whether oral or written.

COMPANY:

XOMA CORPORATION

By: _____

James R. Neal
Chief Executive Officer

EMPLOYEE:

_____

Deepshikha Datta

EXHIBIT A

FORM RELEASE OF CLAIMS AGREEMENT

This Release of Claims Agreement ("Release Agreement") is entered into between XOMA Corporation ("XOMA") and Deepshikha Datta ("Employee"). XOMA and Employee (collectively, the "Parties") are parties to a Change of Control Severance Agreement effective April 27, 2018 ("CoC Agreement") and agree as follows:

1. Termination. Employee's employment with XOMA terminated on _____, 20__.

2. Release of Claims. In exchange for the compensation, benefits and other consideration to be provided to Employee under the CoC Agreement that Employee is not otherwise entitled to receive, Employee hereby generally and completely releases XOMA and XOMA (US) LLC, and their past and present officers, agents, directors, employees, investors, shareholders, administrators, partners, attorneys, agents, insurers, affiliates, divisions, subsidiaries, parents, predecessor and successor corporations, and assigns (collectively, the "Released Parties"), from, and agrees not to sue or otherwise institute any legal or administrative proceedings concerning, any and all claims, duties, liabilities, obligations and causes of action, both known and unknown, that arise out of or are in any way related to events, acts, conduct or omissions occurring prior to or on the date Employee signs this Release Agreement (collectively, the "Released Claims").

The Released Claims include but are not limited to:

(a) all claims arising out of or in any way related to Employee's employment with XOMA or the termination of that employment;

(b) all claims related to compensation or benefits from XOMA, including salary, bonuses, commissions, vacation, paid time off, expense reimbursements, severance pay, fringe benefits, stock, stock options, or any other ownership, equity or profits interests in XOMA (including but not limited to any right to purchase, or actual purchase, of shares of stock of XOMA);

(c) all claims for breach of contract, wrongful termination and breach of the implied covenant of good faith and fair dealing;

(d) all tort claims, including claims for fraud, defamation, emotional distress and discharge in violation of public policy;

(e) all federal, state and local statutory claims, including claims for discrimination, harassment, retaliation, attorneys' fees or other claims arising under the Federal Civil Rights Act of 1964, the federal Civil Rights Act of 1991, the federal Age Discrimination in Employment Act of 1967 (the "ADEA"), the federal Americans with Disabilities Act of 1990, the federal Fair Labor Standards Act, the federal the Employee Retirement Income Security Act of 1974, the federal Worker Adjustment and Retraining Notification Act, the California Fair Employment and Housing Act and the California Labor Code, and all amendments to and

regulations issued under each such statute;

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

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

(h) all claims for attorneys' fees and costs.

3. Acknowledgment of Waiver of Claims under ADEA. Employee acknowledges that Employee is knowingly and voluntarily waiving and releasing any rights Employee may have under the ADEA, and that the consideration given for the waiver and release in this Section 3 is in addition to anything of value to which Employee is already entitled. Employee further acknowledges that Employee has been advised, as required by the ADEA, that: (a) Employee's waiver and release do not apply to any rights or claims that may arise after the date Employee signs this Release Agreement; (b) Employee should consult with an attorney prior to signing this Release Agreement (although Employee may choose voluntarily not to do so); (c) Employee has twenty-one (21) days to consider this Release Agreement (although Employee may choose voluntarily to sign it earlier); (d) Employee has seven (7) days following the date Employee signs this Release Agreement to revoke the Release Agreement (by providing written notice of Employee's revocation to the Legal Department at XOMA); and (e) this Release Agreement will not be effective until the date upon which the revocation period has expired, which will be the eighth (8th) day after the date that this Release Agreement is signed by Employee provided that Employee does not revoke it (the "Effective Date").

4. Waiver of Unknown Claims. In giving the releases set forth in this Release Agreement, which include claims which may be unknown to Employee at present, Employee acknowledges that Employee has read and understands Section 1542 of the California Civil Code which reads as follows:

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

Employee hereby expressly waives and relinquishes all rights and benefits under that section and any law or legal principle of similar effect in any jurisdiction with respect to Employee's release of claims herein, including but not limited to the release of unknown and unsuspected claims.

5. Excluded Claims. Notwithstanding the foregoing, the following are not included in the Released Claims (the "Excluded Claims"): (a) any rights or claims for indemnification Employee may have pursuant to any written indemnification agreement with XOMA to which Employee is a party or under applicable law; (b) any rights which cannot be waived as a matter of law; (c) any rights Employee has to file or pursue a claim for workers' compensation or unemployment insurance; and (d) any claims for breach of the CoC Agreement or this Release

Agreement. **In addition, nothing in this Release Agreement prevents Employee from filing, cooperating with or participating in any proceedings before the Equal Employment Opportunity Commission, the Department of Labor, the California Department of Fair Employment and Housing or any analogous federal or state government agency, except that Employee acknowledges and agrees that Employee hereby waives Employee's right to any monetary benefits in connection with any such claim, charge or proceeding.** Employee represents and warrants that, other than the Excluded Claims, Employee is not aware of any claims Employee has or might have against any of the Released Parties that are not included in the Released Claims.

6. Representations. Employee represents that Employee has been paid all compensation owed and for all time worked; Employee has received all the leave and leave benefits and protections for which Employee is eligible pursuant to the federal Family and Medical Leave Act, the California Family Rights Act, any applicable law or XOMA policy; and Employee has not suffered any on the job injury for which Employee has not already filed a workers' compensation claim.

7. Confidentiality. The provisions of this Release Agreement shall be held in strictest confidence by Employee and shall not be publicized or disclosed in any manner whatsoever; *provided*, *however*, that: (a) Employee may disclose this Release Agreement in confidence to Employee's immediate family; (b) Employee may disclose this Release Agreement in confidence to Employee's attorneys, accountants, auditors, tax preparers and financial advisors; and (c) Employee may disclose this Release Agreement insofar as such disclosure may be necessary to enforce its terms or as otherwise required by law. In particular, and without limitation, Employee agrees not to disclose the terms of this Release Agreement to any current or former employee, consultant or independent contractor of XOMA.

8. Nondisparagement. Employee agrees not to disparage XOMA, and XOMA's officers, directors, employees, shareholder, members and agents, in any manner likely to be harmful to them or their business, business reputation or personal reputation. Similarly, Employee understands that XOMA agrees to direct its directors and officers not to disparage Employee in any manner likely to be harmful to Employee's business reputation or personal reputation. Nothing in this provision, however, shall prevent either Employee or XOMA from responding accurately and fully to any request for information if required by legal process or in connection with a government investigation. In addition, nothing in this provision or this Release Agreement is intended to prohibit or restrain Employee in any manner from making disclosures that are protected under the whistleblower provisions of federal law or regulation or under other applicable law or regulation.

9. No Voluntary Adverse Action. Employee agrees that Employee will not voluntarily provide assistance, information or advice, directly or indirectly (including through agents or attorneys), to any person or entity in connection with any proposed or pending litigation, arbitration, administrative claim, cause of action, or other formal proceeding of any kind brought against XOMA, its parent or subsidiary entities, affiliates, officers, directors, employees or agents, nor shall Employee induce or encourage any person or entity to bring any such claims; *provided*, *however*, that Employee must respond accurately and truthfully to any question, inquiry or request for information when required by legal process (e.g., a valid subpoena or other similar compulsion of law) or as part of a government investigation.

10. Return of XOMA Property; Compliance with Proprietary Information Agreement. Employee represents that Employee has complied fully with Section 4(f) of the CoC Agreement and the provisions of Employee's Employee Confidential Information and Invention Assignment Agreement with XOMA (the "Confidentiality Agreement"), and further agrees to continue to abide by Employee's continuing obligations under the Confidentiality Agreement.

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

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

13. Severability. In the event any provision of this Release Agreement is determined to be invalid or unenforceable, in whole or in part, this determination shall not affect any remaining part of such provision or any other provision of this Release Agreement and the provision in question shall be modified so as to be rendered enforceable in a manner consistent with the intent of the Parties insofar as possible under applicable law.

14. Entire Agreement. This Release Agreement, together with the CoC Agreement, forms the complete and exclusive embodiment of the entire agreement between the Parties with regard to this subject matter. This Release Agreement may only be modified or amended in a writing signed by Employee and a duly authorized officer of XOMA other than Employee.

15. Governing Law. This Release Agreement shall be construed and enforced in accordance with the laws of the State of California without regard to conflicts of law principles. Employee expressly consents to personal jurisdiction and venue in the state and federal courts for Alameda County, California for any lawsuit filed there against Employee by XOMA arising from or related to this Release Agreement.

16. Counterparts. This Release Agreement may be executed in counterparts which shall be deemed to be part of one original, and facsimile and electronic signatures shall be equivalent to original signatures.

COMPANY:

XOMA CORPORATION

By: _____

James R. Neal
Chief Executive Officer

EMPLOYEE:

_____

Deepshikha Datta

Exhibit 10.8

FIRST AMENDMENT TO OFFICER EMPLOYMENT AGREEMENT

This is AMENDMENT NO. 1 (this "Amendment") to that certain OFFICER EMPLOYMENT AGREEMENT effective as of April 27, 2018 (the "Employment Agreement"), by and between XOMA Corporation, a Delaware company, having an address of 2200 Powell Street, Suite 310, Emeryville, CA 94608 ("XOMA") and Deepshikha Datta ("Employee"). Terms used but not otherwise defined herein shall have the meanings ascribed to them in the Employment Agreement.

WHEREAS, the Parties desire to amend the terms of the Employment Agreement to amend Section 4(a) the Agreement to replace the separate target annual cash bonus of $100,000 that is tied to the deal-related component of the CAGs (to be determined from time to time by the Board) with a one-time stock option grant to purchase 24,000 shares of the Company's common stock;

NOW, THEREFORE, in consideration of the foregoing premises and the mutual covenants herein contained and other good and valuable consideration the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

Section 1. Amendment. Pursuant to Section 13 of the Employment Agreement, the following sections of the Employment Agreement are hereby amended as follows:

(a) Section 4(a) of the Employment Agreement, entitled "Compensation" is hereby amended and restated to read in its entirety as follows:

"Employee will receive for services to be rendered hereunder base salary paid at the rate of $325,000 per year, less applicable payroll deductions and withholdings (the "Base Salary"), paid on XOMA's ordinary payroll cycle. In addition, Employee shall be eligible to participate in XOMA's Corporate Achievement Goals plan ("CAGs"), as it may be amended from time to time in accordance with its terms, at an initial target annual rate of 35% of Employee's Base Salary; *plus* a one-time special grant of an option to purchase 24,000 shares of XOMA common stock of which one-third of such grant (i.e., 8,000 options) will vest on the first anniversary of the date of grant and the remaining options of which will vest in equal monthly increments over the next twenty four (24) months."

Section 2. Effect of Amendment. Except as expressly provided for herein, all terms and conditions of the Employment Agreement shall remain in full force and effect.

Section 3. Governing Law. The validity, construction and interpretation of this Amendment and any determination of the performance which it requires shall be governed by and construed in accordance with the laws of the State of California without any reference to any rules of conflicts of laws.

Section 4. Counterparts. This Amendment may be executed in counterparts, each of which shall be deemed an original, but all of which together shall be deemed to be one and the same Amendment. A signed copy of this Amendment delivered by facsimile, e-mail or other means of electronic transmission shall be deemed to have the same legal effect as delivery of an original signed copy of this Amendment.

IN WITNESS WHEREOF, the Parties hereto have executed this First Amendment to Officer Employment Agreement effective as of July 19, 2018.

EMPLOYEE

Deepshikha Datta

XOMA CORPORATION

By: _____

Name: Jim Neal

Title: CEO

Exhibit 31.1

CERTIFICATION

I, James R. Neal, certify that:

1. I have reviewed this quarterly report on Form 10-Q of XOMA Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) 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.

/s/ JAMES R. NEAL

Date: August 7, 2018

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: August 7, 2018

/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 June 30, 2018, 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 7th day of August 2018.

/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.