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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2002
Commission File No. 0-14710
XOMA Ltd.
(Exact name of registrant as specified in its charter)

Bermuda	52-2154066
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2910 Seventh Street, Berkeley, California	94710
(Address of principal executive offices)	(Zip Code)

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

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

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

Indicate by check mark 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 X No ___

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act).

Yes X No ____

The aggregate market value of the voting and non-voting common equity held by nonaffiliates of the registrant, as of June 30, 2002: $278,392,977

The aggregate market value of voting common equity held by nonaffiliates of the registrant, as of February 28, 2003: $257,543,974

Number of Common Shares outstanding as of February 28, 2003: 71,906,234

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's Proxy Statement for the Company's 2003 Annual General Meeting of Shareholders are incorporated by reference into Part III of this Report.

<TABLE>
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Table of Contents

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</TABLE>

PART I

Item 1. Business

Overview

XOMA Ltd. ("XOMA" or the "Company") is a biopharmaceutical company that develops and manufactures antibodies and other protein-derived products that target cancer, immunological and inflammatory disorders and infectious diseases, while leveraging its development and manufacturing infrastructure through collaborations with other companies and research institutions.

The Company's strategy with respect to its proprietary products is to enter into arrangements with established pharmaceutical companies in order to facilitate and finance development and marketing. Assuming timely regulatory approval, which cannot be assured, the successful commercialization of XOMA's products depends to a large extent upon the development and marketing capabilities of its collaborative partners. In addition to developing its own products, the Company also seeks to leverage its preclinical, process development, manufacturing, quality and clinical development capabilities by entering into agreements to collaborate on development of other companies' products.

The Company's current product development programs include:

- Raptiva(TM)(Efalizumab) with Genentech, Inc. ("Genentech"). Previously known as Xanelim(TM), Raptiva(TM)is a humanized anti-CD11a monoclonal antibody developed to treat immune system disorders. In February of 2003, Genentech received formal acknowledgement from the U.S. Food and Drug Administration ("FDA") that it had received the December 2002 submission of the Biologics License Application ("BLA") for marketing approval of Raptiva(TM)in patients with moderate-to-severe plaque psoriasis. The BLA filing is based on efficacy and safety data from three Phase III studies. Genentech has projected a 10-month regulatory review period for Raptiva(TM)in the U.S. with FDA action expected in late 2003. Genentech has granted Serono S.A. ("Serono") exclusive marketing rights to Raptiva(TM)outside the U.S. and Japan. In February of 2003, Serono announced the filing of an application for European Union marketing approval of Raptiva(TM)in moderate-to-severe plaque psoriasis.

  In 2002, XOMA and Genentech initiated a Phase II clinical study of Raptiva(TM) in patients suffering from rheumatoid arthritis. The 240-patient trial has completed enrollment and results will be evaluated after a 24-week treatment period. In January of 2003, Genentech and XOMA announced initiation of a Phase II study to evaluate Raptiva(TM) as a possible treatment for patients with psoriatic arthritis. Genentech and XOMA continue to assess additional indications for Raptiva(TM).

- CAB2 and MLN01 with Millennium Pharmaceuticals, Inc. ("Millennium"). CAB2 and MLN01 are two biotherapeutic agents being developed for certain vascular inflammation indications. Current plans call for completion of

preclinical testing and, if successful, commencement of clinical testing in 2003.

- ONYX-015 with Onyx Pharmaceuticals, Inc. ("Onyx"). ONYX-015 is a therapeutic, tumor-selective, modified adenovirus genetically engineered to destroy cancer cells. In 2002, under a strategic process development and manufacturing alliance with Onyx, XOMA scaled up production to 500-liter fermentation scale and improved the manufacturing process for ONYX-015. In January of 2003, Onyx announced the suspension of development activities related to ONYX-015 until it successfully engages a marketing partner.

- NEUPREX(R)with Baxter Healthcare Corporation ("Baxter"). NEUPREX(R)is an injectable formulation of rBPI21, a genetically engineered fragment of human bactericidal/permeability-

increasing protein ("BPI"). XOMA completed a Phase III efficacy trial in 1999, testing NEUPREX(R)in pediatric patients with severe meningococcemia, but the data from the trial were deemed not sufficient to file for regulatory approval. Further development of this product is continuing under a license agreement with a division of Baxter, and a Phase II study testing NEUPREX(R)in Crohn's disease completed enrollment in November of 2002 but results are not yet known. Plans for further development, including potentially gaining access to additional resources by collaborating with another pharmaceutical company, are being pursued with Baxter to provide additional resources for development.

- ING-1. ING-1 is a recombinant monoclonal antibody that binds with high affinity to an antigen expressed on epithelial cell cancers (breast, colorectal, prostate and others) and is designed to destroy cancer cells by recruiting the patient's own immune system. Enrollment has been completed in two Phase I studies testing intravenous administration in advanced adenocarcinoma patients. In May of 2002, XOMA announced results of a Phase I clinical study in patients with solid tumors which showed safety and tolerability results that supported further clinical development. The Company is conducting a Phase I study to further evaluate the safety and other features of the drug and to document any observed anti-tumor activity. Phase I dosing and safety studies have been completed for intravenous administration; a similar study with subcutaneous administration is ongoing. Further product development efforts will be determined based on the results of these studies and any future collaborative arrangements. The ING-1 monoclonal antibody incorporates XOMA's patented Human Engineering(TM)technology, designed to reduce immunogenicity.

- BPI-derived compounds for retinal disorders. Results of in vitro and in vivo studies conducted by Joslin Diabetes Center at Harvard University ("Joslin"), presented in April of 2001 and published in February of 2002, showed that compounds derived from BPI inhibits the function of multiple growth factors involved in blood vessel formation and angiogenesis in the retina while sparing key retinal cells (pericytes). These data suggest that these compounds may have potential for treating retinal disorders. XOMA is conducting further research together with Joslin.

- A BPI-derived compound for acne. This compound is a topical anti-bacterial agent that XOMA investigators are reviewing for possible anti-Propionibacterium acnes properties. Pending favorable results of upcoming toxicology testing, the Company intends to initiate clinical testing in the second half of 2003.

The following table summarizes the products currently in development, highlighting indications, FDA regulatory status and names of collaborators, if any:

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Program	Description	Indication	Status*	Collaborator
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Raptiva(TM)(Efalizumab)	Humanized anti-CD11a monoclonal antibody	Moderate-to-severe plaque psoriasis	BLA Submitted December 2002	Genentech
		Rheumatoid arthritis	Phase II/III	Genentech
		Psoriatic arthritis	Phase II	Genentech
CAB2	Recombinant fusion protein complement	Cardiopulmonary bypass surgeries	Preclinical	Millennium

	inhibitor			
MLN01	Humanized monoclonal antibody	Vascular inflammation indications	Preclinical	Millennium

Program	Description	Indication	Status*	Collaborator
ONYX-015	Genetically modified adenovirus	Head and neck cancer	Phase III**	Onyx
NEUPREX(R) (Opebacan)	IV formulation of rBPI21, a modified recombinant fragment of bactericidal/permeability-increasing protein(rBPI21)	Crohn's disease	Phase II	Baxter
ING-1	Human Engineered(TM) antibody to Ep-CAM	Adenocarcinomas	Phase I	Available for licensing
Other BPI-Derived Compounds	Anti-angiogenic	Retinal disorders	Preclinical	Available for licensing
	Topical antibacterial protein fragment	Acne	Preclinical	In-house

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* Research: in vitro studies; Preclinical: in vivo studies
** In January of 2003, Onyx announced the suspension of development activities related to ONYX-015 until it successfully engages a marketing partner.

Development Programs and Enabling Technologies

Below is a more detailed description of XOMA's key products, development programs, and enabling technologies available for licensing.

Raptiva(TM)

Raptiva(TM) (Efalizumab) is designed to inhibit the adhesion of T-lymphocytes (a type of white blood cell) to other cell types by inhibiting the binding of the LFA-1 molecule on the surface of lymphocytes to adhesion molecules such as ICAM-1 on target cells. Raptiva(TM) interacts with various cell types by inhibiting: (1) T-lymphocyte activation, proliferation and cytokine release, (2) T-lymphocyte migration, and (3) T-lymphocyte interactions with tissue-specific cells. In clinical studies, Raptiva(TM) is usually given as a once-a-week subcutaneous injection.

In September of 1996, XOMA and Genentech announced the initiation of clinical testing of Raptiva(TM) in patients with moderate-to-severe plaque psoriasis. XOMA completed a Phase II efficacy study in psoriasis patients in late 1998, subsequently received a $2.0 million milestone payment from Genentech, and agreed with Genentech to continue collaborative development in psoriasis and to expand the program to include all indications for the product.

In December of 2002, Genentech and XOMA submitted a BLA to the FDA for marketing approval of Raptiva(TM) in patients with moderate-to-severe plaque psoriasis. The BLA filing is based on efficacy and safety data from three Phase III studies of Raptiva(TM) in over 2,100 patients. The trials met all primary and secondary endpoints. The FDA formally acknowledged receipt of this BLA in February of 2003.

In April of 2002, XOMA and Genentech initiated a Phase II clinical study of Raptiva(TM) in patients suffering from rheumatoid arthritis. XOMA has completed enrollment of over 240 patients in this study and will analyze the results after completion of a 24-week treatment period.

In January of 2003, Genentech and XOMA initiated a Phase II study to evaluate Raptiva(TM) in patients with psoriatic arthritis.

Genentech has granted Serono S.A. exclusive marketing rights to Raptiva(TM) outside the U.S. and Japan. In February of 2003, Serono announced the filing of an application for European Union approval of Raptiva(TM) in moderate-to-severe plaque psoriasis.

CAB2 and MLN01

Under an agreement announced in November of 2001, XOMA is developing two of Millennium's biotherapeutic agents, CAB2 and MLN01, for certain vascular inflammation indications. CAB2 is a recombinant fusion protein that inhibits complement activation, and MLN01 is a humanized monoclonal antibody that inhibits inflammatory responses by blocking the attachment of Beta 2 integrins to their adhesion molecules. Current plans call for completion of preclinical testing for both products which, if successful, may lead to commencement of clinical testing in 2003.

ONYX-015

In January of 2001, Onyx and XOMA announced a strategic process development and manufacturing arrangement under which XOMA will scale up production to commercial volume and manufacture Onyx's ONYX-015 (also known as CI-1042). ONYX-015 is a therapeutic tumor-selective, modified adenovirus genetically engineered to replicate in and kill cancer cells that have abnormal p53 pathway function, while sparing normal cells that have functioning p53. Derangements in the p53 protein pathway are the most common genetic abnormalities in human cancer.

In 2002, under a strategic process development and manufacturing alliance with Onyx, XOMA scaled up production to 500-liter fermentation scale and improved the manufacturing process for ONYX-015. In January of 2003, Onyx announced the suspension of development activities related to ONYX-015, including the suspension of a Phase III clinical trial for recurrent head and neck cancer and Phase I and II clinical trials for a number of additional cancer indications, until it successfully engages a marketing partner. ONYX continues to seek marketing partners for ONYX-015. XOMA's agreement with Onyx remains in effect, but at this time it is difficult to estimate the impact on XOMA's future results of operations.

ING-1

ING-1 is a Human Engineered(TM) recombinant monoclonal antibody that binds with high affinity to an antigen expressed on epithelial cell cancers (breast, colorectal, prostate and others) and is designed to destroy cancer cells by recruiting the patient's own immune system. Extensive studies have found high levels of Ep-CAM expressed on the majority of breast, lung, prostate, pancreas, and ovarian adenocarcinoma cells.

In August of 2000, the Company filed an investigational new drug ("IND") for testing ING-1 in a variety of cancers. In October of 2000, XOMA initiated a Phase I safety, pharmacokinetics and immunogenicity clinical study in patients with advanced adenocarcinomas; results of that study demonstrated safety and tolerability that support further clinical development. The Company is conducting a Phase I study to further evaluate the safety and other features of the drug and to document any observed anti-tumor activity. Phase I dosing and safety studies have been completed for intravenous administration; a similar study with subcutaneous administration is ongoing. The results of these studies and any future collaborative arrangements will determine further product development efforts.

BPI-Based Products

The Company is developing novel therapeutic products derived from recombinant bactericidal/permeability-increasing protein ("rBPI"). rBPI is a genetically engineered version of a human host-defense protein found in white blood cells. rBPI kills gram-negative bacteria and enhances the activity of antibiotics, in many cases

reversing bacterial resistance to the antibiotic. rBPI also binds to and neutralizes endotoxins, molecular components of the cell walls of gram-negative bacteria that can trigger severe complications in infected patients. Furthermore, rBPI inhibits the function of multiple growth factors involved in blood vessel formation and angiogenesis (growth of new blood vessels). Angiogenesis is an essential component of inflammation and solid tumor growth as well as diseases such as retinopathies.

BPI was discovered in 1978 at the New York University ("NYU") School of Medicine by Peter Elsbach, M.D., and Jerrold Weiss, Ph.D. XOMA has collaborated with NYU since 1991 to apply and extend BPI-related research to the commercial development of pharmaceutical products.

XOMA has used the BPI molecule as a platform for developing a number of

pharmaceutical products. XOMA scientists developed a recombinant modified fragment of the BPI molecule, called rBPI21, which is potent and stable and can be manufactured at commercially viable yields. This modified fragment is the basis for the Company's NEUPREX(R) program.

NEUPREX(R)

In December of 1992, XOMA submitted an IND to begin human testing of NEUPREX(R), a genetically-engineered fragment of the BPI protein. In March of 1993, the Company began Phase I human safety and pharmacokinetic testing. Beginning in 1995, the Company initiated several clinical efficacy studies evaluating NEUPREX(R) as a treatment for primary infections and complications of infectious diseases, trauma and surgery. The indications tested so far include:

- Meningococcemia: a deadly systemic bacterial infection that usually afflicts children. XOMA conducted a Phase I/II pilot study in 1995-96 and a Phase III trial in 1997-99. The Phase III trial enrolled nearly 400 pediatric patients with severe meningococcemia in the United Kingdom and United States. Although analysis revealed a clinical benefit in mortality and morbidities, the data were not deemed sufficient by the FDA to support the filing of a BLA. Investigators published trial results in the September 16, 2000 issue of The Lancet.

- Other indications: Phase I, Phase II and Phase III trials were conducted in 1995 through 1999 in partial hepatectomy, severe intra-abdominal infections, hemorrhage due to trauma and cystic fibrosis patients.

In January of 2000, Baxter's Hyland Immuno division acquired the worldwide rights to NEUPREX(R) for development in antibacterial and anti-endotoxin indications. In July of 2001, Baxter initiated a Phase II study testing NEUPREX(R) in patients with Crohn's disease, a systemic inflammatory condition associated with endotoxemia that primarily affects the gastrointestinal tract. Enrollment in this study has been completed, but results are not yet known. There can be no assurance that any past or future clinical trials will yield data that will result in regulatory approval of the NEUPREX(R) product. Plans for further development, including potentially gaining access to additional resources by collaborating with another pharmaceutical company, are being pursued with Baxter to provide additional resources for development.

BPI-derived Compound for Acne

XOMA is currently evaluating a topical antibacterial formulation of a BPI-derived compound for the possible treatment of acne. Acne is triggered by common human pathogens, Propionibacterium acnes - bacteria that are considered the primary cause of inflammatory lesions associated with acne and are often isolated from various topical infections. Current treatment regimens include the use of general antibiotics erythromycin and clindamycin. The emergence of antibiotic resistant strains to these drugs has encouraged XOMA researchers to

review the anti-Propionibacterium acnes properties of this product. Pending favorable results of upcoming toxicology testing, the Company intends to initiate clinical testing in the second half of 2003.

Retinal Disease Program

XOMA is developing BPI-derived anti-angiogenic compounds with potential application for treating retinal disorders. In April of 2001, researchers from Joslin Diabetes Center at Harvard University presented data from in vitro and in vivo studies at the Association for Research in Vision and Ophthalmology (ARVO) meeting; these results were later published in the Investigative Ophthalmology and Visual Science Journal in February of 2002. BPI-derived compounds suppressed retinal neovascularization without negative effects on pericytes and retinal pigmented epithelial cells necessary to the healthy functioning of the retina. XOMA is conducting further research on these compounds together with Joslin for their utility in retinal diseases. No assurance can be given regarding the timing or likelihood of future development or licensing arrangements.

Proprietary Enabling Technologies

In addition to the products mentioned above, XOMA has proprietary technologies relating to recombinant antibodies and proteins, including bacterial cell expression systems and the Human Engineering(TM) method for creating human-like antibodies, both of which are available for licensing. XOMA also uses these technologies in developing its own products.

Bacterial Cell Expression Systems

XOMA scientists were the first to demonstrate the secretion of antibody domains directly from bacterial cells as fully functional, properly folded molecules. XOMA has received nine U.S. patents to date relating to aspects of its bacterial cell expression system, including a family of six patents that broadly cover the

secretion of functional immunoglobulins from bacteria, including antibody fragments such as FAb and single-chain antibodies. Corresponding foreign patents have also been granted.

XOMA has granted more than 25 licenses to biotechnology and pharmaceutical companies worldwide to use its patented and proprietary technologies relating to bacterial expression of recombinant pharmaceutical products. Bacterial antibody expression is an enabling technology for the discovery and selection, as well as the development and manufacture, of recombinant protein pharmaceuticals, including diagnostic and therapeutic antibodies for commercial purposes. Bacterial antibody expression is also a key technology used in multiple systems for high-throughput screening of antibody domains. Expression of antibodies by phage display technology, for example, depends upon the expression and secretion of antibody domains from bacteria as properly folded, functional proteins.

In 2002, XOMA announced four antibody-related cross license arrangements related to the use of its bacterial cell expression system technology in phage display. Under these agreements, MorphoSys AG, Biosite Incorporated ("Biosite"), Dyax Corp. and Cambridge Antibody Technology Limited received licenses to use XOMA's antibody expression technology for developing antibody products using their own phage display-based antibody libraries. XOMA has received and will receive license and other fees, as well as access to and/or licenses for the following intellectual property and services for its own product development programs:

- from MorphoSys AG: HuCAL(R)Gold antibody library
- from Biosite Incorporated: Dower patents and cell expression libraries, including several high-affinity antibodies to targets
- from Dyax Corp.: Ladner phage display patents and library

- from Cambridge Antibody Technology Limited: phage display library.

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

The Company also has a broader program whereby it licenses its bacterial cell expression systems for the production of recombinant proteins. A partial list of licensees for XOMA's cell expression technology follows:

Affymax, Inc
Alexion Pharmaceuticals Inc.
Avecia Limited
Aventis Pharma Deutschland GmbH (Hoechst)
Biogen, Inc.
Biosite Incorporated
Cambridge Antibody Technology Limited
Celltech Therapeutics, Ltd.
Centocor, Inc.
Dompe, s.p.a.
Dyax Corp.
Eli Lilly and Company
Enzon, Inc.
Genentech, Inc.
ICOS Corporation
Invitrogen Corporation
Micromet AG
MorphoSys AG
Pasteur Merieux Serum and Vaccins
Pharmacia & Upjohn AB
Syrrx, Inc.
Viventia Biotech, Inc.
Xenova Group plc
ZymoGenetics, Inc.

Human Engineering(TM) Method for Antibodies

XOMA has developed a patented technology for reducing the immunogenicity of antibodies while maintaining binding affinity. The Company has used the Human Engineering(TM) ("HE") technology in the development of ING-1 and other proprietary molecules and the technology is available for outlicensing. Phase I data for ING-1 presented at the American Society of Clinical Oncology ("ASCO") demonstrated how HE technology represents a novel alternative to the complementarity-determining region ("CDR") grafting based humanization methods in widespread use today.

LBP Technology and Assay Program

In August of 1998, the Company granted to Diagnostics Products Corporation ("DPC") a worldwide license to its patented technology that uses lipopolysaccharide binding protein ("LBP") as a biochemical marker of systemic exposure to gram-negative bacteria and endotoxin. XOMA is receiving royalties on LBP-related products sold worldwide by DPC. In April of 2000, DPC announced the European introduction of an automated laboratory diagnostic test for early diagnosis and prognosis of systemic gram-negative infections developed with

the LBP technology. In October of 2002, XOMA expanded its relationship with DPC, granting DPC exclusive worldwide rights to XOMA's LBP technology to develop both automated and point-of-care products.

Financial and Legal Arrangements of Product Collaborations

Genentech

On April 22, 1996, XOMA and Genentech entered into an agreement whereby XOMA agreed to co-develop Genentech's humanized monoclonal antibody product Raptiva(TM). In April of 1999, the companies extended and expanded the agreement. XOMA will receive 25% of U.S. operating profits from Raptiva(TM) in all indications, and a royalty on sales outside the United States. Genentech continues to finance XOMA's share of development costs via convertible subordinated loans, due at the earlier of April of 2005 or first product approval, which may be repaid in cash, or at XOMA's option using company equity.

The initial focus of the collaboration agreement is to develop Raptiva (TM) to treat psoriasis and prevent or decrease the rejection of organ transplants. XOMA completed a Phase II efficacy study in Canada in psoriasis patients in late 1998, subsequently received a $2 million milestone payment from Genentech, and agreed with Genentech to continue collaborative development of the product in psoriasis and to expand the program to include all indications for the product. XOMA has an option to co-promote the product in the United States.

Either party may terminate the agreement upon a breach of a material obligation by the other party. Upon termination by either party, XOMA will be paid a royalty on all worldwide sales or have a percentage of its development costs reimbursed by Genentech. Whether the royalty will be paid, and at what rate, or the costs reimbursed will depend on which party terminates the agreement and at what point in the approval process such termination occurs.

Millennium

On November 26, 2001, XOMA and Millennium announced an agreement in which they would collaborate to develop two of Millennium's biotherapeutic agents, CAB2 and MLN01, for certain vascular inflammation indications. Under the terms of the agreement, XOMA will be responsible for development activities and related costs through the completion of Phase II trials. XOMA will make future payments to Millennium upon achievement of certain clinical milestones. After successful completion of Phase II, Millennium will have the right to commercialize the products and XOMA will have the option to choose between further participation in the development program and eventual profit sharing, or alternatively being entitled to future royalty and milestone payments. Under an investment agreement, Millennium committed to take, at XOMA's option, up to $50 million worth of XOMA's common shares over three years, through a combination of equity at prevailing market prices in return for cash and retirement of convertible debt. In December of 2002, XOMA issued approximately 1,443,000 of its common shares to Millennium for gross proceeds of approximately $7.5 million pursuant to this arrangement, bringing the amount of Millennium's commitment to $42.5 million over the next 18 months, including conversion of $5.0 million of currently outstanding convertible debt that was issued to Millennium in November of 2001.

Either party has the right to terminate upon the breach of a material obligation by the other party. Under certain circumstances, if XOMA fails to reach certain diligence milestones, Millennium has the right to terminate the agreement. In addition, any material breach by XOMA under the investment agreement, including with respect to Millennium's registration rights, will give Millennium the right to terminate. The agreements remain in effect until terminated.

Onyx

On January 29, 2001, the Company entered into a strategic process development

and manufacturing agreement with Onyx. The initial term is five years, with options to extend for additional periods. Under the terms of the agreement, Onyx is obliged to pay to XOMA an initial payment, payments for development work and material produced, and payments upon achieving key milestones. XOMA's objectives are to increase the fermentation volume to commercial scale, to improve the purification process, to seek FDA licensure of its manufacturing facility for ONYX-015, and to produce material for use in clinical testing and for commercial sale upon approval. While dependent on the pace and outcome of clinical trials, regulatory approval, sales volume and other factors, the financial scope of the agreement during the initial term was projected to exceed $35 million. Certain payments under this agreement are pending clinical outcome.

If Onyx has not materially breached its obligations under the agreement, Onyx may terminate the agreement without penalty upon at least 90 days' prior written notice if XOMA has not met certain performance targets. XOMA may terminate the agreement at will upon the earlier of either 48 months' prior written notice or the issuance of regulatory approval by the FDA.

In January of 2003, Onyx announced the suspension of development activities related to ONYX-015, until Onyx successfully engages a marketing partner. XOMA's agreement with Onyx remains in effect, but at this time it is difficult to estimate the impact on XOMA's future results of operations.

Baxter

On January 25, 2000, XOMA entered into license and supply agreements with the Hyland Immuno division of Baxter for NEUPREX(R) (rBPI21) for treatment of meningococcemia and substantially all future antibacterial and anti-endotoxin human clinical indications. Under the terms of the agreements, XOMA has received initial and milestone payments totaling $11.5 million. Additional payments will be made depending upon the achievement of development milestones for future indications. Baxter will pay all future clinical development costs. XOMA will also receive royalties from future NEUPREX(R) sales and will supply initial product needs from its Berkeley manufacturing facility. Plans for further development, including a potential collaboration with another pharmaceutical company, are under review with Baxter to provide additional resources for development.

Either party may terminate the agreements upon a material breach by the other party. Termination of the agreements by Baxter terminates all rights thereunder (subject to the survival of certain customary provisions) but shall not relieve the parties of any obligation accruing prior to such expiration or termination nor shall it deny Baxter its rights to make, have made, use, sell, offer to sell, import and/or export any product licensed under the agreement in a particular clinical indication to the extent Baxter has then made all required payments under the agreement for any such clinical indication for such product; provided that Baxter then undertakes to continue making payments under the agreement if, as and when sales of such product in such indication occur. The license granted pursuant to the agreement expires upon the expiration of the relevant patents.

Other Products

XOMA is seeking development and marketing partners for additional products in the Company's pipeline. No assurance can be given regarding the timing or likelihood of future collaborative arrangements or of product licensure.

The Company is also pursuing additional development opportunities with other biotechnology companies with a view toward providing product development services to them.

Competition

The biotechnology and pharmaceutical industries are subject to continuous and substantial technological change. Competition in the areas of recombinant DNA-based and antibody-based technologies is intense and expected to increase as new technologies emerge and established biotechnology firms and large chemical and pharmaceutical companies continue to advance in the field. A number of these large pharmaceutical and chemical companies have enhanced their capabilities by entering into arrangements with or acquiring biotechnology companies or entering into business combinations with other large pharmaceutical companies. Many of these companies have significantly greater financial resources, larger research and development and marketing staffs and larger production facilities than those of XOMA. Moreover, certain of these companies have extensive experience in undertaking preclinical testing and human clinical trials. These factors may enable other companies to develop products and processes competitive with or superior to those of the Company. In addition, a significant amount of research in biotechnology is being carried out in universities and other non-profit

research organizations. These entities are becoming increasingly interested in the commercial value of their work and may become more aggressive in seeking patent protection and licensing arrangements. There can be no assurance that developments by others will not render the Company's products or technologies obsolete or uncompetitive.

Without limiting the foregoing, we are aware that:

- Biogen, Inc. has announced that the FDA has approved Amevive(R) to treat moderate-to-severe chronic plaque psoriasis in adult patients who are candidates for systematic therapy or phototherapy (Biogen submitted but has withdrawn its application for approval in Europe of Amevive(R) for psoriasis patients);

- Centocor, Inc., a unit of Johnson & Johnson, has announced that it has tested its rheumatoid arthritis and Crohn's disease drug, Remicade(R), in psoriasis showing clinical benefits (and it has been announced that the drug has shown promising results in patients with psoriatic arthritis);

- it has been announced that Amgen Inc. tested its rheumatoid arthritis and psoriatic arthritis drug, Enbrel(R), in a Phase III clinical trial in patients with moderate-to-severe plaque psoriasis, meeting the primary endpoint and all secondary endpoints;

- MedImmune, Inc. has completed enrollment in three Phase II trials to evaluate its anti-T cell monoclonal antibody in psoriasis;

- GenMab A/S has announced that its investigational new drug application for HuMax-CD4 for psoriasis has been cleared through the FDA to initiate a Phase II study;

- Abbott Laboratories has announced the commencement of a Phase II psoriasis trial and Phase III psoriatic arthritis trial of its rheumatoid arthritis drug Humira(TM); and

- other companies, including Medarex, Inc., are developing monoclonal antibody or other products for treatment of inflammatory skin disorders.

Currently, there are several companies with marketed biologics that are approved for treating patients with rheumatoid arthritis:

- Abbott Laboratories markets Humira(TM);

- Amgen Inc. markets Enbrel(R)and Kineret; and

- Centocor, Inc. is approved to market Remicade(R)to rheumatoid arthritis patients.

In addition to approved products, a number of companies are developing drugs with a biologic mechanism of action for the treatment of rheumatoid arthritis. These companies include GenMab A/S, Biogen, Inc., Celltech Group plc and others.

A number of companies are developing monoclonal antibodies targeting cancers, which may prove more effective than ONYX-015 or the ING-1 antibody.

Although we do not know of any, it is possible that one or more other companies may be developing one or more products based on the same human protein as our NEUPREX(R) product, and these product(s) may prove to be more effective than NEUPREX(R) or receive regulatory approval prior to NEUPREX(R) or any other BPI-derived product developed by XOMA.

Regulatory

XOMA's products are subject to comprehensive preclinical and clinical testing requirements and to approval processes by the FDA and similar authorities in other countries. The Company's products are primarily regulated on a product-by-product basis under the U.S. Food, Drug and Cosmetic Act and Section 351(a) of the Public Health Service Act. Most of the Company's human therapeutic products are or will be classified as biologic products. Approval of a biologic for commercialization requires licensure of the product and the manufacturing facilities. The FDA has announced that it is consolidating its responsibility for reviewing new pharmaceutical products into its Center for Drug Evaluation and Research, the body that currently reviews drug products, combining that operation with part of its biologics review operation, the Center for Biologics Evaluation and Research. Because implementation of this plan began only recently, the Company does not know when or how this change will affect it.

The FDA regulatory process is carried out in several phases. Prior to beginning clinical testing of a proposed new biologic product, an IND is filed with the FDA. This document contains scientific information on the proposed product,

including results of testing of the product in animal and laboratory models. Also included is information on manufacture of the product and studies on toxicity in animals, and a clinical protocol outlining the initial investigation in humans.

The initial stage of clinical testing, Phase I, ordinarily encompasses safety, pharmacokinetics and pharmacodynamic evaluations. Phase II testing encompasses investigation in specific disease states designed to provide preliminary efficacy data and additional information on safety. Phase III studies are designed to further establish clinical safety and efficacy and to provide information allowing proper labeling of the product following approval. Phase III studies are most commonly multi-center, randomized, placebo-controlled trials in which rigorous statistical methodology is applied to clinical results. Other designs may also be appropriate in specific circumstances.

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

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

In Europe, most of the Company's human therapeutic products are or will be classified as biologic and would be subject to a single European registration through a centralized procedure. The assessment of the Marketing Authorization Application is carried out by a rapporteur and co-rapporteur appointed by the Committee for Proprietary Medicinal Products ("CPMP"), which is the expert scientific committee of the European Medicines Evaluation Agency ("EMEA").

The rapporteur and co-rapporteur are drawn from the CPMP membership representing member states of the European Union. They liaise with the applicant on behalf of the CPMP in an effort to provide answers to queries raised by the CPMP. Their assessment report(s) is circulated to and considered by the full CPMP membership, leading to the production ultimately of a CPMP opinion which is transmitted to the applicant and Commission. The final decision on an application is issued by the Commission. When a positive decision is reached, a Marketing Authorization, or "MA," will be issued. Once approval is granted, the product can be marketed under the single European MA in all member states of the European Union. Consistent with the single MA, the labeling for Europe is identical throughout all member states except that all labeling must be translated into the local language of the country of intended importation and in relation to the content of the so called "blue box" on the outer packaging in which locally required information may be inserted. There can be no assurance that any of the products under development by the Company will be developed successfully, obtain the requisite regulatory approval or be successfully manufactured or marketed.

Patents and Trade Secrets

As a result of its ongoing activities, the Company holds and is in the process of applying for a number of patents in the United States and abroad to protect its products and important processes. The Company also has obtained or has the right to obtain exclusive licenses to certain patents and applications filed by others. However, the patent position of biotechnology companies generally is highly uncertain and no consistent policy regarding the breadth of allowed claims has emerged from the actions of the U.S. Patent and Trademark Office (the "Patent Office") with respect to biotechnology patents. Accordingly, no

assurance can be given that the Company's patents will afford protection against competitors with similar technologies, or that others will not obtain patents claiming aspects similar to those covered by the Company's patent applications.

During the period from September of 1994 to December of 2002, the Patent Office issued 63 patents to the Company related to its BPI-related products, including novel compositions, their manufacture, formulation, assay and use. The Company has more than 20 pending patent applications worldwide related to its BPI-related products. Numerous foreign patents have been granted which, along with additional pending foreign patent applications, correspond to the patents issued in the U.S.

The Company is the exclusive licensee of BPI-related patents and applications owned by NYU. These include seven issued U.S. patents directed to novel BPI-related protein and DNA compositions, as well as their production and uses. U.S. Patent Nos. 5,198,541 and 5,641,874, issued to NYU, relate to the recombinant production of BPI. The Company believes that these patents have substantial value because they cover certain production methodologies that allow production of commercial-scale quantities of BPI for human use. In

addition, the European Patent Office granted to NYU, EP 375724, with claims to N-terminal BPI fragments and their use, alone or in conjunction with antibiotics, for the treatment of conditions associated with bacterial infections.

Between 1992 and 2002, eight patents related to BPI were issued to Incyte Genomics, Inc. ("Incyte") by the Patent Office directed to endotoxin-associated uses of BPI, uses of BPI with polymannuronic acid, and LBP-BPI proteins. Effective as of July of 1998, XOMA is the exclusive licensee of BPI-related patents and applications owned by Incyte, including these seven U.S. patents, one granted European patent and pending applications worldwide.

From January of 1996 to December of 2002, XOMA was issued 10 patents directed to its LBP-related assays and products, including diagnostic and prognostic methods for measuring LBP levels in humans. XOMA has also acquired from Johnson & Johnson an exclusive sublicense to their LBP-related portfolio, including six U.S. patents issued to the discoverers of LBP, Drs. Richard Ulevitch and Peter Tobias, at the Scripps Research Institute in San Diego.

During the period from July of 1991 to December of 2002, the Patent Office issued nine patents to the Company related to its bacterial expression technology, including claims to novel promoter sequences, secretion signal sequences, compositions and methods for expression and secretion of recombinant proteins from bacteria, including immunoglobulin gene products. U.S. Patent No. 5,028,530, issued to the Company, is directed to expression vehicles containing an AraB promoter, host cells and processes for regulated expression of recombinant proteins. U.S. Patent Nos. 5,576,195 and 5,846,818 are related to DNA encoding a pectate lyase signal sequence, recombinant vectors, host cells and methods for production and externalization of recombinant proteins. U.S. Patent Nos. 5,595,898, 5,698,435 and 5,618,920 address secretable immunoglobulin chains, DNA encoding the chains and methods for their recombinant production. U.S. Patent Nos. 5,693,493, 5,698,417 and 6,204,023 relate to methods for recombinant production/secretion of functional immunoglobulin molecules. Numerous foreign patents have been granted which, along with additional pending foreign patent applications, correspond to the patents issued and allowed in the U.S.

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

Research and License Agreements

XOMA has contracted with a number of academic and institutional collaborators to conduct research and development activities. Under these agreements the Company generally funds either the research and development or evaluation of products, technologies or both, will own or obtain exclusive licenses to products or technologies developed, and may pay royalties on sales of products covered by certain licenses. The rates and durations of such royalty payments vary by product and institution, and range generally for periods from five years to indefinite duration. Aggregate expenses incurred by the Company under all of its research agreements were negligible for each of 2002, 2001 and 2000. The Company has entered into certain license agreements with respect to the following products:

- On August 6, 1990, XOMA entered into a research collaboration and license agreement with NYU whereby XOMA obtained an exclusive license to patent rights for DNA materials and genetic engineering methods for the production

of BPI and fragments thereof. BPI is part of the body's natural defense system against infection and XOMA is investigating the use of products based on BPI for various indications. XOMA has obtained an exclusive, worldwide license for the development, manufacture, sale and use of BPI products for all therapeutic and diagnostic uses, and it has paid a

license fee and will make milestone payments and pay royalties to NYU on the sale of such products. The license becomes fully paid upon the later of the expiration of the relevant patents or fifteen years after the first commercial sale, subject to NYU's right to terminate for certain events of default.

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

- On July 9, 1998, XOMA entered into a license agreement with Incyte whereby XOMA obtained an exclusive (even as to Incyte), freely sublicenseable, worldwide license to all of Incyte's patent rights relating to BPI. XOMA will pay Incyte a royalty on sales of BPI products covered by the license, up to a maximum of $11.5 million, and made a $1.5 million advance royalty payment, one-half in cash and one-half in XOMA common shares. XOMA also issued warrants to Incyte to purchase 250,000 XOMA common shares at $6.00 per share. As of December 31, 2002, 125,000 of these warrants remain outstanding. Due to offsets against other royalties, XOMA may not ultimately incur increased total BPI royalty payments as a result of this license.

  The agreement expires on July 9, 2008 unless, on or prior to such date, the license granted therein becomes fully paid up in accordance with its terms. Incyte has the right to terminate the agreement (subject to a customary cure period) upon a breach by XOMA of any of its material obligations under the agreement.

International Operations

The Company believes that, because the pharmaceutical industry is global in nature, international activities will be a significant part of the Company's future business activities and that, when and if it is able to generate income, a substantial portion of that income will be derived from product sales and other activities outside the United States.

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

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

Employees

As of December 31, 2002, XOMA employed 229 full-time employees at its Berkeley, California facilities. The Company's employees are engaged in clinical, process development and manufacturing, quality assurance and

control, research and product development activities, and in executive, finance and administrative positions. The Company considers its employee relations to be excellent.

Website Access to Reports

Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports, are made available free of charge on our Internet website at www.xoma.com as soon as reasonably practicable after such reports are filed with the U.S. Securities and Exchange Commission.

Item 2. Properties

XOMA's development and manufacturing facilities are located in Berkeley, California. The Company leases approximately 113,000 square feet of space including approximately 35,000 square feet of research and development laboratories, 48,000 square feet of production and production support facilities and 30,000 square feet of office space. Separately, a 17,000 square foot technology development facility is owned by XOMA.

XOMA is currently producing the rBPI21 ING-1, MLN01 and CAB2 products and has produced Raptiva(TM) for clinical trial and other testing needs at its Berkeley manufacturing facilities, pursuant to a drug manufacturing license obtained from the State of California. The Company bases its manufacturing capability on recombinant DNA technology, that can produce therapeutic products from either mammalian or microbial cells. XOMA has established two 500-liter and three 2,750-liter fermentation trains with associated isolation and purification systems. XOMA does its own formulation and has the capacity to do its own small-scale filling, but contracts with third parties for final sterile filling and finishing.

The principal executive offices of XOMA are located at 2910 Seventh Street, Berkeley, California 94710 U.S.A. (telephone 510-204-7200).

Item 3. Legal Proceedings

In June of 2001, an action was commenced against the Company and certain of its affiliates styled Biosite Diagnostics Inc. v. XOMA Ltd., et al., No. C-01-2251 (PJH) (N.D. Cal.) (the "Biosite Action"). The action sought declarations that Biosite was not infringing certain XOMA patents and that certain licenses continued in effect despite XOMA's notice of termination thereof. The action sought an injunction against the Company and such affiliates maintaining the license agreements in effect. In July of 2001, the Company, XOMA (Bermuda) Ltd., XOMA Ireland Limited and XOMA Technology Ltd. brought an action against Biosite in the same court. The action, styled XOMA Ltd., et al. v. Biosite Inc., No. C-01-2580 (PJH) (N.D. Cal.) (the "XOMA Action"), sought injunctive relief, compensatory and punitive damages for fraud and misrepresentation, breach of contract, patent infringement, misappropriation and unfair business practices. In September of 2001, the court granted the Company's motion to dismiss the Biosite Action. In November of 2001, Biosite filed counterclaims seeking the same relief as the original Biosite Action and adding claims for breach of contract, breach of covenant of good faith and fair dealing, intentional interference with contracts and with prospective economic advantage, unfair business practices and violation of the Lanham Act. In March of 2002, Biosite filed an amended answer to add additional defenses that certain of the patents at issue were invalid, that certain alleged inequitable conduct on the part of the XOMA entities rendered certain of the patents unenforceable and that alleged patent misuse rendered the patents at issue unenforceable. In June of 2002, XOMA announced that it filed an amended and supplemental complaint against Biosite alleging that Biosite's announced "new" antibody expression technology continued willfully to infringe XOMA's patents and that Biosite's statements regarding it were false and misleading.

By order entered September 13, 2002, all claims and counterclaims in the XOMA Action were dismissed with prejudice pursuant to a settlement agreement between the parties. Other terms of the settlement included a

royalty-free license to XOMA to practice certain Biosite patents, assignment to XOMA of Biosite's antibody expression technology that had been announced earlier in 2002, a royalty-free license to Biosite to utilize XOMA's bacterial cell expression technology, an agreement pursuant to which XOMA may receive expression libraries for up to an agreed number of targets it presents to Biosite (without payment or royalty obligations), termination of the existing license to Biosite from XOMA for the LBP diagnostic assay and an exchange of releases.

Item 4. Submission Of Matters To A Vote Of Security Holders

None.

Officers

The officers of the Company are as follows:

<TABLE>

<CAPTION>

Name	Age	Title
<S>	<C>	<C>
John L. Castello	66	Chairman of the Board, President and Chief Executive Officer
Patrick J. Scannon, M.D., Ph.D.	55	Senior Vice President, Chief Scientific and Medical Officer and Director
Clarence L. Dellio	57	Senior Vice President, Chief Operating Officer
Peter B. Davis	56	Vice President, Finance and Chief Financial Officer
Christopher J. Margolin, Esq.	56	Vice President, General Counsel and Secretary
Michel L. E. Bergh, Ph.D.	51	Vice President, Business Development
Marc D. Better, Ph.D.	47	Vice President, Technical Development
Daniel P. Cafaro	46	Vice President, Clinical and Regulatory Affairs
Ronald H. Carlson, Ph.D.	50	Vice President, Quality
Stephen F. Carroll, Ph.D.	51	Vice President, Scientific and Product Development
Robert H. Gundel, Ph.D.	48	Vice President, Preclinical Research
Tim Sirichoke	35	Vice President, Operations
Charles C. Wells	52	Vice President, Human Resources

</TABLE>

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

PART II

Item 5. Market For Registrant's Common Equity And Related Shareholder Matters

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

	Price Range	
2002:	High	Low
- -----	----	---
First Quarter	$ 12.19	$ 7.51
Second Quarter	8.51	3.00
Third Quarter	7.20	3.25
Fourth Quarter	6.25	3.80
2001:		
- -----		
First Quarter	$ 13.88	$ 6.03
Second Quarter	17.75	5.31
Third Quarter	17.09	6.74
Fourth Quarter	10.50	6.40

On February 28, 2003, there were approximately 3,128 record holders of XOMA's common shares.

The Company has not paid dividends on its common shares. The Company currently intends to retain any earnings for use in the development and expansion of its business. The Company, therefore, does not anticipate paying cash dividends on its common shares in the foreseeable future (see Note 7 to the Consolidated Financial Statements, "Share Capital").

On December 18, 2002, XOMA issued approximately 1,443,000 of its common shares to Millennium Pharmaceuticals, Inc. for gross proceeds of approximately $7.5 million, pursuant to the existing collaboration and investment arrangement announced in November of 2001. Under the investment agreement, Millennium remains committed to take, at XOMA's option, up to an additional $42.5 million of XOMA's common shares over the next 18 months, at then prevailing market prices in return for cash and retirement of $5.0 million of currently outstanding convertible debt that was issued to Millennium in November of 2001. The sale of common shares to Millennium was exempt from registration under the Securities Act pursuant to Section 4(2) thereof.

XOMA continues to use the net proceeds from this sale of common shares principally for the development of two of Millennium's biotherapeutic agents for certain vascular inflammation indications pursuant to our collaboration agreement with Millennium. Pending application of the net proceeds as described above, the Company has invested the remaining net proceeds of the sale in short-term, investment-grade, interest-bearing securities.

Item 6. Selected Financial Data

The following table contains selected financial information including statement of operations and balance sheet data of XOMA for the years 1998 through 2002. The selected financial information has been derived from the audited Consolidated Financial Statements of XOMA. The selected financial information should be read in conjunction with the Consolidated Financial Statements and notes thereto included in Item 8 of this report and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in Item 7 below. The data set forth below is not necessarily indicative of the results of future operations

<TABLE>
<CAPTION>

	Year Ended December 31,				
	2002	2001	2000	1999	1998
	(In thousands, except per share amounts)				
Statement of Operations Data					
<S>	<C>	<C>	<C>	<C>	<C>
Total revenues	$ 29,949	$ 17,279	$ 6,659	$ 2,361	$ 6,345
Total operating cost and expenses (1)(2)	62,026	44,610	36,075	47,534	54,184
Other income (expense), net	(1,170)	(709)	4	(606)	636
Net loss available for common shareholders	$(33,247)	$(28,040)	$(29,412)	$(45,779)	$(47,203)
Net loss per common share	$ (0.47)	$ (0.41)	$ (0.45)	$ (0.87)	$ (1.16)

</TABLE>

<TABLE>
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	December 31,				
	2002	2001	2000	1999	1998
	(In thousands)				
Balance Sheet Data					
<S>	<C>	<C>	<C>	<C>	<C>
Cash	$ 36,262	$ 67,320	$ 35,043	$ 18,539	$ 28,287
Restricted cash	$ 1,500	-	-	-	-
Total assets	71,782	86,107	45,212	28,312	37,304
Long-term debt	63,016	50,980	39,488	34,724	26,513
Redeemable convertible preferences shares	-	-	-	-	6,440
Accumulated deficit	(540,876)	(507,629)	(479,589)	(450,177)	(404,343)

</TABLE>

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(1) In 2002 and 2001, includes approximately $7.0 million and $1.9 million, respectively, in legal expenses related to our litigation with Biosite Incorporated and certain shareholder litigation. The litigation matters to which these expenses related were settled or otherwise resolved in 2002.

(2) In 1998, includes non-recurring costs of $2.4 million to acquire rights to Incyte's BPI-related patents and $2.5 million of costs related to the change in domicile.

Quarterly Results of Operations (Unaudited)

The following is a summary of the quarterly results of operations for the years ended December 31, 2002 and 2001.

<TABLE>
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	Statement of Operations (In thousands, except per share amounts) Quarters Ended			
	March 31	June 30	September 30	December 31
2002				
<S>	<C>	<C>	<C>	<C>
Total revenues	$ 9,222	$ 4,724	$ 4,233	$ 11,770
Total operating cost and expenses	14,784	14,608	16,117	16,517
Other income (expense), net	(377)	(261)	(378)	(154)
Net loss	$(5,939)	$(10,145)	$(12,262)	$ (4,901)
Net loss per common share	$ (0.08)	$ (0.14)	$ (0.17)	$ (0.07)
2001				
Total revenues	$ 2,856	$ 5,212	$ 3,285	$ 5,926
Total operating cost and expenses	10,080	11,560	10,164	12,806
Other income (expense), net	(351)	(300)	60	(118)
Net loss	$(7,575)	$ (6,648)	$ (6,819)	$ (6,998)
Net loss per common share	$ (0.11)	$ (0.10)	$ (0.10)	$ (0.10)

</TABLE>

Item 7. Management's Discussion And Analysis Of Financial Condition And Results Of Operations

Overview

XOMA Ltd. ("XOMA" or the "Company") is a biopharmaceutical company that develops and manufactures antibodies and other protein-derived products that target cancer, immunological and inflammatory disorders, and infectious diseases, while leveraging its development and manufacturing infrastructure through collaborations with other companies and research institutions.

The Company's strategy with respect to its proprietary products is to enter into arrangements with established pharmaceutical companies in order to facilitate and finance development and marketing. Assuming timely regulatory approval, which cannot be assured, the successful commercialization of XOMA's products depends to a large extent upon the development and marketing capabilities of its collaborative partners. In addition to developing its own products, the Company also seeks to leverage its preclinical, process development, manufacturing, quality and clinical development capabilities by entering into agreements to collaborate on development of other companies' products.

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

The Company's current product development programs include:

- Raptiva(TM)(Efalizumab) with Genentech, Inc. ("Genentech"). Previously known as Xanelim(TM), Raptiva(TM)is a humanized anti-CD11a monoclonal antibody developed to treat immune system disorders. In February of 2003, Genentech received formal acknowledgement from the U.S. Food and Drug Administration ("FDA") that it had received the December 2002 submission of the Biologics License Application ("BLA") for marketing approval of Raptiva(TM)in patients with moderate-to-severe plaque psoriasis. The BLA filing is based on efficacy and safety data from three Phase III studies. Genentech has projected a 10-month regulatory review period for Raptiva(TM)in the U.S. with FDA action expected in late 2003. Genentech has granted Serono S.A. ("Serono")

exclusive marketing rights to Raptiva(TM)outside the U.S. and Japan. In February of 2003, Serono announced the filing of an application for European Union marketing approval of Raptiva(TM)in moderate-to-severe plaque psoriasis.

In 2002, XOMA and Genentech initiated a Phase II clinical study of Raptiva(TM) in patients suffering from rheumatoid arthritis. The 240-patient trial has completed enrollment and results will be evaluated after a 24-week treatment period. In January of 2003, Genentech and XOMA announced initiation of a Phase II study to evaluate Raptiva(TM) as a possible treatment for patients with psoriatic arthritis. Genentech and XOMA continue to assess additional indications for Raptiva(TM).

- CAB2 and MLN01 with Millennium Pharmaceuticals, Inc. ("Millennium"). CAB2 and MLN01 are two biotherapeutic agents being developed for certain vascular inflammation indications. Current plans call for completion of preclinical testing and, if successful, commencement of clinical testing in 2003.

- ONYX-015 with Onyx Pharmaceuticals, Inc. ("Onyx"). ONYX-015 is a therapeutic, tumor-selective, modified adenovirus genetically engineered to destroy cancer cells. In 2002, under a strategic process development and manufacturing alliance with Onyx, XOMA scaled up production to 500-liter fermentation scale and improved the manufacturing process for ONYX-015. In January of 2003, Onyx announced the suspension of development activities related to ONYX-015 until it successfully engages a marketing partner. XOMA's agreement with Onyx remains in effect, but at this time it is difficult to estimate the impact on future results of operations.

- NEUPREX(R)with Baxter Healthcare Corporation ("Baxter"). NEUPREX(R)is an injectable formulation of rBPI21, a genetically engineered fragment of human bactericidal/permeability-increasing protein ("BPI"). XOMA completed a Phase III efficacy trial in 1999, testing NEUPREX(R)in pediatric patients with severe meningococcemia, but the data from the trial were deemed not sufficient to file for regulatory approval. Further development of this product is continuing under a license agreement with a division of Baxter, and a Phase II study testing NEUPREX(R)in Crohn's disease completed enrollment in November of 2002 but results are not yet known. Plans for further development, including potentially gaining access to additional resources by collaborating with another pharmaceutical company, are being pursued with Baxter to provide additional resources for development.

- ING-1. ING-1 is a recombinant monoclonal antibody that binds with high affinity to an antigen expressed on epithelial cell cancers (breast, colorectal, prostate and others) and is designed to destroy cancer cells by recruiting the patient's own immune system. Enrollment has been completed in two Phase I studies testing intravenous administration in advanced adenocarcinoma patients. In May of 2002, XOMA announced results of a Phase I clinical study in patients with solid tumors which showed safety and tolerability results that supported further clinical development. The Company is conducting a Phase I study to further evaluate the safety and other features of the drug and to document any observed anti-tumor activity. Phase I dosing and safety studies have been completed for Intravenous administration; a similar study with subcutaneous administration is ongoing. Further product development efforts will be determined based on the results of these studies and any future collaborative arrangements. The ING-1 monoclonal antibody incorporates XOMA's patented Human Engineering(TM)technology, designed to reduce immunogenicity.

- BPI-derived compounds for retinal disorders. Results of in vitro and in vivo studies conducted by Joslin Diabetes Center at Harvard University ("Joslin"), presented in April of 2001 and published in February of 2002, showed that compounds derived from BPI inhibits the function of multiple growth factors involved in blood vessel formation and angiogenesis in the retina while sparing key retinal

cells (pericytes). These data suggest that these compounds may have potential for treating retinal disorders. XOMA is conducting further research together with Joslin.

- A BPI-derived compound for acne. This compound is a topical anti-bacterial agent that XOMA investigators are reviewing for possible anti-Propionibacterium acnes properties. Pending favorable results of upcoming toxicology testing, the Company intends to initiate clinical testing in the second half of 2003.

Critical Accounting Policies

The preparation of our financial statements in conformity with accounting

principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, if any, at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from those estimates. The following critical accounting policies are important to our financial condition and results of operations presented in the financial statements and require management to make judgments, assumptions and estimates that are inherently uncertain:

Revenue Recognition

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

License and Collaborative Fees

Revenue from non-refundable license or technology access payments under license and collaborative agreements where the Company has a continuing obligation to perform is recognized as revenue over the period of the continuing performance obligation.

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

Contract Revenue

Contract revenue for research and development involves the Company providing research, development or manufacturing services to collaborative partners. The Company recognizes revenue under these arrangements as the related research and development costs are incurred and collectibility is reasonably assured.

Product Sales

The Company recognizes product revenue upon shipment when there is persuasive evidence that an arrangement exists, delivery has occurred, the price is fixed and determinable and collectibility is reasonably assured. Allowances are established for estimated uncollectible amounts, product returns, and discounts, if any.

Research and Development Expenses

Research and development expenses consist of direct and research-related allocated overhead costs such as facilities costs, salaries and related personnel costs and material and supply costs. In addition, research and development expenses include costs related to clinical trials to validate our testing processes and procedures and related overhead expenses. From time to time, research and development expenses may include upfront fees and milestones paid to collaborative partners for the purchase of rights to in-process research and development. Such amounts are expensed as incurred. The timing of upfront fees and milestone payments in the future may cause variability in our future research and development expenses.

Results of Operations

Revenues

Total revenues in 2002 were $29.9 million, compared with $17.3 million in 2001 and $6.7 million in 2000.

License fee revenues in 2002 increased to $16.9 million from $4.8 million in 2001 and $3.2 million in 2000. These revenues include "up front" and milestone payments related to the outlicensing of XOMA's products and technologies and other collaborative arrangements. The increase of $12.1 million in 2002 was

primarily due to licensing agreements with MorphoSys AG ("MorphoSys"), Dyax Corp. and Cambridge Antibody Technology Limited that did not involve continuing commitments by XOMA and were partially or completely recognized as revenue in 2002 in accordance with our revenue recognition policies. The increase of $1.6 million in 2001 compared with 2000 is primarily due to revenue recognized on deferred license fees attributed to Baxter and Onyx.

During the fourth quarter of 2002, we were notified by MorphoSys of its intention to exercise its option to pay the second installment totaling $4.0 million owed to XOMA under a license agreement with 363,466 of its ordinary shares, which number of shares was determined with reference to the market price of MorphoSys shares at the time of such notice (October 23, 2002). XOMA applied for and on January 31, 2003 was granted an exemption from German withholding tax on the full license fee from MorphoSys. The administrative process in Germany for the issuance of the shares was delayed pending resolution of the withholding tax matter. Now that we have received the tax exemption, MorphoSys has re-initiated the process, but it is not yet complete. Given the delays already encountered, it is difficult to determine when these shares will be received, but the Company's current estimate is prior to the end of the second quarter of 2003.

XOMA has not recorded a provision related to changes in the market value of the shares MorphoSys intends to issue. Since the date of MorphoSys's election on October 23, 2002, the per share closing price for MorphoSys shares has ranged from approximately $4.64 to $15.20. Future market conditions for the shares are difficult to predict and may vary significantly. Therefore, under the provisions of the Statement of Financial Accounting Standards No. 5, Accounting for Contingencies, the Company has determined that the conditions related to the likelihood of the events both probable and reasonably estimable have not been met. If the future value of MorphoSys shares results in an unfavorable outcome for XOMA, the Company's financial position and results of operations would be adversely impacted.

Certain of our license agreements involve continuing performance obligations by XOMA for services, and in these cases the related licensing payments received are recorded as deferred revenue and then recognized as revenue over the period of continuing performance obligation. The following table illustrates the activity in deferred revenue for the years ended December 31, 2002, 2001 and 2000 (in millions):

	2002	2001	2000
Beginning deferred revenue	$ 6.5	$ 6.9	$ -
Payments received	1.5	4.3	10.0
Revenue recognized	(5.5)	(4.7)	(3.1)
Ending deferred revenue	$ 2.5	$ 6.5	$ 6.9

Of the $2.5 million balance in deferred revenue at December 31, 2002, $1.7 million is expected to be recognized as revenue in 2003 and $0.4 million in 2004 and 2005, respectively. Future amounts may also be impacted by additional consideration received, if any, under existing or any future licensing or other collaborative arrangements.

Revenues from contract services were $13.1 million in 2002, up from $10.1 million in 2001 and $3.4 million in 2000. These revenues relate primarily to service arrangements with Baxter. Future revenue for contract services are dependent upon purchases for research and development activities by Baxter and Onyx that may cause variability in our future revenue.

Product sales revenues, related primarily to supplying NEUPREX(R)?product to Baxter for use in clinical and other testing, were $0.0 million in 2002 compared with $2.4 million in 2001 and $0.1 million in 2000. Revenue for product sales are dependent upon future research and development activities for Baxter that may cause variability in our future revenue.

Research and Development Expenses

In 2002, research and development expense increased to $42.6 million, compared with $35.9 million in 2001 and $30.0 million in 2000. The $6.7 million increase in 2002 compared to 2001 primarily reflected increased spending related to our co-development agreement with Genentech for Raptiva(TM), our collaboration with Millennium for early stage research and development on CAB2 and MLN01 and our collaboration with Onyx. The increase was partially offset by savings on certain earlier stage development programs that were discontinued in the later part of 2001. The $5.9 million increase in 2001 as compared to 2000 reflected spending related to our collaboration with Onyx, which was initiated in early 2001, an

initial payment to Millennium in November of 2001 related to a collaboration on Millennium's CAB2 and MLN01 products, and increased spending on certain internal programs.

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

	2002	2001	2000
Earlier stage programs	$ 18.2	$ 14.0	$ 9.6
Later stage programs	24.4	21.9	20.4
Total	$ 42.6	$ 35.9	$ 30.0

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

	2002	2001	2000
Internal projects	$ 17.9	$ 22.2	$ 14.3
Collaborative arrangements	24.7	13.7	15.7
Total	$ 42.6	$ 35.9	$ 30.0

For 2002, 2001 and 2000, no single project accounted for more than 30% of our total research and development costs for that year. For each of 2002 and 2001, only Raptiva(TM) accounted for more than 20% of our total research and development costs for that year. For 2000, only Raptiva(TM) and NEUPREX(R) accounted for more than 20% of our total research and development costs for that year.

The following table contains information regarding the products for which we are incurring research and development expenses, including indications, FDA regulatory status and names of our collaborators, if any:

<TABLE>
<CAPTION>

Program	Description	Indication	Status*	Collaborator
<S> Raptiva(TM) (Efalizumab)	<C> Humanized anti-CD11a monoclonal antibody	<C> Moderate-to-severe plaque psoriasis	<C> BLA Submitted December 2002	<C> Genentech
		Rheumatoid arthritis	Phase II/III	Genentech
		Psoriatic arthritis	Phase II	Genentech
CAB2	Recombinant fusion protein complement inhibitor	Cardiopulmonary bypass surgeries	Preclinical	Millennium
MLN01	Humanized monoclonal antibody	Vascular inflammation indications	Preclinical	Millennium
ONYX-015	Genetically modified adenovirus	Head and neck cancer	Phase III **	Onyx
NEUPREX(R) (Opebacan)	IV formulation of rBPI21, a modified recombinant fragment of bactericidal/permeability-increasing protein(rBPI21)	Crohn's disease	Phase II	Baxter
ING-1	Human Engineered(TM) antibody to Ep-CAM	Adenocarcinomas	Phase I	Available for licensing

Other BPI-Derived Compounds	Anti-angiogenic	Retinal disorders	Preclinical	Available for licensing
	Topical antibacterial protein fragment	Acne	Preclinical	In-house

</TABLE>

* Research: in vitro studies; Preclinical: in vivo studies
** In January of 2003, Onyx announced the suspension of development activities related to ONYX-015 until it successfully engages a marketing partner

We currently anticipate that research and development spending will increase in 2003, due primarily to increased spending on Raptiva(TM), CAB2 and MLN01. Beyond this, the scope and magnitude of future research and development expenses are difficult to predict at this time. Generally speaking, biopharmaceutical development includes a series of steps, including in vitro and in vivo preclinical testing, and Phase I, II and III clinical studies in humans. Each of these steps is typically more expensive than the previous step, but actual timing and the cost to XOMA depend on the product being tested, the nature of the potential disease indication, and also on the terms of any collaborative arrangements with other companies. After successful conclusion of all of these steps, regulatory filings for approval to market the products must be completed, including approval of manufacturing processes and facilities for the product. Our research and development expenses currently include costs of personnel, supplies, facilities and equipment, consultants, patent expenses, and third party costs related to preclinical and clinical testing.

Our most advanced product is Raptiva(TM). In December of 2002, Genentech and XOMA submitted a Biologics License Application ("BLA") to the U.S. Food and Drug Administration for marketing approval of Raptiva(TM) in patients with moderate-to-severe plaque psoriasis. The BLA filing is based on efficacy and safety data from three Phase III studies of Raptiva(TM) in moderate-to-severe plaque psoriasis patients. We have also initiated separate Phase II studies testing Raptiva(TM) in patients suffering from rheumatoid arthritis and psoriatic arthritis. If these latter clinical trials are successful, one or more additional trials may be required before regulatory approval.

Two of Millennium's biotherapeutic agents, CAB2 and MLN01, are being developed for certain vascular inflammation indications pursuant to a collaboration agreement with Millennium that was announced in November of 2001. Current plans call for completion of early stage development work for both products, and if successful, may lead to clinical testing in 2003.

XOMA is working under a process development and manufacturing agreement to support the development of Onyx's ONYX-015 product, which is in Phase III testing in patients with head and neck cancer. The term of this agreement continues through January of 2006, with options to extend for additional periods. Along with a facility occupancy fee and potential milestone payments, XOMA's spending under this agreement is billed back to Onyx on a "cost-plus" basis. In January of 2003, Onyx announced the suspension of development activities related to ONYX-015 until it successfully engages a marketing partner. Onyx continues to seek a marketing partner for ONYX-015. Our current planning assumption anticipates that research and development spending and the related billing to ONYX will decrease in 2003. XOMA's agreement with Onyx remains in effect, but at this time it is difficult to estimate the impact on XOMA's future results of operations.

NEUPREX(R), also known as rBPI21, is a genetically-engineered fragment of a particular human protein. We completed a Phase III efficacy clinical trial in 1999, testing NEUPREX(R) in patients with severe pediatric meningococcemia, but the data from the trial were determined not to be sufficient to file for regulatory approval. Further development of this product is continuing under a license agreement with a division of Baxter Healthcare Corporation. Enrollment of patients has been completed in a Phase II study testing NEUPREX(R) in Crohn's disease, but the results are not yet known. We are providing the product for testing. Plans for further development, including a potential collaboration with another pharmaceutical company, are being pursued with Baxter to provide additional resources for development.

ING-1 is a Human Engineered(TM) recombinant monoclonal antibody that binds with high affinity to an antigen expressed on epithelial cell cancers (breast, colorectal, prostate and others) and is designed to destroy cancer cells by recruiting the patient's own immune system. Extensive studies have found high levels of Ep-CAM expressed on the majority of breast, lung, prostate, pancreas, and ovarian adenocarcinoma cells.

In August of 2000, the Company filed an investigational new drug ("IND") for testing ING-1 in a variety of cancers. In October of 2000, XOMA initiated a

Phase I safety, pharmacokinetics and immunogenicity clinical study in patients with advanced adenocarcinomas; results of that study demonstrated safety and tolerability that

support further clinical development. The Company is conducting a Phase I study to further evaluate the safety and other features of the drug and to document any observed anti-tumor activity. Phase I dosing and safety studies have been completed for intravenous administration; a similar study with subcutaneous administration is ongoing. The results of these studies and any future collaborative arrangements will determine further product development efforts.

XOMA has a number of other products at various stages of preclinical development, including BPI-derived compounds targeting retinal disease and acne, that may move into clinical testing in the future if warranted.

Marketing, General and Administrative Expenses

In 2002, marketing, general and administrative expenses increased to $19.4 million compared with $8.7 million in 2001 and $6.1 million in 2000. The most significant component of these increases was legal expenses related to our litigation with Biosite Incorporated and certain shareholder litigation, which totaled approximately $7.0 million in 2002 and $1.9 million in 2001. The litigation matters to which these expenses related were settled or otherwise resolved in 2002. Spending in 2002 also increased for XOMA's share of marketing expenses related to pre-launch activities for Raptiva(TM). These marketing, general and administrative expenses are expected to be higher in 2003, due to expanded pre-launch activities for Raptiva(TM).

Investment and Other Income

Investment income decreased by $1.1 million in 2002 compared with 2001, reflecting lower cash investment balances and lower interest rates. Investment income was $0.7 million less in 2001 than in 2000, as higher average cash balances were more than offset by lower interest rates. Investment income in 2003 is expected to decrease slightly due to lower interest rates and lower average cash balances.

Interest and Other Expense

Interest expense decreased by $0.7 million in 2002 compared with 2001, and consisted of interest on the convertible notes due to Genentech and Millennium. This decrease of $0.7 million versus 2001was due to lower interest rates offset, in part, by higher loan balances. The convertible subordinated note to Genentech is due and payable in 2005 and compounds interest semi-annually at a rate of LIBOR plus 1% (3.0% at December 31, 2002), and the convertible note to Millennium is due and payable in a single installment in May 2003 and bears interest at LIBOR (2.6% , LIBOR rate as of November 26, 2001). In 2001and 2000, interest expense mainly consisted of interest on the convertible subordinated note due to Genentech. Interest expense in 2003 is expected to increase due to the higher convertible note balance due Genentech.

Liquidity and Capital Resources

Cash, cash equivalents, short-term investments and restricted cash decreased by $29.4 million to $38.2 million at December 31, 2002. In 2002, financing activities of $15.4 million include $7.1 million of net proceeds from the issuance of common shares under the terms of our investment agreement with Millennium and $7.7 million net funding from Genentech under our development agreement. Subsequent to December 31, 2002, we paid off a $0.8 million capital lease obligation and restrictions on the $1.5 million of cash were released. The Company's cash, cash equivalents and short-term investments are expected to decrease through 2003, except to the extent that the Company may utilize debt funding by Genentech for XOMA's share of Raptiva(TM) development and marketing costs, obtain additional funding under the terms of our investment agreement with Millennium or secure additional sources of funding.

Net cash used in operating activities was $34.8 million in 2002, compared with $22.4 million in 2001 and $23.2 million in 2000. The increase in 2002 primarily reflected higher net operating losses as a result of higher

marketing expenses, related to the pre-launch activities for Raptiva(TM) and litigation expenses. The increase in cash used in operating activities in 2001 compared with 2000 reflected reduced losses and favorable working capital

movements, offset by a non-recurring $10 million initial payment received from Baxter in 2000, related to the licensing of NEUPREX(R). Revenue from this initial payment was deferred and is being recognized over the period of continuing performance obligation, which period is estimated to be 36 months.

Net cash used in investing activities for 2002, 2001 and 2000 were $11.6 million, $7.1 million and $1.0 million, respectively. The increases in 2002 and 2001 are primarily due to costs of renovating and expanding our manufacturing and warehouse facilities and other infrastructure improvements. Capital spending is expected to be significantly lower in 2003. Additionally, investing activities for 2002 include $1.5 million used to satisfy a restricted cash requirement related to short-term loan agreement.

Net cash provided by financing activities was $15.4 million in 2002, compared with $61.8 million in 2001 and $40.7 million in 2000. The decrease in 2002 compared with 2001 and 2000 reflected no additional funding from underwritten stock offerings. In 2002, financing activities included $7.1 million net proceeds from the issuance of common shares under the terms of our investment agreement with Millennium and $7.7 million net funding from Genentech under our development agreement. Total debt financing from Millennium and Genentech was $12.2 million and $5.8 million in 2001 and 2000, respectively.

As of December 31, 2002, future contractual obligations are as follows (in thousands):

<TABLE>
<CAPTION>

	Short-term Loan	Capital Leases	Operating Leases	Convertible Notes *	Total
<S>	<C>	<C>	<C>	<C>	<C>
2003	$ 790	$ 785	$ 2,850	$ 5,146	$ 9,571
2004	-	572	2,894	-	3,466
2005	-	221	2,890	63,016	66,127
2006	-	-	2,900	-	2,900
2007	-	-	2,730	-	2,730
Thereafter	-	-	708	-	708
Total	$ 790	$1,578	$14,972	$ 68,162	$ 85,502

</TABLE>

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* The amount due in 2005 relates to XOMA's agreement with Genentech. This amount is due at the earlier of April of 2005 or the first product approval (which could be before the end of 2003) and can be repaid in the form of cash or XOMA preference shares (see Note 7 to the Consolidated Financial Statements, "Share Capital").

The present outlook is for higher losses in 2003 than recorded in 2002, primarily due to increased expenses on Raptiva(TM) and on the Millennium collaboration, as well as lower licensing and contract services revenue. The Company's strategy is to attempt to continue broadening its product pipeline through additional development collaborations such as its arrangements with Genentech, Onyx and Millennium. To support these activities the Company expanded its manufacturing capacity and other development capabilities during 2001 and 2002. For example, the Company relocated its technical development and pilot plant facilities from Santa Monica to Berkeley in 2001 to improve efficiencies. XOMA also installed a third 2750-liter fermentation line in its Berkeley production facility, which became operational in the second half of 2002.

Based on current spending levels, anticipated revenues, debt financing provided by Genentech for XOMA's share of Raptiva(TM) development and marketing costs, and financing commitments from Millennium under the collaborative agreement between the companies, the Company estimates it has sufficient cash resources to meet its operating needs through at least the end of 2004. Any significant revenue shortfalls, or increases in planned spending on development programs could shorten this period. Any change in spending on Raptiva(TM) should have no impact on liquidity due to the Company's financing arrangement with Genentech. Approval of Raptiva(TM) during this period would be expected to improve operating cash flow, but require repayment in cash or stock of amounts owed to Genentech. Additional licensing arrangements or collaborations or otherwise entering into new equity or other financing arrangements, could extend this period. In December of 2002, Genentech and XOMA submitted a BLA to the U.S. Food and Drug Administration for marketing approval of Raptiva(TM) for the treatment of moderate-to-severe plaque psoriasis. The timeliness of review of the BLA by the FDA may have a material impact on the Company's cash flow, and its ability

to raise new funding on acceptable terms. Progress or setbacks by potentially competing products may also affect XOMA's ability to raise new funding on acceptable terms. For a further discussion of the risks related to our business and their effects on our cash flow and ability to raise new funding on acceptable terms, see "Forward-Looking Statements And Cautionary Factors That May Affect Future Results" included in this Item 7 below.

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

Recent Accounting Pronouncements

In November 2002, the FASB issued Interpretation No. 45 (or FIN 45), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN 45 elaborates on the existing disclosure requirements for most guarantees, including residual value guarantees issued in conjunction with operating lease agreements. It also clarifies that at the time a company issues a guarantee, the company must recognize an initial liability for the fair value of the obligation it assumes under that guarantee and must disclose that information in its interim and annual financial statements. The initial recognition and measurement provisions apply on a prospective basis to guarantees issued or modified after December 31, 2002. The disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002. The Company's adoption of the disclosure requirements in Novemver of 2002 and the recognition requirements in January of 2003 of FIN 45 neither had nor is anticipated to have a material impact on the Company's results of operations and financial position.

In January 2003, the FASB issued Interpretation No. 46 (or FIN 46), "Consolidation of Variable Interest Entities." FIN 46 requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both. A variable interest entity is a corporation, partnership, trust, or any other legal structures used for business purposes that either (a) does not have equity investors with voting rights or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. A variable interest entity often holds financial assets, including loans or receivables, real estate or other property. A variable interest entity may be essentially passive or it may engage in research and development or other activities on behalf of another company. The consolidation requirements of FIN 46 apply immediately to variable interest entities created after January 31, 2003. The consolidation requirements apply to older entities in the first fiscal year or interim period beginning after June 15, 2003. Certain of the disclosure requirements apply to all financial statements issued after January 31, 2003, regardless of when the variable interest entity was established. The Company's adoption of the disclosure requirements in January of 2003 and ultimate adoption of the recognition requirements of FIN 46 did not and is not anticipated to have a material impact on the Company's financial position or result of operations.

In December 2002, the FASB issued Statement No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure." FAS 148 amends FAS 123 "Accounting for Stock-Based Compensation" to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, FAS 148 amends the disclosure requirements of FAS 123 to require more prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The additional disclosure requirements of FAS 148 are effective for fiscal years ending after December 15, 2002. The Company elected to continue to follow the intrinsic value method of accounting as prescribed by Accounting Principles Board Opinion No. 25 (or APB 25), "Accounting for Stock Issued to Employees," to account for employee stock options.

In November of 2002, the Financial Accounting Standards Board issued Emerging Issues Task Force (referred to as EITF) Issue No. 00-21, "Revenue Arrangements with Multiple Deliverables." EITF Issue No. 00-21 addresses certain aspects of the accounting by a company for arrangements under which it will perform multiple revenue-generating activities. EITF Issue No. 00-21 addresses when and how an arrangement involving multiple deliverables should be divided into separate units of accounting. EITF Issue No. 00-21 provides guidance with respect to the effect of certain customer rights due to company nonperformance on the recognition of revenue allocated to delivered units of accounting. EITF Issue No. 00-21 also addresses the impact on the measurement and/or allocation of arrangement consideration of customer cancellation provisions and consideration that varies as a result of future actions of the customer or the company. Finally, EITF Issue No. 00-21 provides guidance with respect to the

recognition of the cost of certain deliverables that are excluded from the revenue accounting for an arrangement. The provisions of EITF Issue No. 00-21 will apply to revenue arrangements entered into in fiscal periods beginning after June 15, 2003. The Company is currently evaluating the effect that the adoption of EITF Issue No. 00-21 will have on its consolidated financial statements.

Non-Audit Services Performed by Independent Auditors

The Company's audit committee has approved certain non-audit services provided or to be provided by Ernst & Young LLP, the Company's independent auditors. These services include consultation services relating to the Company's preparation for internal control reporting under Section 404 of the Sarbanes Oxley Act of 2002, general accounting matters and tax matters; audit services required by certain foreign jurisdictions and relating to the Company's 401(k) plan; and review services relating to a pending systems upgrade.

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

Certain statements contained herein related to the estimated size of the Company's loss for 2003, the relative size of various financial items for 2003, the sufficiency of its cash resources, existing and potential collaborative and licensing relationships and current plans for product development including the progress of clinical trials and the regulatory process, as well as timing of clinical trials and regulatory filings and approvals, or that otherwise relate to future periods, are "forward-looking" information, as that term is defined in the Private Securities Litigation Reform Act of 1995. Such statements are based on the Company's current beliefs as to the outcome and timing of future events, and actual results may differ materially from those projected or implied in the forward-looking statements. Further, certain forward-looking statements are based upon assumptions of future events that may not prove accurate. Among other things, the actual loss for 2003 could be higher depending on revenues from licensees and collaborators, the size and timing of expenditures and whether there are unanticipated expenditures; the relative size of a particular financial item could be higher or lower in the event of unanticipated scientific, regulatory, collaborative or other developments; the sufficiency of cash resources could be shortened if expenditures are made earlier or in larger amounts than anticipated or are unanticipated or if funds are not available; and regulatory approvals could be delayed or denied as a result of safety or efficacy issues regarding the products being tested, action, inaction or delay by the FDA, European or other regulators, or issues relating to analysis, interpretation or submission of scientific data. These and other risks, including those related to changes in the status of existing collaborative relationships, availability of additional licensing or

collaboration opportunities, the timing or results of pending and future clinical trials, the ability of collaborators and other partners to meet their obligations, market demand for products, actions by the FDA or the U.S. Patent and Trademark Office, scale-up and marketing capabilities, competition, international operations, share price volatility, the Company's financing needs and opportunities, uncertainties regarding the status of biotechnology patents, uncertainties as to the costs of protecting intellectual property and risks associated with our status as a Bermuda company are described in more detail in the remainder of this section.

None Of Our Therapeutic Products Have Received Regulatory Approval; If Our Products Do Not Receive Regulatory Approval, Neither We Nor Our Third Party Collaborators Will Be Able To Manufacture And Market Them

Even our most advanced therapeutic product has not received regulatory approval. Our products cannot be manufactured and marketed in the United States and other countries without required regulatory approvals. The United States government and governments of other countries extensively regulate many aspects of our products, including:

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

In the United States, the FDA regulates pharmaceutical products under the Federal Food, Drug, and Cosmetic Act and other laws, including, in the case of biologics, the Public Health Service Act. At the present time, we believe that our products will be regulated by the FDA as biologics. The FDA has announced that it is consolidating its responsibility for reviewing new pharmaceutical

products into its Center for Drug Evaluation and Research, the body that currently reviews drug products, combining that operation with part of its biologics review operation, the Center for Biologics Evaluation and Research. Because implementation of this plan began only recently, we do not know when or how this change will affect us. State regulations may also affect our proposed products.

The FDA has substantial discretion in both the product approval process and manufacturing facility approval process and, as a result of this discretion and uncertainties about outcomes of testing, we cannot predict at what point, or whether, the FDA will be satisfied with our or our collaborators' submissions or whether the FDA will raise questions which may be material and delay or preclude product approval or manufacturing facility approval. As we accumulate additional clinical data, we will submit it to the FDA, which may have a material impact on the FDA product approval process.

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

- our future filings will be delayed
- our studies will be successful

- we will be able to provided necessary additional data
- our future results will justify further development or
- we will ultimately achieve regulatory approval for any of these products.

For example,

- in 1996, we and Genentech began testing Raptiva(TM)(Efalizumab, formerly Xanelim(TM)) in patients with moderate-to-severe psoriasis. In April of 2002, we and Genentech announced that a pharmacokinetic study conducted on Raptiva(TM)comparing XOMA-produced material and Genentech-produced material did not achieve the pre-defined statistical definition of comparability, and the FDA requested that another Phase III study be completed before the filing of a Biologics License Application for Raptiva(TM), delaying the filing of a Biologics Licensing Application with the FDA for Raptiva(TM)beyond the previously-planned time frame of summer 2002. In September of 2002, we and Genentech announced the results of the additional Phase III study which achieved its primary efficacy endpoint. In December of 2002, Genentech submitted a Biologics License Application for Raptiva(TM)for the treatment of moderate-to-severe plaque psoriasis, which was accepted by the FDA in February of 2003. Genentech has projected a 10-month regulatory review period, which could potentially lead to FDA action in late 2003. However, we do not yet know what issues the FDA may raise with respect to efficacy or safety of the drug or other elements of the application. We have also completed enrollment in a Phase II study of Raptiva(TM)in patients suffering from rheumatoid arthritis. We do not know whether there will be follow-on studies, and if there are such follow-on studies we do not know whether any such studies will be sufficient for regulatory approval. We have also announced the initiation of enrollment in a Phase II study of Raptiva(TM)as a possible treatment for patients with psoriatic arthritis. We do not know whether or when any such testing will demonstrate product safety and efficacy in these patient populations or result in regulatory approval.

- in December of 1992, we began human testing of our NEUPREX(R)product, a genetically-engineered fragment of a particular human protein, and have licensed certain worldwide rights to Baxter. In April of 2000, members of the FDA and representatives of XOMA and Baxter discussed results from the Phase III trial that tested NEUPREX(R)in pediatric patients with a potentially deadly bacterial infection called meningococcemia, and senior representatives of the FDA indicated that the data presented were not sufficient to support the filing of an application for marketing approval at that time. Because neither we nor Baxter have generated any additional data or completed any further analysis, we do not know whether we will be able to supply such additional data. If we conduct an additional trial to provide the requested additional data, we will not know whether the results will be adequate for approval until the trial has been completed and the resulting data reviewed by the FDA. In November of 2002, Baxter completed enrollment in a Phase II study with NEUPREX(R)in Crohn's disease patients, but because we do not know the results, we do not know whether the results will justify further development.

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

Because All Of Our Products Are Still In Development, We Will Require Substantial Funds To Continue; We Cannot Be Certain That Funds Will Be Available And, If Not Available, We May Have To Take Actions Which Could Adversely Affect Your Investment

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

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

Based on current spending levels, anticipated revenues, debt financing provided by Genentech for our share of Raptiva(TM) development and marketing costs, and financing commitments from Millennium under the collaborative agreement between the companies, we estimate we have sufficient cash resources to meet our operating needs through at least the end of 2004. However, to the extent we experience changes in the timing or size of expenditures or unanticipated expenditures, or if our collaborators do not meet their obligations to us or anticipated revenues otherwise do not materialize, these funds may not be adequate for this period. As a result, we do not know whether:

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

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

Specifically, although changes in spending on Raptiva(TM) should not impact liquidity due to our financing arrangement with Genentech and FDA approval of Raptiva(TM) would generally be expected to improve operating cash flow, such approval will also require repayment in cash or shares of amounts owed to Genentech (approximately $63.0 million as of December 31, 2002). In addition, any delays in the review by the FDA of the Biologics License Application for Raptiva(TM) may have a material impact on our cash flow and on our ability to raise new funding on acceptable terms.

The Financial Terms Of Some Of Our Existing Collaborative Arrangements Could Result In Dilution Of Our Share Value

We have financed, and anticipate continuing to finance, our most significant development program, Raptiva(TM), principally by borrowing from Genentech, and this debt is convertible at XOMA's option into our common shares. The outstanding amount of such debt as of December 31, 2002 was approximately $63.0 million. This debt will come due at the earlier of April of 2005 or first product approval (which could be before the end of

2003). Unless we secure substantial alternative financing, it is likely that some or all of this debt, as well as some or all of any convertible debt issued in the future as part of this financing arrangement, will be converted into equity when it comes due rather than be repaid in cash, resulting in the issuance of additional common shares.

Our financing arrangement with Millennium includes a $5.0 million convertible note we issued to Millennium in November of 2001, which comes due in May of 2003

and may be converted into common shares at that time. In addition, we have the option to issue up to $42.5 million worth of common shares to Millennium over the next 18 months, including the conversion of current outstanding convertible debt. The total amount issuable in 2003, including debt conversion, could be $27.5 million.

These arrangements, as well as future arrangements we may enter into with similar effect, could result in dilution in the value of our shares.

Because All Of Our Products Are Still In Development, We Have Sustained Losses In The Past And We Expect To Sustain Losses In The Future

We have experienced significant losses and, as of December 31, 2002, we had an accumulated deficit of $540.9 million.

For the year ended December 31, 2002, we had a net loss of approximately $33.2 million, or $0.47 per common share (basic and diluted). We expect to incur additional losses in the future, primarily due to increased expenses on Raptiva(TM) and on the Millennium collaboration, as well as lower licensing and contract services revenue.

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

If Third Party Collaborators Do Not Successfully Develop And Market Our Products, We May Not Be Able To Do So On Our Own

Our financial resources and our marketing experience and expertise are limited. Consequently, we depend to a large extent upon securing the financial resources and marketing capabilities of third parties with whom we collaborate.

- In April of 1996, we and Genentech entered into an agreement whereby we agreed to co-develop Genentech's humanized monoclonal antibody product Raptiva(TM). In April of 1999, the companies extended and expanded the agreement.

- In January of 2000, we licensed the worldwide rights to all pharmaceutical compositions containing a particular human protein for treatment of meningococcemia and additional potential future human clinical indications to Baxter.

- In January of 2001, we entered into a strategic process development and manufacturing alliance with Onyx Pharmaceuticals, Inc. pursuant to which we are scaling up production to commercial volume to manufacture one of Onyx's cancer products.

- In November of 2001, we entered into a collaboration with Millennium Pharmaceuticals, Inc. to develop two of Millennium's products for certain vascular inflammation indications.

Because our collaborators are independent third parties, they may be subject to different risks than we are and have significant discretion in determining the efforts and resources they will apply, we do not know whether Genentech, Baxter, Onyx or Millennium will successfully develop or market any of the products we are collaborating on.

Specifically, in January of 2003, Onyx announced suspension of development activities, including manufacturing, related to the product that is the subject of our alliance while Onyx seeks a marketing partner for the product to enable it to reinitiate development, and we are not involved in assisting Onyx in this process. In addition, plans for further development, including a potential collaboration with another pharmaceutical company, are being pursued with Baxter to provide additional resources for development. Because these efforts are on-going, we do not know whether any additional partners or resources will be found in either of these situations.

Even when we have a collaboration relationship, other circumstances may prevent it from resulting in successful development of marketable products. For example, in June of 1999, we licensed certain genetically-engineered fragments of a particular human protein to Allergan Inc. to treat bacterial ophthalmic infections. In May of 2000, following successful product testing at Allergan, we expanded the collaboration. In November of 2000, Allergan advised us that for internal economic reasons they planned to discontinue development of ophthalmic anti-infective products derived from this protein.

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

Because We Have No History Of Profitability And Because The Biotechnology Sector Has Been Characterized By Highly Volatile Stock Prices, Announcements We Make And General Market Conditions For Biotechnology Stocks Could Result In A Sudden Change In The Value Of Our Common Shares

As a biopharmaceutical company, we have experienced significant volatility in our common shares. Fluctuations in our operating results and general market conditions for biotechnology stocks could have a significant impact on the volatility of our common share price. From December 31, 2001 through March 10, 2003, our share price has ranged from a high of $12.19 to a low of $2.84. On March 10, 2003, the last reported sale price of the common shares as reported on the Nasdaq National Market was $3.41 per share. Factors contributing to such volatility include, but are not limited to:

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

Because Many Of The Companies We Do Business With Are Also In The Biotechnology Sector, The Volatility Of That Sector Can Affect Us Indirectly As Well As Directly

The same factors that affect us directly because we are a biotechnology company can also adversely impact us indirectly by affecting the ability of our collaborators, partners and others we do business with to meet their obligations to us or our ability to realize the value of the consideration provided to us by these other companies. For example, in connection with our licensing transaction with MorphoSys AG, MorphoSys has announced that it has exercised its option to pay a portion of the license fee owed to us in the form of equity securities of MorphoSys. The administrative process in Germany that is required in order for these shares to be issued has not yet been completed and the future value of those shares is subject both to market risks affecting our ability to realize the value of those shares and more generally to the business and other risks to which the issuer of those shares is subject. Since the date of MorphoSys' election on October 23, 2002, the per share closing price for MorphoSys shares has ranged from approximately $4.64 to $15.20, which demonstrates the volatility of these shares in the current market.

If Any Of Our Products Receives Regulatory Approval, We May Not Be Able To Increase Existing Or Acquire New Manufacturing Capacity Sufficient To Meet Market Demand

Because we have never commercially introduced any pharmaceutical products and none of our products have received regulatory approval, we do not know whether the capacity of our existing manufacturing facilities can be increased to produce sufficient quantities of our products to meet market demand. Also, if we need additional manufacturing facilities to meet market demand, we cannot predict that we will successfully obtain those facilities because we do not know whether they will be available on acceptable terms. In addition, any manufacturing facilities acquired or used to meet market demand must meet the FDA's quality assurance guidelines.

Because We Do Not And Cannot Currently Market Any Of Our Products For Commercial Sale, We Do Not Know Whether There Will Be A Viable Market For Our Products

Even if we receive regulatory approval for our products and we or our third party collaborators successfully manufacture them, our products may not be accepted in the marketplace. For example, physicians and/or patients may not accept a product for a particular indication because it has been biologically derived (and not discovered and developed by more traditional means) if no

biologically-derived products are currently in widespread use in that indication, as is currently the case with psoriasis. Consequently, we do not know if physicians or patients will adopt or use our products for their approved indications.

If Our And Our Partners' Patent Protection For Our Principal Products And Processes Is Not Enforceable, We May Not Realize Our Profit Potential

Because of the length of time and the expense associated with bringing new products to the marketplace, we and our partners hold and are in the process of applying for a number of patents in the United States and abroad to protect our products and important processes and also have obtained or have the right to obtain exclusive licenses to certain patents and applications filed by others. However, the patent position of biotechnology companies generally is highly uncertain and involves complex legal and factual questions, and no consistent policy regarding the breadth of allowed claims has emerged from the actions of the U.S. Patent and Trademark Office with respect to biotechnology patents. Legal considerations surrounding the validity of biotechnology patents continue to be in transition, and historical legal standards surrounding questions of validity may not

continue to be applied, and current defenses as to issued biotechnology patents may not in fact be considered substantial in the future. These factors have contributed to uncertainty as to:

- the degree and range of protection any patents will afford against competitors with similar technologies
- if and when patents will issue
- whether or not others will obtain patents claiming aspects similar to those covered by our patent applications or
- the extent to which we will be successful in avoiding infringement of any patents granted to others.

The Patent Office has issued approximately 63 patents to us related to our products based on human bactericidal permeability-increasing protein, which we call BPI, including novel compositions, their manufacture, formulation, assay and use. In addition, we are the exclusive licensee of BPI-related patents and applications owned by New York University and Incyte Pharmaceuticals Inc. The Patent Office has also issued nine patents to us related to our bacterial expression technology.

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

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

Protecting Our Intellectual Property Can Be Costly And Expose Us To Risks Of Counterclaims Against Us

We may be required to engage in litigation or other proceedings to protect our intellectual property. The cost to us of this litigation, even if resolved in our favor, could be substantial. Such litigation could also divert management's attention and resources. In addition, if this litigation is resolved against us, our patents may be declared invalid, and we could be held liable for significant damages. In addition, if the litigation included a claim of infringement by us of another party's patent that was resolved against us, we or our collaborators may be enjoined from developing, manufacturing, selling or importing products, processes or services without a license from the other party.

Other Companies May Render Some Or All Of Our Products Noncompetitive Or Obsolete

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

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

These factors may enable others to develop products and processes competitive with or superior to our own or those of our collaborators. In addition, a significant amount of research in biotechnology is being carried out in universities and other non-profit research organizations. These entities are becoming increasingly interested in the commercial value of their work and may become more aggressive in seeking patent protection and licensing arrangements.

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

Without limiting the foregoing, we are aware that:

- Biogen Inc. has announced that the FDA has approved Amevive(R)to treat moderate-to-severe chronic plaque psoriasis in adult patients who are candidates for systematic therapy or phototherapy;
- Centocor Inc., a unit of Johnson & Johnson, has announced that it has tested its rheumatoid arthritis and Crohn's disease drug, Remicade(R), in psoriasis showing clinical benefits (and it has been announced that the drug has shown promising results in patients with psoriatic arthritis);
- it has been announced that Amgen Inc. tested its rheumatoid arthritis and psoriatic arthritis drug, Enbrel(R), in a Phase III clinical trial in patients with moderate-to-severe plaque psoriasis, meeting the primary endpoint and all secondary endpoints;
- MedImmune, Inc. has completed enrollment in three Phase II trials to evaluate its anti-T cell monoclonal antibody in psoriasis;
- GenMab A/S has announced that its investigational new drug application for HuMax-CD4 for psoriasis has been cleared through the FDA to initiate a Phase II study;

- Abbott Laboratories has announced the commencement of a Phase II psoriasis trial and Phase III psoriatic arthritis trial of its rheumatoid arthritis drug Humira(TM); and
- other companies, including Medarex, Inc., are developing monoclonal antibody or other products for treatment of inflammatory skin disorders.

Currently, there are several companies with marketed biologics that are approved for treating patients with rheumatoid arthritis:

- Abbott Laboratories markets Humira(TM);
- Amgen Inc. markets Enbrel(R)and Kineret; and

o Centocor Inc. is approved to market Remicade(R)to rheumatoid arthritis patients.

In addition to approved products, a number of companies are developing drugs with a biologic mechanism of action for the treatment of rheumatoid arthritis. These companies include GenMab A/S, Biogen, Inc., Celltech Group plc and others.

A number of companies are developing monoclonal antibodies targeting cancers, which may prove more effective than ONYX-015 or the ING-1 antibody.

It is possible that one or more other companies may be developing one or more products based on the same human protein as our NEUPREX(R) product, and these product(s) may prove to be more effective than NEUPREX(R) or receive regulatory approval prior to NEUPREX(R) or any BPI-derived ophthalmic product developed by XOMA.

As We Do More Business Internationally, We Will Be Subject To Additional Political, Economic and Regulatory Uncertainties

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

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

Because We Are A Relatively Small Biopharmaceutical Company With Limited Resources, We May Not Be Able To Attract And Retain Qualified Personnel, And The Loss Of Key Personnel Could Delay Or Prevent Achieving Our Objectives

Our success in developing marketable products and achieving a competitive position will depend, in part, on our ability to attract and retain qualified scientific and management personnel, particularly in areas requiring specific technical, scientific or medical expertise. There is intense competition for such personnel. Our research, product development and business efforts would be adversely affected by the loss of one or more of key members of our scientific or management staff, particularly our executive officers: John L. Castello, our Chairman of the Board, President and Chief Executive Officer; Patrick J. Scannon, M.D., Ph.D., our Senior Vice President and Chief Scientific and Medical Officer; Clarence L. Dellio, our Senior Vice President and Chief Operating Officer; Peter B. Davis, our Vice President, Finance and Chief Financial Officer; and Christopher J. Margolin, our Vice President, General Counsel and Secretary. We have employment agreements with Mr. Castello, Dr. Scannon and Mr. Davis. We currently have no key person insurance on any of our employees.

Even If We Bring Products To Market, We May Be Unable To Effectively Price Our Products Or Obtain Adequate Reimbursement For Sales Of Our Products, Which Would Prevent Our Products From Becoming Profitable.

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

Because We Engage In Human Testing, We Are Exposed To An Increased Risk Of Product Liability Claims

The testing and marketing of medical products entails an inherent risk of allegations of product liability. We believe that we currently have adequate levels of insurance for our clinical trials; however, in the event of one or more large, unforeseen awards, such levels may not provide adequate coverage. We will seek to obtain additional insurance, if needed, if and when our products are commercialized; however, because we do not know when this will occur, we do not know whether adequate insurance coverage will be available or be available at acceptable costs. A significant product liability claim for which we were not covered by insurance would have to be paid from cash or other assets. To the extent we have sufficient insurance coverage, such a claim would result in higher subsequent insurance rates.

We May Be Subject To Increased Risks Because We Are A Bermuda Company

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

o "blacklisting" of our common shares by certain pension funds

o legislation restricting certain types of transactions and

o punitive tax legislation.

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

If You Were To Obtain A Judgment Against Us, It May Be Difficult To Enforce Against Us Because We Are A Foreign Entity

We are a Bermuda company. All or a substantial portion of our assets may be located outside the United States. As a result, it may be difficult for shareholders and others to enforce in United States courts judgments obtained against us. We have irrevocably agreed that we may be served with process with respect to actions based on offers and sales of securities made hereby in the United States by serving Christopher J. Margolin, c/o XOMA Ltd., 2910 Seventh Street, Berkeley, California 94710, our United States agent appointed for that purpose. We have been advised by our Bermuda counsel, Conyers Dill & Pearman, that there is doubt as to whether Bermuda courts would enforce judgments of United States courts obtained in (1) actions against XOMA or our directors and officers that are predicated upon the civil liability provisions of the U.S. securities laws or (2) original actions brought in Bermuda against XOMA or such persons predicated upon the U.S. securities laws. There is no treaty in effect between the United States and Bermuda providing for such enforcement, and there are grounds upon which Bermuda courts may not enforce judgments of United States courts. Certain remedies available under the United States federal securities laws may not be allowed in Bermuda courts as contrary to that nation's policy.

Our Shareholder Rights Agreement Or Bye-laws May Prevent Transactions That Could Be Beneficial To Our Shareholders And May Insulate Our Management From Removal

Our shareholder rights agreement could make it considerably more difficult or costly for a person or group to acquire control of XOMA in a transaction that our board of directors opposes.

Our bye-laws:

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

o authorize our board of directors to issue up to 1,000,000 preference shares without shareholder approval and to set the rights, preferences and other designations, including voting rights, of those shares as the board of directors may determine; and o contain provisions, similar to those contained in the Delaware General Corporation Law, that may make business combinations with interested shareholders more difficult.

These provisions of our shareholders rights agreement and our bye-laws, alone or

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

Item 7A. Quantitative And Qualitative Disclosures About Market Risk

Interest Rate Risk. The Company's exposure to market rate risk for changes in interest rates relates primarily to its investment portfolio. XOMA does not use derivative financial instruments in its investment portfolio. By policy, the Company places its investments with high quality debt security issuers, limits the amount of credit exposure to any one issuer, limits duration by restricting the term, and holds investments to maturity except under rare circumstances. The Company classifies its cash equivalents or short-term investments as fixed rate if the rate of return on an instrument remains fixed over its term. As of December 31, 2002, all cash equivalents and short-term investments are classified as fixed rate.

XOMA also has a long-term convertible subordinated note due to Genentech in 2005. Interest on this note of LIBOR plus 1% is reset at the end of June and December each year and, therefore, variable.

The table below presents the amounts and related weighted interest rates of the Company's cash equivalents at December 31, 2002:

<TABLE>
<CAPTION>

	Maturity	Fair Value (in thousands)	Average Interest Rate
<S>	<C>	<C>	<C>
Cash equivalents, fixed rate	Daily	$ 36,262	1.14%

</TABLE>

Other Market Risk. At December 31, 2002, the Company had convertible notes outstanding, which is convertible into common shares based on the market price of the Company's common shares at the time of conversion. A 10% decrease in the market price of the Company's common shares would increase the number of shares issuable upon conversion of either security by approximately 11%. An increase in the market price of Company common shares of 10% would decrease the shares issuable by approximately 9%. (See Note 4 to the Consolidated Financial Statements.)

Item 8. Financial Statements And Supplementary Data

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

PART III

Item 9. Changes In And Disagreements With Accountants On Accounting And Financial Disclosure

Not Applicable.

Item 10. Directors And Executive Officers Of The Registrant

The section labeled "Item 1 -- Election of Directors" appearing in the Company's proxy statement for the 2003 annual general meeting of shareholders is incorporated herein by reference. Certain information concerning the Company's executive officers is set forth in Part I of this Report on Form 10-K.

Item 11. Executive Compensation

The section labeled "Compensation of Executive Officers" appearing in the Company's proxy statement for the 2003 annual general meeting of shareholders is incorporated herein by reference.

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

The section labeled "Share Ownership" appearing in the Company's proxy statement for the 2003 annual general meeting of shareholders is incorporated herein by reference.

Item 13. Certain Relationships And Related Transactions

The section labeled "Certain Transactions" appearing in the Company's proxy statement for the 2003 annual general meeting of shareholders is incorporated herein by reference.

Item 14. Controls And Procedures

Under the supervision and with the participation of our management, including our Chairman of the Board, President and Chief Executive Officer and our Vice President, Finance and Chief Financial Officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-14(c) promulgated under the Securities Exchange Act of 1934, as amended, within 90 days before the filing date of this report. Based on this evaluation, our Chairman of the Board, President and Chief Executive Officer and our Vice President, Finance and Chief Financial Officer concluded that our disclosure controls and procedures are effective in timely alerting them to material information relating to the Company and its consolidated subsidiaries required to be disclosed in our periodic SEC filings.

There have been no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of the evaluation referenced above.

PART IV

Item 15. Exhibits, Financial Statement Schedules And Reports On Form 8-K

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

(1) Financial Statements:

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

(2) Financial Statement Schedules:

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

(3) Exhibits:

See "Index to Exhibits."

(b) Reports on Form 8-K:

Amendment No. 2 to Current Report on Form 8-K/A dated and filed October 24, 2002.

Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on this 14th day of March 2003.

XOMA Ltd.

By: /s/ John L. Castello

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

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

<TABLE>
<CAPTION>

Signature	Title	Date
<S>	<C>	<C>
/s/ John L. Castello - ---------- (John L. Castello)	Chairman of the Board, President and Chief Executive Officer	March 14, 2003
/s/ Patrick J. Scannon - ---------- (Patrick J. Scannon)	Director, Senior Vice President and Chief Scientific and Medical Officer	March 14, 2003
/s/ Peter B. Davis - ---------- (Peter B. Davis)	Vice President, Finance and Chief Financial Officer (Principal Financial and Accounting Officer)	March 14, 2003
/s/ James G. Andress - ---------- (James G. Andress)	Director	March 14, 2003
/s/ William K. Bowes, Jr. - ---------- (William K. Bowes, Jr.)	Director	March 14, 2003
/s/ Arthur Kornberg - ---------- (Arthur Kornberg)	Director	March 14, 2003
/s/ Steven C. Mendell - ---------- (Steven C. Mendell)	Director	March 14, 2003
/s/ W. Denman Van Ness - ---------- (W. Denman Van Ness)	Director	March 14, 2003
/s/ Patrick J. Zenner - ---------- (Patrick Zenner)	Director	March 14, 2003

</TABLE>

Certifications

I, JOHN L. CASTELLO, certify that:

1. I have reviewed this annual report on Form 10-K of XOMA Ltd.

2. Based on my knowledge, this annual 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 annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual 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-14 and 15d-14) for the registrant and we have:

   a) designed such disclosure controls and procedures 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 annual report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The Registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect

internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 14, 2003

By: /s/ JOHN L. CASTELLO

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

I, PETER B. DAVIS, certify that:

1. I have reviewed this annual report on Form 10-K of XOMA Ltd.

2. Based on my knowledge, this annual 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 annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual 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-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures 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 annual report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our

evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 14, 2003

By: /s/ PETER B. DAVIS

Peter B. Davis
Vice President, Finance and
Chief Financial Officer

Index To Financial Statements

Report Of Ernst & Young LLP, Independent Auditors

To the Board of Directors and Shareholders of XOMA Ltd.

We have audited the accompanying consolidated balance sheets of XOMA Ltd. as of December 31, 2002 and 2001 and the related consolidated statements of operations, shareholders' equity (net capital deficiency) and cash flows for each of the three years in the period ended December 31, 2002. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in

all material respects, the consolidated financial position of XOMA Ltd. as of December 31, 2002 and 2001 and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States.

/s/ ERNST & YOUNG LLP

Palo Alto, California
February 7, 2003, except for Note 13
as to which the date is February 28, 2003

<TABLE>
<CAPTION>

XOMA Ltd.

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

	December 31,	
	2002	2001
ASSETS		
CURRENT ASSETS:		
<S>	<C>	<C>
Cash and cash equivalents	$ 36,262	$ 67,320
Short-term investments	391	320
Restricted cash (Note 3)	1,500	-
Receivables	8,656	1,662
Related party receivables - current	206	418
Inventory	1,306	1,299
Prepaid expenses and other	449	249
-		
Total current assets	48,770	71,268
Property and equipment, net	22,650	14,645
Related party receivables - long-term	190	-
Deposits and other	172	194
-		
Total Assets	$ 71,782	$ 86,107
LIABILITIES AND SHAREHOLDERS' EQUITY (Net Capital Deficiency)		
CURRENT LIABILITIES:		
Accounts payable	$ 3,201	$ 3,520
Accrued liabilities	7,096	4,422
Short-term loan	763	-
Capital lease obligations - current	667	673
Deferred revenue - current	1,729	5,017
Convertible note - current	5,146	5,013
-		
Total current liabilities	18,602	18,645
Capital lease obligations - long-term	729	1,393
Deferred revenue - long-term	800	1,470
Convertible subordinated note - long-term	63,016	50,980
-		
Total Liabilities	83,147	72,488
-		
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY (Net Capital Deficiency):		
Preference shares, $.05 par value, 1,000,000 shares authorized, no shares issued and outstanding	-	-
Common shares, $.0005 par value, 135,000,000 shares authorized, and 71,793,647 and 70,184,693 shares outstanding at December 31, 2002 and 2001, respectively	36	35
Additional paid-in-capital	529,354	521,163
Accumulated comprehensive income	121	50
Accumulated deficit	(540,876)	(507,629)
-		
Total Shareholders' Equity (Net Capital Deficiency)	(11,365)	13,619

	$ 71,782	$ 86,107

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

</TABLE>

<TABLE>
<CAPTION>

XOMA Ltd.

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

	Year Ended December 31,		
	2002	2001	2000
REVENUES:			
<S>	<C>	<C>	<C>
License and collaborative fees	$ 16,850	$ 4,821	$ 3,194
Contract revenue	13,050	10,078	3,400
Product sales	49	2,380	65
Total revenues	29,949	17,279	6,659
OPERATING COSTS AND EXPENSES:			
Research and development	42,621	35,929	30,006
Marketing, general and administrative	19,405	8,681	6,069
Total operating costs and expenses	62,026	44,610	36,075
Loss from operations	(32,077)	(27,331)	(29,416)
OTHER INCOME (EXPENSE):			
Investment and other income	871	1,959	2,684
Interest expense	(2,041)	(2,570)	(2,680)
Other expense	--	(98)	--
Net loss	$ (33,247)	$ (28,040)	$ (29,412)
BASIC AND DILUTED NET LOSS PER COMMON SHARE	$ (0.47)	$ (0.41)	$ (0.45)
SHARES USED IN COMPUTING BASIC AND DILUTED NET LOSS PER COMMON SHARE	70,355	68,159	64,719

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

</TABLE>

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XOMA Ltd.

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

	Common Shares		Paid-In	Accumulated Comprehensive	Accumulated	Total Shareholders' Equity (Net Capital Deficiency)
	Shares	Amount	Capital	Income(Loss)	Deficit	
<S>	<C>	<C>	<C>	<C>	<C>	<C>
BALANCE, DECEMBER 31, 1999	58,324	$ 29	$ 433,302	$ -	$ (450,177)	$ (16,846)
Exerecise of share options, contributions to 401(k) and incentive plans	1,053	1	4,570	-	-	4,571
Exercise of warrants	204	-	1,192	-	-	1,192
Sales of common shares	6,145	3	28,967	-	-	28,970
Conversion of redeemable debentures into common shares	382	-	3,035	-	-	3,035
Comprehensive loss:						
Unrealized gain (loss) on investments	-	-	-	(100)	-	(100)
Net loss	-	-	-	-	(29,412)	(29,412)
Comprehensive loss	-	-	-	-	-	(29,512)
BALANCE, DECEMBER 31, 2000	66,108	33	471,066	(100)	(479,589)	(8,590)
Exercise of share options, contributions to 401(k) and incentive plans	324	-	1,541	-	-	1,541
Exercise of warrants	652	-	3,808	-	-	3,808
Sales of common shares	3,000	2	43,256	-	-	43,258
Conversion of redeemable debentures into common shares	100	-	1,492	-	-	1,492
Comprehensive loss:						
Unrealized gain on investments	-	-	-	150	-	150
Net loss	-	-	-		(28,040)	(28,040)
Comprehensive loss	-	-	-	-	-	

(27,890)						
BALANCE, DECEMBER 31, 2001	70,184	35	521,163	50	(507,629)	13,619
Exercise of share options, contributions to 401(k) and incentive plans	167	-	1,050	-	-	1,050
Sales of common shares	1,443	1	7,141	-	-	7,142
Comprehensive loss:						
Unrealized gain on investments	-	-	-	71	-	71
Net loss	-	-	-	-	(33,247)	(33,247)
Comprehensive loss	-	-	-	-	-	(33,176)
BALANCE, DECEMBER 31, 2002	71,794	$ 36	$ 529,354	$ 121	$ (540,876)	$ (11,365)

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

</TABLE>

<TABLE>
<CAPTION>

XOMA Ltd.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year Ended December 31,		
	2002	2001	2000
CASH FLOW FROM OPERATING ACTIVITIES:			
<S>	<C>	<C>	<C>
Net loss	$ (33,247)	$ (28,040)	$ (29,412)
Adjustment to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	2,118	1,254	1,189
Common shares contribution to 401 (k) and management incentive plans	541	477	421
Increase (decrease) in convertible notes to (from) a collaborative partner for cost allocations	2,718	3,364	(700)
Accrued interest on convertible notes	1,779	2,456	2,679
Common shares received from a vendor	-	(231)	-
Gain on investments	-	(20)	(278)
(Gain) loss on disposal/retirement of property and equipment	10	(97)	2
Change in assets and liabilities:			
Receivables and related party and other receivables	(6,972)	(835)	(868)
Inventory	(7)	(1,299)	-
Prepaid expenses and other	(200)	(87)	517

Deposit and other assets	22	(25)	(45)
Accounts payable	(319)	1,005	(1,400)
Accrued liabilities	2,674	111	(2,208)
Deferred revenue	(3,958)	(455)	6,942
Net cash used in operating activities	(34,841)	(22,422)	(23,161)
CASH FLOW FROM INVESTING ACTIVITES			
Proceeds from sale of short-term investments	-	253	506
Transfer to restricted cash	(1,500)	-	-
Purchase of property and equipment, net of sale proceeds	(10,133)	(7,381)	(1,519)
Net cash used in investing activities	(11,633)	(7,128)	(1,013)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from sale and leaseback transactions	-	1,828	546
Proceeds from short-term loan	1,000	-	-
Principal payments short-term loan	(237)	-	-
Principal payments under capital lease obligations	(670)	(308)	-
Proceeds from issuance of convertible notes	7,672	12,177	5,820
Proceeds from issuance of common or convertible preference shares and warrants	7,651	48,130	34,312
Net cash provided by financing activities	15,416	61,827	40,678
Net increase (decrease) in cash and cash equivalents	(31,058)	32,277	16,504
Cash and cash equivalents at beginning of year	67,320	35,043	18,539
Cash and cash equivalents at end of year	$ 36,262	$ 67,320	$ 35,043

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

</TABLE>

XOMA Ltd.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Business And Summary Of Significant Accounting Policies

Business

XOMA Ltd. ("XOMA" or the "Company"), a Bermuda company, is a biopharmaceutical company that develops and manufactures products to treat cancer, immunologic and inflammatory disorders, and infectious diseases. The Company's products are presently in various stages of development and all are subject to regulatory approval before the Company or its collaborators can commercially introduce any products. There can be no assurance that any of the products under development by the Company will be developed successfully, obtain the requisite regulatory

approval or be successfully manufactured or marketed.

Consolidation

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

Estimates

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

Concentration of Risk

Cash, cash equivalents, short term investments and accounts receivable are financial instruments, which potentially subject the Company to concentrations of credit risk. The Company maintains and invests excess cash in money market funds and short-term investments that bear minimal risk. The Company has not experienced any significant credit losses and does not generally require collateral on receivables. In 2002, four customers represented 35%, 25%, 17% and 15% of total revenues and as of December 31, 2002 billed and unbilled receivables totaled $2.1 million, $0.0 million, $4.0 million and $2.3 million for these customers, respectively. In 2001, two customers represented 57% and 39% of total revenues and as of December 31, 2001 billed and unbilled receivables totaled $0.5 million and $1.2 million for these customers, respectively.

Reclassifications

Certain reclassifications have been made to conform the prior years to the 2002 presentation.

Revenue Recognition

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

License and Collaborative Fees

Revenue from non-refundable license or technology access payments under license and collaborative agreements where the Company has a continuing obligation to perform is recognized as revenue over the period of the continuing performance obligation.

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

Contract Revenue

Contract revenue for research and development involves the Company providing research, development or manufacturing services to collaborative partners. The Company recognizes revenue under these arrangements as the related research and development costs are incurred and collectibility is reasonably assured.

Product Sales

The Company recognizes product revenue upon shipment when there is persuasive

evidence that an arrangement exists, delivery has occurred, the price is fixed and determinable and collectibility is reasonably assured. Allowances are established for estimated uncollectible amounts, product returns, and discounts, if any.

Research and Development

The Company expenses research and development costs as incurred. Research and development expenses consist of direct and research-related allocated overhead costs such as facilities costs, salaries and related personnel costs and material and supply costs. In addition, research and development expenses include costs related to clinical trials to validate the Company's testing processes and procedures and related overhead expenses. The Company's research and development expenses include costs incurred to provide services to third parties under terms of various collaborative arrangements. From time to time, research and development expenses may include upfront fees and milestones paid to collaborative partners for the acquisition of rights to in-process research and development. Such amounts are expensed as incurred.

Share-Based Compensation

In accordance with the provisions of the Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (SFAS 123), the Company has elected to continue to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25) and related interpretations, and to adopt the "disclosure only" alternative described in SFAS 123. Under APB 25, if the exercise price of the Company's employee share options equals or exceeds the fair market value on the date of the grant or the fair value of the underlying shares on the date of the grant as determined by the Company's Board of Directors, no compensation expense is recognized. Accordingly, the financial statements reflect amortization of compensation resulting from options granted at exercise prices which were below market price at the grant date. Had compensation cost for the Company's shares-based compensation plans been based on the fair value method at the grant dates for awards under these plans consistent with the provisions of FASB Statement 123, the Company's net loss and loss per share would have been increased to the pro forma amounts indicated below for the years ended December 31 (in thousands except per share amounts):

<TABLE>
<CAPTION>

	2002	2001	2000
<S>	<C>	<C>	<C>
Net loss - as reported	$ (33,247)	$ (28,040)	$ (29,412)
Deduct - Total share-based employee compensation expense determined under fair value method	(3,812)	(3,190)	(2,035)
Pro forma net loss	$ (37,059)	$ (31,230)	$ (31,447)
Loss per share:			
Basic and diluted - as reported	$ (0.47)	$ (0.41)	$ (0.45)
Basic and diluted - pro forma	$ (0.53)	$ (0.46)	$ (0.49)

</TABLE>

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

	2002	2001	2000
Dividend yield	0%	0%	0%
Expected volatility	99%	92%	91%
Risk-free interest rate	1.50%	3.70%	5.80%
Expected life	6.2 years	7.8 years	6.3 years

Income Taxes

Income taxes are computed using the asset and liability method, under which deferred income tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities and are measured using the currently enacted tax rates and laws. A valuation allowance is provided for the amount of deferred tax assets that, based on available evidence, are not expected to be realized.

Net Loss Per Common Share

Basic and diluted net loss per common share is based on the weighted average number of common shares outstanding during the period in accordance with Financial Accounting Standard No. 128.

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

<TABLE>
<CAPTION>

	2002	2001	2000
<S>	<C>	<C>	<C>
Options for common shares	4,769	4,167	3,753
Warrants for common shares	700	700	1,444
Convertible notes, debentures and related interest, as if converted	14,917	6,499	3,887

</TABLE>

Cash, Cash Equivalents and Short-Term Investments

The Company considers all highly liquid debt instruments with maturities of three months or less at the time the Company acquires them to be cash equivalents. Short-term investments include equity securities classified as available-for-sale.

Available-for-sale securities are stated at fair value, with unrealized gains and losses, net of tax, if any, reported in other comprehensive income (loss). Realized gains and losses and declines in value judged to be other-than-temporary on available-for-sale securities are included in investment and other income. The cost of investments

sold is based on the specific identification method. Interest and dividends on securities classified as available-for-sale are also included in investment and other income.

Inventories

Inventories are stated at the lower of standard cost (which approximates first-in, first-out cost) or market. Inventories, which relate principally to the Company's agreement with Baxter, consist of the following (in thousands):

	December 31,	
	2002	2001
Raw materials	$ 202	$ 195
Finished goods	1,104	1,104
Total	$ 1,306	$ 1,299

Property and Equipment

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

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

	December 31,	
	2002	2001
Equipment	$ 22,988	$ 18,461
Leasehold and building improvements	29,660	15,416

Construction-in-progress	1,839	10,919
	54,487	44,796
Less accumulated depreciation and amortization	(31,837)	(30,151)
Property and equipment, net	$ 22,650	$ 14,645

At December 31, 2002 and 2001, property and equipment includes equipment acquired under capital lease obligations which had a cost of approximately $2.4 million in each of the years and accumulated amortization of $0.8 million and $0.4 million, respectively.

Long-lived Assets

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

In the fourth quarter of 2000, the Company decided to renovate a facility which had previously been held for sale and consolidate a significant portion of its Santa Monica technical development and pilot plant functions into this facility. Due to this decision, the facility was reclassified from "Asset Held for Sale" to construction-in-

progress as of December 31, 2001 and allocated to the appropriate property and equipment categories as the assets were put into service. The renovations were completed in 2002.

Accrued Liabilities

Accrued liabilities consist of the following (in thousands):

	December 31,	
	2002	2001
Accrued payroll cost	$ 3,198	$ 2,347
Accrued clinical trial cost	559	445
Accrued legal fees	2,425	505
Other	914	1,125
Total	$ 7,096	$ 4,422

Fair Value of Financial Instruments

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

The fair value of notes is estimated by discounting the future cash flows using the current interest rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. The carrying values of these obligations approximate their respective fair values.

The fair value of capital lease obligations is estimated based on current interest rates available to the Company for debt instruments with similar terms, degrees of risk and remaining maturities. The carrying values of these obligations approximate their respective fair values.

Supplemental Cash Flow Information

Cash paid for interest was $0.3 million, $0.1 million, and $0.0 million during the years ended December 31, 2002, 2001 and 2000, respectively. In addition, there were no dividends paid in common shares during the years ended December 31, 2002, 2001 and 2000, respectively.

Non-cash transactions from financing activities included the conversion of

convertible subordinated notes held by Genentech, Inc. to equity of $0.0 million, $1.5 million and $3.0 million for the years ended December 31, 2002, 2001 and 2000, respectively.

Segment Information

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

	2002	2001	2000
United States	$ 14,259	$ 13,084	$ 3,676
Ireland	15,616	4,033	2,952
Others	74	162	31
Total	$ 29,949	$ 17,279	$ 6,659

Recent Accounting Pronouncements

In November of 2002, the FASB issued Interpretation No. 45 (or FIN 45), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN 45 elaborates on the existing disclosure requirements for most guarantees, including residual value guarantees issued in conjunction with operating lease agreements. It also clarifies that at the time a company issues a guarantee, the company must recognize an initial liability for the fair value of the obligation it assumes under that guarantee and must disclose that information in its interim and annual financial statements. The initial recognition and measurement provisions apply on a prospective basis to guarantees issued or modified after December 31, 2002. The disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002. The Company's adoption of the disclosure requirements in November of 2002 and the recognition requirements in January of 2003 of FIN 45 neither had nor is anticipated to have a material impact on the Company's results of operations and financial position.

In January of 2003, the FASB issued Interpretation No. 46 (or FIN 46), "Consolidation of Variable Interest Entities." FIN 46 requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both. A variable interest entity is a corporation, partnership, trust, or any other legal structures used for business purposes that either (a) does not have equity investors with voting rights or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. A variable interest entity often holds financial assets, including loans or receivables, real estate or other property. A variable interest entity may be essentially passive or it may engage in research and development or other activities on behalf of another company. The consolidation requirements of FIN 46 apply immediately to variable interest entities created after January 31, 2003. The consolidation requirements apply to older entities in the first fiscal year or interim period beginning after June 15, 2003. Certain of the disclosure requirements apply to all financial statements issued after January 31, 2003, regardless of when the variable interest entity was established. The Company's adoption of the disclosure requirements in January of 2003 and ultimate adoption of the recognition requirements of FIN 46 did not and is not anticipated to have a material impact on the Company's financial position or result of operations.

In December of 2002, the FASB issued Statement No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure." FAS 148 amends FAS 123 "Accounting for Stock-Based Compensation" to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, FAS 148 amends the disclosure requirements of FAS 123 to require more prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The additional disclosure requirements of FAS 148 are effective for fiscal years ending after December 15, 2002. The Company elected to continue to follow the intrinsic value method of accounting as prescribed by Accounting Principles Board Opinion No. 25 (or APB 25), "Accounting for Stock Issued to Employees," to account for employee stock options. See above in the "Significant Accounting Policies" note for the disclosures required by FAS 148.

In November of 2002, the Financial Accounting Standards Board issued Emerging Issues Task Force (referred to as EITF) Issue No. 00-21, "Revenue Arrangements

with Multiple Deliverables." EITF Issue No. 00-21 addresses

certain aspects of the accounting by a company for arrangements under which it will perform multiple revenue-generating activities. EITF Issue No. 00-21 addresses when and how an arrangement involving multiple deliverables should be divided into separate units of accounting. EITF Issue No. 00-21 provides guidance with respect to the effect of certain customer rights due to company nonperformance on the recognition of revenue allocated to delivered units of accounting. EITF Issue No. 00-21 also addresses the impact on the measurement and/or allocation of arrangement consideration of customer cancellation provisions and consideration that varies as a result of future actions of the customer or the company. Finally, EITF Issue No. 00-21 provides guidance with respect to the recognition of the cost of certain deliverables that are excluded from the revenue accounting for an arrangement. The provisions of EITF Issue No. 00-21 will apply to revenue arrangements entered into in fiscal periods beginning after June 15, 2003. The Company is currently evaluating the effect that the adoption of EITF Issue No. 00-21 will have on its consolidated financial statements.

2. Cash, Cash Equivalents And Short-Term Investments

On December 31, 2002 and 2001, cash and cash equivalents consisted of money market funds and overnight deposits. These investments have short maturities and cost of investments approximates fair market value. The cost of short-term investments was $0.3 million at December 31, 2002 and 2001, respectively. Short-term investments consist of only equity securities at December 31, 2002 and 2001. During the years ended December 31, 2002, 2001 and 2000, short-term investments incurred no significant gross realized gains or losses. Gains and losses are determined on a specific identification basis.

3. Short-term Loan and Restricted Cash

In March of 2002, the Company entered into a secured loan agreement that was collateralized by equipment and property improvements with interest at a rate of 11.1%. The balance of the loan at December 31, 2002 was $0.8 million.

Effective as of December 31, 2002, the Company held $1.5 million in restricted cash as additional security under the loan. The restricted cash was included in current assets at December 31, 2002. Subsequent to year end, the loan was paid off. See Note 13 to the Consolidated Financial Statements.

4. License Agreements

XOMA has granted more than 25 licenses to biotechnology and pharmaceutical companies for use of patented and proprietary technologies relating to a bacterial expression system used to manufacture recombinant pharmaceutical products.

In 2002, XOMA announced four antibody-related cross license arrangements related to the use of its bacterial cell expression system technology in phage display. Under these agreements, MorphoSys AG, Biosite Incorporated ("Biosite"), Dyax Corp., and Cambridge Antibody Technology Limited received licenses to use XOMA's antibody expression technology for developing antibody products using their own phage display-based antibody libraries. XOMA has received and will receive license and other fees and access and/or licenses to the following intellectual patents for its own product development programs:

- MorphoSys AG: HuCAL(R)Gold antibody library
- Biosite Incorporated: Dower patents and cell expression libraries, including several high-affinity antibodies to targets
- Dyax Corp: Ladner phage display patents and antibody library
- Cambridge Antibody Technology Limited: phage display library

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

In February of 2002, XOMA and MorphoSys AG announced cross-licensing agreements for antibody-related technologies. The term of this license agreement commenced in February of 2002 and remains in effect until the expiration of the last patent within the XOMA patent rights provided under the terms of the agreement.

Because there are no continuing performance obligations on the part of the Company under the MorphoSys agreement, the license fee provided for in that agreement was recognized as revenue in the first quarter of 2002. Under the terms of the agreement, the license fee was to be paid in two installments. The first was due and paid in the first quarter of 2002, and the second portion in the amount of $4.0 million was due in the fourth quarter of 2002. The second installment could be paid in either cash or with MorphoSys shares valued at the time of MorphoSys' election to pay the second installment in shares.

During the fourth quarter of 2002, we were notified by MorphoSys of its intention to exercise its option to pay the second installment totaling $4.0 million owed to XOMA under a license agreement with 363,466 of its ordinary shares, which number of shares was determined with reference to the market price of MorphoSys shares at the time of such notice (October 23, 2002). XOMA applied for and on January 31, 2003 was granted an exemption from German withholding tax on the full license fee from MorphoSys. The administrative process in Germany for the issuance of the shares was delayed pending resolution of the withholding tax matter. Now that we have received the tax exemption, MorphoSys has re-initiated the process, but it is not yet complete. Given the delays already encountered, it is difficult to determine when these shares will be received, but the Company's current estimate is prior to the end of the second quarter of 2003.

XOMA has not recorded a provision related to changes in the market value of the shares MorphoSys intends to issue. Since the date of MorphoSys' election on October 23, 2002, the per share closing price for MorphoSys shares has ranged from approximately $4.64 to $15.20. Future market conditions for the shares are difficult to predict and may vary significantly. Therefore, under the provisions of the Statement of Financial Accounting Standards No. 5, Accounting for Contingencies, the Company has determined that the conditions related to the likelihood of the events both probable and reasonably estimable have not been met.

5. Collaborative Agreements

Total research and development expenses incurred related to the Company's collaborative agreements were approximately $24.7 million, $13.7 million and $15.7 million in 2002, 2001 and 2000, respectively.

In April of 1996, the Company entered into a collaborative agreement with Genentech, Inc. ("Genentech") to jointly develop Raptiva(TM), for treatment of psoriasis and organ transplant rejection. In connection with the agreement, Genentech purchased 1.5 million common shares for approximately $9.0 million and has agreed to

fund the Company's development costs for Raptiva(TM) until the completion of Phase III clinical trials through a series of convertible subordinated notes. During 1996, Genentech made loans totaling $13.5 million ($5.0 and $8.5 million, respectively, for funding 1996 and 1997 clinical trials and development costs) to XOMA under this arrangement. An additional loan of $10.0 million was made in December of 1997 to fund 1998 costs. Under the terms of the agreement, the Company would scale up and develop Raptiva(TM) and bring it through Phase II clinical trials. In December of 1998, Genentech made a $2.0 million milestone payment to XOMA for successful completion of a Phase II study. In April of 1999, the companies extended and expanded the agreement. XOMA is entitled to receive a 25% interest in U.S. profits from Raptiva(TM) in all indications, and a royalty on sales outside the U.S. Genentech will continue to finance XOMA's share of development costs via a long-term convertible loan, which is due at the earlier of 2005 or first product approval. The Company received $10.4 million, $10.5 million, and $5.1 million net funding from Genentech under the development agreement for the years ended December 31, 2002, 2001, and 2000, respectively. See Note 6 to the Consolidated Financial Statements for a discussion of the financing arrangement with XOMA and Genentech.

In November of 2001, XOMA announced its agreement with Millennium to develop two of Millennium's biotherapeutic agents, CAB2 and MLN01, for certain vascular inflammation indications. Under the terms of the agreement, XOMA is responsible for development activities and related costs through the completion of Phase II trials. XOMA will make future payments to Millennium upon achievement of certain clinical milestones. After successful completion of Phase II, Millennium will have the right to commercialize the products and XOMA will have the option to choose between further participation in the development program and eventual profit sharing, or alternatively being entitled to future royalty and milestone payments. See Note 6 to the Consolidated Financial Statements for a discussion of the financing arrangement with XOMA and Millennium.

In January of 2001, XOMA signed a strategic process development and manufacturing agreement with Onyx for its ONYX-015 product. In January 2003, Onyx announced the suspension of development activities related to ONYX-015 until it successfully engages a marketing partner. XOMA's agreement with Onyx remains in effect, but at this time it is difficult to estimate the impact on

future results of operations.

In January of 2000, Baxter's Hyland Immuno division acquired the worldwide rights to XOMA's NEUPREX(R) (rBPI21) for development in antibacterial and anti-endotoxin indications. XOMA received initial non-refundable license and signing fees of $10.0 million and may receive additional milestone payments and royalties if the product is successfully commercialized. The license and signing fees will be amortized over the period of continuing performance obligations, which period is expected to be 36 months. In 2000, the Company recorded an additional $3.4 million in revenue related to the continued development of the product.

6. Convertible Notes

Genentech

Under an arrangement with Genentech (see Note 3), the Company receives financing for its share of Raptiva(TM) development costs through the issuance of convertible subordinated notes due at the earlier of April of 2005 or upon regulatory approval of Raptiva(TM). The notes bear interest at rates of LIBOR plus 1% (3.0% at December 31, 2002) compounded and reset at the end of June and December each year. Interest is payable at maturity.

As of December 31, 2002, the Company had an outstanding balance of $63.0 million under this loan agreement. The agreement as amended in April of 1999 includes development cost sharing provisions. Under the

agreement, the loan balance is increased by cash advances from Genentech to XOMA and by interest accruing on the outstanding loan balance. Conversely, cash repayments of the debt or conversion of the debt to shares decreases the loan balance. Under the cost sharing provisions, the two companies compare their actual spending on Raptiva(TM) with their respective share of the aggregate costs under the agreement. Any differences are recorded as increases/decreases to the respective company's operating expenses and a related increase/decrease to the loan balance as appropriate. The Company received cash advances from Genentech under this agreement of $7.7 million, $7.2 million and $5.8 million, net of repayments of the loan of $0 million, $1.5 million and $3.0 million in 2002, 2001 and 2000, respectively. The loan balance was increased by $2.7 million in 2002 and $3.3 million in 2001 and decreased by $0.7 million in 2000, according to the cost sharing provisions of the loan agreement. At XOMA's option, the notes may be repaid in cash on or before the due date, or may be converted on the due date into one Series B Preference Share for each $10,000 outstanding in notes. The Series B Preference Shares are convertible into common shares at the fair market value of common shares at the time of conversion (7,500 shares are so designated). The cumulative amount of interest accrued was $11.5 million, $9.9 million and $7.4 million as of December 31, 2002, 2001 and 2000, respectively.

Millennium

As announced in November of 2001, under an investment agreement, Millennium has committed to take, at our option, up to $50.0 million worth of our common shares over the initial term of the agreement in several tranches, through a combination of equity at the then prevailing market prices in return for cash and retirement of convertible debt. As of December 31, 2002, the convertible note balance was $5.1 million and is due in May of 2003 at an interest rate of LIBOR (2.6%, the LIBOR rate set as of November 2001). We have agreed to register the resale of the common shares that we may sell to Millennium from each tranche and the common shares that we may issue to Millennium upon conversion of the convertible debt. In December of 2002, the Company issued 1,443,418 common shares for net proceeds of $7.1 million related to the investment agreement with Millennium.

7. Share Capital

Common Shares

In December of 2002, the Company issued 1,443,418 common shares for net proceeds of $7.1 million related to the investment agreement with Millennium.

In June of 2001, the Company issued 3,000,000 common shares for net proceeds of $43.3 million in a registered public offering.

In February of 2000, the Company issued 6,145,000 common shares for net proceeds of $29.0 million. The Company also issued five-year warrants to purchase up to 250,000 common shares for $5.00 per share to each of the two placement agents in this transaction. These warrants were exercisable upon issuance and expire in February of 2005.

Preference Shares

Preference Shares

Series A. As of December 31, 2002, the Company has authorized 135,000 Series A Preference Shares of which none were outstanding at December 31, 2002, 2001 and 2000. (See "Shareholder Rights Plan" below.)

Series B. See Note 6 to the Consolidated Financial Statements, Convertible Notes.

Management Incentive Compensation Plan

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

Awards under the Incentive Plan vest over a three-year period with 50% of each award payable during the first quarter of the following fiscal year, and 25% payable on each of the next two annual distribution dates, so long as the participant remains an employee of the Company. The 50% on the first distribution date is payable half in cash and half in common shares. The balance on the next two annual distribution dates is payable, at the election of the participant, all in cash or all in common shares or, for elections after December 31, 2000, half in cash and half in common shares. The maximum number of common shares issuable pursuant to awards made for the years ended December 31, 2002 and 2001 under the Incentive Plan were 158,139 and 44,781, respectively, and these shares have been reserved under the Restricted Plan (as defined below).

The amounts charged to expense under the Incentive Plan were $1.0 million, $0.8 million and $0.9 million for the plan years 2002, 2001 and 2000, respectively. As of December 31, 2002, $1.0 million was accrued related to this plan.

Employee Share Purchase Plan

In 1998, the shareholders approved the 1998 Employee Share Purchase Plan (the "Share Purchase Plan") which provides employees of the Company the opportunity to purchase common shares through payroll deductions. The Company has reserved 500,000 common shares for issuance under the Share Purchase Plan. An employee may elect to have payroll deductions made under the Share Purchase Plan for the purchase of common shares in an amount not to exceed 15% of the employee's compensation. The purchase price per common share will be either (i) an amount equal to 85% of the fair market value of a common share on the first day of a 24-month offering period or on the last day of such offering period, whichever is lower, or (ii) such higher price as may be set by the Compensation Committee of the Board at the beginning of such offering period. In 2002 and 2001, employees purchased 28,227 common shares and 171,595 common shares, respectively under the Share Purchase Plan and payroll deductions under the Share Purchase Plan totaled $0.5 million, $0.3 million and $0.3 million for 2002, 2001 and 2000, respectively.

Shareholder Rights Plan

In October of 1993, the Company's Board of Directors unanimously adopted a Shareholder Rights Plan (the "Original Rights Plan") which expired at the close of business on December 31, 2002. Subsequent to year end, the Company's Board of Directors adopted a new Shareholders Rights Plan. See Note 13 to the Consolidated Financial Statements for a discussion about the new plan.

Shares Reserved for Future Issuance

The Company has reserved common shares for future issuance as of December 31, 2002 as follows:

Share Option Plans	6,819,410
Employee Share Purchase Plan	1,217,026
Warrants	700,000
Total	8,736,436

The convertible subordinated notes held by Genentech are convertible into one Series B Preference Share at the market price of common shares at the time of conversion (7,500 shares are so designated) for each $10,000 in notes. The Series B Preference Shares are convertible into common shares.

8. Share Options And Warrants

At December 31, 2002, the Company had share-based compensation plans, as described below. The aggregate number of common shares that may be issued under these plans is 8,965,000 shares.

Share Option Plan

Under the Company's amended 1981 Share Option Plan (the "Option Plan"), qualified and non-qualified options of the Company's common shares may be granted to certain employees and other individuals as determined by the Board of Directors at not less than the fair market value of the shares at the date of grant. Options granted under the Option Plan may be exercised when vested and expire generally ten years from the date of grant or three months from the date of termination of employment (longer in the case of death or certain retirements). Options granted generally vest over four or five years. The Option Plan will terminate on November 15, 2011. Up to 8,650,000 shares are authorized for issuance under the Option Plan. As of December 31, 2002, options covering 4,149,168 common shares were outstanding under the Option Plan.

Restricted Share Plan

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

The Company has granted options with exercise prices at 85% of fair market value on the date of grant. Up to 1,250,000 shares are authorized for issuance under the Restricted Plan, subject to the condition that not more than 8,650,000 shares are authorized under both the Option Plan and the Restricted Plan. As of December 31, 2002, options covering 404,795 common shares were outstanding under the Restricted Plan.

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

Directors Share Option Plan and Other Options

In 1992, the shareholders approved a Directors Share Option Plan (the "Directors Plan") which provides for the issuance of options to purchase common shares to non-employee directors of the Company at 100% of the fair market value of the shares on the date of the grant. Up to 300,000 shares are authorized for issuance during the term of the Directors Plan. Options vest on the date of grant and have a term of up to ten years. As of December 31, 2002, options for 200,500 common shares were outstanding under the Directors Plan.

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

A summary of the status of the Company's share option plans as of December 31, 2002, 2001 and 2000 and changes during years ended on those dates is presented below:

<TABLE>
<CAPTION>

	2002	2001	2000

Options:	Shares	Price *	Shares	Price *	Shares	Price *
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Outstanding at beginning of year	4,166,610	$5.58	3,752,662	$5.00	4,230,884	$4.58
Granted						
(1)	33,500	5.00	1,750	9.28	2,500	6.88
(2)	791,625	8.19	667,200	9.39	641,500	9.04
Exercised	(83,589)	4.44	(105,502)	4.11	(856,241)	4.40
Forfeited, expired or cancelled (3)	(138,683)	10.57	(149,500)	7.85	(265,981)	10.02
Outstanding at end of year	4,769,463	5.89	4,166,610	5.59	3,752,662	5.00
Exercisable at end of year	3,334,392		2,949,400		2,588,597	
Weighted average fair value of options granted:						
(1)		$4.42		$7.92		$3.87
(2)		$6.46		$7.45		$7.07

</TABLE>

* Weighted-average exercise price:
(1) Option price less than market price on date of grant as provided for in the Restricted Share Plan.
(2) Option price equal to market price on date of grant.
(3) The Company adjusts for forfeitures as they occur.

The following table summarizes information about share options outstanding at December 31, 2002:

<TABLE>
<CAPTION>

Options Outstanding				Options Exercisable	
Range of Exercise Prices	Number Outstanding	Life *	Price **	Number Exercisable	Price **
<S> <C>	<C>	<C>	<C>	<C>	<C>
$ 2.00 - 2.38	174,362	2.20	$ 2.36	173,712	$ 2.37
2.56 - 2.56	1,113,731	2.03	2.56	1,113,731	2.56
2.60 - 4.56	876,064	5.71	3.90	648,874	3.97
4.68 - 6.75	847,500	5.76	5.57	658,315	5.67
6.88 - 9.75	1,032,014	6.91	8.70	564,090	8.50
9.99 - 13.95	725,792	8.82	10.61	175,670	11.25
2.00 - 13.95	4,769,463	5.47	5.89	3,334,392	4.90

</TABLE>

* Weighted-average remaining contractual life
** Weighted-average exercise price

Warrants

In February of 2000, warrants to purchase up to 250,000 common shares at $5.00 per share and expiring in February of 2005 were issued to the placement agents in conjunction with a private placement of common shares. As of December 31, 2002, all of these warrants were outstanding.

In July of 1999, warrants to purchase up to 150,000 common shares at $5.75 per share and expiring in July of 2004 were issued to the placement agents in conjunction with a private placement of common shares. As of December 31, 2002, all of these warrants were outstanding.

In January of 1999, warrants to purchase up to 240,000 common shares at $5.85 per share were issued to investors in a private placement of common shares. Additional warrants to purchase up to 64,000 common shares at $5.85 were issued

to the placement agent and separately warrants for 75,000 common shares at $5.85

were issued to an advisor. All of these warrants expire in January of 2004. As of December 31, 2002, there were 175,000 of the January 1999 warrants still outstanding.

In July of 1998, warrants to purchase 250,000 common shares at $6.00 per share were issued to Incyte in partial payment of license fees. These warrants expire in July of 2008. As of December 31, 2002, there were 125,000 warrants still outstanding.

All of the above warrants were exercisable upon issuance. The fair value of the warrants issued to placement agents and advisors were determined using the Black Scholes valuation method and capitalized as issuance costs associated with the equity financing and charged against paid-in capital.

9. Commitments And Contingencies

Collaborative Agreements and Royalties

The Company is obligated to pay royalties, ranging generally from 1.5% to 5% of the selling price of the licensed component and up to 25% of any sublicense fees to various universities and other research institutions based on future sales or licensing of products that incorporate certain products and technologies developed by those institutions.

Leases

As of December 31, 2002, the Company leased administrative, research facilities, certain laboratory and office equipment under capital and operating leases expiring on various dates through 2008. Future minimum lease commitments are as follows (in thousands):

<TABLE>
<CAPTION>

	Capital Leases	Operating Leases
<S>	<C>	<C>
2003	$ 785	$ 2,850
2004	572	2,894
2005	221	2,890
2006		2,900
2007		2,730
Thereafter		708
Minimum lease payments	1,578	$ 14,972
Less: amount representing interest expense	(182)	
Present value of minimum lease payments	1,396	
Less: current portion	667	
Long-term capital lease obligations	$ 729	

</TABLE>

Total rental expense was approximately $2.8 million, $3.2 million, and $3.3 million for the years ended December 31, 2002, 2001 and 2000, respectively.

Legal Proceedings

In June of 2001, an action was commenced against the Company and certain of its affiliates styled Biosite Diagnostics Inc. v. XOMA Ltd., et al., No. C-01-2251 (PJH)(N.D. Cal.) (the "Biosite Action"). The action sought declarations that Biosite was not infringing certain XOMA patents and that certain licenses continued in effect despite XOMA's notice of termination thereof. The action sought an injunction against the Company and such affiliates maintaining the license agreements in effect. In July of 2001, the Company, XOMA (Bermuda) Ltd., XOMA Ireland Limited and XOMA Technology Ltd. brought an action against Biosite in the same court. The action, styled XOMA Ltd., et al. v. Biosite Inc., No. C-01-2580 (PJH) (N.D. Cal.) (the "XOMA Action"),

sought injunctive relief, compensatory and punitive damages for fraud and misrepresentation, breach of contract, patent infringement, misappropriation and unfair business practices. In September of 2001, the court granted the Company's motion to dismiss the Biosite Action. In November of 2001, Biosite filed counterclaims seeking the same relief as the original Biosite Action and adding claims for breach of contract, breach of covenant of good faith and fair dealing, intentional interference with contracts and with prospective economic advantage, unfair business practices and violation of the Lanham Act. In March of 2002, Biosite filed an amended answer to add additional defenses that certain of the patents at issue were invalid, that certain alleged inequitable conduct on the part of the XOMA entities rendered certain of the patents unenforceable and that alleged patent misuse rendered the patents at issue unenforceable. In June of 2002, XOMA announced that it filed an amended and supplemental complaint against Biosite alleging that Biosite's announced "new" antibody expression technology continued willfully to infringe XOMA's patents and that Biosite's statements regarding it were false and misleading.

By order entered September 13, 2002, all claims and counterclaims in the XOMA Action were dismissed with prejudice pursuant to a settlement agreement between the parties. Other terms of the settlement included a royalty-free license to XOMA to practice certain Biosite patents, assignment to XOMA of Biosite's antibody expression technology that had been announced earlier in 2002, a royalty-free license to Biosite to utilize XOMA's bacterial cell expression technology, an agreement pursuant to which XOMA may receive expression libraries for up to an agreed number of targets it presents to Biosite (without payment or royalty obligations), termination of the existing license to Biosite from XOMA for the LBP diagnostic assay and an exchange of releases.

10. Income Taxes

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

	2002	2001
Capitalized R&D expenses	$ 30.2	$ 29.4
Net operating loss carryforwards	74.3	75.0
R&D and other credit carryforwards	19.8	19.7
Other	0.7	0.7
Valuation allowance	(125.0)	(124.8)
Net deferred tax asset	$ -	$ -

The net change in the valuation allowance was a $0.2 million increase, a $4.6 million increase, and a $3.4 million decrease for the years ended December 31, 2002, 2001 and 2000, respectively.

FASB Statement No. 109 provides for the recognition of deferred tax assets if realization of such assets is more likely than not. Based upon the weight of available evidence, which includes the Company's historical operating performance and carryback potential, the Company has determined that total deferred tax assets to be fully offset by a valuation allowance.

XOMA's accumulated federal and state tax net operating loss carryforwards ("NOLs") and credit carryforwards as of December 31, 2002 are as follows:

	Amounts (in milion)	Expiration Dates
Federal		
NOLs	$ 211.4	2003 - 2022
Credits	14.7	2003 - 2022
State		
NOLs	39.4	2003 - 2007
Credits	7.8	Do not expire

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

11. Related Party Transactions

In 1993, the Company granted a short-term, secured loan to an officer, director and shareholder of the Company which has been extended annually.

12. Deferred Savings Plan

Under section 401(k) of the Internal Revenue Code of 1986, the Board of Directors adopted, effective June 1, 1987, a tax-qualified deferred compensation plan for employees of the Company. Participants may make contributions which defer up to 50% of their eligible compensation per payroll period, up to a maximum for 2002 of $11,000 (or $12,000 for employees over 50). The Company may, at its sole discretion, make contributions each plan year, in cash or in the Company's common shares in amounts which match up to 50% of the salary deferred by the participants. The expense related to these contributions was $0.5 million; $0.3 million and 0.4 million for the years ended December 31, 2002, 2001 and 2000, respectively.

13. Subsequent Events

On February 26, 2003, the Company's Board of Directors unanimously adopted a Shareholder Rights Plan (the "Rights Plan"), which is designed to extend the provisions of the Original Rights Plan. Under the Rights Plan, Preference Share Purchase Rights ("Rights") will be authorized and granted at the rate of one Right for each common share held of record as of the close of business on April 2, 2003. Each Right entitles the registered holder of common shares to buy a fraction of a share of the new series of Preference Shares (the "Series A Preference Shares") at an exercise price of $30.00, subject to adjustment. The Rights will be exercisable, and will detach from the common share, only if a person or group acquires 20 percent or more of the common shares, announces a tender or exchange offer that if consummated will result in a person or group beneficially owning 20 percent or more of the common shares, or if the Board of Directors declares a person or group owning 10 percent or more of the outstanding common shares to be an Adverse Person (as defined in the Rights Plan). Once exercisable, each Right will entitle the holder (other than the acquiring person) to purchase units of Series A Preference Share (or, in certain circumstances, common shares of the acquiring person) with a value of twice the Rights exercise price. The Company will generally be entitled to redeem the Rights at $.001 per Right at any time until the close of business on the tenth day after the Rights become exercisable. The Rights will expire at the close of business on February 26, 2013.

On February 28, 2003, the Company paid off a short-term loan in the amount of $0.8 million and a $1.5 million restriction on cash was released to the Company.

Index To Exhibits

Exhibit Number	
1	Underwriting Agreement dated as of June 26, 2001 by and between XOMA Ltd. and the several underwriters named therein (Exhibit 2).(1)
3.1	Memorandum of Continuance of XOMA Ltd. (Exhibit 3.4).(2)
3.2	Bye-Laws of XOMA Ltd. (as amended).
4.1	Shareholder Rights Agreement dated as of February 26, 2003 by and between XOMA Ltd. and Mellon Investor Services LLC as Rights Agent.
4.2	Form of Resolution Regarding Preferences and Rights of Series A Preference Shares (Included as Exhibit A to Exhibit 4.1 above).
4.3	Form of Resolution Regarding Preferences and Rights of Series B Preference Shares (Exhibit 4.3).(2)
4.5	Form of Common Stock Purchase Warrant (Incyte Warrants) (Exhibit 2).(3)
4.6	Form of Common Share Purchase Warrant (January and March 1999 Warrants) (Exhibit 5).(4)
4.7	Form of Common Share Purchase Warrant (July 1999 Warrants) (Exhibit 4).(5)
4.8	Form of Common Share Purchase Warrant (2000 Warrants) (Exhibit 4).(6)
10.1	1981 Share Option Plan as amended and restated (Exhibit 10.1).(7)
10.1A	Amendment to Amended and Restated 1981 Share Option Plan.

10.1B Form of Share Option Agreement for 1981 Share Option Plan.(7)

10.2 Restricted Share Plan as amended and restated (Exhibit 10.2).(7)

10.2A Amendment to Amended and Restated Restricted Share Plan.

10.2B Form of Share Option Agreement for Restricted Share Plan.(7)

10.2C Form of Restricted Share Purchase Agreement for Restricted Share Plan (Exhibit 10.2B).(8)

10.3 1992 Directors Share Option Plan as amended and restated (Exhibit 10.4).(8)

10.3A Form of Share Option Agreement for 1992 Directors Share Option Plan (initial grants) (Exhibit 10.4A).(8)

10.3B Form of Share Option Agreement for 1992 Directors Share Option Plan (subsequent grants) (Exhibit 10.4B).(7)

10.4 Management Incentive Compensation Plan as amended and restated.

10.5 1998 Employee Share Purchase Plan (Exhibit 10.1).(8)

10.5A Amendment No. 1 to 1998 Employee Share Purchase Plan (Exhibit 10.2).(8)

10.6 Form of indemnification agreement for officers (Exhibit 10.6).(7)

10.7 Form of indemnification agreement for employee directors (Exhibit 10.7).(7)

10.8 Form of indemnification agreement for non-employee directors (Exhibit 10.8).(7)

10.9 Employment Agreement dated April 29, 1992 between the Company and John L. Castello (Exhibit 10.9).(7)

10.10 Employment Agreement dated April 1, 1994 between the Company and Peter B. Davis (Exhibit 10.10).(9)

10.11 Employment Agreement dated March 26, 2002 between XOMA (US) LLC and Patrick J. Scannon, M.D., Ph.D.

10.12 Lease of premises at 890 Heinz Street, Berkeley, California dated as of July 22, 1987 (Exhibit 10.12).(7)

10.13 Lease of premises at Building E at Aquatic Park Center, Berkeley, California dated as of July 22, 1987 and amendment thereto dated as of April 21, 1988 (Exhibit 10.13).(7)

10.14 Lease of premises at Building C at Aquatic Park Center, Berkeley, California dated as of July 22, 1987 and amendment thereto dated as of August 26, 1987 (Exhibit 10.14).(7)

10.15 Letter of Agreement regarding CPI adjustment dates for leases of premises at Buildings C, E and F at Aquatic Park Center, Berkeley, California dated as of July 22, 1987 (Exhibit 10.15).(7)

10.16 Lease of premises at 2910 Seventh Street, Berkeley, California dated March 25, 1992 (Exhibit 10.16).(7)

10.17 Sublease dated January 20, 1997, between the Company and UroGenesys, Inc. (Exhibit 10.18).(7)

10.18 Lease dated October 2, 1992, between the Company and Virginia Merritt, as Trustee of the Bowman Merritt and Virginia Merritt Trust (Exhibit 10.19).(7)

10.18A First Extension of Lease dated April 23, 1997, between the Company and Virginia Merritt and Kim Merritt Campot, as Trustees of the Bowman Merritt and Virginia Merritt 1987 Trust (Exhibit 10.19A).(7)

10.19 Lease of premises at 5860 and 5864 Hollis Street, Emeryville, California dated as of November 2, 2001 (with addendum)(Exhibit 10.19).(10)

10.20 Lease of premises at 2850 Seventh Street, Second Floor, Berkeley, California dated as of December 28, 2001 (with addendum and guaranty)(Exhibit 10.20).(10)

10.21 License Agreement dated as of August 31, 1988 between the Company and Sanofi (with certain confidential information deleted) (Exhibit 10.27).(7)

10.22 Amended and Restated Research and License Agreement dated September 1,

1993 between the Company and New York University (with certain confidential information omitted, which omitted information is the subject of a confidential treatment request and has been filed separately with the Securities and Exchange Commission) (Exhibit 10.28).(7)

10.22A Third Amendment to License Agreement dated June 12, 1997 between the Company and New York University (with certain confidential information omitted, which omitted information is the subject of a confidential treatment request and has been filed separately with the Securities and Exchange Commission) (Exhibit 10.28A).(7)

10.22B Fourth Amendment to License Agreement dated December 23, 1998 between the Company and New York University (Exhibit 10.22B).(11)

10.22C Fifth Amendment to License Agreement dated June 25, 1999 between the Company and New York University (Exhibit 10.21C).(12)

10.22D Sixth Amendment to License Agreement dated January 25, 2000 between the Company and New York University (with certain confidential information omitted, which omitted information is the subject of a confidential treatment request and has been filed separately with the Securities and Exchange Commission) (Exhibit 10.1).(13)

10.23 Cross License Agreement dated December 15, 1993 between Research Development Foundation and the Company (with certain confidential information deleted) (Exhibit 10.23).(11)

10.24 Cross License Agreement dated December 15, 1993 between the Company and Research Development Foundation (with certain confidential information deleted) (Exhibit 10.24).(11)

10.25 Technology Acquisition Agreement dated June 3, 1994 between Connective Therapeutics, Inc. (now called Connetics Corporation) and the Company (with certain confidential information deleted) (Exhibit 10.46).(9)

10.25A Amendment Number One to Technology Acquisition Agreement dated December 8, 1999 between Connetics Corporation and XOMA (US) LLC (with certain confidential information deleted) (Exhibit 10.23A).(12)

10.25B Agreement dated December 8, 1999 by and between The Immune Response Corporation and XOMA (US) LLC (with certain confidential information deleted) (Exhibit 10.23B).(12)

10.26 Collaboration Agreement, dated as of April 22, 1996, between the Company and Genentech, Inc. (with certain confidential information omitted, which omitted information is the subject of a confidential treatment request and has been filed separately with the Securities and Exchange Commission) (Exhibit 10.1).(13)

10.26A Amendment to Collaboration Agreement, dated as of April 14, 1999, between the Company and Genentech, Inc. (with certain confidential information omitted, which omitted information is the subject of a confidential treatment request and has been filed separately with the Securities and Exchange Commission) (Exhibit 10.5).(14)

10.27 Common Stock and Convertible Note Purchase Agreement, dated as of April 22, 1996, between the Company and Genentech, Inc. (with certain confidential information omitted, which omitted information is the subject of a confidential treatment request and has been filed separately with the Securities and Exchange Commission) (Exhibit 10.2).(15)

10.27A Amendment to Common Stock and Convertible Note Purchase Agreement, dated as of April 14, 1999, between XOMA Ltd. and Genentech, Inc. (Exhibit 10.6).(14)

10.28 Convertible Subordinated Note Agreement, dated as of April 22, 1996, between the Company and Genentech, Inc. (with certain confidential information omitted, which omitted information is the subject of a confidential treatment request and has been filed separately with the Securities and Exchange Commission) (Exhibit 10.3).(15)

10.28A Amendment to Convertible Subordinated Note Agreement, dated as of June 13, 1996, between the Company and Genentech, Inc. (with certain confidential information omitted, which omitted information is the subject of a confidential treatment request and has been filed separately with the Securities and Exchange Commission) (Exhibit 10.4).(15)

10.28B Second Amendment to Convertible Subordinated Note Agreement, dated as of April 14, 1999, between the XOMA Ltd. and Genentech, Inc. (with certain confidential information omitted, which omitted information is the subject of a confidential treatment request and has been filed separately with the Securities and Exchange Commission) (Exhibit 10.7).(14)

10.29 License Agreement between Incyte Pharmaceuticals, Inc. and XOMA Corporation effective as of July 9, 1998 (with certain confidential information omitted, which omitted information is the subject of a confidential treatment request and has been filed separately with the Securities and Exchange Commission) (Exhibit 1).(3)

10.30 Registration Rights Agreement dated as of July 9, 1998 by and among the Company and Incyte Pharmaceuticals, Inc. (Exhibit 3).(3)

10.31 Form of Subscription Agreement, dated as of January 28, 1999, by and between XOMA Ltd. and the purchasers of Common Shares in the January 1999 Private Placement (Exhibit 2).(4)

10.32 Form of Registration Rights Agreement, dated as of January 28, 1999, by and between XOMA Ltd. and the purchasers of Common Shares in the January 1999 Private Placement (Exhibit 3).(4)

10.33 Form of Escrow Agreement, dated as of January 28, 1999, by and between XOMA Ltd., Brian W. Pusch, as Escrow Agent and the purchasers of Common Shares in the January 1999 Private Placement (Exhibit 4).(4)

10.34 License Agreement dated as of January 25, 2000 between XOMA Ireland Limited and Baxter Healthcare Corporation (with certain confidential information omitted, which omitted information is the subject of a confidential treatment request and has been filed separately with the Securities and Exchange Commission) (Exhibit 2).(16)

10.35 Supply and Development Agreement dated as of January 25, 2000 between XOMA (US) LLC and Baxter Healthcare Corporation (with certain confidential information omitted, which omitted information is the subject of a confidential treatment request and has been filed separately with the Securities and Exchange Commission) (Exhibit 3).(16)

10.36 Form of Subscription Agreement, dated as of February 8, 2000 by and between XOMA Ltd. and the purchasers of Common Shares in the February 2000 Private Placement (Exhibit 2).(6)

10.37 Form of Registration Rights Agreement, dated as of February 11, 2000 by and between XOMA Ltd. and the purchasers of Common Shares in February 2000 Private Placement (Exhibit 3).(6)

10.38 Form of Registration Rights Agreement, dated as of February 11, 2000 by and between XOMA Ltd. and the placement agents in the February 2000 private placement (Exhibit 5).(6)

10.39 Process Development and Manufacturing Agreement, dated as of January 29, 2001 between XOMA (US) LLC and Onyx Pharmaceuticals, Inc. (with certain confidential information omitted, which omitted information is the subject of a confidential treatment request and has been filed separately with the Securities and Exchange Commission) (Exhibit 2).(17)

10.39A Amendment #1 to the Process Development and Manufacturing Agreement, dated as April 15, 2002 between XOMA (US) LLC and Onyx Pharmaceuticals, Inc. (with certain confidential information omitted, which omitted information is the subject of a confidential treatment request and has been filed separately with the Securities and Exchange Commission) (Exhibit 39A).(18)

10.40 Development and License Agreement, dated November 26, 2001, by and among XOMA (US) LLC, XOMA Ireland Limited and Millennium Pharmaceuticals, Inc. (with certain confidential information omitted, which omitted information is the subject of a confidential treatment request and has been filed separately with the Securities and Exchange Commission) (Exhibit 2)(19)

10.41 Investment Agreement, dated as of November 26, 2001, by and among XOMA, Millennium Pharmaceuticals, Inc. and mHoldings Trust (with certain confidential information omitted, which omitted information is the subject of a confidential treatment request and has been filed separately with the Securities and Exchange Commission) (Exhibit 3).(19)

10.42 Convertible Subordinated Promissory Note dated November 26, 2001 (with certain confidential information omitted, which omitted information is the subject of a confidential treatment request and has been filed separately with the Securities and Exchange Commission) (Exhibit 4).(19)

10.42A Amendment No. 1 to Convertible Subordinated Promissory Note dated November 5, 2002 (Exhibit 10.3A).(20)

10.43 Registration Rights Agreement dated as of November 26, 2001 by and among XOMA, Millennium Pharmaceuticals, Inc. and mHoldings Trust (with certain confidential information omitted, which omitted information is the subject of a confidential treatment request and has been filed separately with the Securities and Exchange Commission) (Exhibit 5).(19)

10.44 License Agreement by and between XOMA Ireland Limited and MorphoSys AG, dated as of February 1, 2002 (with certain confidential information omitted, which omitted information is the subject of a confidential treatment request and has been filed separately with the Securities and Exchange Commission) (Exhibit 10.43).(21)

10.45 License Agreement by and between XOMA Ireland Limited and DYAX Corp., dated as of October 16, 2002 (with certain confidential information omitted, which omitted information is the subject of a confidential treatment request and has been filed separately with the Securities and Exchange Commission).

10.46 License Agreement by and between XOMA Ireland Limited and Cambridge Antibody Technology Limited, dated as of December 22, 2002 (with certain confidential information omitted, which omitted information is the subject of a confidential treatment request and has been filed separately with the Securities and Exchange Commission).

23.1 Consent of Ernst & Young LLP, Independent Auditors.

99.1 Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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Footnotes

1. Incorporated by reference to the referenced exhibit to Company's Current Report on Form 8-K dated and filed on June 27, 2001.

2. Incorporated by reference to the referenced exhibit to the Company's Registration Statement on Form S-4 filed November 17, 1998, as amended.

3. Incorporated by reference to the referenced exhibit to the Company's Current Report on Form 8-K dated July 9, 1998 filed July 16, 1998.

4. Incorporated by reference to the referenced exhibit to the Company's Current Report on Form 8-K dated January 28, 1999 filed January 29, 1999, as amended.

5. Incorporated by reference to the referenced exhibit to the Company's Current Report on Form 8-K dated July 23, 1999 filed July 26, 1999.

6. Incorporated by reference to the referenced exhibit to the Company's Current Report on Form 8-K dated February 11, 2000 filed February 14, 2000.

7. Incorporated by reference to the referenced exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1997, as amended.

8. Incorporated by reference to the referenced exhibit to the Company's Registration Statement on Form S-8 filed October 27, 1998.

9. Incorporated by reference to the referenced exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1994.

10. Incorporated by reference to the referenced exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2001.

11. Incorporated by reference to the referenced exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1998.

12. Incorporated by reference to the referenced exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1999.

13. Incorporated by reference to the referenced exhibit to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2000.

14. Incorporated by reference to the referenced exhibit to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1999.

15. Incorporated by reference to the referenced exhibit to the Company's Registration Statement on Form S-3 filed June 28, 1996.

16. Incorporated by reference to the referenced exhibit to the Company's Amendment No. 2 to Current Re-port on Form 8-K/A dated and filed March 9, 2000.

17. Incorporated by reference to the referenced exhibit to the Company's Amendment No. 1 on Form 8-K/A dated and filed February 13, 2001.

18. Incorporated by reference to the referenced exhibit to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2002.

19. Incorporated by reference to the referenced exhibit to the Company's Amendment No. 1 to Current Report on Form 8-K/A dated and filed December 13, 2001 as amended by Amendment No. 2 to Current Report on Form 8-K/A dated and filed October 24, 2002.

20. Incorporated by reference to the referenced exhibit to the Company's Registration Statement on Form S-3 filed November 6, 2002.

21. Incorporated by reference to the referenced exhibit to Amendment No. 2 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2002, dated and filed on December 12, 2002.

Exhibit 3.2

AMENDED BYE-LAWS

OF

XOMA LTD.

ARTICLE I

OFFICES

Section 1. The registered office shall be at such location in Bermuda as the Board of Directors shall determine.

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

ARTICLE IA

SHARES

Section 1. Subject to any resolution of the shareholders to the contrary and without prejudice to any special rights previously conferred on the holders of any existing shares or class of shares, the share capital of the Company shall be divided into common shares of par value US$0.0005 each ("Common Shares") and preference shares of par value US$0.05 each ("Preferred Shares").

Section 2. The holders of Common Shares shall, subject to the provisions of these Bye-Laws:

(a) be entitled to one vote per share;

(b) subject to the rights of the holders of the Preferred Shares, be entitled to such dividends as the Board of Directors may from time to time declare;

(c) subject to the rights of the holders of the Preferred Shares, in the event of a winding up or dissolution of the Company, whether voluntary or involuntary or for the purpose of a reorganisation or otherwise or upon any distribution of capital, be entitled to the surplus assets of the Company; and

(d) generally be entitled to enjoy all of the rights attaching to shares.

Section 3. Subject to these Bye-laws and to any resolution of the shareholders approved by at least 75% of all issued shares entitled to vote in respect thereof and without prejudice to any special rights previously conferred on the holders of any existing shares or class of shares, the Board of Directors shall have power to issue any unissued shares of the Company on such terms and conditions as it may determine and any shares or class of shares may be issued with such preferred, deferred or other special rights or restrictions, whether in regard to dividend, voting, redemption, conversion, exchange, return of capital or otherwise as the Board of Directors may from time to time (without any requirement of shareholder approval or authorisation) prescribe. Where such rights and restrictions have been prescribed they shall be set out in a Certificate of Designation included in or annexed to the minutes of the meeting of the Board of Directors which prescribed such rights and restrictions.

Section 4. The Board of Directors shall, in connection with the issue of any share, have the power to pay such commission and brokerage as may be permitted by law.

Section 5. The Board of Directors may from time to time do any one or more of the following things:

(a) make arrangements on the issue of shares for a difference between the shareholders in the amounts and times of payments of calls on their shares;

(b) accept from any shareholder the whole or a part of the amount remaining unpaid on any shares held by him, although no part of that amount has been called up;

(c) pay dividends in proportion to the amount paid up on each share where a larger amount is paid up on some shares than on others; and

(d) issue preference shares in fractional denominations and deal with such fractions to the same extent as the Company's whole shares and shares

in fractional denominations shall have in proportion to the respective fractions represented thereby all of the rights of whole shares including (but without limiting the generality of the foregoing) the right to vote, to receive dividends and distributions and to participate in a winding up.

Section 6. Subject to the provisions of Sections 42 and 43 of the Companies Act 1981 (the "Act") any preference shares may be issued or converted into shares that, at a determinable date or at the option of the Company, are liable to be redeemed.

Section 7. If at any time the share capital is divided into different classes of shares, the rights attached to any class (unless otherwise provided by the terms of issue of the shares of that class) may, whether or not the Company is being wound up, be varied with the consent in writing of the holders of a majority of the issued shares of that class or with the sanction of a resolution passed by the holders of a majority of the issued shares of that class at a separate general meeting of the holders of the shares of the class in accordance with Section 47 (7) of the Act, except that at such separate general meeting the quorum shall be a majority of the issued shares of that class. If there are no issued shares of a particular class, the rights attached to such class may be varied solely by resolution of the Board of Directors. The rights conferred upon the holders of the shares of any class issued with preferred or other rights shall not, unless otherwise expressly provided by the terms of issue of the shares of that class, be deemed to be varied by the creation or issue of further shares ranking pari passu therewith.

Section 8. The Company may from time to time if authorised by resolution of the shareholders change the currency denomination of, increase, alter or reduce its share capital in accordance with the provisions of Sections 45 and 46 of the Act. Where, on any alteration of share capital, fractions of shares or some other difficulty would arise, the Board of Directors may deal with or resolve the same in such manner as it thinks fit including, without limiting the generality of the foregoing, the issue to shareholders, as appropriate, of fractions of shares and/or arranging for the sale or transfer of the fractions of shares of shareholders.

Section 9. The Company may from time to time purchase its own shares in accordance with the provisions of Section 42A of the Act.

Section 10. The Board of Directors may capitalise any part of the amount for the time being standing to the credit of any of the Company's share premium or other reserve accounts or to the credit of the profit and loss account or otherwise available for dividend or distribution by applying such sum in paying up unissued shares to be allotted as fully paid bonus shares to the shareholders (whether pro rata or not and whether in connection with the conversion of shares or not). The Company may capitalise any sum standing to the credit of a reserve account or sums otherwise available for dividend or distribution by applying such amounts in paying up in full or in part unpaid or partly paid shares of those shareholders who would have been entitled to such sums if they were distributed by way of dividend or distribution.

ARTICLE II

MEETINGS OF SHAREHOLDERS

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

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

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

Section 4. The officer who has charge of the Register of Members of the Company shall prepare and make, or cause to be prepared and made, at least ten days before every meeting of shareholders, a complete list of the shareholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each shareholder and the number of shares registered in the name of each shareholder. The list shall be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any shareholder who is present.

Section 5. Special general meetings of the shareholders, for any purpose or purposes, unless otherwise prescribed by the Act may be held at any place,

within or without Bermuda, and may be called by the Chief Executive Officer and shall be called by the Chief Executive Officer or Secretary at the request in writing of a majority of the Board of Directors. Such request shall state the purpose or purposes of the proposed meeting.

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

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

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

Section 9. When a quorum is present at any meeting, any question brought before such meeting (including an amalgamation not covered by Section10 hereof) shall be decided by a majority of the votes cast, unless the question is one upon which by express provision of the Act or these Bye-laws a different vote is required, in which case such express provision shall govern and control the decision of such question.

Section 10. The Company shall not engage in any business combination with an interested shareholder for a period of three years after the transaction by which such person became an interested shareholder, unless (i) both the holders of 66 2/3% of all issued shares entitled to vote thereon (other than shares held by an inter-

ested shareholder), voting at an annual or special general meeting, and the Board of Directors approve such business combination, (ii) the Board of Directors approved the proposed business combination prior to such shareholder becoming an interested shareholder, (iii) the Board of Directors approved the transaction by which such shareholder became an interested shareholder prior to such shareholder becoming an interested shareholder or (iv) upon consummation of the transaction which resulted in the shareholder becoming an interested shareholder, the interested shareholder owned at least 85% of the issued voting shares (excluding for purposes of determining the number of issued shares, shares owned by directors who are also employees and by the Company's employee benefit plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer). For the purposes of this section an "interested shareholder" means any person (other than the Company or its subsidiaries) that owns 15% or more of the issued voting shares of the Company (including any affiliates and associates of such person) and a "business combination" includes any (i) amalgamation, merger, consolidation or similar transaction, (ii) any sale, lease, exchange, mortgage, pledge, transfer or other disposition of greater than 10% (based on either the aggregate market value of all the Company's consolidated assets or of all the issued shares of the Company) of the assets of the Company or (iii) any transaction which has the effect, directly or indirectly, of increasing the proportionate share of any class of shares of the Company held by an interested shareholder.

Section 11. Unless otherwise provided in these Bye-laws or by the rights attaching to any shares each shareholder shall at every meeting of the shareholders be entitled to one vote in person or by proxy for each share entitled to vote thereat held by such shareholder, but no proxy shall be voted on after three years from its date, unless the proxy provides for a longer period. Each shareholder may appoint a proxy to vote at any meeting (i) by a written instrument subscribed by such shareholder in such form as the Board may accept, or (ii) if provided in the written notice for such meeting, by telephonic, electronic or other means of transmission (including, without limitation, Internet voting).

Section 12. Unless otherwise provided in the Act or in these Bye-laws, any action required to be taken at any annual or special general meeting of

shareholders of the Company, or any action which may be taken at any annual or special general meeting of such shareholders, may be taken without a meeting, without prior notice and without a vote, if a consent in writing, setting forth the action so taken, shall be signed by the holders of all shares entitled to vote thereon.

Section 13. At each meeting of shareholders, the chairman of the meeting shall fix and announce the time of the opening and the closing of the polls for each matter upon which the shareholders will vote at the meeting and shall determine the order of business and all other matters of procedure. Except to the extent inconsistent with any such rules and regulations as adopted by the Board of Directors, the chairman of the meeting may establish rules to maintain order and safety and for the conduct of the meeting. Without limiting the foregoing, he may:

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

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

(c) establish seating arrangements;

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

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

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

Section 14. The Board of Directors, either directly or through its designees, shall, in advance of any meeting of shareholders, appoint one or more inspectors to act at the meeting and make a written report thereof. The Board of Directors may designate one or more persons as alternate inspectors to replace any inspector who fails to act. If no inspector or alternate is able to act at a meeting of shareholders, the chairman of the meeting shall appoint one or more inspectors to act at the meeting. Each inspector, before entering upon the discharge of his duties, shall take and sign an oath faithfully to execute the duties of inspector with strict impartiality and according to the best of his ability.

The inspectors shall:

(a) ascertain the number of issued shares and the voting power of each;

(b) determine the shares represented at a meeting and the validity of proxies and ballots;

(c) count all votes and ballots;

(d) determine and retain for a reasonable period a record of the disposition of any challenges made to any determination by the inspectors; and

(e) certify their determination of the number of shares represented at the meeting, and their count of all votes and ballots.

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

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

In determining the validity and counting of proxies and ballots, the inspectors shall be limited to an examination of the proxies, any envelopes submitted with those proxies, ballots and the regular books and records of the Company, except that the inspectors may consider other reliable information for the limited purpose of reconciling proxies and ballots submitted by or on behalf of banks, brokers, their nominees or similar persons which represent more votes than the holder of a proxy is authorized by the record owner to cast or more votes than the shareholder holds of record. If the inspectors consider other reliable information for the limited purpose permitted herein, they at the time they make their certification shall specify the precise information considered by them including the person or persons from whom they obtained the information, when the information was obtained, the means by which the information was

obtained and the basis for the inspectors' belief that such information is accurate and reliable.

Section 15. The Board of Directors or, in the case of a special general meeting, the Chief Executive Officer may, or the Secretary on instruction from the Board of Directors or, in the case of a special general meeting, the Chief Executive Office shall, postpone or cancel any general meeting called in accordance with the provisions of the Bye-laws provided that notice of postponement or cancellation is given to each shareholder entitled to vote at such meeting before the time of such meeting. New notice of the date, time and place for a postponed meeting shall be given to the shareholders entitled to vote at such meeting in accordance with the provisions of these Bye-laws.

ARTICLE III

DIRECTORS

Section 1. The Board of Directors shall consist of not less than two directors or such number in excess thereof as the shareholders may from time to time determine. The Board of Directors may from time to time determine a maximum number of directors. The directors shall be elected at the annual general meeting of the

shareholders, except as provided in Section 2 of this Article, and each director elected shall hold office until his successor is elected and qualified, unless sooner removed. Directors need not be shareholders. Nominations for the election of directors may be made by the Board of Directors or a committee or person appointed by the Board of Directors or by any shareholder entitled to vote in the election of directors generally. However, any shareholder entitled to vote in the election of directors generally may nominate one or more persons for election as directors at an annual general meeting only pursuant to the Company's notice of such meeting or if written notice of such shareholder's intent to make such nomination or nominations has been received by the Secretary of the Company in accordance with the procedures set forth in Article IV, Section 3. Each such notice shall set forth: (a) the name and address of the shareholder who intends to make the nomination and of the person or persons to be nominated; (b) a representation that the shareholder is a holder of record of shares of the Company entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice; (c) a description of all arrangements or understandings between the shareholder and each nominee and any other person or persons (naming such person or persons) relating to the nomination or nominations; (d) the class and number of shares of the Company which are beneficially owned by such shareholder and the person to be nominated as of the date of such shareholder's notice and by any other shareholders known by such shareholder to be supporting such nominees as of the date of such shareholder's notice; (e) such other information regarding each nominee proposed by such shareholders as would be required to be included in a proxy statement filed pursuant to the proxy rules of the U.S. Securities and Exchange Commission; and (f) the consent of each nominee to serve as a director of the Company if so elected. No person shall be eligible for election as a director of the Company unless nominated in accordance with the procedures set forth in this Article III, Section 1. The presiding officer of the meeting shall, if the facts warrant, determine and declare to the meeting that a nomination was not made in accordance with the procedures prescribed by this Article III, Section 1, and if he or she should so determine, the defective nomination shall be disregarded.

Section 2. Vacancies and newly created directorships resulting from any increase in the maximum number of directors may be filled by the Board of Directors, and the directors so chosen shall hold office until the next annual election and until their successors are duly elected and shall qualify, unless sooner removed. If there is not a quorum of directors in office, then any vacancy may be filled in the manner provided by the Act.

Section 3. The business of the Company shall be managed by the Board of Directors, which may exercise all such powers of the Company and do all such lawful acts and things as are not by the Act or by these Bye-laws directed or required to be exercised or done by the shareholders.

MEETINGS OF THE BOARD OF DIRECTORS

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

Section 5. The first meeting of each newly elected Board of Directors shall be held immediately following the annual general meeting and no notice of such meeting shall be necessary to the newly elected directors in order legally to constitute the meeting, provided a quorum shall be present. In the event that such meeting is not held immediately following the annual general meeting, the meeting may be held at such time and place as shall be specified in a notice given as hereinafter provided for special meetings of the Board of Directors, or

as shall be specified in a written waiver signed by all of the directors.

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

Section 7. Special meetings of the Board of Directors may be called by the Chairman of the Board by giving notice to each director; special meetings shall be called by the Chairman of the Board or Secretary in like manner on the written request of two directors unless the Board of Directors consists of only one director, in which case special meetings shall be called by the Chairman of the Board or Secretary in like manner and on like notice on the written request of the sole director.

Section 8. At all meetings of the Board of Directors, a majority of directors then in office shall constitute a quorum for the transaction of business and the act of a majority of the directors present at any meeting at

which there is a quorum shall be the act of the Board of Directors, except as may be otherwise specifically provided by the Act or these Bye-laws. If a quorum shall not be present at any meeting of the Board of Directors, the directors present thereat may adjourn the meeting from time to time, provided notice is given of the adjourned meeting.

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

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

COMMITTEES OF DIRECTORS

Section 11. The Board of Directors may, by resolution passed by a majority of the whole Board, designate one or more committees, each committee to consist of one or more of the directors of the Company. The Board of Directors may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meetings of the committee. Except as otherwise provided in these Bye-laws or by resolution of the Board of Directors, the provisions of these Bye-laws relating to meetings of the Board of Directors shall apply to meetings of committees.

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

Any such committee, to the extent provided in a resolution of the Board of Directors, shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the Company, and may authorize the seal of the Company to be affixed to all papers which may require it; but no such committee shall have the power or authority in reference to: amending the memorandum of continuance or these Bye-laws (except that a committee may, to the extent authorized in the resolution or resolutions providing for the issuance of shares adopted by the Board of Directors, fix the designations and any of the preferences or rights of such shares relating to dividends, redemption, dissolution, any distribution of assets of the Company or the conversion into, or the exchange of such shares for, shares of any other class or classes or any other series of the same or any other class or classes of shares of the Company or fix the number of shares of any series of shares or authorize the increase or decrease of the shares of any series); adopting an agreement of merger, amalgamation or consolidation; recommending to the shareholders the sale, lease or exchange of all or substantially all of the Company's property and assets; recommending to the shareholders a dissolution of the Company; and, unless a resolution of the Board of Directors expressly so provides, no such committee shall have the power or authority to declare a dividend or to authorize the issuance of shares. Such committee or committees shall have such name or names as may be determined from time to time by resolution adopted by the Board of Directors.

Section 12. There shall be a committee of the Board of Directors designated the "Compensation Committee." The Compensation Committee shall be comprised of one or more directors of the Company. The Compensation Committee shall have the authority as a committee of the Board of Directors as provided in Section 11

including, but not limited to, administering all provisions of the Company's present and future share option, share purchase, incentive compensation, savings or other similar plans (the "Plans"), for so long as the membership of the Compensation Committee meet the requirements of the Plans, and issuing capital shares necessary to perform as the "Committee" and the "Plan Administrator" (as defined in the Plans) and in similar positions pursuant to the Plans. The Compensation Committee may administer such other plans as determined and authorized by the Board of Directors from time to time.

Section 13. There shall be a committee of the Board of Directors designated the "Audit Committee." The Audit Committee shall be comprised of one or more directors of the Company. The Audit Committee shall have the authority as a committee of the Board of Directors as provided in Section 11 including, but not limited to, approving the services performed by the Company's independent accountants and reviewing the Company's accounting practices and system of internal accounting controls.

Section 14. There shall be a committee of the Board of Directors designated the "Nominating Committee." The Nominating Committee shall be comprised of one or more directors of the Company. The Nominating Committee shall have the authority as a committee of the Board of Directors as provided in Section 11 including, but not limited to, director evaluation and selection. Section 15. Each committee shall keep regular minutes of its meetings and report the same to the Board of Directors when required.

COMPENSATION OF DIRECTORS

Section 16. Unless otherwise restricted by these Bye-laws, the Board of Directors shall have the authority to fix the compensation of directors. The directors may be paid their expenses, if any, of attendance at each meeting of the Board of Directors and may be paid a fixed sum for attendance at each meeting of the Board of Directors and/or a stated salary as director. No such payment shall preclude any director from serving the Company in any other capacity and receiving compensation therefor. Members of special or standing committees may be allowed like compensation for attending committee meetings.

POWERS OF DIRECTORS

Section 17. The Board of Directors may from time to time and at any time authorize any company, firm, person or body of persons to act on behalf of the Company for any specific purpose and in connection therewith to execute any agreement, document or instrument on behalf of the Company.

Section 18. The Board of Directors may from time to time and at any time by power of attorney appoint any company, firm, person or body of persons, whether nominated directly or indirectly by the Board of Directors, to be an attorney of the Company for such purposes and with such powers, authorities and discretions (not exceeding those vested in or exercisable by the Board of Directors) and for such period and subject to such conditions as it may think fit and any such power of attorney may contain such provisions for the protection and convenience of persons dealing with any such attorney as the Board of Directors may think fit and may also authorise any such attorney to sub-delegate all or any of the powers, authorities and discretions so vested in the attorney. Such attorney may, if so authorised under the seal of the Company, execute any deed or instrument under such attorney's personal seal with the same effect as the affixation of the seal of the Company.

Section 19. The Board of Directors may exercise all the powers of the Company to borrow money and to mortgage or charge its undertaking, property and uncalled capital, or any part thereof, and may issue debentures, debenture stock and other securities whether outright or as security for any debt, liability or obligation of the Company or any third party.

Section 20. The Board of Directors may exercise all the powers of the Company to purchase all or any part of its own shares pursuant to Section 42A of the Act or to discontinue the Company to a named country or jurisdiction outside Bermuda pursuant to Section 132G of the Act.

Section 21. All acts done bona fide by any meeting of the Board of Directors or by a committee of the Board of Directors or by any person acting as a director shall, notwithstanding that it be afterwards discovered that there was some defect in the appointment of any director or person acting as aforesaid, or that they or any of them were disqualified, be as valid as if every such person had been duly appointed and was qualified to be a director.

ARTICLE IV

NOTICES

Section 1. Whenever, under the provisions of the Act or of these Bye-laws, notice is required to be given to any director or shareholder, it shall not be construed to require personal notice, but such notice may be given in writing, by mail, addressed to such director or shareholder, at his address as it appears on the records of the Company, with postage thereon prepaid, and such notice shall be deemed to be given at the time when the same shall be deposited in the United States mail or international airmail (as the case may be). Notice to directors may also be given by telegram or telecopier transmission.

Section 2. Whenever any notice is required to be given to shareholders under the provisions of the Acts or of these Bye-laws, a waiver thereof in writing, signed by the person or persons entitled to said notice shall be deemed equivalent thereto.

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

ARTICLE V

OFFICERS

Section 1. The officers of the Company shall be chosen by the Board of Directors and shall be a Chief Executive Officer, a Chairman of the Board, a President, a Vice President and a Secretary. The Board of Directors may also choose one or more Executive Vice Presidents, Senior Vice Presidents, additional Vice Presidents, Assistant Secretaries, a Treasurer and Assistant Treasurers. Subject to the Act, any number of offices may be held by the same person, unless these Bye-laws otherwise provide.

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

Section 3. The Board of Directors may appoint such other officers and agents as it shall deem necessary, including, but not limited to, a Chief Operating Officer, a Chief Financial Officer and a General Counsel,

all of whom shall hold their offices for such terms and shall exercise such powers and perform such duties as shall be determined from time to time by the Board of Directors.

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

Section 5. The officers of the Company shall hold office until their

successors are elected and qualify. Any officer elected or appointed by the Board of Directors may be removed at any time by the affirmative vote of a majority of the Board of Directors. Any vacancy occurring in any office of the Company shall be filled by the Board of Directors.

THE CHIEF EXECUTIVE OFFICER

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

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

THE CHAIRMAN OF THE BOARD

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

Section 9. The Chairman of the Board may execute bonds, mortgages and other contracts requiring a seal under the seal of the Company, except where required by law or these Bye-laws to be otherwise signed and executed and except where the signing and execution thereof shall be expressly delegated by the Board of Directors to some other officer or agent of the Company.

THE PRESIDENT AND VICE PRESIDENTS

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

Section 11. The President may execute bonds, mortgages and other contracts requiring a seal under the seal of the Company, except where required by law or these Bye-laws to be otherwise signed and executed and except where the signing and execution thereof shall be expressly delegated by the Board of Directors to some other officer or agent of the Company.

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

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

THE SECRETARY AND ASSISTANT SECRETARY

Section 13. The Secretary shall attend all meetings of the Board of Directors and all meetings of the shareholders and record all the proceedings of the meetings of the Company and of the Board of Directors in a book to be kept for that purpose and shall perform like duties for the standing committees when

required. He shall give, or cause to be given, notice of all meetings of the shareholders and special meetings of the Board of Directors, and shall perform such other duties as may be prescribed by the Board of Directors or the Chairman of the Board, under whose supervision he shall be. The Secretary and any Assistant Secretaries shall have custody of the common seal(s) of the Company and shall have the authority to affix the same to any instrument requiring it and, when so affixed, it may be attested by the signature of the Secretary or any Assistant Secretary. The Board of Directors may give general authority to any other officer to affix the seal of the Company and to attest the affixing by his signature.

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

THE TREASURER AND ASSISTANT TREASURER

Section 15. The Treasurer or, if there is no Treasurer, a Vice President shall have the custody of the corporate funds and securities and shall keep full and accurate accounts of receipts and disbursements in books belonging to the Company and shall deposit all moneys and other valuable effects in the name and to the credit of the Company in such depositories as may be designated by the Board of Directors.

Section 16. The Treasurer or, if there is no Treasurer, a Vice President shall disburse the funds of the Company as may be ordered by the Board of Directors, taking proper vouchers for such disbursements, and shall render to the Chairman of the Board and the Board of Directors, at its regular meetings, or when the Board of Directors so requires, an account of all his transactions as Treasurer and of the financial condition of the Company.

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

ARTICLE VI

CERTIFICATES OF SHARES

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

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

If the Company shall be authorized to issue more than one class of shares or more than one series of any class, the powers, designations, preferences and relative, participating, optional or other special rights of each class of shares or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights shall be set forth in full or summarized on the face or back of the certificate which the Company shall issue to represent such class or series of shares, provided that, in lieu of the foregoing requirements, there may be set forth on the face or back of the certificate which the Company shall issue to represent such class or series of shares a statement that the Company will furnish without charge to each shareholder who so requests the powers, designations, preferences and relative, participating, optional or other special rights of each class of shares or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights.

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

LOST CERTIFICATES

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

TRANSFER OF SHARES

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

FIXING RECORD DATE

Section 5. In order that the Company may determine the shareholders entitled to notice of or to vote at any meeting of shareholders or any adjournment thereof, or to express consent to corporate action in writing without a meeting, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of shares or for the purpose of any other lawful action, the Board of Directors may fix, in advance, a record date. A determination of shareholders of record entitled to notice of or to vote at a meeting of shareholders shall apply to any adjournment of the meeting, provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

REGISTERED SHAREHOLDERS

Section 6. The Company shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends, and to vote as such owner, and to hold liable for calls and assessments a person registered on its books as the owner of shares, and shall not be bound to recognize any equita-

ble or other claim to or interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of Bermuda.

Section 7. In the case of the death of a shareholder, the survivor or survivors where the deceased shareholder was a joint holder, and the legal personal representatives of the deceased shareholder where the deceased shareholder was a sole holder, shall be the only persons recognized by the Company as having any title to the deceased shareholder's interest in the shares. Nothing herein contained shall release the estate of a deceased joint holder from any liability in respect of any share which had been jointly held by such deceased shareholder with other persons. Subject to the provisions of Section 52 of the Act, for the purpose of this Bye-law, legal personal representative means the executor or administrator of a deceased shareholder or such other person as the Board of Directors may in its absolute discretion decide as being properly authorized to deal with the shares of a deceased shareholder.

Section 8. Any person becoming entitled to a share in consequence of the death or bankruptcy of any shareholder may be registered as a shareholder upon such evidence as the Board of Directors may deem sufficient or may elect to nominate some person to be registered as a transferee of such share, and in such case the person becoming entitled shall execute in favor of such nominee an instrument of transfer. On the presentation thereof to the Board of Directors, accompanied by such evidence as the Board of Directors may require to prove the title of the transferor, the transferee shall be registered as a shareholder but the Board of Directors shall, in either case, have the same right to decline or suspend registration as it would have had in the case of a transfer of the share by that shareholder before such shareholder's death or bankruptcy, as the case may be.

ARTICLE VII

GENERAL PROVISIONS DIVIDENDS

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

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

CHECKS

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

FISCAL YEAR

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

ACCOUNTS

Section 5. The Board of Directors shall cause to be kept proper records of account with respect to all transactions of the Company. Such records of account shall be kept at the registered office of the Company or, subject to Section 83(2) of the Act, at such other place as the Board thinks fit and shall be available for inspection by the directors during normal business hours.

Section 6. Subject to any rights to waive laying of accounts pursuant to Section 88 of the Act, the accounts of the Company shall be audited at least once in every year and financial statements as required by the Act shall be laid before the shareholders in general meeting.

SEAL

Section 7. The Board of Directors may adopt a common seal (and duplicates thereof for use outside Bermuda) having inscribed thereon the name of the Company, the year of its continuation to Bermuda and the word "Bermuda." The seal may be used by causing it or a facsimile thereof to be impressed or affixed or reproduced or otherwise.

INDEMNIFICATION/LIMITATION

Section 8. The Company shall indemnify its officers, directors and employees to the fullest extent possible except as prohibited by the Act.

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

An officer or director of the Company shall not be personally liable to the Company or its shareholders for monetary damages for any breach of fiduciary duty as a director or officer, except to the extent that such limitation is prohibited by the Act.

The indemnification and advancement of expenses and the limitation of liability provided by this section shall not be deemed exclusive of any other rights which any officer, director or employee, as such, may have or hereafter acquire under the Act, any provision of these Bye-Laws, or any agreement or otherwise. Any repeal or modification of the foregoing provisions of this section shall not adversely affect any right or protection existing at the time of such repeal or modification.

NUMBER AND GENDER

Section 9. Words used herein, regardless of the number and gender specifically used, shall be deemed and construed to include any other number, singular or plural, and any other gender, masculine, feminine or neuter, as the context requires.

SEPARABILITY

Section 10. In case any provision of these Bye-Laws shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

ARTICLE VIII

AMENDMENTS

Section 1. No Bye-Law shall be rescinded, altered or amended and no new Bye-Law shall be made until the same has been approved by a resolution of the Board of Directors and by a resolution of the shareholders.

Exhibit 4.1

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XOMA LTD.

and

MELLON INVESTOR SERVICES LLC

as Rights Agent

Shareholder Rights Agreement

Dated as of February 26, 2003

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TABLE OF CONTENTS

SHAREHOLDER RIGHTS AGREEMENT

Agreement, dated as of February 26, 2003, between XOMA Ltd., a Bermuda company (the "Company"), and Mellon Investor Services LLC (the "Rights Agent").

W I T N E S S E T H

WHEREAS, the Board of Directors of the Company desires to provide all shareholders of the Company with the opportunity to benefit from the long-term prospects and value of the Company and to ensure that all shareholders of the Company receive fair and equal treatment in the event of any proposed takeover of the Company; and

WHEREAS, on February 26, 2003, the Board of Directors of the Company authorized and granted one Right (as such term is hereinafter defined) for each outstanding Common Share (as such term is hereinafter defined) outstanding as of the close of business on April 2, 2003 (the "Record Date"), and contemplated the issuance of one Right for each Common Share of the Company issued between the Record Date and the earlier of the Distribution Date or the Expiration Date (as such terms are hereinafter defined), each Right initially representing the right to purchase one one-thousandth of a Series A Preference Share of the Company having rights, powers and preferences substantially identical to those set forth in the form of the Resolutions Regarding Preferences and Rights of Series A Preference Shares attached hereto as Exhibit A, upon the terms and subject to the conditions hereinafter set forth (the "Rights");

NOW, THEREFORE, in consideration of the premises and the mutual agreements herein set forth, the parties hereby agree as follows:

Section 1. Certain Definitions. For purposes of this Agreement, the following terms have the meanings indicated:

(a) "Acquiring Person" shall mean any Person (as such term is hereinafter defined) who or which, together with all Affiliates (as such term is hereinafter defined) and Associates (as such term is hereinafter defined) of such Person, shall be the Beneficial Owner (as such term is hereinafter defined) of 20% or more of the Common Shares then outstanding, but shall not include (i) the Company, (ii) any Subsidiary (as such term is hereinafter defined) of the Company, (iii) any employee benefit plan or compensation arrangement of the Company or any Subsidiary of the Company or (iv) any Person holding Common Shares organized, appointed or established by the Company or any Subsidiary of the Company for or pursuant to the terms of any such employee benefit plan or compensation arrangement (the Persons described in clauses (i) through (iv) above are referred to herein as "Exempt Persons").

Notwithstanding the foregoing, no Person shall become an "Acquiring Person" as the result of an acquisition of Common Shares by the Company which, by reducing the number of shares outstanding, increases the proportionate number of shares beneficially owned by such Person to 20% or more of the Common Shares then outstanding; provided, however, that if a Person shall become the Beneficial Owner of 20% or more of the Common Shares of the Company then outstanding by reason of share purchases by the Company and shall, after such share purchases by the Company, become the Beneficial Owner of any additional Common Shares of the Company, then such Person shall be deemed to be an "Acquiring Person."

(b) "Adverse Person" shall mean any Person declared to be an Adverse Person by the Board of Directors of the Company upon a determination of the Board of Directors of the Company that the criteria set forth in Section 11(a)(ii)(B) apply to such Person.

(c) "Affiliate" and "Associate" shall have the respective meanings ascribed to such terms in Rule 12b-2 of the General Rules and Regulations (the "Rules") under the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"), as in effect on the date of this Agreement; provided, however, that no person who is a director or officer of the Company shall be deemed an Affiliate or an Associate of any other director or officer of the Company solely as a result of his or her position as director or officer of the Company.

(d) A Person shall be deemed the "Beneficial Owner" of, and shall be deemed to "beneficially own," any securities:

(i) which such Person or any of such Person's Affiliates or Associates, directly or indirectly, beneficially owns (as determined pursuant to Rule 13d-3 of the Rules under the Exchange Act, as in effect on the date of this Agreement);

(ii) which such Person or any of such Person's Affiliates or Associates, directly or indirectly, has:

(A) the right to acquire (whether such right is exercisable immediately or only after the passage of time or upon the satisfaction of any conditions or both) pursuant to any agreement, arrangement or understanding (whether or not in writing) (other than customary agreements with and between underwriters and selling group members with respect to a bona fide public offering of securities) or upon the exercise of conversion rights, exchange rights, rights (other than the Rights), warrants or options, or otherwise; provided, however, that a Person

shall not be deemed the "Beneficial Owner" of, or to "beneficially own," (1) securities tendered pursuant to a tender or exchange offer made by or on behalf of such Person or any of such Person's Affiliates or Associates until such tendered securities are accepted for purchase or exchange; (2) securities issuable upon exercise of Rights at any time prior to the occurrence of a Triggering Event; or (3) securities issuable upon exercise of Rights from and after the occurrence of a Triggering Event, which Rights were acquired by such Person or any of such Person's Affiliates or Associates prior to the Distribution Date or pursuant to Sections 3(a) or 11(i) hereof; or

(B) the right to vote pursuant to any agreement, arrangement or understanding (whether or not in writing); provided, however, that a Person shall not be deemed the "Beneficial Owner" of, or to "beneficially own," any security under this clause (B) if the agreement, arrangement or understanding to vote such security (1) arises solely from a revocable proxy given in response to a public proxy or consent solicitation made pursuant to, and in accordance with, the Rules and (2) is not also then reportable by such person on Schedule 13D under the Exchange Act (or any comparable or successor report); or

(C) the right to dispose of or a "pecuniary interest" or an "indirect pecuniary interest" in (as determined pursuant to Rule 16a-1(a)(2) of the Rules), in any event including pursuant to any agreement, arrangement or understanding (whether or not in writing) (other than customary arrangements with and between underwriters and selling group members with respect to a bona fide public offering of securities); or

(iii) which are beneficially owned, directly or indirectly, by any other Person (or any Affiliate or Associate thereof) with which such Person or any of such Person's Affiliates or Associates has any agreement, arrangement or understanding (whether or not in writing) (other than customary agreements with and between underwriters and selling group members with respect to a bona fide public offering of securities) for the purpose of acquiring, holding, voting (except pursuant to a revocable proxy as described in clause (B) of Section 1(d)(ii) hereof) or disposing of any securities of the Company;

provided, however, that (1) no Person ordinarily engaged in business as an underwriter of securities shall be deemed the Beneficial Owner of any securities acquired through such Person's participation as an underwriter in good faith in a firm commitment un-

derwriting pursuant to an underwriting agreement with the Company until the expiration of 40 days after the date of such acquisition and (2) no Person who is a director or an officer of the Company shall be deemed, solely as a result of his or her position as director or officer of the Company, the Beneficial Owner of any securities of the Company that are beneficially owned by any other director or officer of the Company.

(e) "Business Day" shall mean any day other than a Saturday, Sunday, or a day on which banking institutions in the States of New Jersey and California are authorized or obligated by law or executive order to close.

(f) "close of business" on any given date shall mean 5:00 P.M., San Francisco, California time, on such date; provided, however, that if such date is not a Business Day it shall mean 5:00 P.M., San Francisco, California time, on the next succeeding Business Day.

(g) "Common Shares" shall mean the Common Shares, par value $0.0005 per share, of the Company except that "Common Shares" when used with reference to any Person other than the Company shall mean the capital stock with the greatest voting power, or the equity securities or other equity interests having power to control or direct the management of such Person or, if such Person is a Subsidiary of another person, the Person which ultimately controls such first-mentioned Person and which has issued such capital stock, equity securities or equity interests.

(h) "Common Stock" shall mean, when used with reference to any Person, the capital stock with the greatest voting power, or the equity securities or other equity interests having power to control or direct the management of such Person or, if such Person is a Subsidiary of another person, the Person which ultimately controls such first-mentioned Person and which has issued such capital stock, equity securities or equity interests.

(i) "Continuing Director" shall mean (i) any member of the Board of Directors of the Company, while such Person is a member of the Board, who is not an Acquiring Person, an Adverse Person, or an Affiliate or Associate of an Acquiring Person or an Adverse Person, or a representative or nominee of an Acquiring Person or an Adverse Person or of any such Affiliate or Associate and was a member of the Board prior to the date hereof, and (ii) any Person who subsequently becomes a member of the Board of Directors of the Company who is not an Acquiring Person, an Adverse Person, or an Affiliate or Associate of an Acquiring Person or an Adverse Person, or a representative of an Acquiring Person or an Adverse Person or of any such Affiliate or Associate, if such Person's nomination for election or election to the Board of Directors of the Company is recommended or approved by a majority of the other Continuing Directors.

(j) "Distribution Date" shall have the meaning defined in Section 3(a) hereof.

(k) "Exempt Persons" shall have the meaning defined in the definition of Acquiring Person.

(l) "Exercise Price" shall have the meaning as described in Section 7(b) hereof.

(m) "Expiration Date" and "Final Expiration Date" shall have the meanings set forth in Section 7(a) hereof.

(n) "Fair Market Value" of any securities or other property shall be as determined in accordance with Section 11(d) hereof.

(o) "Person" shall mean an individual, a corporation, a company, a partnership, an association, a limited liability Company, a joint stock company, a trust, a business trust, a government or political subdivision, any unincorporated organization, or any other association or entity.

(p) "Preference Shares" shall mean Series A Preference Shares, par value $0.05 per share, of the Company having the rights and preferences set forth in the form of the Resolutions Regarding Preferences and Rights of Series A Preference Shares attached hereto as Exhibit A.

(q) "Principal Party" shall have the meaning defined in Section 13(b) hereof.

(r) "Record Date" shall mean the close of business on April [2], 2003.

(s) "Redemption Price" shall have the meaning defined in Section 23 hereof.

(t) "Section 11(a)(ii) Event" shall mean any event described in Section 11(a)(ii) hereof.

(u) "Section 13 Event" shall mean any event described in clauses (x), (y) or (z) of Section 13(a) hereof.

(v) "Share Acquisition Date" shall mean the date of the first public announcement (which for purposes of this definition shall include, without limitation, a press release or a publicly available report or filing with the Securities and Exchange

Commission or any other governmental agency) by the Company or an Acquiring Person that an Acquiring Person has become such.

(w) "Subsidiary" shall mean, with respect to any Person, any other Person of which a majority of the voting power of the voting equity securities or voting interests is owned, directly or indirectly, by such Person, or which is otherwise controlled by such Person.

(x) "Triggering Event" shall mean any Section 11(a)(ii) Event or any Section 13 Event.

(y) "United States" means the United States of America.

(z) "$" means United States dollars.

Section 2. Appointment of Rights Agent. The Company hereby appoints the Rights Agent to act as agent for the Company, and the Rights Agent hereby accepts such appointment. The Company may from time to time appoint such co-Rights Agents (the "Co-Rights Agents") as it may deem necessary or desirable upon ten (10) days' prior written notice to the Rights Agent. The Rights Agent shall have no duty to supervise, and shall in no event be liable for, the acts or omissions of any such Co-Rights Agent. In the event the Company appoints one or more Co-Rights Agents, the respective duties of the Rights Agent and any Co-Rights Agents shall be as the Company shall determine.

Section 3. Issue of Right Certificates.

(a) From the date hereof until the earliest of (i) the close of business on the tenth Business Day after the Share Acquisition Date, (ii) the close of business on the tenth Business Day (or such other Business Day, if any, as the Board of Directors of the Company may determine in its sole discretion) after the date of the commencement by any Person, other than an Exempt Person, of a tender or exchange offer if, upon consummation thereof, such Person would be the

Beneficial Owner of 20% or more of the Common Shares then outstanding or (iii) the determination by the Board of Directors of the Company, pursuant to the criteria set forth in Section 11(a)(ii)(B) hereof, that a Person is an Adverse Person (including any such date which is after the date of this Agreement and prior to the issuance of the Rights) (the earliest of such dates being herein referred to as the "Distribution Date"), (x) the Rights will be evidenced (subject to the provisions of Section 3(b) hereof) by the certificates for the Common Shares (including, without limitation, any certificates for shares of common stock of the Company's predecessor in interest which represent Common Shares) registered in the names of the holders of the Common Shares (which certificates shall be deemed also to be certificates for Rights) and not by separate certificates, and (y) the Rights will be transferable only in connection with the transfer of the underlying Common Shares. As soon as practica-

ble after the Company has notified the Rights Agent of the occurrence of the Distribution Date and provided the Rights Agent with all necessary information and materials, the Rights Agent will send, by first-class, insured, postage prepaid mail, to each record holder of the Common Shares as of the close of business on the Distribution Date, at the address of such holder shown on the records of the Company, one or more certificates, in substantially the form of Exhibit B hereto (the "Right Certificates"), evidencing one Right for each Common Share so held. In the event that an adjustment in the number of Rights per Common Share has been made pursuant to Section 11(o) hereof, the Company shall make the necessary and appropriate rounding adjustments (in accordance with Section 14(a) hereof) at the time of distribution of the Right Certificates, so that Right Certificates representing only whole numbers of Rights are distributed and cash is paid in lieu of any fractional Rights. As of and after the close of business on the Distribution Date, the Rights will be evidenced solely by such Right Certificates.

(b) With respect to certificates for the Common Shares issued prior to the close of business on the Record Date (regardless of whether such certificates bear a legend referencing a prior shareholder rights agreement of the Company or its predecessor in interest), the Rights will be evidenced by such certificates for the Common Shares on or until the Distribution Date (or the earlier redemption, expiration or termination of the Rights), and the registered holders of the Common Shares also shall be the registered holders of the associated Rights. Until the Distribution Date (or the earlier redemption, expiration or termination of the Rights), the transfer of any of the Common Shares outstanding prior to the date of this Agreement shall also constitute the transfer of the Rights associated with such Common Shares.

(c) Certificates for the Common Shares issued after the Effective Time, but prior to the earlier of the Distribution Date or the redemption, expiration or termination of the Rights, shall be deemed also to be certificates for Rights, and shall bear a legend, substantially in the form set forth below:

> This certificate also evidences and entitles the holder hereof to certain Rights as set forth in a Shareholder Rights Agreement between XOMA Ltd. and Mellon Investor Services LLC, as Rights Agent, dated as of February 26, 2003, as may be amended from time to time (the "Rights Agreement"), the terms of which are hereby incorporated herein by reference and a copy of which is on file at the principal offices of XOMA Ltd. Under certain circumstances, as set forth in the Rights Agreement, such Rights will be evidenced by separate certificates and will no longer be evidenced by this certificate. XOMA Ltd. may redeem the Rights at a redemption price of $0.001 per Right, subject to adjustment, under the terms of the Rights Agreement. XOMA Ltd. will mail to the holder of this certificate a copy of the Rights Agreement, as in effect on the

> date of mailing, without charge promptly after receipt of a written request therefor. Under certain circumstances, Rights issued to or held by Acquiring Persons, Adverse Persons or any Affiliates or Associates thereof (as defined in the Rights Agreement), and any subsequent holder of such Rights, may become null and void.

With respect to such certificates containing the foregoing legend, the Rights associated with the Common Shares represented by such certificates shall be evidenced by such certificates alone until the Distribution Date (or the earlier redemption, expiration or termination of the Rights), and the transfer of any Common Shares shall also constitute the transfer of the Rights associated with such Common Shares. In the event that the Company purchases or acquires any Common Shares after the Effective Time but prior to the Distribution Date, any Rights associated with such Common Shares shall be deemed cancelled and retired so that the Company shall not be entitled to exercise any Rights associated with the Common Shares which are no longer outstanding. The failure to print the

foregoing legend on any such certificate for the Common Shares or any defect therein shall not affect in any manner whatsoever the application or interpretation of the provisions of Section 7(e) hereof.

Section 4. Form of Right Certificates.

(a) The Right Certificates (and the forms of election to purchase shares and of assignment and of the certificate to be printed on the reverse thereof) shall each be substantially in the form of Exhibit B hereto and may have such marks of identification or designation and such legends, summaries or endorsements printed thereon as the Company may deem appropriate (but which do not affect the duties, rights or obligations of the Rights Agent) and as are not inconsistent with the provisions of this Agreement, or as may be required to comply with any applicable law, rule or regulation or with any rule or regulation of any stock exchange on which the Rights may from time to time be listed, or to conform to customary usage. Subject to the provisions of Section 11 and Section 22 hereof, the Right Certificates, whenever distributed, shall be dated as of the Record Date, shall show the date of countersignature, and on their face shall entitle the holders thereof to purchase such number of one one-thousandths of a Preference Share as shall be set forth therein at the price set forth therein (the "Exercise Price"), but the number of such shares and the Exercise Price shall be subject to adjustment as provided herein.

(b) Any Right Certificate issued pursuant to Section 3(a) or Section 22 hereof that represents Rights beneficially owned by (i) an Acquiring Person, an Adverse Person or any Associate or Affiliate of an Acquiring Person or an Adverse Person, (ii) a transferee or nominee of an Acquiring Person or an Adverse Person (or of any Associate or Affiliate of an Acquiring Person or an Adverse Person) who becomes a transferee or nominee after the Acquiring Person or Adverse Person becomes such, or (iii) a transferee of an Acquiring

Person or an Adverse Person (or of any such Associate or Affiliate) who becomes a transferee prior to or concurrently with the Acquiring Person or Adverse Person becoming such and receives such Rights pursuant to either (A) a transfer (whether or not for consideration) from the Acquiring Person or Adverse Person (or from the Associate or Affiliate) to holders of equity interests in such Acquiring Person or Adverse Person (or such Associate or Affiliate) or to any Person with whom the Acquiring Person or Adverse Person has any continuing agreement, arrangement or understanding (whether or not in writing) regarding the transferred Rights or (B) a transfer which the Board of Directors of the Company has determined is part of a plan, arrangement or understanding which has as a primary purpose or effect the avoidance of Section 7(e) hereof, and any Right Certificate issued pursuant to Section 6, Section 11 or Section 22 upon transfer, exchange, replacement or adjustment of any other Right Certificate referred to in this sentence, shall have deleted therefrom the second sentence of the existing legend on such Right Certificate and in substitution therefor shall contain the following legend:

> The Rights represented by this Right Certificate are or were beneficially owned by a Person who was or became an Acquiring Person, an Adverse Person or an Affiliate or an Associate of an Acquiring Person or an Adverse Person (as such terms are defined in the Rights Agreement). This Right Certificate and the Rights represented hereby may become null and void under certain circumstances as specified in Section 7(e) of the Rights Agreement.

The Company shall give notice to the Rights Agent promptly after it becomes aware of the existence and identity of any Acquiring Person or Adverse Person or any Associate or Affiliate thereof and the Rights Agent shall have no obligation under this paragraph (b) until it has received such notice. The failure to print the foregoing legend on any such Right Certificate or any defect therein shall not affect in any manner whatsoever the application or interpretation of the provisions of Section 7(e) hereof. The Company shall instruct the Rights Agent in writing of the Right Certificates which should be so legended.

Section 5. Countersignature and Registration.

(a) The Right Certificates shall be executed on behalf of the Company by its Chairman of the Board or its President and by its Secretary either manually or by facsimile signature, and shall have affixed thereto the Company's seal or a facsimile thereof which shall be attested to by the Secretary or any Assistant Secretary of the Company, either manually or by facsimile signature. The Right Certificates shall be manually countersigned by an authorized signatory of the Rights Agent, which need not be the same authorized signatory for all of the Right Certificates, and shall not be valid for any purpose unless so countersigned. In case any officer of the Company who shall have signed any of the Right Certificates shall cease to be such officer of the Company before countersignature by the Rights Agent and

issuance and delivery by the Company, such Right Certificates, nevertheless, may be countersigned by an authorized signatory of the Rights Agent, and issued and delivered by the Company with the same force and effect as though the person who signed such Right Certificates had not ceased to be such officer of the Company; and any Right Certificates may be signed on behalf of the Company by any person who, at the actual date of the execution of such Right Certificate, shall be a proper officer of the Company to sign such Right Certificate, although at the date of the execution of this Rights Agreement any such person was not such an officer.

In case any authorized signatory of the Rights Agent who shall have countersigned any of the Right Certificates shall cease to be so authorized before delivery by the Company, such Right Certificates, nevertheless, may be issued and delivered by the Company with the same force and effect as though the person who countersigned such Right Certificates had not ceased to be so authorized; and any Right Certificate may be countersigned on behalf of the Rights Agent by any person who, at the actual date of the countersignature of such Right Certificate, shall be properly authorized to countersign such Right Certificate, although at the date of the execution of this Agreement any such person was not so authorized.

(b) Following the Distribution Date and receipt by the Rights Agent of written notice of such Distribution Date and any other necessary information, the Rights Agent will keep or cause to be kept, at one of its offices designated as the appropriate place for surrender of Right Certificates upon exercise or transfer, books for registration and transfer of the Right Certificates issued hereunder. Such books shall show the names and addresses of the respective holders of the Right Certificates, the number of Rights evidenced on its face by each of the Right Certificates and the date of each of the Right Certificates.

Section 6. Transfer, Split Up, Combination and Exchange of Right Certificates; Mutilated, Destroyed, Lost or Stolen Right Certificates.

(a) Subject to the provisions of Section 4(b), Section 7(e) and Section 14 hereof, at any time after the close of business on the Distribution Date, and at or prior to the close of business on the Expiration Date, any Right Certificate or Right Certificates may be transferred, split up, combined or exchanged for another Right Certificate or Right Certificates entitling the registered holder to purchase a like number of one one-thousandths of a Preference Share (or following a Triggering Event, preference shares, cash, property, debt securities, common shares or any combination thereof) as the Right Certificate or Right Certificates surrendered then entitled such holder to purchase and at the same Exercise Price. Any registered holder desiring to transfer, split up, combine or exchange any Right Certificate shall make such request in writing delivered to the Rights Agent, and shall surrender the Right Certificate to be transferred, split up, combined or exchanged, with the form of assignment and certificate duly executed, along with a signature guarantee and such other and further documentation as the Rights Agent may reasonably request, at the office or offices of the

Rights Agent designated for such purpose. Neither the Rights Agent nor the Company shall be obligated to take any action whatsoever with respect to the transfer of any such surrendered Right Certificate until the registered holder shall have properly completed and signed the certificate contained in the form of assignment on the reverse side of such Right Certificate and shall have provided such additional evidence of the identity of the Beneficial Owner (or former Beneficial Owner) or Affiliates or Associates thereof as the Company or the Rights Agent shall reasonably request. Thereupon the Rights Agent shall, subject to Section 4(b), Section 7(e), Section 14 and Section 20(k) hereof, countersign and deliver to the Person entitled thereto a Right Certificate or Right Certificates, as the case may be, as so requested. The Company may require payment by the holder of a Right Certificate of a sum sufficient to cover any tax or governmental charge that may be imposed in connection with any transfer, split up, combination or exchange of Right Certificates. The Rights Agent shall have no duty or obligation under this Section unless and until it is reasonably satisfied that all such taxes and/or charges have been paid.

(b) Upon receipt by the Company and the Rights Agent of evidence reasonably satisfactory to them of the loss, theft, destruction or mutilation of a Right Certificate, and, in case of loss, theft or destruction, of indemnity or security satisfactory to them, and reimbursement to the Company and the Rights Agent of all reasonable expenses incidental thereto, and upon surrender to the Rights Agent and cancellation of the Right Certificate, if mutilated, along with a signature guarantee and such other and further documentation as the Rights Agent may reasonably request, the Company will execute and deliver a new Right Certificate of like tenor to the Rights Agent for countersignature and delivery to the registered owner in lieu of the Right Certificate so lost, stolen, destroyed or mutilated.

Section 7. Exercise of Rights; Exercise Price; Expiration Date of Rights.

(a) Subject to Section 7(e) hereof, the registered holder of any Right Certificate may exercise the Rights evidenced thereby (except as otherwise provided herein) in whole or in part at any time after the Distribution Date upon surrender of the Right Certificate, with the form of election to purchase and the certificate on the reverse side thereof duly executed, along with a signature guarantee and such other and further documentation as the Rights Agent may reasonably request, to the Rights Agent at the office or offices of the Rights Agent designated for such purpose, together with payment of the aggregate Exercise Price for the total number of one one-thousandths of a Preference Share (or Common Shares, other securities, cash or other assets, as the case may be) as to which such surrendered Rights are then exercised, at or prior to the earliest of (i) the close of business on December 31, 2012 (the "Final Expiration Date"), (ii) the time at which the Rights are redeemed as provided in Section 23 hereof or (iii) the time at which such Rights are exchanged as provided in Section 24 hereof (the earliest date being herein referred to as the "Expiration Date"). Except as set forth in Section 7(e) hereof and notwithstanding any other provision of this Agreement, any Person

who prior to the Distribution Date becomes a record holder of Common Shares may exercise all of the rights of a registered holder of a Right Certificate with respect to the Rights associated with such Common Shares in accordance with the provisions of this Agreement, as of the date such Person becomes a record holder of Common Shares.

(b) The Exercise Price for each one one-thousandth of a Preference Share pursuant to the exercise of a Right shall initially be $30.00, shall be subject to adjustment from time to time as provided in Section 11 and Section 13 hereof and shall be payable in lawful money of the United States of America in accordance with Section 7(c) below, provided that such Exercise Price shall never be less than one one-thousandth of the par value of a Preference Share.

(c) Upon receipt of a Right Certificate representing exercisable Rights, with the form of election to purchase and the certificate on the reverse side thereof duly executed, along with a signature guarantee and such other and further documentation as the Rights Agent may reasonably request, accompanied by payment of the Exercise Price for the shares to be purchased and an amount equal to any applicable transfer tax or governmental charge in cash, or by certified check or bank draft payable to the order of the Company, the Rights Agent shall, subject to Section 20(k) hereof, thereupon promptly (i) (A) procure that the Company issues, and requisition from any transfer agent of Preference Shares (or make available, if the Rights Agent is the transfer agent therefor) certificates for, the number of one one-thousandths of a Preference Share to be purchased and the Company hereby irrevocably authorizes its transfer agent to comply with all such requests, or (B) if the Company shall have elected to deposit the total number of Preference Shares issuable upon exercise of the Rights hereunder with a depositary agent, requisition from the depositary agent depositary receipts representing such number of one one-thousandths of a Preference Share as are to be purchased (in which case certificates for the Preference Shares represented by such receipts shall be deposited by the transfer agent with the depositary agent) and the Company will direct the depositary agent to comply with such request, (ii) when appropriate, requisition from the Company the amount of cash, if any, to be paid in lieu of issuance of fractional shares in accordance with Section 14 hereof, (iii) promptly after receipt of such certificates or depositary receipts, cause the same to be delivered to or upon the order of the registered holder of such Right Certificate, registered in such name or names as may be designated by such holder and (iv) when appropriate, after receipt promptly deliver such cash to or upon the order of the registered holder of such Right Certificate. In the event that the Company is obligated to issue other securities (including Common Shares) of the Company, pay cash or distribute other property pursuant to Section 11(a) hereof, the Company will make all arrangements necessary so that such other securities, cash or other property are available for distribution by the Rights Agent, if and when necessary to comply with this Agreement.

(d) In case the registered holder of any Right Certificate shall exercise less than all the Rights evidenced thereby, a new Right Certificate evidencing Rights equivalent to the Rights remaining unexercised shall be issued by the Rights Agent and delivered to the registered holder of such Right Certificate or to his duly authorized assigns, subject to the provisions of Section 6 and Section 14 hereof.

(e) Notwithstanding anything in this Agreement to the contrary, from and after the first occurrence of a Section 11(a)(ii) Event, any Rights beneficially owned by (i) an Acquiring Person, an Adverse Person or any Associate or Affiliate of an Acquiring Person or an Adverse Person, (ii) a transferee of an Acquiring Person or an Adverse Person (or of any Associate or Affiliate of an

Acquiring Person or an Adverse Person) who becomes a transferee after the Acquiring Person or Adverse Person becomes such or (iii) a transferee of an Acquiring Person or an Adverse Person (or of any Associate or Affiliate of an Acquiring Person or an Adverse Person) who becomes a transferee prior to or concurrently with the Acquiring Person or Adverse Person becoming such and receives such Rights pursuant to either (A) a transfer (whether or not for consideration) from the Acquiring Person or Adverse Person (or from the Associate or Affiliate) to holders of equity interests in such Acquiring Person or Adverse Person (or such Associate or Affiliate) or to any Person with whom the Acquiring Person or Adverse Person has any continuing agreement, arrangement or understanding regarding the transferred Rights or (B) a transfer which the Board of Directors of the Company has determined is part of a plan, arrangement or understanding which has as a primary purpose or effect the avoidance of this Section 7(e), shall become null and void without any further action and no holder of such Rights shall have any rights whatsoever with respect to such Rights, whether under any provision of this Agreement or otherwise. The Company shall notify the Rights Agent when this Section applies and shall use all reasonable efforts to ensure that the provisions of this Section 7(e) and Section 4(b) hereof are complied with, but neither the Company nor the Rights Agent shall have any liability to any holder of Right Certificates or other Person as a result of the Company's failure to make any determinations with respect to an Acquiring Person or Adverse Person or any Affiliates or Associates of an Acquiring Person or an Adverse Person or any transferee of any of them hereunder.

(f) Notwithstanding anything in this Agreement to the contrary, neither the Rights Agent nor the Company shall be obligated to undertake any action with respect to a registered holder of Rights upon the occurrence of any purported exercise as set forth in this Section 7 unless such registered holder shall have (i) completed and signed the certificate contained in the form of election to purchase set forth on the reverse side of the Right Certificate surrendered for such exercise, and (ii) provided such additional evidence of the identity of the Beneficial Owner (or former Beneficial Owner) or Affiliates or Associates thereof as the Company shall reasonably request.

Section 8. Cancellation and Destruction of Right Certificates. All Right Certificates surrendered for the purpose of exercise, transfer, split up, combination or exchange shall, if surrendered to the Company or any of its agents, be delivered to the Rights Agent for cancellation or in cancelled form, or, if surrendered to the Rights Agent, shall be cancelled by it, and no Right Certificates shall be issued in lieu thereof except as expressly permitted by any of the provisions of this Agreement. The Company shall deliver to the Rights Agent for cancellation and retirement, and the Rights Agent shall so cancel and retire, any other Right Certificate purchased or acquired by the Company otherwise than upon the exercise thereof. The Rights Agent shall deliver all cancelled Right Certificates to the Company.

Section 9. Reservation and Availability of Preference Shares.

(a) The Company covenants and agrees that it will cause to be reserved and kept available out of its authorized and unissued Preference Shares, the number of Preference Shares that will be sufficient to permit the exercise in full of all outstanding and exercisable Rights (it being understood that any of the foregoing shares may also be reserved for other purposes) or will take such other steps as are appropriate to assure that the number of such shares (or their equivalents) sufficient to permit the exercise in full of all outstanding Rights will be available upon such exercise.

(b) The Company shall use its best efforts to cause, from and after such time as the Rights become exercisable, all Preference Shares issued or reserved for issuance to be listed, upon official notice of issuance, upon the principal national securities exchange, if any, upon which the Common Shares are listed or, if the principal market for the Common Shares is not on any national securities exchange, to be eligible for quotation on The Nasdaq Stock Market ("Nasdaq") or any successor thereto or other comparable quotation system.

(c) The Company shall use its best efforts to (i) file, as soon as practicable following the earliest date after the occurrence of a Section 11(a)(ii) Event as of which the consideration to be delivered by the Company upon exercise of the Rights has been determined in accordance with Section 11(a)(iii) hereof, or as soon as required by law following the Distribution Date, as the case may be, a registration statement under the U.S. Securities Act of 1933, as amended (the "Securities Act"), with respect to the securities purchasable upon exercise of the Rights on an appropriate form, (ii) cause such registration statement to become effective as soon as practicable after such filing and (iii) cause such registration statement to remain effective (with a prospectus that at all times meets the requirements of the Securities Act) until the earlier of (A) the date as of which the Rights are no longer exercisable for such securities or (B) the Expiration Date. The Company will also take such action as may be appropriate under, and which will ensure compliance with, the laws of Bermuda, the federal securities of the United States or "blue sky" laws

of the various states of the

United States in connection with the exercisability of the Rights. The Company may temporarily suspend, for a period of time not to exceed ninety (90) days after the date determined in accordance with the provisions of the first sentence of this Section 9(c), the exercisability of the Rights in order to prepare and file such registration statement and permit it to become effective. Upon such suspension, the Company shall issue a public announcement stating that the exercisability of the Rights has been temporarily suspended, as well as a public announcement at such time as the suspension is no longer in effect (with prompt notice of such public announcement to the Rights Agent). Failure of the Company to notify the Rights Agent of the suspension will not affect the effectiveness of the suspension. Notwithstanding any such provision of this Agreement to the contrary, the Rights shall not be exercisable in any jurisdiction unless the requisite qualification in such jurisdiction shall have been obtained. Unless otherwise notified in writing by the Company, the Rights Agent may assume that any Right exercised is permitted to be exercised under applicable law and shall have no liability for acting in reliance upon such assumption.

(d) The Company covenants and agrees that it will take all such action as may be necessary to ensure that all Preference Shares delivered upon the exercise of the Rights shall, at the time of delivery of the certificates for such shares (subject to payment of the Exercise Price), be duly and validly authorized and issued and fully paid and non-assessable.

(e) The Company further covenants and agrees that it will pay when due and payable any and all Bermuda, United States federal and state transfer taxes and other governmental charges which may be payable in respect of the issuance or delivery of the Right Certificates or of any certificates for Preference Shares upon the exercise of Rights. The Company shall not, however, be required (a) to pay any transfer tax or other governmental charge which may be payable in respect of any transfer or delivery of Right Certificates to a person other than, or in respect of the issuance or delivery of securities in a name other than that of, the registered holder of the Right Certificate evidencing Rights surrendered for exercise or (b) to issue or deliver any certificates for securities in a name other than that of the registered holder upon the exercise of any Rights until such tax shall have been paid (any such tax or other governmental charge being payable by the holder of such Right Certificate at the time of surrender) or until it has been established to the Company's satisfaction that no such tax or other governmental charge is due.

Section 10. Preference Share Record Date. Each Person in whose name any certificate for Preference Shares is issued upon the exercise of Rights shall be entered in the share register in respect thereof on the date of such exercise and thereafter shall for all purposes become the holder of record of the Preference Shares represented thereby on, and such certificate shall be dated, the date of such entry in the share register; provided, however, that if the date of such surrender and payment is a date upon which the Preference Share register

of the Company is closed, such Person shall become the record holder of such shares on, and such certificate shall be dated, the next succeeding Business Day on which the Preference Share register of the Company is open. Prior to the exercise of the Right evidenced thereby, the holder of a Right Certificate shall not be entitled to any rights of a shareholder of the Company with respect to shares for which the Rights shall be exercisable, including, without limitation, the right to vote, to receive dividends or other distributions or to exercise any preemptive rights, and shall not be entitled to receive any notice of any proceedings of the Company, except as provided herein.

Section 11. Adjustment of Exercise Price, Number and Kind of Shares or Number of Rights. The Exercise Price, the number and kind of shares covered by each Right and the number of Rights outstanding are subject to adjustment from time to time as provided in this Section 11.

(a) (i) In the event the Company shall at any time after the date of this Agreement (A) declare a dividend or bonus issue on the Preference Shares payable in Preference Shares, (B) subdivide the outstanding Preference Shares, (C) combine or consolidate the outstanding Preference Shares into a smaller number of shares or (D) issue any of its shares in a reclassification of the Preference Shares (including any such reclassification in connection with a consolidation, amalgamation or merger in which the Company is the continuing or surviving corporation), except as otherwise provided in this Section 11(a) and Section 7(e) hereof, the Exercise Price in effect at the time of the record date for such dividend or bonus issue or of the effective date of such subdivision, combination, consolidations or reclassification, and the number and kind of

shares issuable on such date, shall be proportionately adjusted so that the holder of any Right exercised after such time shall be entitled to receive the aggregate number and kind of shares which, if such Right had been exercised immediately prior to such date and at a time when the Preference Share register of the Company is open, he would have owned upon such exercise and been entitled to receive by virtue of such dividend, subdivision, combination or reclassification. If an event occurs which would require an adjustment under both Section 11(a)(i) and Section 11(a)(ii) hereof, the adjustment provided for in this Section 11(a)(i) shall be in addition to, and shall be made prior to, any adjustment required pursuant to Section 11(a)(ii) hereof.

(ii) Subject to the provisions of Section 24, hereof, in the event

(A) any Person, alone or together with its Affiliates and Associates, shall become an Acquiring Person, or

(B) the Board of Directors of the Company, by majority vote of all Directors, shall declare any Person to be an Adverse Person, after (x) a determination that such Person, alone or together with its Affiliates and Associates, has become the Beneficial Owner of 10% or more of the outstanding Common Shares and (y) a deter-

mination by the Board of Directors of the Company, after reasonable inquiry and investigation, including such consultation, if any, with such Persons as such directors shall deem appropriate, that (a) such Beneficial Ownership by such Person is intended to cause, is reasonably likely to cause or will cause the Company to repurchase the Common Shares beneficially owned by such Person or to cause pressure on the Company to take action or enter into a transaction or series of transactions which would provide such Person with short-term financial gain under circumstances where the Board of Directors of the Company determines that the best long-term interests of the Company and its shareholders, but for the actions and possible actions of such Person, would not be served by taking such action or entering into such transactions or series of transactions at that time or (b) such Beneficial Ownership is causing or reasonably likely to cause a material adverse impact (including, but not limited to, impairment of relationships with customers or impairment of the Company's ability to maintain its competitive position) on the business or prospects of the Company; provided, however, that the Board of Directors of the Company may not declare a Person to be an Adverse Person if, prior to the time that such Person acquired 10% or more of the Common Shares then outstanding, such Person provided to the Board of Directors of the Company in writing a statement of such Person's purpose and intentions in connection with the proposed acquisition of Common Shares, together with any other information reasonably requested of such Person by the Board of Directors of the Company, and the Board of Directors of the Company, based on such statement and reasonable inquiry and investigation, including such consultation, if any, with such Person as the Board of Directors of the Company shall deem appropriate, determines to notify and notifies such Person in writing that it will not declare such Person to be an Adverse Person; provided, further, that the Board of Directors of the Company may expressly condition in any manner a determination not to declare a Person an Adverse Person on such conditions as the Board of Directors of the Company may select, including without limitation, such Person's not acquiring more than a specified amount of shares and/or on such Person's not taking actions inconsistent with the purposes and intentions disclosed by such Person in the statement provided to the Board of Directors of the Company. No delay or failure by the Board of Directors of the Company to declare a Person to be an Adverse Person shall in any way waive or otherwise affect the power of the Board of Directors of the Company subsequently to declare a Person to be an Adverse Person. In the event that the Board of Directors of the Company should at any time determine, upon reasonable inquiry and investigation, including consultation with such Persons as the Board of Directors of the Company shall deem appropriate, that such Person has not met or complied with any condition specified by the Board of Directors of the Company, the Board of Directors of the Company may at any time thereafter declare such Person to be an Adverse Person pursuant to the provisions of this Section 11(a)(ii)(B),

then, and in each such case, promptly following any such occurrence, proper provision shall be made so that each holder of a Right, except as provided in Section 7(e) hereof, shall thereafter have a right to receive, upon exercise thereof at the then current Exercise Price in accordance with the terms of this Agreement, such number of Preference Shares as shall equal the result obtained by (x) multiplying the then current Exercise Price by the then number of one one-thousandths of a Preference Share for which such Right may be exercised immediately prior to the first occurrence of a Section 11(a)(ii) Event and

dividing that product by (y) 50% of the Fair Market Value per one one-thousandth of a Preference Share (determined pursuant to Section 11(d)) on the date of the occurrence of any one of the events listed above in this Section 11(a)(ii).

(iii) In the event that there shall not be sufficient authorized but unissued Preference Shares to permit the exercise in full of the Rights in accordance with the foregoing Section 11(a)(ii), the Company shall take all action as may be necessary to authorize and reserve for issuance such number of additional Preference Shares as may from time to time be required to be issued upon the exercise in full of all Rights outstanding and, if necessary, shall use its best efforts to obtain shareholder approval thereof. Notwithstanding the foregoing provisions of this Section 11(a)(iii), in lieu of issuing Preference Shares in accordance with Section 11(a)(ii) hereof, if a majority of the Directors then in office determines that such action is necessary or appropriate and is not contrary to the interests of the holders of the Rights, they may elect to cause the Company to pay, and if sufficient Preference Shares cannot be issued for such purpose in accordance with the provisions hereof, the Company shall issue or pay upon the exercise of the Rights, cash, property, debt securities, preference shares or common shares, or any combination thereof, having an aggregate Fair Market Value equal to the Fair Market Value of the Preference Shares which otherwise would have been issuable pursuant to Section 11(a)(ii). Any such election by a majority of the Directors of the Company must be made and publicly announced within 30 days of the date on which any Section 11(a)(ii) Event first occurs following the Share Acquisition Date.

(b) If the Company shall fix a record date for the issuance of rights, options or warrants to all holders of Preference Shares entitling them (for a period expiring within 45 calendar days after such record date) to subscribe for or purchase Preference Shares (or securities having the same or more favorable rights, privileges and preferences as or than the Preference Shares ("Preference Share Equivalents")) or securities convertible into Preference Shares or Preference Share Equivalents at a price per Preference Share or per share of Preference Share Equivalents (or having a conversion price per share, if a security convertible into Preference Shares or Preference Share Equivalents) less than the Fair Market Value (as determined pursuant to Section 11(d) hereof) per Preference Share on such record date, the Exercise Price to be in effect after such record date shall be determined by multiplying the Exercise Price in effect immediately prior to such record date by a fraction, the numerator of which shall be the number of Preference Shares outstanding on such record date, plus the

number of Preference Shares which the aggregate offering price of the total number of Preference Shares to be offered (or the aggregate initial conversion price of the convertible securities so to be offered) would purchase at such Fair Market Value and the denominator of which shall be the number of Preference Shares outstanding on such record date, plus the number of additional Preference Shares and Preference Share Equivalents to be offered for subscription or purchase (or into which the convertible securities so to be offered are initially convertible). In case such subscription price may be paid in a consideration part or all of which shall be in a form other than cash, the value of such consideration shall be the Fair Market Value thereof determined in accordance with Section 11(d) hereof. Such adjustments shall be made successively whenever such a record date is fixed; and in the event that such rights or warrants are not so issued, the Exercise Price shall be adjusted to be the Exercise Price which would then be in effect if such record date had not been fixed.

(c) If the Company shall fix a record date for the making of a distribution to all holders of Preference Shares (including any such distribution made in connection with a consolidation, amalgamation or merger in which the Company is the continuing or surviving corporation) of evidences of indebtedness, cash (other than a regular periodic cash dividend out of the earnings or retained earnings of the Company), assets (other than a dividend payable in or bonus issue of Preference Shares, but including any dividend payable in or bonus issue of shares other than Preference Shares) or convertible securities, subscription rights or warrants (excluding those referred to in Section 11(b)), the Exercise Price to be in effect after such record date shall be determined by multiplying the Exercise Price in effect immediately prior to such record date by a fraction, the numerator of which shall be the Fair Market Value (as determined pursuant to Section 11(d) hereof) per one one-thousandth of a Preference Share on such record date, less the Fair Market value (as determined pursuant to Section 11(d) hereof) of the portion of the cash, assets or evidences of indebtedness so to be distributed or of such convertible securities, subscription rights or warrants applicable to one one-thousandth of a Preference Share and the denominator of which shall be the Fair Market Value (as determined pursuant to Section 11(d) hereof) per one one-thousandth of a Preference Share on such record date. Such adjustments shall be made successively whenever such a record date is fixed; and in the event that such distribution is not so made, the Exercise Price shall again be adjusted to be the Exercise Price which would be in effect if such record date had not been fixed.

(d) For the purpose of this Agreement, the "Fair Market Value" of any Preference Share, Common Share or any other share or any Right or other security or any other property shall be determined as provided in this Section 11(d).

(i) In the case of a publicly traded share or other security, the Fair Market Value on any date shall be deemed to be the average of the daily closing prices per share of such share or per unit of such other security for the 30 consecutive Trading

Days (as such term is hereinafter defined) immediately prior to (but not including) such date; provided, however, that in the event that the Fair Market Value per share of any share is determined during a period following the announcement by the issuer of such share of (x) a dividend, distribution or bonus issue on such share payable in additional shares or securities convertible into additional shares or (y) any subdivision, consolidation, combination or reclassification of such shares, and prior to the expiration of the 30 Trading Day period after (but not including) the ex-dividend date (meaning the first Trading Day on which trades will settle on a date after the record date for the dividend, distribution or bonus issue) for such dividend, distribution or bonus issue, or the record date for such subdivision, consolidation, combination or reclassification, then, and in each such case, the Fair Market Value shall be properly adjusted to take into account ex-dividend trading. The closing price for each day shall be the last sale price, regular way, or, in case no such sale takes place on such day, the average of the closing bid and asked prices, regular way, in either case as reported in the principal consolidated transaction reporting system with respect to securities listed or admitted to trading on the New York Stock Exchange or, if the securities are not listed or admitted to trading on the New York Stock Exchange, as reported in the principal consolidated transaction reporting system with respect to securities listed on the principal national securities exchange on which such security is listed or admitted to trading; or, if not listed or admitted to trading on any national securities exchange, the last quoted price (or, if not so quoted, the average of the last quoted high bid and low asked prices) in the over-the-counter market, as reported by Nasdaq or such other system then in use; or, if on any such date no bids for such security are quoted by any such organization, the average of the closing bid and asked prices as furnished by a professional market maker making a market in such security selected by the Board of Directors of the Company. If on any such date no market maker is making a market in such security, the Fair Market Value of such security on such date shall be determined reasonably and with utmost good faith to the holders of the Rights by the Board of Directors of the Company, provided, however, that if at the time of such determination there is an Acquiring Person or an Adverse Person, the Fair Market Value of such security on such date shall be determined by a nationally recognized investment banking firm selected by the Board of Directors of the Company, which determination shall be described in a statement filed with the Rights Agent and shall be binding on the Rights Agent and the holders of the Rights. The term "Trading Day" shall mean a day on which the principal national securities exchange on which such security is listed or admitted to trading is open for the transaction of business or, if such security is not listed or admitted to trading on any national securities exchange, a Business Day.

(ii) If a security is not publicly held or not so listed or traded, "Fair Market Value" shall mean the fair value per share or per other unit of such security, determined reasonably and with utmost good faith to the holders of the Rights by the Board

of Directors of the Company, provided, however, that if at the time of such determination there is an Acquiring Person or an Adverse Person, the Fair Market Value of such security on such date shall be determined by a nationally recognized investment banking firm selected by the Board of Directors of the Company, which determination shall be described in a statement filed with the Rights Agent and shall be binding on the Rights Agent and the holders of the Rights; provided, however, that for the purposes of making any adjustment provided for by Section 11(a)(ii) hereof, the Fair Market Value of a Preference Share shall not be less than the product of the then Fair Market Value of a Common Share multiplied by the higher of the then Dividend Multiple or Vote Multiple (as both of such terms are defined in the form of Resolution of Preferences and Rights of Series A Preference Shares attached as Exhibit A hereto) applicable to the Preference Share and shall not exceed 105% of the product of the then Fair Market Value of a Common Share multiplied by the higher of the then Dividend Multiple or Vote Multiple applicable to the Preference Share.

(iii) In the case of property other than securities, the Fair Market

Value thereof shall be determined reasonably and with utmost good faith to the holders of Rights by the Board of Directors of the Company, provided, however, that if at the time of such determination there is an Acquiring Person or an Adverse Person, the Fair Market Value of such security on such date shall be determined by a nationally recognized investment banking firm selected by the Board of Directors of the Company, which determination shall be described in a statement filed with the Rights Agent and shall be binding upon the Rights Agent and the holders of the Rights.

(e) Anything herein to the contrary notwithstanding, no adjustment in the Exercise Price shall be required unless such adjustment would require an increase or decrease of at least 1% in the Exercise Price; provided, however, that any adjustments which by reason of this Section 11(e) are not required to be made shall be carried forward and taken into account in any subsequent adjustment. All calculations under this Section 11 shall be made to the nearest cent or to the nearest ten-thousandth of a Common Share or one-millionth of a Preference Share, as the case may be. Notwithstanding the first sentence of this Section 11(e), any adjustment required by this Section 11 shall be made no later than the earlier of (i) three (3) years from the date of the transaction which mandates such adjustment and (ii) the Expiration Date.

(f) If, as a result of any provision of Section 11(a) hereof, the holder of any Right thereafter exercised shall become entitled to receive any shares of capital stock of the Company other than Preference Shares, thereafter the number of such other shares so receivable upon exercise of any Right shall be subject to adjustment from time to time in a manner and on terms as nearly equivalent as practicable to the provisions with respect to the Preference Shares contained in Section 11(a) through (o), inclusive, and the provisions of Sections

7, 9, 10, 13 and 14 hereof with respect to the Preference Shares shall apply on like terms to any such other shares.

(g) All Rights originally issued by the Company subsequent to any adjustment made to the Exercise Price hereunder shall evidence the right to purchase, at the adjusted Exercise Price, the number of one one-thousandths of a Preference Share purchasable from time to time hereunder upon exercise of the Rights, all subject to further adjustment as provided herein.

(h) Unless the Company shall have exercised its election as provided in Section 11(i), upon each adjustment of the Exercise Price as a result of the calculations made in Section 11(b) and (c), each Right outstanding immediately prior to the making of such adjustment shall thereafter evidence the right to purchase, at the adjusted Exercise Price, that number of one one-thousandths of a Preference Share (calculated to the nearest one-millionth) obtained by (i) multiplying (x) the number of one one-thousandths of a Preference Share for which a Right may be exercisable immediately prior to this adjustment by (y) the Exercise Price in effect immediately prior to such adjustment of the Exercise Price and (ii) dividing the product so obtained by the Exercise Price in effect immediately after such adjustment of the Exercise Price.

(i) The company may elect on or after the date of any adjustment of the Exercise Price to adjust the number of Rights, in substitution for any adjustment in the number of Preference Shares purchasable upon the exercise of a Right. Each of the Rights outstanding after the adjustment in the number of Rights shall be exercisable for the number of one one-thousandths of a Preference Share for which a Right was exercisable immediately prior to such adjustment. Each Right held of record prior to such adjustment of the number of Rights shall become that number of Rights (calculated to the nearest one ten-thousandth) obtained by dividing the Exercise Price in effect immediately prior to adjustment of the Exercise Price by the Exercise Price in effect immediately after adjustment of the Exercise Price. The Company shall make a public announcement (with prompt written notice thereof to the Rights Agent) of its election to adjust the number of Rights, indicating the record date for the adjustment, and, if known at the time, the amount of the adjustment to be made. This record date may be the date on which the Exercise Price is adjusted or any day thereafter, but, if the Right Certificates have been issued, shall be at least ten (10) days later than the date of the public announcement. If Right Certificates have been issued, upon each adjustment of the number of Rights pursuant to this Section 11(i), the Company shall, as promptly as practicable, cause to be distributed to holders of record of Right Certificates on such record date Right Certificates evidencing, subject to Section 14 hereof, the additional Rights to which such holders shall be entitled as a result of such adjustment, or, at the option of the Company, shall cause to be distributed to such holders of record in substitution and replacement for the Right Certificates held by such holders prior to the date of adjustment, and upon surrender thereof,

if required by the Company, new Right Certificates evidencing all the Rights to which such holders shall be entitled after such adjustment. Right Certificates so to be distributed shall be issued, executed and countersigned in the manner provided for herein (and may bear, at the option of the Company, the adjusted Exercise Price) and shall be registered in the names of the holders of record of Right Certificates on the record date specified in the public announcement.

(j) Irrespective of any adjustment or change in the Exercise Price or the number of Preference Shares issuable upon the exercise of the Rights, the Right Certificates theretofore and thereafter issued may continue to express the Exercise Price per share and the number of shares which were expressed in the initial Right Certificates issued hereunder.

(k) In any case in which this Section 11 shall require that an adjustment in the Exercise Price be made effective as of a record date for a specified event, the Company may elect to defer (with prompt notice thereof to the Rights Agent) until the occurrence of such event the issuing to the holder of any Right exercised after such record date the number of one one-thousandths of a Preference Share or other shares or securities of the Company, if any, issuable upon such exercise over and above the number of one one-thousandths of a Preference Share and other shares or securities of the Company, if any, issuable upon such exercise on the basis of the Exercise Price in effect prior to such adjustment; provided, however, that the Company shall deliver to such holder a due bill or other appropriate instrument evidencing such holder's right to receive such additional shares upon the occurrence of the event requiring such adjustment.

(l) Anything in this Section 11 to the contrary notwithstanding, the Company shall be entitled to make such reductions in the Exercise Price, in addition to those adjustments expressly required by this Section 11, as and to the extent that it in its sole discretion shall determine to be advisable in order that any (i) consolidation or subdivision of the Preference Shares, (ii) issuance wholly for cash of any Preference Shares at less than the Fair Market Value, (iii) issuance wholly for cash of Preference Shares or securities which by their terms are convertible into or exchangeable for Preference Shares, or (iv) bonus issues, share dividends or issuance of rights, options or warrants referred to hereinabove in this Section 11, hereafter made by the Company to holders of its Preference Shares, shall not be taxable to such shareholders.

(m) The Company covenants and agrees that, after the Distribution Date, it will not, except as permitted by Sections 23, 24 and 27 hereof, take (nor will it permit any of its Subsidiaries to take) any action if at any time such action is taken it is reasonably foreseeable that such action will diminish substantially or otherwise eliminate the benefits afforded by the Rights.

(n) The Company covenants and agrees that it shall not, at any time after the Distribution Date, (i) consolidate, amalgamate, merge or otherwise combine with any other Person (other than a Subsidiary of the Company in a transaction which complies with Section 11(n)) or (ii) sell or transfer (or permit any Subsidiary to sell or transfer), in one transaction or a series of related transactions, assets or earning power aggregating 50% or more of the assets or earning power of the Company and its Subsidiaries taken as a whole, to any other Person or Persons (other than the Company and/or any of its Subsidiaries in one or more transactions, each of which complies with Section 11(n)) if (x) at the time of or immediately after such consolidation, amalgamation, merger, combination, sale or transfer there are any rights, warrants or other instruments outstanding or agreements or arrangements in effect which would substantially diminish or otherwise eliminate the benefits intended to be afforded by the Rights, or (y) prior to, simultaneously with or immediately after such consolidation, amalgamation, merger, combination, sale or transfer the shareholders of a Person who constitutes, or would constitute, the "Principal Party" for the purposes of Section 13(a) hereof shall have received a distribution of Rights previously owned by such Person or any of its Affiliates and Associates.

(o) In the event the Company shall at any time after the date of this Agreement and prior to the Distribution Date (i) declare a dividend or bonus issue on the outstanding Common Shares payable in Common Shares or (ii) effect a subdivision, combination or consolidation of the outstanding Common Shares (by reclassification or otherwise than by payment of dividends or bonus issues in Common Shares) into a greater or lesser number of Common Shares, the number of Rights associated with each Common Share shall be proportionately adjusted so that the number of Rights thereafter associated with each Common Share following any such event shall equal the result obtained by multiplying the number of Rights associated with each Common Share immediately prior to such event by a fraction, the numerator of which shall be the total number of Common Shares outstanding immediately prior to the occurrence of any such event listed in clause (i) or (ii) above and the denominator of which shall be the total number of Common Shares outstanding immediately following the occurrence of such event listed in clause (i) or (ii) above. The adjustments provided for in this Section 11(p) shall be made successively whenever such a dividend or bonus issue is

declared or paid or such a subdivision, combination or consolidation is effected.

(p) The failure by the Board of Directors of the Company to declare a Person to be an Adverse Person following such Person becoming the Beneficial Owner of 10% or more of the outstanding Common Shares shall not imply that such Person is not an Adverse Person or limit the Board of Directors' right at any time in the future to declare such Person to be an Adverse Person.

(q) Notwithstanding anything in this Agreement to the contrary, prior to the Distribution Date, the Company may, in lieu of making any adjustment to the Exercise

Price, the number of Preference Shares eligible for purchase on exercise of each Right or the number of Rights outstanding, which adjustment would otherwise be required by Section 11(a)(i), 11(b), 11(c), 11(h) or 11(i), make such other equitable adjustment or adjustments thereto as the Board of Directors of the Company (whose determination shall be conclusive) deems appropriate in the circumstances.

Section 12. Certificate of Adjusted Exercise Price or Number of Shares. Whenever an adjustment is made as provided in Section 11, Section 13 or Section 23(d) hereof, the Company shall (a) promptly prepare a certificate setting forth such adjustment and a brief statement of the facts and computations accounting for such adjustment, (b) promptly file with the Rights Agent and with each transfer agent for the Preference Shares and the Common Shares a copy of such certificate and (c) mail a brief summary thereof to each holder of a Right Certificate in accordance with Section 26 hereof. The Rights Agent shall be fully protected in relying on any such certificate and on any adjustment contained therein and shall not be deemed to have knowledge of any such adjustment unless and until it shall have received such certificate.

Section 13. Consolidation, Amalgamation, Merger or Sale or Transfer of Assets or Earning Power.

(a) In the event that, following the Share Acquisition Date, directly or indirectly, (x) the Company shall under any applicable law consolidate with, amalgamate with, merge with and into, or otherwise combine with any other Person (other than a Subsidiary of the Company in a transaction which is not prohibited by Section 11(n) hereof), and the Company shall not be the continuing or surviving corporation of such consolidation, amalgamation, merger or combination, (y) any Person under any applicable law (other than a Subsidiary of the Company in a transaction which is not prohibited by Section 11(n) hereof) shall consolidate or amalgamate with the Company, or merge with and into the Company or otherwise combine with the Company and the Company shall be the continuing or surviving corporation of such consolidation, amalgamation, merger or combination and, in connection with such amalgamation, merger or combination, all or part of the Common Shares shall be changed into or exchanged for stock or other securities of any other Person or cash or any other property, or (z) the Company shall sell, mortgage or otherwise transfer (or one or more of its Subsidiaries shall sell, mortgage or otherwise transfer), in one transaction of a series of related transactions, assets or earning power aggregating 50% or more of the assets or earning power of the Company and its Subsidiaries (taken as a whole) to any other Person or Persons (other than the Company or any Subsidiary of the Company in one or more transactions, each of which is not prohibited by Section 11(n) hereof), then, and in each such case, proper provision shall be made so that: (i) each holder of a Right, except as provided in Section 7(e) hereof, shall have the right to receive, upon the exercise thereof at the then current Exercise Price in accordance with the terms of this Agreement, such number of validly authorized and issued,

fully paid and non-assessable shares of freely tradeable Common Stock of the Principal Party (as hereinafter defined in Section 13(b)), free and clear of rights of call or first refusal, liens, encumbrances or other adverse claims, as shall be equal to the result obtained by (1) multiplying the then current Exercise Price by the number of one one-thousandths of a Preference Share for which a Right is exercisable immediately prior to the first occurrence of a Section 13 Event, and dividing that product by (2) 50% of the Fair Market Value (determined pursuant to Section 11(d) hereof) per share of the Common Stock of such Principal Party on the date of consummation of such consolidation, amalgamation, merger, combination, sale or transfer; (ii) such Principal Party shall thereafter be liable for, and shall assume, by virtue of such consolidation, amalgamation, merger, combination, sale or transfer, all the obligations and duties of the Company pursuant to this Agreement; (iii) the term "Company" shall thereafter be deemed to refer to such Principal Party, it being specifically intended that the provisions of Section 11 hereof shall apply to such Principal Party; (iv) such Principal Party shall take such steps

(including, but not limited to, the reservation of a sufficient number of shares of its Common Stock to permit exercise of all outstanding Rights in accordance with this Section 13(a) and the making of payments in cash and/or other securities in accordance with Section 11(a)(iii) hereof) in connection with such consummation as may be necessary to assure that the provisions hereof shall thereafter be applicable, as nearly as reasonably may be, in relation to its shares of Common Stock thereafter deliverable upon the exercise of the Rights; and (v) the provisions of Section 11(a)(ii) hereof shall be of no effect following the first occurrence of any Section 13 Event.

(b) "Principal Party" shall mean

(i) in the case of any transaction described in clause (x) or (y) of the first sentence of Section 13(a), the Person that is the issuer of any securities into which Common Shares of the Company are converted in such consolidation, amalgamation, merger or combination and if no securities are so issued, the Person that is the other party to the consolidation, amalgamation, merger or combination; and

(ii) in the case of any transaction described in clause (z) of the first sentence of Section 13(a), the Person that is the party receiving the greatest portion of the assets or earning power transferred pursuant to such transaction or transactions;

provided, however, that in any such case, (x) if the Common Stock of such Person is not at such time and has not been continuously over the preceding 12-month period registered under Section 12 of the Exchange Act, and such Person is a direct or indirect Subsidiary or Affiliate of another Person the Common Stock of which is and has been so registered, "Principal Party" shall refer to such other Person; (y) in case such Person is a direct or indirect Subsidiary or Affiliate of more than one Person, the Common Stocks of two or more of which are and have been so registered, "Principal Party" shall refer to whichever of such Persons is the is-

suer of the Common Stock having the greatest aggregate market value of shares outstanding; and (z) in case such Person is owned, directly or indirectly, by a joint venture formed by two or more Persons that are not owned, directly or indirectly, by the same Person, the rules set forth in (x) and (y) above shall apply to each of the chains of ownership having an interest in such joint venture as if such party were a "Subsidiary" of both or all of such joint venturers and the Principal Parties in each such chain shall bear the obligations set forth in this Section 13 in the same ratio as their direct or indirect interests in such Person bear to the total of such interests.

(c) The Company shall not consummate any Section 13 Event unless prior thereto (x) the Principal Party shall have a sufficient number of authorized shares of its Common Stock, which have not been issued or reserved for issuance, to permit the exercise in full of the Rights in accordance with this Section 13, and (y) the Company and each Principal Party and each other Person who may become a Principal Party as a result of such consolidation, amalgamation, merger, combination, sale or transfer shall have executed and delivered to the Rights Agent a supplemental agreement providing for the terms set forth in Section 13(a) and (b) and further providing that, as soon as practicable after the date of any consolidation, amalgamation, merger, combination, sale or transfer of assets mentioned in Section 13(a), the Principal Party at its own expense will:

(i) prepare and file a registration statement under the Securities Act with respect to the Rights and the securities purchasable upon exercise of the Rights on an appropriate form, use its best efforts to cause such registration statement to become effective as soon as practicable after such filing and use its best efforts to cause such registration statement to remain effective (with a prospectus that at all times meets the requirements of the Securities Act) until the Expiration Date;

(ii) use its best efforts to qualify or register the Rights and the securities purchasable upon exercise of the Rights under the blue sky laws of such jurisdictions as may be necessary or appropriate;

(iii) use its best efforts to list (or continue the listing of) the Rights and the securities purchasable upon exercise of the Rights on a national securities exchange or to meet the eligibility requirements for quotation on Nasdaq;

(iv) deliver to holders of the Rights historical financial statements for the Principal Party and each of its Affiliates which comply in all material respects with the requirements for registration on Form 10 under the Exchange Act; and

(v) take all such other steps as are required under applicable laws in the United States and in other relevant jurisdictions to enable the

exercise in full of the Rights in accordance with this Section 13.

The provisions of this Section 13 shall similarly apply to successive Section 13 Events. In the event that a Section 13 Event shall occur at any time after the occurrence of a Section 11(a)(ii) Event, the Rights which have not theretofore been exercisable shall thereafter become exercisable in the manner described in Section 13(a).

(d) Notwithstanding anything in this Agreement to the contrary, this Section 13 shall not be applicable to a transaction described in subparagraphs (x) and (y) of Section 13(a) if (i) such transaction is consummated with a Person or Persons who acquired Common Shares pursuant to a tender offer or exchange offer for all outstanding Common Shares, which complies with the provisos of Section 11(a)(ii)(B) hereof (or a wholly owned Subsidiary of any such Person, or Persons), (ii) the price per Common Share offered in such transaction is not less than the price per Common Share paid to all holders of Common Shares whose shares were purchased pursuant to such tender offer or exchange offer, and (iii) the form of consideration being offered to the remaining holders of Common Shares pursuant to such transaction is the same as the form of consideration paid pursuant to such offer. Upon consummation of any such transaction contemplated by this Section 13(d), all Rights hereunder shall expire.

(e) In no event shall the Rights Agent, except with respect to its duties set forth in this Agreement, have any liability in respect of any such Principal Party Transactions, including, without limitation, the propriety thereof. The Rights Agent may rely and be fully protected in relying upon a certificate of the Company stating that the provisions of this Section 13 have been fulfilled. Notwithstanding anything in this Agreement to the contrary, the prior written consent of the Rights Agent must be obtained in connection with any supplemental agreement which alters the rights or duties of the Rights Agent.

Section 14. Fractional Rights and Fractional Shares. (a) The Company shall not be required to issue fractions of Rights, except prior to the Distribution Date as provided in Section 11(o) hereof, or to distribute Right Certificates which evidence fractional Rights. If the Company elects not to issue such fractional Rights, the Company shall pay, in lieu of such fractional Rights, to the registered holders of the Right Certificates with regard to which such fractional Rights would otherwise be issuable, an amount in cash equal to the same fraction of the Fair Market Value of a whole Right, as determined pursuant to Section 11(d) hereof.

(b) The Company shall not be required to issue fractions of Preference Shares (other than fractions which are integral multiples of one one-thousandth of a Preference Share) upon exercise of the Rights or to distribute certificates which evidence fractional Preference Shares (other than fractions which are integral multiples of one one-thousandth of a Preference Share). In lieu of fractional Preference Shares that are not integral multiples of one one-thousandth of a Preference Share, the Company may pay to the registered holders of

Right Certificates at the time such Rights are exercised as herein provided an amount in cash equal to the same fraction of the Fair Market Value of one one-thousandth of a Preference Share. For purposes of this Section 14(b), the Fair Market Value of one one-thousandth of a Preference Share shall be determined pursuant to Section 11(d) hereof for the Trading Day immediately prior to the date of such exercise. The Rights Agent shall have no duty or obligation with respect to this Section 14 and Section 24(e) hereof unless and until it has received specific instructions (and sufficient cash, if required) from the Company with respect to its duties and obligations under such Sections.

(c) The holder of a Right by the acceptance of the Rights expressly waives his right to receive any fractional Rights or any fractional shares upon exercise of a Right, except as permitted by this Section 14.

Section 15. Rights of Action. All rights of action in respect of this Agreement, other than rights of action vested in the Rights Agent pursuant to Sections 18 and 20 hereof, are vested in the respective registered holders of the Right Certificates (or, prior to the Distribution Date, the registered holders of the Common Shares); and any registered holder of any Right Certificate (or, prior to the Distribution Date, of the Common Shares), without the consent of the Right Agent or of the holder of any other Right Certificate (or, prior to the Distribution Date, of the Common Shares), may, on his own behalf and for his own benefit, enforce, and may institute and maintain any suit, action or proceeding against the Company to enforce, or otherwise act in respect of, his right to exercise the Right evidenced by such Right Certificate in the manner provided in such Right Certificate and in this Agreement. Without

limiting the foregoing or any remedies available to the holders of Rights, it is specifically acknowledged that the holders of Rights would not have an adequate remedy at law for any breach of this Agreement and shall be entitled to specific performance of the obligations hereunder and injunctive relief against actual or threatened violations of the obligations hereunder of any Person subject to this Agreement. Notwithstanding anything in this Agreement to the contrary, neither the Company nor the Rights Agent shall have any liability to any holder of a Right or other Person as a result of its inability to perform any of its obligations under this Agreement by reason of any preliminary or permanent injunction or other order, judgment, decree or ruling (whether interlocutory or final) issued by a court or by a governmental, regulatory, self-regulatory or administrative agency or commission, or any statute, rule, regulation or executive order promulgated or enacted by any governmental authority, prohibiting or otherwise restraining performance of such obligation.

Section 16. Agreement of Right Holders. Every holder of a Right, by accepting the same, consents and agrees with the Company and the Rights Agent and with every other holder of a Right that:

(a) prior to the Distribution Date, each Right will be transferable only simultaneously and together with the transfer of Common Shares;

(b) after the Distribution Date, the Rights are transferable only on the registry books of the Rights Agent if the corresponding Rights Certificates are surrendered at the office or offices of the Rights Agent designated for such purpose, duly endorsed or accompanied by a proper instrument of transfer and the appropriate forms and certificates fully executed, along with a signature guarantee and such other and further documentation as the Rights Agent may reasonably request;

(c) subject to Section 6, Section 7(e) and Section 7(f) hereof, the Company and the Rights Agent may deem and treat the Person in whose name a Right (or, prior to the Distribution Date, the associated Common Share) is registered as the absolute owner thereof (notwithstanding any notations of ownership or writing on the Right Certificates or the associated Common Share certificate made by anyone other than the Company or the Rights Agent) for all purposes whatsoever, and neither the Company nor the Rights Agent shall be affected by any notice to the contrary; and

(d) notwithstanding anything in this Agreement to the contrary, neither the Company nor the Rights Agent shall have any liability to any holder of a Right or other Person as the result of its inability to perform any of its obligations under this Agreement by reason of any preliminary or permanent injunction or other order, decree or ruling issued by a court of competent jurisdiction or by a governmental, regulatory or administrative agency or commission, or any statute, rule, regulation or executive order promulgated or enacted by any governmental authority prohibiting or otherwise restraining performance of such obligations; provided, however, that the Company must use its best efforts to have any such order, decree or ruling lifted or otherwise overturned as soon as possible.

Section 17. Holder of Rights Not Deemed a Shareholder. No holder, as such, of any Right shall be entitled to vote, receive dividends or be deemed for any purpose the holder of the Preference Shares or any other securities of the Company which may at any time be issuable on the exercise of the Right, nor shall anything contained herein or in any Right Certificate be construed to confer upon the holder of any Right Certificate, as such, any of the rights of a shareholder of the Company or any right to vote for the election of directors or upon any matter submitted to shareholders at any meeting thereof, or to give or withhold consent to any corporate action, or to receive notice of meetings or other actions affecting shareholders (except as provided in Section 25 hereof), or to receive dividends or subscription rights, or otherwise, until such Right shall have been exercised in accordance with the provisions hereof.

Section 18. Concerning the Rights Agent.

(a) The Company agrees to pay to the Rights Agent such compensation as shall be agreed in writing from time to time by the Company and the Rights Agent for all services rendered by it hereunder and, from time to time, on demand of the Rights Agent, its reasonable expenses and counsel fees and disbursements and other disbursements incurred in the negotiation, administration, execution and amendment of this Agreement and the exercise and performance of its duties hereunder. The Company also agrees to indemnify the Rights Agent for, and to hold it harmless against, any and all loss, damage, claim, liability, or expense, incurred without negligence, bad faith or willful misconduct (each as may be determined by a final, non-appealable order, judgment, decree or ruling of a court of competent jurisdiction) on the part of the Rights Agent, for any

action taken, suffered or omitted to be taken by the Rights Agent in connection with the acceptance, performance and administration of this Agreement, including, without limitation, the costs and expenses of defending against any claim of liability arising therefrom, directly or indirectly. The provisions of this Section 18 and Section 20 hereof shall survive the termination of this Agreement and the exercise or expiration of the Rights and the resignation, replacement or removal of the Rights Agent. Anything to the contrary notwithstanding, in no event shall the Rights Agent be liable for special, punitive, indirect, consequential or incidental loss or damage of any kind whatsoever (including, but not limited to lost profits), even if the Rights Agent has been advised of the likelihood of such loss or damage.

(b) The Rights Agent shall be protected and shall incur no liability for or in respect of any action taken, suffered or omitted by it in connection with its administration of this Agreement in reliance upon any Right Certificate or certificate for Common Shares, Preference Shares, or other securities of the Company, instrument of assignment or transfer, power of attorney, endorsement, affidavit, letter, notice, direction, consent, certificate, statement, or other paper or document believed by it to be genuine and to be signed and executed by the proper Person or Persons. The Rights Agent shall not be deemed to have knowledge of any event of which it was supposed to receive notice hereunder, and the Rights Agent shall be fully protected and shall incur no liability for failing to take any action in connection therewith, unless and until it has received such notice in writing.

Section 19. Merger or Consolidation or Change of Name of Rights Agent.

(a) Any Person into which the Rights Agent or any successor Rights Agent may be merged or with which it may be consolidated, or any Person resulting from any merger or consolidation to which the Rights Agent or any successor Rights Agent shall be a party, or any Person succeeding to the shareholder services business of the Rights Agent or any successor Rights Agent, shall be the successor to the Rights Agent under this Agreement without the execution or filing of any paper or any further act on the part of any of the parties

hereto, provided that such Person would be eligible for appointment as a successor Rights Agent under the provisions of Section 21 hereof. In case at the time such successor Rights Agent shall succeed to the agency created by this Agreement, any of the Right Certificates shall have been countersigned but not delivered, any such successor Rights Agent may adopt the countersignature of the predecessor Rights Agent and deliver such Right Certificates so countersigned; and in case at that time any of the Right Certificates shall not have been countersigned, any successor Rights Agent may countersign such Right Certificates either in the name of the predecessor or in the name of the successor Rights Agent; and in all such cases such Right Certificates shall have the full force provided in the Right Certificates and in this Agreement.

(b) In case at any time the name of the Rights Agent shall be changed and at such time any of the Right Certificates shall have been countersigned but not delivered, the Rights Agent may adopt the countersignature under its prior name and deliver Right Certificates so countersigned; and in case at that time any of the Right Certificates shall not have been countersigned, the Rights Agent may countersign such Right Certificates either in its prior name or in its changed name; and in all such cases such Right Certificates shall have the full force provided in the Right Certificates and in this Agreement.

Section 20. Duties of Rights Agent. The Rights Agent undertakes only the duties and obligations expressly imposed by this Agreement, and no implied duties or obligations shall be read into this Agreement against the Rights Agent, upon the following terms and conditions, by all of which the Company and the holders of Right Certificates, by their acceptance thereof, shall be bound:

(a) The Rights Agent may consult with legal counsel selected by it (who may be legal counsel for the Company), and the opinion or advice of such counsel shall be full and complete authorization and protection to the Rights Agent as to any action taken, suffered or omitted to be taken by it in accordance with such opinion or advice. The Company shall only be responsible for reasonable fees and expenses of outside counsel which has been engaged by the Rights Agent with the Company's prior written consent; provided, that Kelley Drye & Warren LLP may be engaged by the Rights Agent without prior written consent for so long as it has no conflict of interest with the Company, as determined by the Company in its reasonable discretion.

(b) Whenever in the performance of its duties under this Agreement the Rights Agent shall deem it necessary or desirable that any fact or matter (including, without limitation, the identity of any Acquiring Person or Adverse Person and the determination of "Fair Market Value") be proved or established by the Company prior to taking or omitting to take or suffering any action hereunder, such fact or matter (unless other evidence in respect thereof shall be herein specifically prescribed) may be

deemed to be conclusively proved and established by a certificate signed by a person believed by the Rights Agent to be the Chairman of the Board, a Vice Chairman of the Board, the President, a Vice President, the Treasurer, any Assistant Treasurer, or the Secretary of the Company and delivered to the Rights Agent. Any such certificate shall be full authorization and protection to the Rights Agent for any action taken, suffered or omitted to be taken by it under the provisions of this Agreement in reliance upon such certificate.

(c) The Rights Agent shall be liable hereunder only for its own negligence, bad faith or willful misconduct (each as determined by a final, non-appealable order, judgment, decree or ruling of a court of competent jurisdiction). Any liability of the Rights Agent under this Agreement will be limited to the amount of fees paid by the Company to the Rights Agent hereunder.

(d) The Rights Agent shall not be liable for or by reason of any of the statements of fact or recitals contained in this Agreement or in the Right Certificates (except its countersignature thereof) or be required to verify the same, but all such statements and recitals are and shall be deemed to have been made by the Company only.

(e) The Rights Agent shall not have any liability for nor be under any responsibility in respect of the validity of this Agreement or the execution and delivery hereof (except the due execution hereof by the Rights Agent) or in respect of the validity or execution of any Right Certificate (except its countersignature thereof); nor shall it be responsible for any breach by the Company of any covenant or condition contained in this Agreement or in any Right Certificate; nor shall it be responsible for any change in the exercisability of the Rights (including the Rights becoming null and void pursuant to Section 7(e) hereof) or any adjustment required under the provisions of Sections 11, 13 or 23(c) hereof or responsible for the matter, method or amount of any such adjustment or the ascertaining of the existence of facts that would require any such adjustment (except with respect to the exercise of Rights evidenced by Right Certificates after the Rights Agent's actual receipt of a certificate describing any such adjustment furnished in accordance with Section 12 hereof), nor shall it be responsible for any determination by the Board of Directors of the Company of Fair Market Value of the Rights or Preference Shares pursuant to the provisions of Section 11(d) hereof; nor shall it by any act hereunder be deemed to make any representation or warranty as to the authorization or reservation of any Common Shares or Preference Shares to be issued pursuant to this Agreement or any Right Certificate or as to whether any Common Shares or Preference Shares will, when so issued, be validly authorized and issued, fully paid and non-assessable, nor shall the Rights Agent be responsible for the legality of the terms hereof in its capacity as an administrative agent.

(f) The Company agrees that it will perform, execute, acknowledge and deliver or cause to be performed, executed, acknowledged and delivered all such further and other acts, instruments and assurance as may reasonably be required by the Rights Agent for the carrying out or performing by the Rights Agent of the provisions of this Agreement.

(g) The Rights Agent is hereby authorized and directed to accept instructions with respect to the performance of its duties hereunder and certificates delivered pursuant to any provision hereof from any person believed by the Rights Agent to the Chairman of the Board, any Vice Chairman of the Board, the President, a Vice President, the Secretary, or the Treasurer of the Company, and is authorized to apply to such officers for advice or instructions in connection with its duties, and it shall not be liable for any action taken or omitted to be taken or suffered to be taken by it in accordance with instructions of any such officer or for any delay in acting while waiting for those instructions. Any application by the Rights Agent for written instructions from the Company may, at the option of the Rights Agent, set forth in writing any action proposed to be taken or omitted by the Rights Agent under this Agreement and the date on or after which such action shall be taken or such omission shall be effective. The Rights Agent shall not be liable for any action taken by, or omission of, the Rights Agent in accordance with a proposal included in such application on or after the date specified in such application (which date shall not be less than five Business Days after the date any officer of the Company actually receives such application, unless any such officer shall have consented in writing to an earlier date) unless, prior to taking any such action (or the effective date in the case of an omission), the Rights Agent shall have received written instructions in response to such

application specifying the action to be taken or omitted.

(h) The Rights Agent and any member, affiliates, director, officer or employee of the Rights Agent may buy, sell or deal in any of the Rights or other securities of the Company or become pecuniarily interested in any transaction in which the Company may be interested, or contract with or lend money to the Company or otherwise act as fully and freely as though it were not the Rights Agent under this Agreement. Nothing herein shall preclude the Rights Agent from acting in any other capacity for the Company or for any other Person.

(i) The Rights Agent may execute and exercise any of the rights or powers hereby vested in it or perform any duty hereunder either itself or by or through its attorneys or agents, and the Rights Agent shall not be answerable or accountable for any act, omis-

sion, default, neglect or misconduct of any such attorneys or agents or for any loss to the Company or to the holders of the Rights resulting from any such act, omission, default, neglect or misconduct; provided reasonable care was exercised in the selection and continued employment thereof.

(j) No provisions of this Agreement shall require the Rights Agent to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder or in the exercise of its rights if there shall be reasonable grounds for believing that repayment of such funds or adequate indemnification against such risk or liability is not reasonably assured to it.

(k) If, with respect to any Right Certificate surrendered to the Rights Agent for exercise or transfer, the certificate attached to the form of assignment or form of election to purchase, as the case may be, has either not been properly completed or indicates an affirmative response to clause (1) or clause (2) thereof, the Rights Agent shall not take any further action with respect to such requested exercise or transfer without first consulting with the Company. The Company shall give the Rights Agent prompt written instructions as to the action to be taken regarding the Rights Certificates involved. The Rights Agent shall be protected and shall not be liable for acting in accordance with such instructions.

(l) In addition to the foregoing, the Rights Agent shall be protected and shall incur no liability for, or in respect of, any action taken or omitted by it in connection with its administration of this Agreement if such acts or omissions are in reliance upon (i) the proper execution of the certification concerning beneficial ownership appended to the form of assignment and the form of election to purchase attached hereto unless the Rights Agent shall have actual knowledge that, as executed, such certification is untrue, or (ii) the non-execution of such certification, including, without limitation, any refusal to honor any otherwise permissible assignment or election by reason of such non-execution.

(m) The Company agrees to give the Rights Agent prompt written notice of any event known to it which would prohibit the exercise or transfer of the Right Certificates.

Section 21. Change of Rights Agent. The Rights Agent or any successor Rights Agent may resign and be discharged from its duties under this Agreement upon thirty (30) days' notice in writing mailed to the Company, and to each transfer agent of the Common Shares and the Preference Shares known to the Rights Agent, by registered or certified mail. The Company may remove the Rights Agent or any successor Rights Agent (with or without cause) upon thirty (30) days' notice in writing, mailed to the Rights Agent or successor Rights Agent, as the case may be, and to each transfer agent of the Common Shares and Preference Shares by registered or certified mail. If the Rights Agent shall resign or be removed or shall otherwise become incapable of acting, the Company shall appoint a successor

to the Rights Agent. If the Company shall fail to make such appointment within a period of thirty (30) days after giving notice of such removal or after it has been notified in writing of such resignation or incapacity by the resigning or incapacitated Rights Agent or by the holder of a Right Certificate (who shall, with such notice, submit his Right for inspection by the Company), then the incumbent Rights Agent or the registered holder of any Right Certificate may apply to any court of competent jurisdiction for the appointment of a new Rights Agent. Any successor Rights Agent, whether appointed by the Company or by such a court, shall agree to be bound by the terms hereof and shall be either (a) a Person organized and doing business under the laws of the United States or of any state of the United States, in good standing, which is subject to

supervision or examination by federal or state authority and which has at the time of its appointment as Rights Agent a combined capital and surplus of at least $50,000,000 or (b) an Affiliate of such a Person. After appointment, the successor Rights Agent shall be vested with the same powers, rights, duties and responsibilities as if it had been originally named as Rights Agent without further act or deed; but the predecessor Rights Agent shall deliver and transfer to the successor Rights Agent any property at the time held by it hereunder, and execute and deliver any further assurance, conveyance, act or deed necessary for the purpose. Not later than the effective date of any such appointment, the Company shall file notice thereof in writing with the predecessor Rights Agent and each transfer agent of the Common Shares and the Preference Shares, and mail a notice thereof in writing to the registered holders of the Rights Certificates. Failure to give any notice provided for in this Section 21, however, or any defect therein, shall not affect the legality or validity of the resignation or removal of the Rights Agent or the appointment of the successor Rights Agent, as the case may be.

Section 22. Issuance of New Right Certificates. Notwithstanding any of the provisions of this Agreement or of the Rights to the contrary, the Company may, at its option, subject to Section 4 hereof, issue new Right Certificates evidencing Rights in such form as may be approved by its Board of Directors of the Company to reflect any adjustment or change in the Exercise Price per share and the number or kind or class of shares or other securities or property purchasable under the Rights made in accordance with the provisions of this Agreement. In addition, in connection with the issuance or sale of Common Shares following the Distribution Date and prior to the redemption or expiration of the Rights, the Company (a) shall, with respect to Common Shares so issued or sold pursuant to the exercise of share options or under any employee plan or arrangement, or upon the exercise, conversion or exchange of securities hereafter issued by the Company, and (b) may, in any other case, if deemed necessary or appropriate by the Board of Directors of the Company, issue Right Certificates representing the appropriate number of Rights in connection with such issuance or sale; provided, however, that (i) no such Right Certificate shall be issued if, and to the ex-

tent that, the Company shall be advised by counsel that such issuance would create a significant risk of material adverse tax consequences to the Company or the person to whom such Right Certificate would be issued, and (ii) no such Right Certificate shall be issued if, and to the extent that, appropriate adjustments shall otherwise have been made in lieu of the issuance thereof.

Section 23. Redemption and Termination.

(a) The Board of Directors of the Company may, at its option, redeem all but not less than all of the then outstanding Rights at a redemption price of $0.001 per Right, subject to adjustments as provided in Section 23(d) hereof (such redemption price being hereinafter referred to as the "Redemption Price"); provided, however, if the Board of Directors of the Company authorizes redemption of the Rights in either of the circumstances set forth in clauses (i) and (ii) below, then there must be Continuing Directors then in office and such authorization shall require the concurrence of a majority of such Continuing Directors: (i) such authorization occurs on or after the time a person becomes an Acquiring Person or an Adverse Person, or (ii) such authorization occurs on or after the date of a change (resulting from a proxy or consent solicitation) in a majority of the directors in office at the commencement of such solicitation if any Person who is a participant in such solicitation has stated (or, if upon the commencement of such solicitation, a majority of the continuing Directors of the Company has determined in good faith) that such Person (or any of its Affiliates or Associates) intends to take, or may consider taking, any action which would result in such Person becoming an Acquiring Person or an Adverse Person or which would cause the occurrence of a Triggering Event unless, concurrent with such solicitation, such Person (or one or more of its Affiliates or Associates) is making a cash tender offer pursuant to a Schedule 14D-1 (or any successor form) filed with the U.S. Securities and Exchange Commission for all outstanding Common Shares not beneficially owned by such Person (or by its Affiliates or Associates). Notwithstanding anything contained in this Agreement to the contrary, the Rights shall not be exercisable after the first occurrence of a Section 11(a)(ii) Event until such time as the Company's right of redemption hereunder has expired. The Rights may be redeemed only until the earliest of (i) 5:00 p.m., New York City time, on the tenth Business Day after the Share Acquisition Date, (ii) the declaration by the Board of Directors of the Company that any Person is an Adverse Person, (iii) the occurrence of a Section 13 Event, or (iv) the Final Expiration Date.

(b) Immediately upon the action of the Board of Directors of the Company ordering the redemption of the Rights and without any further action and without any notice, the right to exercise the Rights will terminate and the only right thereafter of the holders of Rights shall be to receive the Redemption Price for each Right so held. Promptly after the action of the Board of Directors of the Company ordering the redemption of the Rights, the Company shall give notice of such redemption to the Rights Agent and notify the holders of the then

outstanding Rights of such redemption by either (i) mailing a notice to all such holders, which notice will state the method by which the payment of the Redemption Price will be made, or (ii) issuing a press release announcing the manner of redemption of the Rights in ac-

cordance with this Agreement and mailing payment of the Redemption Price to all such holders. In either case, such mailing shall be made to each holder's last address as it appears upon the registry books of the Rights Agent or, prior to the Distribution Date, on the register of the Transfer Agent for the Common Shares. Any notice which is mailed in the manner herein provided shall be deemed given, whether or not the holder receives the notice. Upon payment of the Redemption Price, all outstanding Rights and Right Certificates shall be null and void without any further action by the Company. Neither the Company nor any of its Affiliates or Associates may redeem, acquire or purchase for value any Rights at any time in any manner other than that specifically set forth in this Section 23 or Section 24 hereof or in connection with the purchase of Common Shares prior to the Distribution Date.

(c) The Company may, at its option, pay the Redemption Price in cash, Common Shares (based on the Fair Market Value of the Common Shares as of the time of redemption) or any other form of consideration deemed appropriate by the Board of Directors of the Company.

(d) In the event the Company shall at any time after the date of this Rights Agreement (i) pay any dividend or bonus issue on Common Shares in Common Shares, (ii) subdivide the outstanding Common Shares into a greater number of shares or (iii) combine or consolidate the outstanding Common Shares into a smaller number of shares, then and in each such event the Redemption Price after such event shall equal the Redemption Price immediately prior to such event multiplied by a fraction, the numerator of which is the number of Common Shares outstanding immediately prior to such event and the denominator of which is the number of Common Shares outstanding immediately after such event; provided, however, that in each case such adjustment to the Redemption Price shall be made only if the amount of the Redemption Price shall be reduced or increased by $0.001 per Right.

Section 24. Exchange.

(a) The Board of Directors of the Company may, at its option, at any time on or after the occurrence of a Section 11(a)(ii) Event, exchange all or part of the then outstanding and exercisable Rights (which shall not include Rights that have become void pursuant to the provisions of Section 7(e) hereof) for Common Shares at an exchange ratio of one Common Share per Right, appropriately adjusted to reflect any share subdivision or share split, bonus issue, share dividend or similar transaction occurring after the date hereof (such exchange ratio being hereinafter referred to as the "Exchange Ratio"). Notwithstanding the foregoing, the Board of Directors of the Company shall not be empowered to effect such exchange at any time after any Person (other than an Exempt Person), together with all Affiliates and Associates of such Person, becomes the Beneficial Owner of 50% or more of the Common Shares of the Company.

(b) Immediately upon the action of the Company ordering the exchange of any Rights pursuant to subsection (a) of this Section 24 and without any further action and without any notice, the right to exercise such Rights shall terminate and the only right thereafter of a holder of such Rights shall be to receive that number of Common Shares equal to the number of such Rights held by such holder multiplied by the Exchange Ratio. The Company shall promptly give notice of any such exchange to the holders of such Rights and the Rights Agent in accordance with Section 26 hereof; provided, however, that the failure to give, or any defect in, such notice shall not affect the validity of such exchange. Each such notice of exchange will state the method by which the exchange of the Common Shares for Rights will be effected and, in the event of any partial exchange, the number of Rights which will be exchanged. Any partial exchange shall be effected pro rata based on the number of Rights (other than Rights which have become void pursuant to the provisions of Section 7(e) hereof) held by each holder of Rights.

(c) In any exchange pursuant to this Section 24, the Company, at its option, may substitute Preference Shares (or Preference Share Equivalents, as such term is defined in Section 11(b) hereof) for Common Shares exchangeable for Rights, at the initial rate of one one-thousandth of a Preference Share (or Preference Share Equivalent) for each Common Share, as appropriately adjusted to reflect adjustments in the voting rights of the Preference Shares pursuant to the terms thereof, so that the fraction of a Preference Share delivered in lieu of each Common Share shall have the same voting rights as one Common Share.

(d) In the event that there shall not be sufficient Common Shares or

Preference Shares (or Preference Share Equivalents) authorized but unissued to permit any exchange of Rights as contemplated in accordance with this Section 24, subject to applicable law, the Company shall take all such action as may be necessary to authorize additional Common Shares or Preference Shares (or Preference Share Equivalents) for issuance upon exchange of the Rights.

(e) The Company shall not be required to issue fractions of Common Shares or to distribute certificates which evidence fractional Common Shares. If the Company elects not to issue such fractional Common Shares, the Company shall pay, in lieu of such fractional Common Shares, to the registered holders of the Right Certificates with regard to which such fractional Common Shares would otherwise be issuable, an amount in cash equal to the same fraction of the Fair Market Value of a whole Common Share. For the purposes of this paragraph (e), the Fair Market Value of a whole Common Share shall be the closing price of a Common Share (as determined pursuant to the second sentence of Section 11(d)(i) hereof) for the Trading Day immediately prior to the date of exchange pursuant to this Section 24.

Section 25. Notice of Certain Events.

(a) In case the Company shall propose, at any time after the Distribution Date, (i) to pay any dividend payable in shares of any class to the holders of Preference Shares or to make any other distribution to the holders of Preference Shares (other than a regular periodic cash dividend out of earnings or retained earnings of the Company), or (ii) to offer to the holders of Preference Shares rights or warrants to subscribe for or to purchase any additional Preference Shares or shares of any class or any other securities, rights or options, or (iii) to effect any reclassification of its Preference Shares (other than a reclassification involving only the subdivision of outstanding Preference Shares), or (iv) to effect any consolidation, amalgamation, merger or other combination into or with, or to effect any sale, mortgage or other transfer (or to permit one or more of its Subsidiaries to effect any sale, mortgage or other transfer), in one transaction or a series of related transactions, of 50% or more of the assets or earning power of the Company and its Subsidiaries (taken as a whole) to, any other Person (other than a Subsidiary of the Company in one or more transactions each of which is not prohibited by Section 11(n) hereof), or (v) to effect the liquidation, dissolution or winding up of the Company, or (vi) to declare or pay any dividend or bonus issue on the Common Shares payable in Common Shares or to effect a subdivision, combination or consolidation of the Common Shares (by reclassification or otherwise than by payment of dividends or a bonus issue in Common Shares) then in each such case, the Company shall give to each holder of a Right Certificate and to the Rights Agent, in accordance with Section 26 hereof, a notice of such proposed action, which shall specify the record date for the purposes of such share dividend, bonus issue, distribution of rights or warrants, or the date on which such reclassification, consolidation, amalgamation, merger, combination, sale, transfer, liquidation, dissolution, or winding up is to take place and the date of participation therein by the holders of the Common Shares and/or Preference Shares, if any such date is to be fixed, and such notice shall be so given in the case of any action covered by clause (i) or (ii) above at least twenty (20) days prior to the record date for determining holders of the Preference Shares for purposes of such action, and in the case of any such other action, at least twenty (20) days prior to the date of the taking of such proposed action or the date of participation therein by the holders of the Common Shares and/or Preference Shares, whichever shall be the earlier.

(b) In case any Section 11(a)(ii) Event shall occur, then, in any such case, the Company shall as soon as practicable thereafter give to each registered holder of a Right and to the Rights Agent, in accordance with Section 26 hereof, a notice of the occurrence of such event, which shall specify the event and the consequences of the event to holders of Rights under Section 11(a)(ii).

Section 26. Notices. Notices or demands authorized by this Agreement to be given or made by the Rights Agent or by the holder of any Right to or on the Company

shall be sufficiently given or made if sent by first-class mail, postage prepaid, addressed (until another address is filed in writing with the Rights Agent) as follows:

XOMA Ltd.
2910 Seventh Street
Berkeley, California 94710

Attention: General Counsel

Subject to the provisions of Section 21, any notice or demand authorized by this Agreement to be given or made by the Company or by the holder of any Right to or on the Rights Agent shall be sufficiently given or made if sent by first-class mail, postage prepaid, addressed (until another address is filed in writing with the Company) as follows:

Mellon Investor Services LLC
235 Montgomery Street, 23rd Floor
San Francisco, California 94104
Attention: Joseph W. Thatcher, Jr.

Notices or demands authorized by this Agreement to be given or made by the Company or the Rights Agent to the holder of any Right shall be sufficiently given or made if sent by first-class mail, postage prepaid, addressed to such holder at the address of such holder as shown on the registry books of the Company.

Section 27. Supplements and Amendments. Prior to the earlier of the Distribution Date or the Shares Acquisition Date and subject to the other provisions of this Section 27, the Company and the Rights Agent shall, if the Company so directs, supplement or amend any provision of this Agreement as the Company may deem necessary or desirable without the approval of any holders of Rights or Common Shares. From and after the earlier of the Distribution Date or the Shares Acquisition Date and subject to the other provisions of this Section 27, the Company and the Rights Agent shall, if the Company so directs, supplement or amend this Agreement without the approval of any holder of Rights in order (i) to cure any ambiguity, (ii) to correct or supplement any provision contained herein which may be defective or inconsistent with any other provisions herein, (iii) to shorten or lengthen any time period hereunder (which shortening or lengthening, following the first occurrence of an event set forth in clauses (i) and (ii) of the first proviso to Section 23(a) hereof, shall be effective only if there are Continuing Directors and shall require the concurrence of a majority of such Continuing Directors), or (iv) to change or supplement the provisions hereof in any manner which the Company may deem necessary or desirable and which shall not adversely affect the interests of the holders of Rights (other than an Acquiring Person, an Adverse Person or any Affiliate or Associate of an Acquiring Person or an Adverse Person); provided, however, that this Agreement may not be supplemented or amended to lengthen, pursuant to

clause (iii) of this sentence, (A) a time period relating to when the Rights may be redeemed at such time as the Rights are not then redeemable or (B) any other time period unless such lengthening is for the purpose of protecting, enhancing or clarifying the rights of, and the benefits to, the holders of Rights (other than an Acquiring Person, an Adverse Person or any Affiliate or Associate of an Acquiring Person or Adverse Person). Upon the delivery of a certificate from an appropriate officer of the Company which states that the proposed supplement or amendment is in compliance with the terms of this Section 27, the Rights Agent shall execute such supplement or amendment. Notwithstanding anything contained in this Agreement to the contrary, no supplement or amendment shall be made on or after the Distribution Date which changes the Redemption Price, the Final Expiration Date, the Exercise Price or the number of one one-thousandths of a Preference Share for which a Right is exercisable or which affects any right of the Rights Agent hereunder. Prior to the earlier of the Distribution Date or the Shares Acquisition Date, the interests of the holders of Rights shall be deemed coincident with the interests of the holders of Common Shares. Notwithstanding any other provision hereof, the Rights Agent's consent must be obtained regarding any amendment or supplement pursuant to this Section 27 which alters the Rights Agent's rights, obligations or duties.

Section 28. Successors. All the covenants and provisions of this Agreement by or for the benefit of the Company or the Rights Agent shall bind and inure to the benefit of their respective successors and assigns hereunder.

Section 29. Determinations and Actions by the Board of Directors. For all purposes of this Agreement, any calculation of the number of Common Shares outstanding at any particular time, including for purposes of determining the particular percentage of such outstanding Common Shares of which any Person is the Beneficial Owner, shall be made in accordance with the last sentence of Rule 13d-3(d)(1)(i) of the Rules under the Exchange Act as in effect on the date hereof. The Board of Directors of the Company shall have the exclusive power and authority to administer this Agreement and to exercise all rights and powers specifically granted to the Board of Directors of the Company (with, where specifically provided for herein, the concurrence of the Continuing Directors) or to the Company, or as may be necessary or advisable in the administration of this Agreement, including without limitation, the right and power to (i) interpret the provisions of this Agreement and (ii) make all determinations deemed necessary or advisable for the administration of this Agreement (including a determination to redeem or not redeem the Rights, to declare that a Person is an Adverse Person or to amend this Agreement). All such actions, calculations, interpretations and determinations (including, for purposes of

clause (y) below, all omissions with respect to the foregoing) which are done or made by the Board of Directors of

the Company (with, where specifically provided for herein, the concurrence of the Continuing Directors) in good faith shall (x) be final, conclusive and binding on the Company, the Rights Agent, the holders of the Rights and all other parties, and (y) not subject any member of the Board of Directors of the Company or the Continuing Directors to any liability to the holders of the Rights or to any other person. The Rights Agent shall always be entitled to assume that the Board of Directors of the Company acted in good faith and shall be fully protected and incur no liability in reliance thereon.

Section 30. Benefits of This Agreement.

(a) The Company unilaterally and irrevocably declares and undertakes for the benefit of the registered holders of the Rights that it will comply with, perform and observe all of its obligations hereunder.

(b) Nothing in this Agreement shall be construed to give to any Person other than the Company, the Rights Agent and the registered holders of the Rights any legal or equitable right, remedy or claim under this Agreement; but this Agreement shall be for the sole and exclusive benefit of the Company, the Rights Agent and the registered holders of the Rights.

(c) The Company shall execute a Deed of Covenant substantially in the form of Exhibit C hereto.

Section 31. Severability. If any term, provision, covenant or restriction of this Agreement is held by a court of competent jurisdiction or other authority to be invalid, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions of this Agreement shall remain in full force and effect and shall in no way be affected, impaired or invalidated; provided, however, that notwithstanding anything in this Agreement to the contrary, if any such term, provision, covenant or restriction is held by such court or authority to be invalid, void or unenforceable and the Board of Directors of the Company determines in its good faith judgment that severing the invalid language from the Agreement would adversely affect the purpose or effect of the Agreement, the right of redemption set forth in Section 23 hereof shall, in the event such right shall have expired, be reinstated and shall, not expire until the close of business on the tenth day following the date of such determination by the Board of Directors of the Company.

Section 32. Governing Law. This Agreement, each Right and each Right Certificate issued hereunder shall be governed by and construed in accordance with the laws of Bermuda; provided, however, that all provisions regarding the rights, duties and obligations of the Rights Agent shall be governed by and construed in accordance with the laws of the State of New York applicable to contracts made and to be performed entirely within such State.

Section 33. Descriptive Headings. Descriptive headings of the several Sections of this Agreement are inserted for convenience only and shall not control or affect the meaning or construction of any of the provisions hereof.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as a deed as of the day and year first above written.

The common seal of

XOMA LTD.

was affixed hereto in the presence of:

Name: Peter B. Davis
Title: Vice President, Finance and Chief Financial Officer

MELLON INVESTOR SERVICES LLC,
as Rights Agent

By:

Name:
Title:

Exhibit A

RESOLUTIONS REGARDING PREFERENCES
AND RIGHTS OF SERIES A PREFERENCE SHARES

RESOLVED, that there is hereby created a series of preference shares of the Company, which series shall have the following powers, preferences, and relative, participating, optional or other special rights, and the qualifications, limitations or restrictions thereof, in addition to those set forth in the memorandum of continuance and bye-laws of the Company:

1. Designation. The series of preference shares established hereby shall be designated the "Series A Preference Shares" (and shall be referred to herein as the "Series A Preference Shares") and the authorized number of Series A Preference Shares shall be 135,000 shares. Such number of shares may be increased or decreased, from time to time, by resolution of the Board of Directors of the Company; provided that no decrease shall reduce the number of Series A Preference Shares to a number less than the total of the number of such shares then outstanding plus the number of such shares issuable upon the exercise of outstanding rights, options or warrants or upon the conversion of outstanding securities issued by the Company.

2. Dividends and Distributions.

(A) (i) Subject to the rights of the holders of any shares of any series of preference shares (or any similar shares) ranking prior and superior to the Series A Preference Shares with respect to dividends, the holders of Series A Preference Shares, in preference to the holders of Common Shares and of any other junior shares, shall be entitled to receive, when, as and if declared by the Board of Directors of the Company out of funds legally available for the purpose, quarterly dividends payable in cash on the first day of March, June, September and December in each year (each such date being referred to herein as a "Dividend Payment Date"), commencing on the first Dividend Payment Date after the first issuance of a Series A Preference Share or fraction thereof, in an amount per share (rounded to the nearest cent) equal to the greater of (a) U.S. $1.00 or (b) subject to the provisions for adjustment hereinafter set forth, 1,000 times the aggregate per share amount of all cash dividends, plus 1,000 times the aggregate per share amount (payable in kind) of all non-cash dividends or other distributions other than a dividend or bonus issue payable in Common Shares or a subdivision of the outstanding Common Shares (by reclassification or otherwise), declared on the Common Shares since the immediately preceding Dividend Payment Date, or, with respect to the first Dividend Payment Date, since the first issuance of any Series A Preference Share or fraction thereof. The multiple of cash and non-cash dividends declared on the Common Shares to which holders of the Series A Preference Shares are entitled, which shall be 1,000 initially but which shall be adjusted from time to time as hereinafter provided, is hereinafter referred to as the "Dividend Multiple." In the event the Company shall at any time after the date hereof (i)

declare or pay any dividend or bonus issue on Common Shares payable in Common Shares, or (ii) effect a subdivision or combination or consolidation of the outstanding Common Shares (by reclassification or otherwise than by payment of a dividend or bonus issue in Common Shares) into a greater or lesser number of Common Shares, then in each such case the Dividend Multiple thereafter applicable to the determination of the amount of dividends which holders of Series A Preference Shares shall be entitled to receive shall be the Dividend Multiple applicable immediately prior to such event multiplied by a fraction, the numerator of which is the number of Common Shares outstanding immediately after such event and the denominator of which is the number of Common Shares that were outstanding immediately prior to such event.

(ii) Notwithstanding anything else contained in this paragraph (A), the Company shall, out of funds legally available for that purpose, declare a dividend or distribution on the Series A Preference Shares as provided in this paragraph (A) immediately after it declares a dividend or distribution on the Common Shares (other than a dividend or bonus issue payable in Common Shares);

provided that, in the event no dividend or distribution shall have been declared on the Common Shares during the period between any Dividend Payment Date and the next subsequent Dividend Payment Date, a dividend of U.S. $1.00 per Series A Preference Share shall nevertheless be payable on such subsequent Dividend Payment Date.

(B) Dividends shall begin to accrue and be cumulative on outstanding Series A Preference Shares from the Dividend Payment Date next preceding the date of issue of such Series A Preference Shares, unless the date of issue of such shares is prior to the record date for the first Dividend Payment Date, in which case dividends on such shares shall begin to accrue from the date of issue of such shares, or unless the date of issue is a Dividend Payment Date or is a date after the record date for the determination of holders of Series A Preference Shares entitled to receive a quarterly dividend and before such Dividend Payment Date, in either of which events such dividends shall begin to accrue and be cumulative from such Dividend Payment Date. Accrued but unpaid dividends shall not bear interest. Dividends paid on the Series A Preference Shares in an amount less than the total amount of such dividends at the time accrued and payable on such shares shall be allocated pro rata on a share-by-share basis among all such shares at the time outstanding. The Board of Directors of the Company may fix in accordance with applicable law a record date for the determination of holders of Series A Preference Shares entitled to receive payment of a dividend or distribution declared thereon, which record date shall be not more than such number of days prior to the date fixed for the payment thereof as may be allowed by applicable law.

3. Voting Rights. In addition to any other voting rights required by law, the holders of Series A Preference Shares shall have the following voting rights:

(A) Subject to the provision for adjustment hereinafter set forth, each Series A Preference Share shall entitle the holder thereof to 1,000 votes on all matters submitted to a vote of the shareholders of the Company. The number of votes which a holder of a Series A Preference Share is entitled to cast, which shall initially be 1,000

but which may be adjusted from time to time as hereinafter provided, is hereinafter referred to as the "Vote Multiple." In the event the Company shall at any time after the date hereof (i) declare or pay any dividend or bonus issue on Common Shares payable in shares, or (ii) effect a subdivision or combination or consolidation of the outstanding Common Shares (by reclassification or otherwise than by payment of a dividend or bonus issue in Common Shares) into a greater or lesser number of Common Shares, then in each such case the Vote Multiple thereafter applicable to the determination of the number of votes per share to which holders of Series A Preference Shares shall be entitled shall be the Vote Multiple immediately prior to such event multiplied by a fraction, the numerator of which is the number of Common Shares outstanding immediately after such event and the denominator of which is the number of Common Shares that were outstanding immediately prior to such event.

(B) Except as otherwise provided herein or by law, the holders of Series A Preference Shares and the holders of Common Shares, the holders of any other shares of the Company having general voting rights, shall vote together as one class on all matters submitted to a vote of shareholders of the Company.

(C) Except as otherwise required by applicable law or as set forth herein, holders of Series A Preference Shares shall have no special voting rights and their consent shall not be required (except to the extent they are entitled to vote with holders of Common Shares as set forth herein) for taking any corporate action.

4. Certain Restrictions.

(A) Whenever dividends or distributions payable on the Series A Preference Shares as provided in Paragraph 2 are in arrears, thereafter and until all accrued and unpaid dividends and distributions, whether or not declared, on Series A Preference Shares outstanding shall have been paid in full, the Company shall not:

(i) declare or pay dividends on, make any other distributions on, or redeem or purchase or otherwise acquire for consideration any shares ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series A Preference Shares;

(ii) declare or pay dividends on or make any other distributions on any shares ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series A Preference Shares, except dividends paid ratably on the Series A Preference Shares and all such

parity shares on which dividends are payable or in arrears in proportion to the total amounts to which the holders of all such shares are then entitled;

(iii) except as permitted in subparagraph 4(A)(iv) below, redeem, purchase or otherwise acquire for consideration any shares ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series A Preference

Shares, provided that the Company may at any time redeem, purchase or otherwise acquire any such parity shares in exchange for any shares of the Company ranking junior (either as to dividends or upon dissolution, liquidation or winding up) to the Series A Preference Shares; or

(iv) purchase or otherwise acquire for consideration any Series A Preference Shares, or any shares ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series A Preference Shares, except in accordance with a purchase offer made in writing or by publication (as determined by the Board of Directors of the Company) to all holders of such shares upon such terms as the Board of Directors of the Company, after consideration of the respective annual dividend rates and other relative rights and preferences of the respective series and classes, shall determine in good faith will result in fair and equitable treatment among the respective series or classes; provided, however, that the foregoing restrictions shall not apply to the repurchase of Common Shares held by employees, officers, directors, or consultants of the Company (or their permitted transferees) that are subject to restrictive share purchase agreements under which the Company has the option or obligation to repurchase such shares upon the occurrence of certain events, such as termination of employment.

(B) The Company shall not permit any subsidiary of the Company to purchase or otherwise acquire for consideration any shares of the Company unless the Company could, under subparagraph (A) of this Paragraph 4, purchase or otherwise acquire such shares at such time and in such manner.

5. Reacquired Shares. Any Series A Preference Shares purchased or otherwise acquired by the Company in any manner whatsoever shall be canceled upon the acquisition thereof. All such shares shall upon their cancellation become authorized but unissued preference shares and may be reissued as part of a new series of preference shares created by resolution or resolutions of the Board of Directors of the Company, subject to the conditions and restrictions on issuance set forth herein.

6. Liquidation, Dissolution or Winding Up. Upon any liquidation (voluntary or otherwise), dissolution or winding up of the Company, no distributions shall be made (x) to the holders of shares ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series A Preference Shares unless, prior thereto, the holders of Series A Preference Shares shall have received an amount equal to accrued and unpaid dividends and distributions thereon, whether or not declared, to the date of such payment, plus an amount equal to the greater of (1) U.S. $100.00 per share or (2) an aggregate amount per share, subject to the provision for adjustment hereinafter set forth, equal to 1,000 times the aggregate amount to be distributed per share to holders of Common Shares, or (y) to the holders of shares ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series A Preference Shares, except distributions made ratably on the Series A Preference Shares and all other such parity shares in proportion to the total amount to

which the holders of all such shares are entitled upon such liquidation, dissolution or winding up. In the event the Company shall at any time after the date hereof (i) declare or pay any dividend or bonus issue on Common Shares payable in Common Shares, or (ii) effect a subdivision or combination or consolidation of the outstanding Common Shares (by reclassification or otherwise than by payment of a dividend or bonus issue in Common Shares) into a greater or lesser number of Common Shares, then in each such case the aggregate amount per share to which holders of Series A Preference Shares were entitled immediately prior to such event under clause (x) of the preceding sentence shall be adjusted by multiplying such amount by a fraction, the numerator of which is the number of Common Shares outstanding immediately after such event and the denominator of which is the number of Common Shares that were outstanding immediately prior to such event.

7. Consolidation, Amalgamation, Merger, etc. In case the Company shall enter into any consolidation, amalgamation, merger, combination or other transaction in which the Common Shares are exchanged for or changed into other shares or securities, cash and/or any other property, then in any such case the

Series A Preference Shares shall at the same time be similarly exchanged or changed in an amount per share (subject to the provision for adjustment hereinafter set forth) equal to 1,000 times the aggregate amount of shares, securities, cash and/or any other property (payable in kind), as the case may be, into which or for which each Common Share is changed or exchanged. In the event the Company shall at any time after the date hereof (i) declare or pay any dividend or bonus issue on Common Shares payable in Common Shares, or (ii) effect a subdivision or combination or consolidation of the outstanding Common Shares (by reclassification or otherwise than by payment of a dividend or bonus issue in Common Shares) into a greater or lesser number of Common Shares, then in each such case the amount set forth in the preceding sentence with respect to the exchange or change of Series A Preference Shares shall be adjusted by multiplying such amount by a fraction, the numerator of which is the number of Common Shares outstanding immediately after such event and the denominator of which is the number of Common Shares that were outstanding immediately prior to such event.

8. Redemption. The Series A Preference Shares shall not be redeemable.

9. Ranking. Unless otherwise provided in the resolutions regarding preferences and rights relating to a subsequently designated series of preference shares of the Company, the Series A Preference Shares shall rank junior to any other series of the Company's preference shares subsequently issued, as to the payment of dividends and the distribution of assets on liquidation, dissolution or winding up and shall rank senior to the Common Shares.

10. Amendment. The provisions of the memorandum of continuance or bye-laws of the Company or of these resolutions shall not be amended, altered or repealed in any manner which would materially alter or change the powers, preferences or special rights of the Series A Preference Shares so as to effect them adversely without the affirmative vote

of the holders of a majority or more of the outstanding Series A Preference Shares (if any), voting separately as a class.

11. Fractional Shares. Series A Preference Shares may be issued in fractions of a share (which fractions shall be integral multiples of one one-thousandth of a share) which shall entitle the holder, in proportion to such holder's fractional shares, to exercise voting rights, receive dividends, participate in distributions and to have the benefit of all other rights of holders of Series A Preference Shares.

Exhibit B

[Form of Right Certificate]

Certificate No. R- _____ Rights

NOT EXERCISABLE AFTER DECEMBER 31, 2012 OR EARLIER IF NOTICE OF REDEMPTION IS GIVEN. THE RIGHTS ARE SUBJECT TO REDEMPTION, AT THE OPTION OF XOMA LTD., AT U.S.$0.001 PER RIGHT ON THE TERMS SET FORTH IN THE SHAREHOLDER RIGHTS AGREEMENT BETWEEN XOMA LTD. AND MELLON INVESTOR SERVICES LLC, AS RIGHTS AGENT, DATED AS OF FEBRUARY 26, 2003 (THE "RIGHTS AGREEMENT"). UNDER CERTAIN CIRCUMSTANCES, RIGHTS BENEFICIALLY OWNED BY AN ACQUIRING PERSON OR AN ADVERSE PERSON (AS SUCH TERMS ARE DEFINED IN THE RIGHTS AGREEMENT) AND ANY SUBSEQUENT HOLDER OF SUCH RIGHTS MAY BECOME NULL AND VOID.

Right Certificate

XOMA LTD.

This certifies that _____, or registered assigns, is the registered owner of the number of Rights set forth above, each of which entitles the owner thereof, subject to the terms, provisions and conditions of the Shareholder Rights Agreement dated as of February 26, 2003 (the "Rights Agreement") between XOMA LTD. (the "Company") and MELLON INVESTOR SERVICES LLC (the "Rights Agent"), to purchase from the Company at any time after the Distribution Date (as such term is defined in the Rights Agreement) and prior to the close of business on December 31, 2012 at the office or offices of the Rights Agent designated for such purpose, or its successors as Rights Agent, one one-thousandth of a fully paid, non-assessable Series A Preference Share (the "Preference Shares") of the Company, at a purchase price of U.S. $ per one one-thousandth of a share (the "Exercise Price"), upon presentation and surrender of this Right Certificate with the Form of Election to Purchase and the related Certificate duly executed,

along with a signature guarantee and such other and further documentation as the Rights Agent may reasonably request. The number of Rights evidenced by this Right Certificate (and the number of shares which may be purchased upon exercise thereof) set forth above, and the Exercise Price per share set forth above, are the number and Exercise Price as of , based on the Preference Shares as constituted at such date.

Upon the occurrence of a Section 11(a)(ii) Event (as such term is defined in the Rights Agreement), if the Rights evidenced by this Right Certificate are beneficially owned by (i) an Acquiring Person, an Adverse Person or an Affiliate or Associate of any such Person (as such terms are defined in the Rights Agreement), (ii) a transferee of any such Acquiring Person, Adverse Person, Associate or Affiliate, or (iii) under certain circumstances specified in the Rights Agreement, a transferee of a Person who, after such transfer, became an Acquir-

ing Person or an Adverse Person, or an Affiliate or Associate of an Acquiring Person or an Adverse Person, such Rights shall become null and void and no holder hereof shall have any right with respect to such Rights from and after the occurrence of such Section 11(a)(ii) Event.

As provided in the Rights Agreement, the Exercise Price and the number of Preference Shares or other securities which may be purchased upon the exercise of the Rights evidenced by this Right Certificate are subject to modification and adjustment upon the happening of certain events.

This Right Certificate is subject to all of the terms, provisions and conditions of the Rights Agreement, which terms, provisions and conditions are hereby incorporated herein by reference and made a part hereof and to which Rights Agreement reference is hereby made for a full description of the rights, limitations of rights, obligations, duties and immunities hereunder of the Rights Agent, the Company and the holders of the Rights, which limitations of rights include the temporary suspension of the exercisability of such Rights under the specific circumstances set forth in the Rights Agreement. Copies of the Rights Agreement are on file at the principal office of the Company and the designated office of the Rights Agent and are also available upon written request to the Company or the Rights Agent.

This Right Certificate, with or without other Right Certificates, upon surrender at the office or offices of the Rights Agent designated for such purpose, may be exchanged for another Right Certificate or Certificates of like tenor and date evidencing Rights entitling the holder to purchase a like aggregate number of Preference Shares as the Rights evidenced by the Right Certificate or Certificates surrendered shall have entitled such holder to purchase. If this Right Certificate shall be exercised in part, the holder shall be entitled to receive upon surrender hereof another Right Certificate or Certificates for the number of whole Rights not exercised. If this Right Certificate shall be exercised in part, the holder shall be entitled to receive upon surrender hereof, along with a signature guarantee and such other and further documentation as the Rights Agent may reasonably request, another Right Certificate or Right Certificates for the number of whole Rights not exercised.

Under certain circumstances, subject to the provisions of the Rights Agreement, the Board of Directors of the Company at its option may exchange all or any part of the Rights evidenced by this Certificate for the Company's common shares or Preference Shares at an exchange ratio (subject to adjustment) of one common share or one one-thousandth of a Preference Share per Right.

Subject to the provisions of the Rights Agreement, the Rights evidenced by this Certificate may be redeemed by the Board of Directors of the Company at its option at a redemption price of U.S.$0.001 per Right (payable in cash, common shares or other consideration deemed appropriate by the Board of Directors of the Company).

The Company is not obligated to issue fractional shares upon the exercise of any Right or Rights evidenced hereby (other than fractions which are integral multiples of one one-thousandth of a Preference Share, which may, at the election of the Company, be evidenced by depositary receipts). If the Company elects not to issue such fractional shares, in lieu thereof a cash payment will be made, as provided in the Rights Agreement.

No holder of the Rights evidenced by this Right Certificate, as such, shall be entitled to vote or receive dividends or be deemed for any purpose the holder of Preference Shares, common shares or any other securities of the Company which may at any time be issuable on the exercise hereof, nor shall anything contained in the Rights Agreement or herein be construed to confer upon the holder hereof, as such, any of the rights of a shareholder of the Company or any right to vote

for the election of directors or upon any matter submitted to shareholders at any meeting thereof, or to give or withhold consent to any corporate action, or to receive notice of meetings or other actions affecting shareholders (except as provided in the Rights Agreement), or to receive dividends or subscription rights, or otherwise, until the Right or Rights evidenced by this Right Certificate shall have been exercised as provided in the Rights Agreement.

This Right Certificate shall not be valid or obligatory for any purpose until it shall have been countersigned by an authorized signatory of the Rights Agent.

WITNESS the facsimile signature of the proper officers of the Company.

The common seal of

XOMA LTD.

was affixed hereto in the presence of:

Name:
Title:

Countersigned:

MELLON INVESTOR SERVICES LLC,
as Rights Agent

- ---
Authorized Signatory

Date of Countersignature:

[Form of Reverse Side of Right Certificate]

FORM OF ASSIGNMENT

(To be executed by the registered holder if such holder desires to transfer the Right Certificate.)

FOR VALUE RECEIVED _____
hereby sells, assigns and transfers unto

_____
(Please print name and address of transferee)

_____

the Rights evidenced by this Right Certificate, together with all right, title and interest therein, and does hereby irrevocably constitute and appoint _____ Attorney, to transfer such Rights on the books of the within-named Company, with full power of substitution.

Dated: _____, ____

_____
Signature

Signature Guaranteed: _____

(Signatures must be guaranteed by a commercial bank or trust company or by a member of the New York Stock Exchange.)

CERTIFICATE

The undersigned hereby certifies by checking the appropriate boxes that:

(1) the Rights evidenced by this Right Certificate _____ are _____ are not being transferred by or on behalf of a Person who is or was an Acquiring Person, an Adverse Person or an Affiliate or Associate of any such Person (as such terms are defined in the Rights Agreement); and

(2) after due inquiry and to the best knowledge of the undersigned, the undersigned did did not directly or indirectly acquire the Rights evidenced by this Right Certificate from any Person who is, was or became an Acquiring Person, an Adverse Person or an Affiliate or Associate of any such Person.

Dated: _____, ____ _____
Signature

(Signatures must be guaranteed by a commercial bank or trust company or by a member of the New York Stock Exchange.)

NOTICE

The signature to the foregoing Assignment and Certificate must correspond to the name as written upon the face of this Right Certificate in every particular, without alteration or enlargement or any change whatsoever.

FORM OF ELECTION TO PURCHASE

(To be executed if holder desires to exercise the Right Certificate.)

To XOMA LTD.:

The undersigned hereby irrevocably elects to exercise _____ Rights represented by this Right Certificate to purchase the Preference Shares issuable upon the exercise of the Rights (or such other securities of the Company or of any other person which may be issuable upon the exercise of the Rights) and requests that certificates for such shares be issued in the name of:

Please insert U.S. social security or other taxpayer identifying number:_____

_____
(Please print name and address)

_____

If such number of Rights shall not be all the Rights evidenced by this Right Certificate or if the Rights are being exercised pursuant to Section 11(a)(ii) of the Rights Agreement, a new Right Certificate for the balance of such Rights shall be registered in the name of and delivered to:

Please insert U.S. social security or other taxpayer identifying number:_____

_____
(Please print name and address)

Dated: _____, ____

_____
Signature

Signature Guaranteed: _____

(Signatures must be guaranteed by a commercial bank or trust company or by a member of the New York Stock Exchange.)

CERTIFICATE

The undersigned hereby certifies by checking the appropriate boxes that:

(1) the Rights evidenced by this Right Certificate _____ are

_____ are not being exercised by or on behalf of a Person who is or was an Acquiring Person, an Adverse Person or an Affiliate or Associate of any such Person (as such terms are defined in the Rights Agreement); and

(2) after due inquiry and to the best knowledge of the undersigned, the undersigned did did not directly or indirectly acquire the Rights evidenced by this Right Certificate from any Person who is, was or became an Acquiring Person, an Adverse Person or an Affiliate or Associate of any such Person.

Dated: _____, ____ _____
Signature

(Signatures must be guaranteed by a commercial bank or trust company or by a member of the New York Stock Exchange.)

NOTICE

The signature to the foregoing Election To Purchase and Certificate must correspond to the name as written upon the face of this Right Certificate in every particular, without alteration or enlargement or any change whatsoever.

Exhibit C

DEED OF COVENANT

THIS DEED OF COVENANT is made as of [date] 2003.

BY

(1) XOMA LIMITED (the "Company")

IN FAVOUR OF

(2) THE RIGHTS HOLDERS (as defined below).

WHEREAS

(A) The Company has entered a Shareholder Rights Agreement with Mellon Investor Services LLC, (the "Rights Agent") dated as of [date] 2003 (the "Rights Agreement") pursuant to which the board of directors of the Company authorised and granted one Right for each common share of the Company (the "Rights"), with each Right initially representing the right to purchase one one-thousandth of a Series A Preference Share of the Company upon the terms and subject to the conditions as set out in the Rights Agreement.

(B) The Company wishes to make arrangements for the enforcement of the Rights Agreement by the holders of Rights (the "Rights Holders").

THIS DEED OF COVENANT WITNESSES as follows:

1. INTERPRETATION

In this Deed unless the context otherwise requires:

1.1 references to the singular shall include the plural and vice versa and references to the masculine shall include the feminine and/or neuter and vice versa; and

1.2 references to persons shall include companies, partnerships, associations and bodies of persons, whether incorporated or unincorporated.

2. DIRECT RIGHTS

2.1 The Company hereby covenants with and in favour of each Rights Holder to perform the Company's obligations under the Rights Agreement, and each Rights Holder shall

have against the Company the right (the "Direct Rights") to enforce the provisions of the Rights Agreement in accordance with the terms of the Rights Agreement.

2.2 No further action shall be required on the part of the Company or any other person for the Rights Holders to enjoy the Direct Rights.

3. DEPOSIT OF DEED

This Deed shall be deposited with and held by [the Secretary of the Company from time to time at the Company's registered office] until the date on which all the obligations of the Company under or in respect of any Rights (including, without limitation, its obligations under this Deed) have been discharged in full. The Company hereby acknowledges the right of every Rights Holder to the production of this Deed.

4. COVENANTS

The Company hereby warrants, represents and covenants with and in favour of each Rights Holder that it has all corporate power, and has taken all necessary corporate or other steps, to enable it to execute, deliver and perform this Deed, and that this Deed constitutes a legal, valid and binding obligation enforceable in accordance with its terms subject to applicable bankruptcy, insolvency and similar laws affecting creditors' rights generally, and subject, as to enforceability, to general principles of equity (regardless of whether enforcement is sought in a proceeding in equity or at law).

5. BENEFIT OF DEED

5.1 This Deed shall take effect as a deed poll for the benefit of the Rights Holders from time to time.

5.2 This Deed shall enure to the benefit of each Rights Holder and its (and any subsequent) successors and assigns, each of which shall be entitled severally to enforce this Deed against the Company.

5.3 The Company shall not be entitled to assign or transfer all or any of its rights, benefits and obligations hereunder.

6. MISCELLANEOUS

6.1 If any of the clauses, conditions, covenants or restrictions of this Deed or any deed or document emanating from it shall be found to be void but would be valid if some part thereof were deleted or modified, then such clause, condition, covenant or restriction shall apply with such deletion or modification as may be necessary to make it valid and effective.

6.2 The headings in this Deed are inserted for convenience only and shall not affect the construction of this Deed.

7. PROPER LAW AND JURISDICTION

The terms and conditions of this Deed and the rights of the parties hereunder shall be governed by and construed in all respects in accordance with the laws of the Islands of Bermuda. The parties to this Deed hereby irrevocably agree that the courts of Bermuda shall have exclusive jurisdiction in respect of any dispute, suit, action, arbitration or proceedings ("Proceedings") which may arise out of or in connection with this Deed and waive any objection to Proceedings in the courts of Bermuda on the grounds of venue or on the basis that the Proceedings have been brought in an inconvenient forum.

IN WITNESS whereof this Deed of Covenant has been executed by the Company as a deed and is intended to be and is hereby delivered as of the date first before written.

EXECUTED as a deed)
under the common seal of)
XOMA LIMITED in the)
presence of:)

Exhibit 10.1A

AMENDMENT TO THE
XOMA LTD.
1981 SHARE OPTION PLAN

Effective as of February 25, 2003, pursuant to Board action, the XOMA Ltd. 1981 Share Option Plan (the "Plan") is hereby amended as follows:

1. Section 5(d) of the Plan is amended to read as follows:

"(d) Effect of Termination of Employment.

(1) Termination Generally. Should an optionee cease to be an employee of the Company while the holder of one or more outstanding options granted to such optionee under the Plan for any reason other than as provided under subsections (2), (3) or (4) below, then such option or options shall not remain exercisable (except as otherwise specifically authorized under Section 11) for more than a twelve (12) month period (or such shorter period as is determined by the Plan Administrator and set forth in the option agreement) following the date of such cessation of employee status, and each such option shall, during such twelve (12) month or shorter period, be exercisable only to the extent of the number of shares (if any) for which the option is exercisable on the date of such cessation of employee status. Under no circumstances, however, shall any such option be exercisable after the specified expiration date of the option term. Upon the expiration of such twelve (12) month or shorter period or (if earlier) upon the expiration of the option term, the option shall terminate and cease to be exercisable.

(2) Termination on Death. Effective for options granted on or after March 11, 2003, should an optionee cease to be an employee of the Company while the holder of one or more outstanding options under the Plan by reason of death, then such option or options shall become fully exercisable on the date of death even if such options were not fully exercisable prior to death, and shall remain exercisable for a twelve (12) month period following the date of death. Under no circumstances, however, shall any such option be exercisable after the specified expiration date of the option term. Upon the expiration of such twelve (12) month period or (if earlier) upon the expiration of the option term, the option shall terminate and cease to be exercisable. In the case of any option granted to an optionee under the Plan and exercisable following the optionee's death, such options shall be exercisable by the personal representative of the optionee's estate or by the person or persons to whom the option is transferred pursuant to subsection (b) above, provided such exercise occurs prior to the earlier of (i) the expiration of a twelve (12) month period following the date of the optionee's death or (ii) the specified expiration date of the option term.

(3) Termination on Retirement. Effective for options granted on or after February 25, 2003, should an optionee cease to be an employee of the Company while the holder of one or more outstanding options under the Plan by reason of retirement at or after age fifty-five (55) and where the optionee's age plus years of full-time employment with the Company exceed seventy (70) ("Retirement"), then such option or options shall become fully exercisable as of the date of Retirement (even if such options were not fully exercisable prior to Retirement) and shall remain exercisable for the full option term as if the optionee had continued in employment. Upon the expiration of the option term, the option shall terminate and cease to be exercisable.

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

(5) Discretion to Accelerate Exercisability. Notwithstanding subsection (1) above, the Plan Administrator shall have the discretion to establish as a provision applicable to the exercise of one or more options granted under the Plan that during the period of exercisability following cessation of employee status (as provided in such subsections), the option may be exercised not only with respect to the number of shares for which it is exercisable at the time of the optionee's cessation of employee status

but also with respect to one or more installments of purchasable shares for which the option otherwise would have become exercisable had such cessation of employee status not occurred.

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

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

Exhibit 10.2A

AMENDMENT TO THE
XOMA LTD.
RESTRICTED SHARE PLAN

Effective as of February 25, 2003, pursuant to Board action, the XOMA Ltd. Restricted Share Plan (the "Plan") is hereby amended as follows:

1. Section 1(c) of Article II of the Plan is amended to read as follows:

"(c) Effect of Termination of Employment.

(1) Termination Generally. Should an Optionee cease to be an employee of the Company while the holder of one or more outstanding options granted to such Optionee under the Plan for any reason other than as provided under subsections (2), (3) or (4) below, then such option or options shall not remain exercisable for more than a twelve (12) month period (or such shorter period as is determined by the Plan Administrator and set forth in the option agreement) following the date of such cessation of employee status, and each such option shall, during such twelve (12) month or shorter period, be exercisable only to the extent of the number of shares (if any) for which the option is exercisable on the date of such cessation of employee status. Under no circumstances, however, shall any such option be exercisable after the specified expiration date of the option term. Upon the expiration of such twelve (12) month or shorter period or (if earlier) upon the expiration of the option term, the option shall terminate and cease to be exercisable.

(2) Termination on Death. Effective for options granted on or after March 12, 2003, should an Optionee cease to be an employee of the Company while the holder of one or more outstanding options under the Plan by reason of death, then such option or options shall become fully exercisable on the date of death even if such options were not fully exercisable prior to death, and shall remain exercisable for a twelve (12) month period following the date of death. Under no circumstances, however, shall any such option be exercisable after the specified expiration date of the option term. Upon the expiration of such twelve (12) month period or (if earlier) upon the expiration of the option term, the option shall terminate and cease to be exercisable. In the case of any option granted to an Optionee under the Plan and exercisable following the Optionee's death, such options shall be exercisable by the personal representative of the Optionee's estate or by the person or persons to whom the option is transferred pursuant to subsection (b) above, provided such exercise occurs prior to the earlier of (i) the expiration of a twelve (12) month period following the date of the Optionee's death or (ii) the specified expiration date of the option term.

(3) Termination on Retirement. Effective for options granted on or after February 25, 2003, should an Optionee cease to be an employee of the Company while the holder of one or more outstanding options under the Plan by reason of retirement at or after age fifty-five (55) and where the optionee's age plus years of full-time employment with the Company exceed seventy (70) ("Retirement"), then such option or options shall become fully exercisable as of the date of Retirement (even if such options were not fully

exercisable prior to Retirement) as if the optionee continued in employment and shall remain exercisable for a twelve (12) month period following the date of Retirement.

Under no circumstances, however, shall any such option be exercisable after the specified expiration date of the option term. Upon the expiration of such twelve (12) month or shorter period or (if earlier) upon the expiration of the option term, the option shall terminate and cease to be exercisable.

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

(5) Discretion to Accelerate Exercisability. Notwithstanding subsection (1) above, the Plan Administrator shall have the discretion to establish as a provision applicable to the exercise of one or more options granted under the Plan that during the period of exercisability following

cessation of employee status (as provided in such subsections), the option may be exercised not only with respect to the number of shares for which it is exercisable at the time of the Optionee's cessation of employee status but also with respect to one or more installments of purchasable shares for which the option otherwise would have become exercisable had such cessation of employee status not occurred.

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

Exhibit 10.4

XOMA Ltd.

Management Incentive Compensation Plan
(As Amended and Restated February 20, 2002)

I. Introduction and Summary.

This document describes the XOMA Ltd. ("XOMA") Management Incentive Compensation Plan (the "Plan"), as approved by the Board of Directors. The Plan became effective on July 1, 1993 and was amended October 27, 1993, December 31, 1998 and February 20, 2002. Subject to the ability of the Board of Directors to terminate the Plan at any time, the Plan applies to fiscal years ending December 31, 1993 and each December 31 thereafter.

Officers, employees who have the title of Director or Manager, and additional discretionary participants ("Discretionary Participants") determined by the Chief Executive Officer ("CEO") to be critical to the achievement of Company Objectives established by the Board of Directors, are eligible to participate in this Plan and, depending on their performance and that of the company, earn incentive compensation ("Incentive Compensation") (Article III contains the definitions of certain terms not otherwise defined in the places such terms first appear in this Plan.) The CEO shall designate those eligible employees who will participate in the Plan. Employees receiving promotions, and new employees joining XOMA during a Plan Period, who thereby meet the eligibility criteria for participation in the Plan, will be considered at the discretion of the CEO for participation in the Plan on a pro rata basis. The CEO will not participate in the Plan.

After the conclusion of each applicable Plan Period, the Board of Directors and the Compensation Committee of the Board of Directors (the "Compensation Committee") will make a determination as to the performance of XOMA and Plan participants in meeting Company Objectives as well as individual objectives. Prior to the commencement of each Plan Period, the Board of Directors acting on the advice of the Compensation Committee, will establish a target Incentive Compensation Pool ("Target Incentive Compensation Pool"). The Target Incentive Compensation Pool will be expressed as a percentage of the aggregate annual Base Salaries of all participants in the Plan for the applicable Plan Period. Awards to individual participants will vary depending on (1) the achievement of Company Objectives; (2) the size of the Target Incentive Compensation Pool; (3) the individual's Base Salary; and (4) the individual's performance during the applicable Plan Period and expected ongoing contribution to XOMA. Awards may exceed or be lower than the Target Incentive Compensation Pool on the basis of the calculation of the extent to which XOMA's Company Objectives have been met as set forth in Article IV.

Individual awards will be granted in cash and/or common shares of XOMA based on the average market value of the common shares for the ten trading days prior to the date of the award. Individual awards will vest over a three-year period with 50% of each award payable on

a distribution date set by the Board of Directors acting in part on the advice of the CEO and the Compensation Committee and expected to be in February or March of the year succeeding the Plan Period and 25% of the award payable on each of the next two annual distribution dates as long as the individual continues to be employed by XOMA and continues to be a Plan participant. The portion of each award to be paid on the first distribution date following a Plan Period will be comprised of 50% cash and 50% in common shares of XOMA based on the market value formula set forth above. For the balance of the award expected to be paid in successive years, participants will be asked to make a one-time, irrevocable choice, within two weeks of the time the award is made, of one of the following options for the payment of the balance of the award: (i) 100% in cash, (ii) 100% in common shares of XOMA, or (iii) 50% in cash and 50% in common shares of XOMA. Failure to exercise the option in a timely manner will result in the 100% common shares choice being selected.

The distribution date of awards under the Plan for each Plan Period will be the same for all participants and is expected to be set no later than ninety days after the end of each Plan Period.

Questions concerning the Plan should be forwarded to the Vice President of Human Resources. In all instances, the written provisions of the Plan and other determinations of the Compensation Committee and the Board of Directors shall govern and be final.

II. Purposes.

To build a company team that will achieve XOMA's goals and objectives, to recognize individual efforts, to attract and retain highly motivated individuals

and to encourage outstanding performance and contributions to XOMA.

III. Definitions.

For the purpose of this Plan, the following definitions will apply:

A. Base Salaries. The term "Base Salaries" means total base salaries before any deferred tax reductions, excluding overtime, moving allowances, participation in clinical studies, incentive or bonus payments, shift differential, imputed income due to fringe benefits such as group insurance plans, and other compensatory items of this type.

B. Company Objectives. The term "Company Objectives" means that list of company objectives approved from time to time by the Board of Directors in its sole discretion for each Plan Period. The objectives may be based on financial goals, scientific or commercial progress, profits, return on investments or any other criteria established by the Board of Directors. The current Company Objectives, the milestones within each Company Objective and their respective relative percentage contribution to the overall Company Objectives shall be maintained by the Human Resources Department. The Required Minimum Company Objective Percentage is set forth in Article IV.

C. Employee. The term "Employee" means any individual on the XOMA payroll rendering services for XOMA whose normal work week is 30 hours or more (excluding consultants, advisors, and other similar individuals providing services to XOMA).

D. Plan Period. Subject to Article VI, the term "Plan Period" means the fiscal period from July I to December 31, 1993 and, thereafter, each fiscal year ending December 31.

E. Plan Term. Subject to Article VI, the term "Plan Term" means the period commencing on July 1, 1993 and continuing until the termination of this Plan by the Board of Directors.

IV. Plan Mechanics.

A. Eligibility. Officers, employees who have the title of Director or Manager, and additional Discretionary Participants determined by the CEO to be critical to the achievement of the Company Objectives, are eligible for participation in the Plan. Other than the officers who may participate in the Plan who shall be designated in writing by the Compensation Committee, the CEO shall designate in writing the employees who will participate in the Plan. An individual who becomes an Employee who meets the eligibility criteria for participation in the Plan after the beginning of a Plan Period, or is promoted after the beginning of a Plan Period to a position eligible for participation in the Plan, will be considered by the Compensation Committee or the CEO, as the case may be, for participation in the Plan and, if designated in writing to participate, such Employee will have her/his award pro-rated as of the date of eligibility determined by the Compensation Committee or the CEO, as the case may be. Because awards vest and are payable over a three-year term, each participant must maintain eligibility and continue as an Employee until each date of distribution to receive the distribution to be made on that date.

B. Length of Plan. Subject to Article VI, the Plan will be effective for the Plan Term.

C. Incentive Plan.

1. Determination of Amounts Available for Incentive Compensation.

a. Prior to the commencement of each Plan Period, the Compensation Committee acting on behalf of the Board of Directors in its sole discretion will determine the Target Incentive Compensation Pool. As soon as practicable after the end of each Plan Period, the Compensation Committee will determine whether and to what extent the Company Objectives have been met. If a determination is made that XOMA has not met the Company Objectives to the extent required, the Compensation Committee may decline to award any Incentive Compensation.

b. For each year during the Plan Term, unless 70% of the Company Objectives (the "Required Minimum Company Objective Percentage") have been met, no Incentive Compensation will be awarded.

c. The Target Incentive Compensation Pool is expressed as a percentage of the aggregate annual Base Salaries of the participants in the Plan. The final Incentive Compensation Pool ("Final Incentive Compensation Pool") will be determined by utilizing the method of calculation of the extent to which XOMA's Company Objectives have been met for the applicable Plan Period as set forth in Article IV.

2. Calculation of Individual Incentive Awards.

a. It is the intention of the Compensation Committee and the Board of Directors that awards to participants shall vary depending on: (1) the extent of collective achievement of Company Objectives; (2) each participant's employment level in the organization and Base Salary; and (3) each participant's contributions to the achievement of the Company Objectives as a result of: (x) achievement of individual objectives and ongoing performance and (y) individual contributions towards XOMA's meeting of the Company Objectives without regard to individual objectives.

b. Company and individual performance objectives will be weighted depending upon participant level. A 20% judgment factor will be included as an individual performance measurement for all participants in the Plan.

Company and individual performance goals for participants in the Plan are to be weighted as follows:

<TABLE>
<CAPTION>

Participant Level	Company Objectives	Individual Objectives	Performance Objectives
<S>	<C>	<C>	<C>
Officer	50%	30%	20%
Director	40%	40%	20%
Manager and Discretionary Participant	30%	50%	20%

</TABLE>

c. The bonus opportunity ranges for participants in the Plan expressed as a percentage of Base Salaries are as follows:

Participant Level	Minimum	Target	Maximum
Officer	12.5%	25%	37.5%
Director	7.5%	15%	22.5%
Manager	5%	10%	15%
Discretionary Participant	3.5%	7%	10.5%

d. Each of the individual Company Objectives shall be assigned a percentage reflecting its relative importance (the "Target Contribution Percentage") to the achievement of the overall Company Objectives as well as target results and results reflecting best and worst case scenarios (denominated maximum or minimum for purposes hereof). If the target results are achieved, the Target Contribution Percentage is awarded. If results between the target and the best case scenario are achieved, the Target Contribution Percentage is increased proportionately up to a maximum of 150% of the Target Contribution Percentage (the "Best Case Percentage Limitation"). No percentage contribution in excess of the Best Case Percentage Limitation will be awarded. Alternatively, if target results are not met but results greater than the worst case scenario are achieved, the Target Contribution Percentage will be decreased proportionately to a minimum of 50% of the Target Contribution Percentage. Achievements below the worst case scenario will result in a 0% contribution from the applicable Company Objective.

e. The performance of each participant in the Plan will be rated as soon as practicable following the conclusion of the applicable Plan

Period in the exercise of the sole discretion of the individual or group indicated below. The ratings for all officers will be approved by the Compensation Committee. The ratings for all other participants will be approved by the CEO. Participants whose performance for the Plan Period is rated as unsatisfactory will not be eligible for participation in the Plan for that Plan Period and no Incentive Compensation will be awarded for below minimum performance.

f. The total value of all awards made for the applicable Plan Period will not exceed the amount of the Final Incentive Compensation Pool determined for that Plan Period. Thus, each individual award for a participant from the Final Incentive Compensation Pool will vary depending on the participant's rating, employment level in the organization, Base Salary, and the individual ratings of all participants.

3. Awards to Participants.

a. Approval. All awards will be approved following the end of a Plan Period by the Compensation Committee acting on the advice of the Board of Directors and the CEO.

b. Distribution of Incentive Awards. The distribution dates for awards will be established by the Board of Directors acting on the advice of the Compensation Committee. Subject to vesting requirements, it is expected that distributions will normally be made in February or March of the succeeding year of the applicable Plan Period.

c. Taxes and Withholding. Each participant will bear any Federal, state, and local taxes accruing with respect to any award under the Plan. As required by law, XOMA will withhold in cash from any distributions amounts required for Federal and state withholding tax purposes. With respect to awards in common shares, arrangements for the payment of withholding tax in cash satisfactory to XOMA must be made prior to the date of any distribution.

d. Termination of participation.

i. Subject to other provisions hereof, if a participant's employment is terminated for any reason, or for no reason, on or before December 31 of any Plan Period or at any time in any subsequent year in which awards with respect to any Plan Period are expected to be made, such participant shall forfeit all rights to Incentive Compensation as yet unpaid pursuant to the Plan.

ii. If an Employee changes employment status from full-time to part-time (less than 30 hours per week), any such change will terminate participation in the Plan and all rights to payments awarded for any Plan Period but payable in subsequent years, unless the CEO determines in her/his sole discretion, that such Employee should continue to participate.

iii. A participant may elect to withdraw, without prejudice, from the Plan at any time.

e. Eligibility for Distribution. Subject to other provisions hereof, a participant must also be an Employee of the Company continuously from the conclusion of any Plan Period up to and including the date of distribution of the award to be eligible to receive such distribution.

f. Change in Control Exception. Notwithstanding any other provision hereof, (x) if within one year after a "change in control" (as defined below), a participant's employment with XOMA is involuntarily terminated other than for cause, or (y) if a participant shall voluntarily terminate her or his employment with XOMA within one year after a change in control because the nature of such

participant's duties or compensation do not continue to be substantially equivalent to what they were at the time of such change in control, then all awards authorized but not yet distributed to such participant shall be distributed to such participant.

For the purposes of this subsection, a "change in control" shall have occurred if any person (as defined in Section 13 of the Securities Exchange Act of 1934, as amended) acquires shares of voting capital shares, (other than directly from XOMA) and thereby becomes

the owner of more than 20% of XOMA's outstanding shares of voting capital shares (on a fully diluted basis) or XOMA enters into a merger, amalgamation or other consolidation (other than one in connection with a voluntary change of corporate domicile or similar reorganization or recapitalization transaction) in which the shareholders of XOMA (as determined immediately prior to the merger, amalgamation or other consolidation) do not own at least 50% of the outstanding shares of voting capital shares of the surviving or continuing entity after the merger, amalgamation or other consolidation. Solely for the purposes of the foregoing, a termination shall be deemed to have been made for "cause" in the event a participant is terminated for any of the following reasons:

i. the participant's continued failure to substantially perform her or his duties with XOMA, or

ii. gross misconduct by the participant which is materially and demonstrably injurious to XOMA or its employees.

g. Death of a participant. In the event of the death of a participant while an Employee after the completion of any Plan Period but prior to the distribution, the award will be made as soon as practicable to the deceased participant's beneficiary as indicated on the participant's group insurance enrollment card.

V. No Right to Employment.

Nothing in this Plan shall give any participant the right to continued employment by XOMA. Furthermore, under XOMA policy, employment at XOMA is "at will" and can be terminated at any time by either party, with or without cause and with or without notice.

VI. Plan Modification.

This Plan may be modified or terminated by the Board of Directors at any time.

VII. Miscellaneous.

A. Nontransferability. Awards shall not be transferable by a participant except by will or the laws of descent and distribution and shall be exercisable during the lifetime of a participant only by such participant or his or her guardian or legal representative. A

participant's rights under the Plan may not be pledged, mortgaged, hypothecated, or otherwise encumbered, and shall not be subject to claims of the participant's creditors.

B. Unfunded Status of Awards. The Plan is intended to constitute an "unfunded" plan of incentive compensation. With respect to any payments not yet made to a participant pursuant to an award, nothing contained in the Plan or any Award shall give any such participant any rights that are greater than those of a general unsecured creditor of XOMA.

EMPLOYMENT AGREEMENT

This Employment Agreement ("Agreement"), made and effective this 26th day of March, 2002, by and between XOMA (US) LLC ("XOMA" or the "Company"), a Delaware limited liability company with its principal office at 2910 Seventh Street, Berkeley, California, and Patrick J. Scannon, M.D., Ph.D., ("Executive"), an individual residing at 176 Edgewood, San Francisco, California.

WHEREAS, the Company wishes to enter into this Agreement to assure the Company of the continued services of Executive; and

WHEREAS, Executive is willing to enter into this Agreement and to continue to serve in the employ of the Company upon the terms and conditions hereinafter provided;

NOW, THEREFORE, in consideration of the mutual covenants herein contained, the parties hereto hereby agree as follows:

1. Employment. The Company agrees to continue to employ Executive, and Executive agrees to continue to be employed by the Company, for the period referred to in Section 3 hereof and upon the other terms and conditions herein provided.

2. Position and Responsibilities. The Company agrees to employ Executive in the position of Senior Vice President and Chief Scientific and Medical Officer, and Executive agrees to serve as Chief Scientific and Medical Officer, for the term and on the conditions hereinafter set forth. Executive agrees to perform such services not inconsistent with his position as shall from time to time be assigned to him by the Chairman of the Board, President and Chief Executive Officer of the Company (the "Chairman").

3. Term and Duties.

(a) Term of Employment. This Agreement shall become effective and the term of employment pursuant to this Agreement shall commence on March 26, 2002 and will continue until March 25, 2003, when it will terminate unless it is extended by mutual written consent of Executive and the Company or unless Executive's employment is terminated by the Company or he resigns from the Company's employ as described herein.

(b) Duties. During the period of his employment hereunder Executive shall serve the Company as its Chief Scientific and Medical Officer, and except for illnesses, vacation periods and reasonable leaves of absence, Executive shall devote all of his business time, attention, skill and efforts to the faithful performance of his duties hereunder.

So long as Executive is Senior Vice President and/or Chief Scientific and Medical Officer of the Company, he will discharge all duties incidental to such office and such further duties as may be reasonably assigned to him from time to time by the Chairman.

4. Compensation and Reimbursement of Expenses.

(a) Compensation. For all services rendered by Executive as Chief Scientific and Medical Officer during his employment under this Agreement, the Company shall pay Executive as compensation a salary at a rate of not less than $340,000 per annum. All taxes and governmentally required withholding shall be deducted in conformity with applicable laws.

(b) Loan. In further consideration of Executive's agreement to the terms hereof, the Company has agreed to a one year extension of a loan previously provided to Executive in the principal amount of $117,606.17 (the "Loan") on the terms and subject to the conditions set forth herein. On the date on which Executive and the Company agreed that the Loan was to be funded (the "Loan Date"), Executive executed a promissory note in the form attached hereto as Exhibit A evidencing the Loan and a pledge agreement in the form attached hereto as Exhibit B granting to the Company a first priority security interest in all of the outstanding Common Shares owned by Executive on the effective date of this Agreement, whereupon the Company did lend to Executive the principal amount of the Loan. The full amount of the Loan will be repaid by Executive as soon as reasonably practicable and in any event no later than March 25, 2003, or on demand following any earlier termination of or resignation by Executive.

Interest will accrue on the Loan at a rate of six percent (6%) per annum and will be payable as and when the Loan is repaid.

(c) Reimbursement of Expenses. The Company shall pay or reimburse Executive for all reasonable travel and other expenses incurred by Executive in performing his obligations under this Agreement in a manner consistent with past Company practice. The Company further agrees to furnish Executive with such assistance and accommodations as shall be suitable to the character of Executive's position with the Company, adequate for the performance of his duties and consistent with past Company practice.

5. Participation in Benefit Plans. The payments provided in Section 4 hereof are in addition to benefits Executive is entitled to under any group hospitalization, health, dental care, disability insurance, surety bond, death benefit plan, travel and/or accident insurance, other allowance and/or executive compensation plan, including, without limitation, any senior staff incentive plan, capital accumulation and termination pay programs, restricted or non-restricted share purchase plan, share option plan, retirement income or pension plan or other present or future group employee benefit plan or program of the Company for which key executives are or shall become eligible, and Executive shall be eligible to receive during the period of his employment under this Agreement, and during any subsequent period(s) for which he shall be entitled to receive payment from the Company under paragraph 6(b) below, all benefits and emoluments for which key executives are eligible under every such plan or program to the extent permissible under the general terms and provisions of such plans or programs and in accordance with the provisions thereof.

6. Payments to Executive Upon Termination of Employment.

(a) Termination. Upon the occurrence of an event of termination (as hereinafter defined) during the period of Executive's employment under this Agreement, the provisions of this paragraph 6(a) and paragraph 6(b) shall apply. As used in this Agreement, an "event of termination" shall mean and include any one or more of the following:

(i) The termination by the Company of Executive's employment hereunder for any reason other than pursuant to paragraph 6(c); or

(ii) Executive's resignation from the Company's employ, upon not less than thirty (30) days' prior written notice.

(b) Continuation of Salary and Other Benefits. Upon the occurrence of an event of termination under paragraph 6(a), the Company (i) shall, subject to the provisions of Section 7 below, pay Executive, or in the event of his subsequent death, his beneficiary or beneficiaries of his estate, as the case may be, as severance pay or liquidated damages, or both, semi-monthly for a period of twelve (12) months following the event of termination (the "Severance Payment Period"), a sum equal to his current salary in effect at the time of the event of termination, but in no case less than $340,000 per annum, (ii) shall continue to provide the other benefits referred to in Section 5 hereof until the end of the Severance Payment Period or until Executive becomes employed elsewhere, whichever is earlier, and (iii) shall continue to provide the benefits provided for in paragraph 4(c) to the extent of expenses incurred but not reimbursed prior to the event of termination. Such payments shall commence on the last day of the next regular pay period following the date of the event of termination, or, at the election of the Company, may be paid in one lump sum or in such other installments as may be mutually agreed between the Company and Executive or, in the event of his subsequent death, his beneficiary or beneficiaries or legal representative, as the case may be.

(c) Other Termination of Employment. Notwithstanding paragraphs 6(a) and (b) or any other provision of this Agreement to the contrary, if on or after the date of this Agreement and prior to the end of the term hereof:

(i) Executive has been convicted of any crime or offense constituting a felony under applicable law, including, without limitation, any act of dishonesty such as embezzlement, theft or larceny;

(ii) Executive shall act or refrain from acting in respect of any of the duties and responsibilities which have been assigned to him in accordance with this Agreement and shall fail to desist from such action or inaction within ten (10) days (or such longer period of time, not exceeding ninety (90) days, as Executive shall in good faith and the exercise of reasonable efforts require to desist from such action or inaction) after Executive's receipt of notice from the Company of such action or inaction and the Board of Directors determines that such action or

inaction constituted gross negligence or a willful act of malfeasance or misfeasance of Executive in respect of such duties; or

(iii) Executive shall breach any material term of this Agreement and shall fail to correct such breach within ten (10) days (or such longer period of time, not exceeding ninety (90) days, as Executive shall in good faith and the exercise of reasonable efforts require to cure such breach) after Executive's receipt of notice from the Company of such breach;

then, and in each such case, the Company shall have the right to give notice of termination of Employee's services hereunder as of a date (not earlier than fourteen (14) days from such notice) to be specified in such notice and this Agreement (other than the provisions of Section 7 hereof) shall terminate on such date.

7. Post-Termination Obligations. All payments and benefits to Executive under this Agreement shall be subject to Executive's compliance with the following provisions during the term of his employment and for the Severance Payment Period:

(a) Confidential Information and Competitive Conduct. Executive shall not, to the detriment of the Company, disclose or reveal to any unauthorized person any trade secret or other confidential information relating to the Company or its affiliates or to any businesses operated by them, and Executive confirms that such information constitutes the exclusive property of the Company. Executive shall not otherwise act or conduct himself to the material detriment of the Company or its affiliates, or in a manner which is inimical or contrary to the interests thereof, and shall not, directly or indirectly, engage in, enter the employ of or render any service to any person, firm or business in direct competition with any part of the business being conducted by the Company; provided, however, that Executive's ownership less than five percent (5%) of the outstanding stock of a corporation shall not be itself be deemed to constitute such competition. Executive recognizes that the possible restrictions on his activities which may occur as a result of his performance of his obligations under this paragraph 7(a) are required for the reasonable protection of the Company and its investments. For purposes hereof, "direct competition" means the pursuit of one or more of the same therapeutic or diagnostic indications utilizing a substantially similar scientific basis.

(b) Failure of Executive to Comply. If, for any reason other than death or disability, Executive shall, without written consent of the Company, fail to comply with the provisions of paragraph 7(a) above, his rights to any future payments or other benefits hereunder shall terminate, and the Company's obligations to make such payments and provide such benefits shall cease.

(c) Remedies. Executive agrees that monetary damages would not be adequate compensation for any loss incurred by the Company by reason of a breach of the provisions of this Section 7 and hereby agrees to waive the defense in any action for specific performance that a remedy at law would be adequate.

8. Effect of Prior Agreements. This Agreement contains the entire understanding between the parties hereto and supersedes any prior employment agreements between the Company and Executive.

9. General Provisions.

(a) Binding Agreement. This Agreement shall be binding upon, and inure to the benefit of, Executive and the Company and their respective permitted successors and assigns.

(b) Legal Expenses. In the event that Executive incurs legal expenses in contesting any provision of this Agreement and such contest results in a determination that the Company has breached any of its obligations hereunder, Executive shall be reimbursed by the Company for such legal expenses.

10. Successors and Assigns.

(a) Assignment by the Company. This Agreement shall be binding upon and inure to the benefit of the successors and assigns of the Company and, unless clearly inapplicable, reference herein to the Company shall be deemed to include its successors and assigns.

(b) Assignment by Executive. Executive may not assign this Agreement in whole or in part.

11. Modification and Waiver.

(a) Amendment of Agreement. This Agreement may not be modified or amended except by an instrument in writing signed by the parties hereto.

(b) Waiver. No term or condition of this Agreement shall be deemed to have

been waived except by written instrument of the party charged with such waiver. No such written waiver shall be deemed a continuing waiver unless specifically stated therein, and each such waiver shall operate only as to the specific term or condition waived.

12. Severability. In the event any provision of this Agreement or any part hereof is held invalid, such invalidity shall not affect any remaining part of such provision or any other provision. If any court construes any provision of this Agreement to be illegal, void or unenforceable because of the duration or the area or matter covered thereby, such court shall reduce the duration, area or matter of such provision, and, in its reduced form, such provision shall then be enforceable and shall be enforced.

13. Governing Law. This Agreement has been executed and delivered in the State of California, and its validity interpretation, performance, and enforcement shall be governed by the laws of said State.

IN WITNESS WHEREOF, XOMA has caused this Agreement to be executed by its duly authorized officer, and Executive has signed this Agreement, all as of the day and year first above written.

XOMA (US) LLC

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

_____
Patrick J. Scannon, M.D., Ph.D.

Exhibit A

PROMISSORY NOTE

$104,186.81 Berkeley, California
October 21, 2002

FOR VALUE RECEIVED, the undersigned (the "Obligor") hereby unconditionally promises to pay to the order of XOMA Ltd., a Bermuda limited liability company (the "Obligee"), the principal sum of ONE HUNDRED FOUR THOUSAND ONE HUNDRED EIGHTY-SIX AND 81/100 DOLLARS ($104,186.81) (the "Principal Amount") together with interest from the date hereof at a rate per annum of six percent (6%) on the earlier of (a) five (5) days after the demand of the Obligee if the Obligor ceases to be employed by the Obligee or (b) the 25th day of March, 2003. Said principal sum, and/or any accrued interest, may be prepaid in whole or in part without premium or penalty.

1. It is hereby understood and agreed that if default be made in the payment of the Principal Amount or of interest accrued and unpaid thereon, then the Obligee may exercise any remedies available at law or in equity, including, but not limited to, foreclosure upon the shares of Obligee's common stock which have hereupon been pledged by the Obligor to the Obligee as security for the Obligor's obligations hereunder pursuant to a Pledge Agreement, but shall not be obligated to proceed first against such collateral and may proceed directly on this Promissory Note. In the event of any such default, the Obligee shall be entitled also to all costs of collection, including the reasonable fees of an attorney. In the event the Obligee proceeds against the collateral and the proceeds of the collateral are inadequate to pay any amounts due on this Promissory Note, the Obligor shall remain liable for any deficiency. In addition, and without limitation of any other provision of this Paragraph, in the event of any default described above, the Obligor authorizes and requests the Obligee to deduct and withhold from compensation otherwise payable by the Obligee to the Obligor an amount equal to the defaulted payment of the Principal Amount and/or of interest accrued and unpaid thereon; provided however, that the Obligee may not so deduct more than fifty (50) percent of any payment of compensation otherwise due the Obligor.

2. If application shall be made for the appointment of a receiver, trustee or liquidator of the Obligor or any of his property, or if the Obligor shall make a general assignment for the benefit of creditors, be adjudicated a

bankrupt or file a voluntary petition in bankruptcy or seek reorganization of any arrangement with creditors, the Obligee may declare this Promissory Note to be due and payable, whereupon this Promissory Note shall forthwith become due and payable without presentment, demand, protest, or notice of protest, notice of dishonor, notice of nonpayment or any other notice of any kind, all of which are hereby expressly waived.

3. No delay or omission on the part of the Obligee in exercising any right hereunder shall operate as a waiver of such right or of any other right, nor shall any delay, omission or

waiver on any one occasion be deemed a bar to or waiver of the same or any other right on any future occasion.

4. If any provision of this Promissory Note should be found to be invalid or unenforceable, all other provisions shall nevertheless remain in full force and effect. This Promissory Note and any of its terms may be changed, waived or terminated only by a written instrument signed by the party against which enforcement of that change, waiver or termination is sought. The rights and obligations of the parties hereunder shall be governed by and interpreted and enforced in accordance with the substantive laws of the State of California, without giving effect to principles of conflicts of law.

WITNESS the due execution hereof as of the date first above written.

Patrick J. Scannon, M.D., Ph.D.

Exhibit B

PLEDGE AGREEMENT

PLEDGE AGREEMENT dated March 26, 2002, between Patrick J. Scannon, M.D., Ph.D. (the "Pledgor"), and XOMA Ltd., a Bermuda company with limited liability (the "Pledgee").

WHEREAS, the Pledgor is the owner of 78,874 shares (the "Pledged Shares") of Common Stock, par value $0.0005 per share, issued by the Pledgee; and

WHEREAS, the Pledgee has agreed to loan the Pledgee $117,606.17 in connection with the certain liabilities related to the Pledged Shares (the "Loan"), and the Pledgor has simultaneously with the execution of this Agreement executed a Promissory Note (the "Note") evidencing such indebtedness;

NOW THEREFORE, in consideration of the premises and in order to induce the Pledgee to make the Loan, the Pledgor hereby agrees with the Pledgee as follows:

1. Pledge. The Pledgor hereby pledges to the Pledgee, and grants to the Pledgee a security interest in, the Pledged Shares and any and all proceeds therefrom.

2. Security for Obligations. This Agreement secures the payment of all obligations of the Pledgor to the Pledgee now or hereafter existing pursuant to the Loan and the Note, whether for principal, interest, fees, expenses or otherwise (all such obligations of the Pledgor being the "Obligations").

3. Delivery of Pledged Shares. All certificates or instruments representing or evidencing the Pledged Shares shall be delivered to and held by or on behalf of the Pledgee pursuant hereto and shall be in suitable form for transfer by delivery, or shall be accompanied by duly executed instruments of transfer or assignment in blank, all in forms and substance satisfactory to the Pledgee. In addition, the Pledgee shall have the right at any time to exchange certificates or instruments representing or evidencing Pledged Shares for certificates or instruments of smaller or larger denominations.

4. Representations and Warranties. The Pledgor represents and warrants as follows:

(a) The Pledgor is the legal and beneficial owner of the Pledged Shares

free and clear of any lien, security interest, option or other charge or encumbrance except for the security interest created by this Agreement.

(b) The pledge of the Pledged Shares pursuant to this Agreement creates a valid and perfected first priority security interest in the Pledged Shares, securing the payment of the Obligations.

5. Further Assurances. The Pledgor agrees that at any time and from time to time, at the expense of the Pledgor the Pledgor will promptly execute and deliver all further instruments and documents, and take all further action, that may be necessary or appropriate, or that the Pledgee may reasonably request, in order to perfect and protect any security interest granted or purported to be g ranted hereby or to enable the Pledgee to exercise and enforce its rights and remedies hereunder with respect to any Pledged Shares.

6. Voting Rights; Dividends; Etc. a) So long as no default exists under the Note:

(i) The Pledgor shall be entitled to exercise any and all voting and other consensual rights pertaining to the Pledged Shares.

(ii) The Pledgor shall be entitled to receive and retain any and all dividends in respect of the Pledged Shares, provided, however, that any and all dividends paid or payable other than in cash in respect of, and instruments and other property received, receivable or otherwise distributed in respect of, or in exchange for, any Pledged Shares, and any and all dividends and other distributions paid or payable in cash in respect of any Pledged Collateral in connection with a partial or total liquidation or dissolution or in connection with a reduction of capital, capital surplus or paid-in-surplus shall be delivered to the Pledgee to hold as collateral as if such were Pledged Shares (such Collateral, together with the Pledged Shares, the "Pledged Collateral") and shall, if received by the Pledgor, be received in trust for the benefit of the Pledgee, be segregated from the other property or funds of the Pledgor, and be forthwith delivered to the Pledgee as Pledged Collateral in the same for as so received (with any necessary indorsement).

(b) Upon the occurrence of a default under the Note, all rights of the Pledgor to exercise the voting and other consensual rights which it would otherwise be entitled to exercise pursuant to Section y(a)(i) and to receive the dividends which it would otherwise be authorized to receive and retain pursuant to Section (a)(ii) shall cease, and all such rights shall thereupon become vested in the Pledgee who shall thereupon have the sole right to exercise such voting and other consensual rights and to receive and hold as Pledged collateral such dividends, and all dividends which are received by the Pledgor contrary to the provisions of this Section (b) shall be received in trust for the benefit of the Pledgee, shall be segregated from other funds of the Pledgor and shall be forthwith paid over the Agent as Pledged Collateral in the same form as so received with any necessary indorsement).

7. Pledgee Appointed Attorney-in-Fact. The Pledgor hereby irrevocably appoints the Pledgee the Pledgor's attorney-in-fact, with full authority in the place and stead of the Pledgor and in the name of the Pledgor or otherwise, from time to time in the Pledgee's discretion, to take any action and to execute any instrument which the Pledgee may deem necessary or advisable to accomplish the purposes of this Agreement, including, without limitation, to receive, indorse and collect all instruments made payable to the Pledgor representing any dividend or other distribution in respect of the Pledge Shares and to give full discharge for the same, when and to the extent permitted by this Agreement.

8. Pledgee May Perform. If the Pledgor fails to perform any agreement contained herein, the Pledgee may itself perform, or cause performance of, such agreement, and the expenses of the Pledgee incurred in connection therewith shall be payable by the Pledgor under Section 11.

9. Reasonable Care. The Pledgee shall be deemed to have exercised reasonable care in the custody and preservation of the Pledged Collateral in its possession if such Pledged Collateral is accorded treatment substantially equivalent to that which the Pledgee accords its own property, it being understood that the Pledgee shall not have responsibility for taking any necessary steps to preserve rights against any parties with respect to any of the Pledged Collateral.

10. Remedies upon Default. If any default under the Note shall have occurred:

(a) The Pledgee may exercise in respect of the Pledged Collateral, in addition to other rights and remedies provided for herein or otherwise available to it, all the rights and remedies of a secured party on default under the Uniform Commercial Code (the "Code") in effect in the State of California at that time (in compliance with all applicable securities laws), and the Pledgee may also, without notice except as specified below, sell (in compliance with all applicable securities laws) the Pledged collateral or any part thereof in one or more parcels at public or private sale, at any exchange, broker's board, for cash, on credit or for future delivery, and at such price or prices and upon such other terms as the Pledgee may deem commercially reasonable. The Pledgor agrees that, to the extent notice of sale shall be required by law, at least ten days' notice to the Pledgor of the time and place of any public sale or the time after which any private sale is to be made shall constitute reasonable notification. The Pledgee shall not be obligated to make any sale of Pledged Collateral regardless of notice of sale having been given.

(b) Any cash held by the Pledgee as Pledged Collateral and all cash proceeds received by the Pledgee in respect of any sale of, collection from, or other realization upon all or any part of the Pledged Collateral may, in the discretion of the Pledgee, be held by the Pledgee as collateral for, and/or then or at any time thereafter applied (after payment of any amounts payable to the Pledgee pursuant to Section 11) in whole or in part by the Pledgee against all or any part of the Obligations in such order as the Pledgee shall elect. Any surplus of such cash or cash proceeds held by the Pledgee and remaining after payment in full of all the Obligations shall be paid over the Pledgor or to whomsoever may be lawfully entitled to receive such surplus.

11. Expenses. The Pledgor will upon demand pay to the Pledgee the amount of any and all reasonable expenses, including the fees and expenses of its counsel and of any agents, which the Pledgee may incur in connection with (i) the custody of, or the sale or other realization upon, any of the Pledged collateral, (ii) the exercise or enforcement of any of the rights of the Pledgee, or (iii) the failure by the Pledgor to perform or observe any of the provisions hereof.

12. Security Interest Absolute. All rights of the Pledgee and security interests hereunder, and all obligations of the Pledgor hereunder, shall be absolute and unconditional.

13. Amendments, Etc. No amendment or waiver of any provision of this Agreement nor consent to any departure by the Pledgor herefrom shall in any event be effective unless the same shall be in writing and signed by the Pledgee, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.

14. Addresses for Notices. Any notice or other communication to be given or made to the Pledgee hereunder shall be sent or otherwise communicated to the Pledgee at Xoma Corporation, Attention: Christopher Margolin, 2910 Seventh Street, Berkeley, California 94170, telecopy (510) 649-7571 or such other address and/or for such other attention as may be notified to the Pledgor in accordance with this Section. Any notice or other communication to be given to the Pledgor hereunder shall be sent or otherwise communicated to the Pledgor at 176 Edge-

wood, San Francisco, California 94117, or such other address and/or for such other attention as may be notified to the Pledgee in accordance with this Section. Any notice or other communication to be given or made pursuant to this Agreement may be given or made personally or by registered first class mail or by telecopier and shall be effective when actually received.

15. Continuing Security Interest; Assignments. This Agreement shall create a continuing security interest in the Pledged Collateral and shall (i) remain in full force and effect until payment in full of the Obligations and (ii) inure, together with the rights and remedies of the Pledgee hereunder, to the benefit of the Pledgee, and successors, transferees and assigns. Upon the payment in full of the Obligations, the Pledgor shall be entitled to the return, upon its request and at its expense, of such of the Pledged Collateral as shall not have been sold or otherwise applied pursuant to the terms hereof.

16. Governing Law; Terms. This Agreement shall be governed by and construed in accordance with the laws of the State of California, except as required by mandatory provisions of law and except to the extent that the validity or perfection of the security interest hereunder, or remedies hereunder, in respect of any particular Pledged Collateral are governed by the laws of a jurisdiction other than the State of California. Unless otherwise defined herein, terms defined in Article 9 of the Uniform Commercial Code in the State of California are used herein as therein defined.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be

duly executed and delivered by their respective officers thereunto duly authorized, as of the date first above written.

PATRICK J. SCANNON, M.D., Ph.D.

XOMA Ltd.

By

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

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

LICENSE AGREEMENT

This License Agreement (this "Agreement"), effective as of October 16, 2002 (the "Effective Date"), is entered into by and between XOMA Ireland Limited, a company with limited liability organized under the laws of the Republic of Ireland having offices at Shannon Airport House, Shannon, County Clare, Ireland (with its Affiliates, "XOMA"), and DYAX Corp., a corporation organized under the laws of the State of Delaware having offices at 300 Technology Square, Cambridge, Massachusetts 02139, U.S.A. (with its Affiliates, "DYAX").

BACKGROUND

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

B. XOMA is willing to grant DYAX non-exclusive licenses, on the terms and conditions set forth below, in order to permit DYAX to engage in certain research, development and commercial activities; and

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

D. DYAX is willing to grant XOMA non-exclusive licenses, on the terms and conditions set forth below, in order to permit XOMA to engage in certain research, development and commercial activities.

NOW, THEREFORE, in consideration of the promises and the mutual covenants hereinafter recited, the parties agree as follows:

ARTICLE 1

DEFINITIONS

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

1.1 "Affiliate" means any corporation or other entity which is directly or indirectly controlling, controlled by or under common control with a party hereto. For purposes of this Agreement, "control" (including, with correlative meanings, the terms "controlled" and "con-

trolling") means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of the subject corporation or other entity, whether through the ownership of voting securities, by agreement or otherwise.

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

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

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

1.5 "Confidential Information" means any proprietary or confidential information or material disclosed by a party to the other party pursuant to this Agreement, which is (i) disclosed in tangible form hereunder and is designated thereon as "Confidential" at the time it is delivered to the receiving party, or (ii) disclosed orally hereunder and identified as confidential or proprietary

when disclosed and such disclosure of confidential information is confirmed in writing within thirty (30) days by the disclosing party.

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

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

1.8 "DYAX Collaborator" means any person or entity who is an authorized end-user of Licensed Antibody Phage Display Materials, the intended recipient of Licensed Immunoglobulins or Licensed Immunoglobulin Information transferred from DYAX and/or a person or entity on whose behalf DYAX knowingly engages in Antibody Phage Display; provided, however, that such person or entity shall not be deemed to be a DYAX Collaborator

unless and until the requirements of Section 2.5 are complied with. Except as expressly set forth on Schedule 2.9(i), no person or entity shall be deemed to be a DYAX Collaborator if such person or entity is engaged in a Commercial Antibody Phage Display Business unless, pursuant to a written agreement (other than this Agreement), executed after the Effective Date, XOMA has granted to such person or entity a valid license or covenant not to sue under the XOMA Patent Rights which explicitly extends to the activities identified in this third to last sentence of Section 1.8. XOMA shall provide DYAX prompt written notice of those written agreements or covenants not to sue which satisfy the requirements of the prior sentence. No person or entity may claim the status of DYAX Collaborator with respect to any acts or activities which are unrelated to the use of Licensed Antibody Phage Display Materials provided by DYAX.

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

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

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

1.12 "Licensed Antibody Phage Display Materials" means (i) any collection or library of polynucleotide sequences, created by and under the exclusive control of DYAX, which encodes at least one Immunoglobulin and which is contained in filamentous bacterio-

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

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

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

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

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

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

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

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

(d) Freight, transportation and insurance.

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

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

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

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

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

1.20 "Valid Claim" means (i) a claim of an issued and unexpired patent included within the DYAX Patent Rights or the XOMA Patent Rights, as the case may be, which has not been held invalid in a final decision of a court of

competent jurisdiction from which no appeal may be taken, and which has not been disclaimed or admitted to be invalid or unen-

forceable through reissue or otherwise, or (ii) a claim of a pending patent application within the DYAX Patent Rights or the XOMA Patent Rights, as the case may be.

1.21 "XOMA Field of Use" means all fields except for in vivo diagnostics for so long as the license granted by DYAX to Bracco Holding, B.V. and Bracco International, B.V. for in vivo diagnostics remains exclusive.

1.22 "XOMA Know-How" means unpatented and/or unpatentable technical information, including ideas, concepts, inventions, discoveries, data, designs, formulas, specifications, procedures for experiments and tests and other protocols, results of experimentation and testing, fermentation and purification techniques, and assay protocols, whether now existing or obtained in the future, owned by XOMA which XOMA has the right to license or sublicense and which may be necessary for the practice of the XOMA Patent Rights or which would be misappropriated by the activities of DYAX or the DYAX Collaborators contemplated hereunder but for this Agreement. XOMA Know-How shall not include the XOMA Patent Rights. All XOMA Know-How shall be confidential information of XOMA.

1.23 "XOMA Patent Rights" means the patent applications and patents listed on Schedule 1.23 hereto and, solely to the extent any Valid Claim would cover or be included in the license grants provided for herein, all divisions, continuations, continuations-in-part, applications claiming priority thereto, and substitutions thereof; all foreign patent applications corresponding to the preceding applications; all U.S. and foreign patents issuing on any of the preceding applications, including extensions, reissues and re-examinations; and any other patent rights owned by XOMA which XOMA has the right to license or sublicense and which would be infringed by the activities contemplated hereunder but for this Agreement. XOMA Patent Rights shall also include (i) any improvements of the foregoing that are owned or controlled by XOMA and (ii) any patents or patent applications, whether now existing or obtained in the future, owned or controlled by XOMA containing a claim that is dominating over the foregoing patent rights (i.e., is necessarily infringed by the practicing of a claim in one of the foregoing applications).

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

ARTICLE 2

XOMA GRANT OF RIGHTS TO DYAX

2.1 License Grants. Subject to the other terms and conditions of this Agreement, XOMA hereby grants to DYAX a worldwide, non-exclusive, non-transferable (other than as

provided in Section 9.2) license, without any right to sublicense, under the XOMA Patent Rights and the XOMA Know-How to:

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

(b) solely on its own behalf, on behalf of a Development Partner of DYAX and on behalf of a DYAX Collaborator and in any event solely for Research and Development purposes, conduct Antibody Phage Display;

(c) solely on its own behalf, on behalf of a Development Partner of DYAX and on behalf of a DYAX Collaborator, make or have made Research Quantities of a Licensed Immunoglobulin;

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

(e) solely on its own behalf, on behalf of a Development Partner of DYAX and on behalf of a DYAX Collaborator, transfer Research Quantities of a Licensed Immunoglobulin or Licensed Immunoglobulin Information to a DYAX Collaborator or a Development Partner of DYAX;

(f) solely on its own behalf and on behalf of a DYAX Collaborator, sell, offer to sell, import and export Licensed Immunoglobulins;

(g) solely on its own behalf, on behalf of a Development Partner of DYAX

and on behalf of a DYAX Collaborator, use Licensed Immunoglobulins; and

(h) solely on its own behalf and on behalf of a Development Partner of DYAX make or have made for commercial purposes, use, offer for sale, sell, import and export Products for use in the treatment, prophylaxis, diagnosis or monitoring of a human disease state or condition.

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

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

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

(a) shall not extend to infringement of the XOMA Patent Rights or misappropriation of the XOMA Know-How arising out of making or the means or methods used to make any amount of a Licensed Immunoglobulin or Product other than Research Quantities (except as authorized by Section 2.1(h));

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

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

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

2.4 No Implied Rights. Only the rights and licenses granted pursuant to the express terms of this Agreement shall be of any legal force or effect. No license or other rights

shall be deemed to have been granted to DYAX, a Development Partner of DYAX or a DYAX Collaborator other than as expressly provided for in this Agreement. For the avoidance of doubt, the grants of rights made pursuant to Sections 2.1 and 2.3 do not include, and expressly exclude, the following:

(a) any right or license to engage in any activities on behalf of or in collaboration with any Third Party, other than a Development Partner of DYAX or a DYAX Collaborator;

(b) any right or license to make or have made any amount (other than

Research Quantities or except as authorized under Section 2.1(h)) of a Licensed Immunoglobulin or Product by practicing the XOMA Patent Rights or the XOMA Know-How; provided, however, that DYAX or, as applicable, a DYAX Collaborator shall be permitted to make or have made any Licensed Immunoglobulin by any means of its selection other than those which otherwise infringe a Valid Claim of the XOMA Patent Rights or utilize the XOMA Know-How; and/or

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

2.5 Transfer Restrictions. (a) DYAX shall not (i) undertake any Antibody Phage Display Activities on behalf of a Third Party or (ii) Dispose of Licensed Antibody Phage Display Materials, a Licensed Immunoglobulin, Licensed Immunoglobulin Information or the product of the practice of any method within the scope of the XOMA Patents ("Transferred Materials") to any Third Party until (in the case of either clause (i) or clause (ii)) such time as it has provided to such Third Party the redacted copy of this Agreement referred to in Section 5.2 and the form of notice set out at Schedule 2.5.

(b) If DYAX enters into a written arrangement with any Third Party arising out of or relating to activities as to which it or such Third Party does or intends to claim the benefits of any of the licenses or other grants provided for by this Agreement, such written arrangement shall contain provisions (i) pursuant to which the recipient of any Transferred Materials agrees to abide by each of the limitations, restrictions and other obligations provided for by this Agreement, including, without limitation, the restrictions on use of Transferred Materials for purposes other than Research and Development; (ii) implementing a covenant not to use Transferred Materials for any purpose other than for Research and Development purposes otherwise authorized by this Agreement; (iii) providing that the "first sale" doctrine does not apply to any Disposition and (iv) permitting a DYAX Collaborator to further Dispose of Transferred Materials only to a Third Party who otherwise meets the definition of a DYAX

Collaborator and who executes a written agreement in which its undertakes all of the obligations applied to the transferring party. XOMA shall be, and the agreements subject to this Section 2.5 shall provide that XOMA shall be, an intended third party beneficiary with respect to the foregoing provisions.

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

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

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

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

DYAX will reasonably cooperate with XOMA with respect to any actions XOMA may choose to take related to the enforcement, maintenance or protection of the XOMA Patent Rights.

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

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

ARTICLE 3

DYAX grant of rights TO XOMA

3.1 License Grants. Subject to the other terms and conditions of this Agreement, DYAX hereby grants to XOMA, on its own behalf and on behalf of its Development Partners, a fully paid up, non-exclusive, royalty-free, worldwide license under the DYAX Patent Rights, to discover, isolate, optimize, develop, offer to use, use, offer for sale, sell, make, have made, export and import Immunoglobulins or products containing or comprising an Immunoglobulin

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

3.2 Covenant Not To Sue. DYAX covenants that it shall not initiate or permit any Third Party over whom it has control to initiate or assist in any way in the initiation or prosecution of any action asserting a claim of infringement under the DYAX Patent Rights against XOMA or any Development Partner of XOMA or misappropriation of the DYAX Materials against XOMA solely to the extent such

claims arise out of (a) use of the DYAX Materials by XOMA as permitted under the provisions of this Agreement or (b) the discovery, isolation, optimization or development by XOMA, or the manufacture, use, offer for use, sale, offer for sale, importation and exportation, of any Immunoglobulin or product containing or comprising an Immunoglobulin which were discovered under conditions which but for this license would constitute misappropriation or infringement of the DYAX Patent Rights.

3.3 DYAX Transfer to XOMA. (a) Within thirty (30) days after a written request by XOMA provided to DYAX within 18 months of the Effective Date, DYAX shall transfer to XOMA all of the materials, including without limitation the Licensed Antibody Phage Display Materials, specified on Schedule 3.3 (the "DYAX Materials"). DYAX shall provide up to two person-days of DYAX scientific staff time at DYAX's facilities during the first three months after transfer of the DYAX Materials to XOMA (which period may be extended by mutual consent of the parties, which consent shall not be unreasonably withheld) at no ex-

pense to XOMA. Thereafter, XOMA will be able to consult with DYAX scientific staff at $2,500/person-day (based on an eight hour day) beyond the two person-days. The cost of all reasonable travel-related expenses will be fully reimbursed to DYAX by XOMA. The DYAX Materials shall be Confidential Information subject to Article 5.

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

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

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

ARTICLE 4

PAYMENTS

4.1 Technology Access and Release Fee. In consideration for the rights granted to DYAX and DYAX Collaborators pursuant to Sections 2.1, 2.2, 2.3 and 2.9, DYAX shall pay XOMA a fee of Three Million Five Hundred Thousand United States Dollars (US$3,500,000) payable in cash in six installments, with the first such installment, in the amount of Two Hundred and Fifty Thousand United States Dollars (US$250,000), due within five (5) business days of the Effective Date; the second such installment, in the amount of One Million Two Hundred and Fifty Thousand United States Dollars (US$1,250,000), due on or before December 15, 2002; and an additional installment, each in the amount of Five Hundred Thousand United States Dollars (US$500,000), due on or before the fifteenth day of the last month of each of four consecutive calendar quarters, commencing with the quarter beginning January 1, 2003. Technology transfer is included in the access fee and includes up to two person-days of XOMA scientific staff time at XOMA's facilities prior to December 31, 2002 (which period may be extended by mutual consent of the parties, which consent shall not be unreasonably withheld). Thereafter, DYAX will be able to consult with XOMA scientific staff at

$2,500/person-day (based on an eight hour day) beyond the two person-days. The cost of all reasonable travel-related expenses will be fully reimbursed to XOMA by DYAX.

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

(b) Royalties due under this Article 4 shall be payable on a

country-by-country and Product-by-Product basis from the First Commercial Sale of such Product until the expiration of the last-to-expire XOMA Patent Right in such country with respect to which a Valid Claim covers the manufacture, use, sale, offer for sale, import or export of such Product or the tenth anniversary of such First Commercial Sale, whichever is later.

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

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

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

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

ARTICLE 5

CONFIDENTIALITY

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

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

(b) was generally available to the public or otherwise part of the public

domain at the time of its disclosure to the receiving party;

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

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

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

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

5.4 Agreement Announcement. The parties hereby agree to the release of a press release in the form attached hereto as Schedule 5.4 upon full execution of this Agreement and that the consummation of this Agreement, as well as such terms as are expressly described in such press release, shall be deemed to be in the public domain.

ARTICLE 6

REPRESENTATIONS AND WARRANTIES

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

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

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

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

(b) A warranty or representation that anything made, used, sold, or otherwise disposed of under any license granted in this Agreement is or will be free from infringement of any patent rights or other intellectual property right of any Third Party; (c) An obligation to bring or prosecute actions or suits against Third Parties for infringement of any of the XOMA Patent Rights or the DYAX Patent Rights;

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

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

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

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

ARTICLE 7

INDEMNIFICATION

7.1 Indemnification of XOMA by DYAX. DYAX agrees to indemnify, defend and hold XOMA and its directors, officers, employees and agents (the "XOMA Indemnified Parties") harmless from and against any and all liabilities, losses and expenses (including, without limitation, attorneys and professional fees and other costs of litigation), resulting from any claims, demands or causes of action by any party other than DYAX (each, a "XOMA Liability") arising out of (i) the possession, manufacture, use, sale or other disposition of Product, Antibody Phage Display Materials, Licensed Immunoglobulin or the provision of any service or goods relating thereto by DYAX or any customer, vendor or other representative of DYAX, whether based on breach of warranty, negligence, product liability or otherwise, or (ii) the exercise of any right granted to DYAX pursuant to this Agreement, except to the extent, in each case, that such XOMA Liability is caused by the negligence or willful misconduct of XOMA.

7.2 Indemnification of DYAX by XOMA. XOMA agrees to indemnify, defend and hold DYAX and its directors, officers, employees and agents (the "DYAX Indemnified Parties") harmless from and against any and all liabilities, losses and expenses (including, without limitation, attorneys and professional fees and other costs of litigation), resulting from any claims, demands or causes of action by any party other than XOMA (each, a "DYAX Liability") arising out of (i) the possession, manufacture, use, sale or other disposition of products or materials resulting from the practice by XOMA of the DYAX Patent Rights, the use by XOMA of DYAX Materials or the provision of any service or goods relating thereto by XOMA or any customer, vendor or other representative of XOMA, whether based on breach of warranty, negligence, product liability or otherwise, or (ii) the exercise of any right granted to XOMA pursuant to this Agreement, except to the extent, in each case, that such DYAX Liability is caused by the negligence or willful misconduct of DYAX.

7.3 Procedure. (a) To receive the benefit of indemnification under Section 7.1, a XOMA Indemnified Party must (i) promptly notify DYAX in writing of a claim or suit; provided, that failure to give such notice shall not relieve DYAX of its indemnification obligations except where, and solely to the extent that, such failure actually and materially preju-

dices the rights of DYAX; (ii) provide reasonable cooperation (at DYAX's expense); and (iii) tender to DYAX (and its insurer) full authority to defend or settle the claim or suit; provided that no settlement requiring any admission by the XOMA Indemnified Party or that imposes any obligation on the XOMA Indemnified Party shall be made without the XOMA Indemnified Party's consent. DYAX shall not have any obligation to indemnify the other party in connection with any settlement made without DYAX's written consent. The XOMA Indemnified Party has the right to participate at its own expense in the claim or suit and in selecting counsel therefor. The XOMA Indemnified Party shall cooperate with DYAX (and its insurer), as reasonably requested.

(b) To receive the benefit of indemnification under Section 7.2, a DYAX Indemnified Party must (i) promptly notify XOMA in writing of a claim or suit; provided, that failure to give such notice shall not relieve XOMA of its

indemnification obligations except where, and solely to the extent that, such failure actually and materially prejudices the rights of XOMA; (ii) provide reasonable cooperation (at XOMA's expense); and (iii) tender to XOMA (and its insurer) full authority to defend or settle the claim or suit; provided that no settlement requiring any admission by the DYAX Indemnified Party or that imposes any obligation on the DYAX Indemnified Party shall be made without the DYAX Indemnified Party's consent. XOMA shall not have any obligation to indemnify the other party in connection with any settlement made without XOMA's written consent. The DYAX Indemnified Party has the right to participate at its own expense in the claim or suit and in selecting counsel therefor. The DYAX Indemnified Party shall cooperate with XOMA (and its insurer), as reasonably requested.

ARTICLE 8

TERM AND TERMINATION

8.1 Term. Subject to Sections 8.5 and 8.6 hereof, the term of this Agreement will commence on the Effective Date and (a) with regard to the license rights granted to XOMA by DYAX pursuant to Article 3, this Agreement shall remain in full force and effect until the last to expire of the DYAX Patent Rights, unless earlier terminated by DYAX pursuant to Section 8.2, 8.3 or 8.4; provided, however, that upon such expiration and absent any earlier termination pursuant to Section 8.2, 8.3 or 8.4, XOMA shall have a royalty-free, fully paid up right and license to continue to use the DYAX Materials as permitted by Article 3; and (b) with regard to the license and other rights granted to DYAX and any DYAX Collaborators or Development Partners of DYAX by XOMA pursuant to Article 2, this Agreement shall remain in full force and effect until the last to expire of the XOMA Patent Rights or the tenth anniversary of the First Commercial Sale of the last Product to be launched, whichever is later, unless

earlier terminated by XOMA pursuant to Section 8.2, 8.3 or 8.4; provided, however, that, to the extent any of the XOMA Know-How is not included in the XOMA Patent Rights, upon such expiration and absent any earlier termination pursuant to Section 8.2, 8.3 or 8.4, DYAX shall have a royalty-free, fully paid up right and license to continue to use the XOMA Know-How as permitted by Article 2.

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

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

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

any of the DYAX Patent Rights licensed hereunder, DYAX shall have the right to terminate all of the rights and licenses hereby granted to XOMA under the DYAX Patent Rights.

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

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

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

8.6 Survival. Sections 2.6(c), 2.7, 2.8, 2.9, 3.3, 3.4, 4.2, 4.4, 4.5, 4.6, 8.2, 8.5 and 8.6, and Articles 1, 5, 6, 7 and 9 of this Agreement shall survive any termination hereof. Without limiting the foregoing, Article 2 of this Agreement shall survive any termination hereof by DYAX, and Article 3 of this Agreement shall survive any termination hereof by XOMA.

ARTICLE 9

MISCELLANEOUS PROVISIONS

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

9.2 Assignment. Neither party may transfer or assign this Agreement, directly or indirectly, or any of its rights hereunder without the prior written consent of the other party, other than (a) to one or more Affiliates, (b) to a successor of XOMA Ltd. under a Change in

Control of XOMA Ltd. or to a successor of DYAX Corp. under a Change in Control of DYAX Corp. to which Section 9.3 does not apply, or (c) to a Third Party in connection with the transfer or sale of all or substantially all or its business relating to antibody selection, development and production and the provision of related services (other than (i) with respect to such a transfer or sale by DYAX, such a transfer or sale to any Person listed or described in Section 9.3 and (ii) with respect to such a transfer or sale by XOMA, such a transfer or sale to [*]. Any such attempted transfer or assignment in violation of this Section 9.2 shall be void; provided, that in the event of a permitted Change in Control, the original party's (or its successor's) obligations hereunder shall continue. This Agreement shall be binding upon and inure to the benefit of the parties and their permitted successors and assigns.

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

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

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

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

DYAX: DYAX Corp.
300 Technology Square
Cambridge, MA 02139
U.S.A.
Attn: Chief Executive Officer

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

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

XOMA (US) LLC
2910 Seventh Street
Berkeley, CA 94710
U.S.A.
Attn: Company Secretary

9.7 Independent Contractors. Both parties are independent contractors under this Agreement. Nothing contained in this Agreement is intended nor is to be construed so as to constitute XOMA or DYAX as partners or joint venturers with respect to this Agreement. Except as expressly provided herein, neither party shall have any express or implied right or authority to assume or create any obligations on behalf of or in the name of the other party or to bind the other party to any other contract, agreement, or undertaking with any third party.

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

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

does not reject this Agreement, the party in possession of such intellectual property shall return such embodiments upon request. If a party seeks or involuntarily is placed under Title XI and the trustee rejects this Agreement as contemplated under 11 U.S.C. 365(n)(1), the other party hereby elects, pursuant to Section 365(n) of Title XI, to retain all rights granted to it under this Agreement to the extent permitted by law.

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

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

9.12 Entire Agreement; Amendment. This Agreement constitutes the entire and exclusive Agreement between the parties with respect to the subject matter

hereof and supersedes and cancels all previous discussions, agreements, commitments and writings in respect thereof. No amendment or addition to this Agreement shall be effective unless reduced to writing and executed by the authorized representatives of the parties.

9.13 Arbitration. (a) Solely with respect to any dispute between the parties to this Agreement (other than any dispute which arises out of or relates to infringement, validity and/or enforceability of the XOMA Patent Rights or the DYAX Patent Rights) upon ten (10) days written notice, any party involved in the dispute may initiate arbitration by giving notice to that effect to the other party or parties involved in the dispute and by filing the notice with the American Arbitration Association or its successor organization ("AAA") in accordance with its Commercial Arbitration Rules. Such dispute shall then be settled by arbitration in New York, New York, in accordance with the Commercial Arbitration Rules of the AAA or other rules agreed to by the parties involved in the dispute, by a panel of three neutral arbitrators, who shall be selected by the parties involved in the dispute using the procedures for arbitrator selection of the AAA.

(b) The parties acknowledge that this Agreement evidences a transaction involving interstate commerce. Insofar as it applies, the United States Arbitration Act shall govern the interpretation of, enforcement of, and proceedings pursuant to the arbitration clause in this Agreement. Except insofar as the United States Arbitration Act applies to such matters, the agreement to arbitrate set forth in this Section 9.13 shall be construed, and the legal relations among the parties shall be determined in accordance with, the substantive laws of the State of New York.

(c) The panel shall render its decision and award, including a statement of reasons upon which such award is based, within thirty (30) days after the arbitration hearing. The decision of the panel shall be determined by majority vote among the arbitrators, shall be in writing and shall be binding upon the parties involved in the dispute, final and non-appealable. Judgment upon the award rendered by the panel may be entered in any court having jurisdiction thereof in accordance with Section 9.14(a).

(d) Except as provided under the United States Arbitration Act and with respect to the infringement, validity and/or enforceability of the XOMA Patent Rights or the DYAX Patent Rights, no action at law or in equity based upon any dispute that is subject to arbitration under this Section 9.13 shall be instituted.

(e) All expenses of any arbitration pursuant to this Section 9.13, including fees and expenses of the parties' attorneys, fees and expenses of the arbitrators, and fees and expenses of any witness or the cost of any proof produced at the request of the arbitrators, shall be paid by the non-prevailing party.

9.14 Venue; Jurisdiction. (a) Any action or proceeding brought by either party seeking to enforce any provision of, or based on any right arising out of, this Agreement must be brought against any of the parties in the courts of the State of New York. Each party (i) hereby irrevocably submits to the jurisdiction of the state courts of the State of New York and to the jurisdiction of any United States District Court in the State of New York, for the purpose of any suit, action, or other proceeding arising out of or based upon this Agreement or the subject matter hereof brought by any party or its successors or assigns, (ii) hereby waives, and agrees not to assert, by way of motion, as a defense, or otherwise, in any such suit, action, or proceeding, any claim that it is not subject personally to the jurisdiction of the above-named courts, that its property is exempt or immune from attachment or execution, that the suit, action or proceeding is brought in an inconvenient forum, that the venue of the suit, action, or proceeding is improper or that this Agreement or the subject matter hereof may not be enforced in or by such court, and (iii) hereby waives and agrees not to seek any review by any court of any other jurisdiction that may be called upon to grant an enforcement of the judgment of any such New York state or federal court.

(b) Process in any action or proceeding seeking to enforce any provision of, or based on any right arising out of, this Agreement may be served on any party anywhere in the world. Each party consents to service of process by registered mail at the address to which notices are to be given pursuant to Section 9.6. Nothing herein shall affect the right of a party to serve process in any other manner permitted by applicable law. Each party further agrees that final judgment against it in any such action or proceeding arising out of or relating to this Agreement shall be conclusive and may be enforced in any other jurisdiction within or outside

the United States of America by suit on the judgment, a certified or exemplified copy of which shall be conclusive evidence of the fact and of the amount of its liability.

(c) Each party agrees that it shall not, and that it shall instruct those in its control not to, take any action to frustrate or prevent the enforcement of any writ, decree, final judgment, award (arbitral or otherwise) or order entered against it with respect to this Agreement, the XOMA Patent Rights or the DYAX Patent Rights and shall agree to be bound thereby as if issued or executed by a competent judicial tribunal having personal jurisdiction situated in its country of residence or domicile.

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

IN WITNESS WHEREOF, XOMA and DYAX have executed this Agreement in duplicate originals by duly authorized officers.

<TABLE>
<CAPTION>

<S>	<C>
DYAX CORP.	XOMA IRELAND LIMITED
By: _____	By: _____
Name: Jack Morgan	Alan Kane, Director
Title: Senior Vice President, Corporate Development and Business Operations	duly authorized for and on behalf of XOMA Ireland Limited in the presence of:
	_____

</TABLE>

SCHEDULE 1.9

<TABLE>
<CAPTION>

Dyax Patent Rights

Country	Application/ Patent No.	Filing Date	Patent No.	Issue Date
<S>	<C>	<C>	<C>	<C>
US	07/664,989*	3/1/91	5,223,409	6/29/93
US	9,319	1/26/93	5,403,484	4/4/95
US	08/057,667	6/18/93	5,571,698	11/5/96
US div	08/415,922	4/3/95	5,837,500	11/17/98
US div	08/993,776	12/18/97		
US div	09/192,067	11/16/98		
US div	09/192,068	11/16/98		
PCT	US89/03731 W09002809 pub	9/1/89 3/22/90		
EPO	89/910702.3 EP436597 pub	9/1/89 7/17/91	436,597	4/2/97
EPO div	96/112867.5 768377 pub	8/9/96 6/97 pub	Allowed	

</TABLE>

Japan	89510087	9/1/89		
	JP4502700 (pub)	5/21/92		
Canada	610,176	9/1/89	1,340,288	12/29/98
Ireland	IR89/2834	9/4/89		
Israel	91501	9/1/89	91501	6/11/98
Israel	3 divs	5/29/97		
PCT	US92/01456	2/27/92		
	W09215677 (pub)	9/17/92		
EPO	92/908057.0	2/27/92		
Canada	2105300	2/27/92		
Japan	92507558	2/27/92		

Country	Application/ Patent No.	Filing Date	Patent No.	Issue Date
PCT	US92/01539	2/28/92		
	W09215679 (pub)	9/17/92		
EPO	92/908799.7	2/28/92		
Canada	2105303	2/28/92		
Japan	92508216	2/28/92		

</TABLE>

* CIP of US SN487,063 filed 3/2/90 which is a CIP of US SN240,160 filed 9/2/88 All Protein Engineering Corporation patent rights have been assigned to Dyax Corp.

SCHEDULE 1.23

XOMA Patent Rights

Title: Modular Assembly of Antibody Genes, Antibodies Prepared Thereby and Use

Inventors: Robinson, Liu, Horwitz, Wall, Better

1) Based on PCT/US86/02269, which is a continuation-in-part of U.S. Serial No. 06/793,980 filed November 1, 1985 (abandoned).

COUNTRY	SERIAL NO.	PATENT NO.
*United States	06/793,980	
Australia	65981/86	Issued 606,320
Canada	521,909	Abandoned
Denmark	3385/87	Pending
Taiwan	75105650	Issued 51922
*United States	U.S. National Phase of PCT/US86/02269	

2) Based on PCT/US88/02514, which corresponds to U.S. Serial No. 07/077,528 which is a continuation-in-part of PCT/US86/02269 (abandoned), which is a continuation-in-part of U.S. Serial No. 06/793,980 (abandoned).

COUNTRY	SERIAL NO.	PATENT NO.
Australia	23244/88	Issued 632,462
Canada	572,398	Granted 1,341,235
Denmark	192/90	Pending
Europe	EP 88907510.7	Granted EP/0371998
	EP 93100041.8	Granted EP/0550400
	EP 95119798.7	Granted EP/0731167

Austria		
Belgium		
France		
Germany		
Italy		
Luxembourg		
Netherlands		
Sweden		
Switzerland/ Liechtenstein		
United Kingdom		
Japan	506481/88	Granted 2991720
*United States	07/077,528	

* Cases abandoned in favor of a continuing application.

3) Based on U.S. Serial No. 07/501,092 filed March 29, 1990, which is a continuation-in-part of U.S. Serial No. 07/077,528 (Modular Assembly of Antibody Genes, Antibodies Prepared Thereby and Use; Robinson Liu, Horwitz, Wall, Better) and of U.S. Serial No. 07/142,039 (Novel Plasmid Vector with Pectate Lyase Signal Sequence; Lei, Wilcox).

COUNTRY	SERIAL NO.	PATENT NO.
*United States	07/501,092	
*United States	07/987,555	
*United States	07/870,404	
*United States	08/020,671	
United States	08/235,225	5,618,920
United States	08/299,085	5,595,898
United States	08/357,234	5,576,195
United States	08/472,696	5,846,818
United States	08/472,691	6,204,023
United States	08/467,140	5,698,435
United States	08/450,731	5,693,493
United States	08/466,203	5,698,417
*United States	09/722,315	
United States	09/722,425	
United States	10/040,945	

Title: AraB Promoters and Method of Producing Polypeptides, Including Cecropins, By Microbiological Techniques

Inventors: Lai, Lee, Lin, Ray, Wilcox

Based on PCT/US86/00131 which is a continuation-in-part of U.S. Serial No. 06/695,309 filed January 28, 1985 (abandoned)

COUNTRY	SERIAL NO.	PATENT NO.
Europe	EP 86900983.7	Granted EP/0211047
Austria		
Belgium		
France		
Germany		
Italy		
Luxembourg		
Netherlands		
Sweden		
Switzerland/ Liechtenstein		
United Kingdom		

Finland	863891	Granted 94774
Japan	500818/86	Granted 2095930
Japan	094753/94	Granted 2121896
Norway	863806	Granted 175870
*United States	06/695,309	

*United States	06/797,472	
United States	07/474,304	Granted 5,028,530

* Cases abandoned in favor of a continuing application.

Title: Novel Plasmid Vector with Pectate Lyase Signal Sequence
Inventors: Lei, Wilcox

Based on U.S. Serial No. 07/142,039 filed January 11, 1988 and PCT/US89/00077

COUNTRY	SERIAL NO.	PATENT NO.
Australia	29377/89	Issued/627443
Canada	587,885	1,338,807
Europe	EP 89901763.6	Granted EP/0396612
Austria		
Belgium		
France		
Germany		
Italy		
Luxembourg		
Netherlands		
Sweden		
Switzerland/ Liechtenstein		
United Kingdom		
Japan	501661/89	Granted 2980626
*United States	07/142,039	

SCHEDULE 2.2

[*]

SCHEDULE 2.5

Form of Notice

XOMA owns a number of patents covering various aspects of bacterial antibody expression and phage display.

XOMA has licensed these patents on a non-exclusive basis to DYAX.

Under the license agreement with XOMA:

- DYAX cannot provide phage display services or transfer phage display materials, products or information to you without first showing you a redacted copy of its license from XOMA and this notice.
- If you and DYAX enter into a written agreement by which you become a "DYAX Collaborator," then you will be permitted to use DYAX phage display services, DYAX phage display materials, products and information to research, develop and commercialize antibody products.
- Collaborators do not, however, have the right to produce commercial quantities of such antibodies using XOMA's patented technology. Rather, collaborators only have the right to make research and development quantities of antibodies using the XOMA patent rights. Thereafter, unless the collaborator obtains a commercial production license from XOMA (which may be available), the collaborator must produce commercial quantities of antibodies using a method that does not infringe XOMA patent rights.

- Therefore, if you and DYAX enter into a written agreement, that agreement must contain certain provisions specified in the license agreement with XOMA, including:

- Terms pursuant to which you, as the recipient of any transferred materials, would agree to abide by each of the limitations, restrictions and other obligations provided for by the license agreement with XOMA, including, without limitation, the restrictions on use of such transferred materials for purposes other than research and development.

- A covenant not to use transferred materials for any purpose other than for research and development purposes otherwise authorized by the license agreement with XOMA.

- A provision that the "first sale" doctrine does not apply to any disposition of transferred materials.

- An agreement by you to further dispose of transferred materials only to a third party who otherwise meets the definition of a "DYAX Collaborator" set forth in the license agreement with XOMA and who executes a written agreement in which it undertakes all of the obligations applied to the transferring party.

SCHEDULE 2.9

[*]

SCHEDULE 3.3

[*]

SCHEDULE 5.4

Press Release

XOMA Contact:
Laura Zobkiw, Corporate Communications

Tel: (510) 204-7200
Email: Investorrelations@xoma.com

Dyax Contact:
Jack Morgan, Senior Vice President, Corporate Development and Business Operations
Tel: (617) 250-5762
Email: jmorgan@dyax.com

XOMA and Dyax Cross-License Antibody Technologies
- Dyax Becomes Third Licensee of XOMA Technology
Among Antibody Library Companies -

BERKELEY, CA and CAMBRIDGE, MA - October 16, 2002 - XOMA Ltd. (Nasdaq: XOMA) and Dyax Corp. (Nasdaq: DYAX) announced today they have entered into a cross-licensing agreement for antibody-related technologies. Under the agreement, Dyax receives a license to use XOMA's antibody expression technology for developing antibody products for itself and for Dyax collaborators. Dyax

also receives a license for the production of antibodies under the XOMA patents. XOMA will receive license and royalty payments from Dyax in addition to a Dyax antibody library and a license to Dyax's phage display patents known as the Ladner patents.

The agreement also provides for a release of Dyax and its collaborators from claims under the XOMA patents arising from any past activities using Dyax technology to the extent they also used XOMA's antibody expression technology and allows Dyax to use the XOMA technology in combination with its own technology in any future collaborations.

"We are very pleased to enter into this antibody related licensing arrangement with Dyax, a company with excellent capabilities in the important field of antibody discovery and selection," said Jack Castello, Chairman, President and Chief Executive Officer, XOMA Ltd. "Our license to Dyax, being the third such license this year with a significant antibody library company, further validates the fundamental position our antibody expression technology holds in the phage display arena. We are also pleased to expand our target discovery and therapeutic

antibody development capabilities with the Dyax antibody library and a license to the Ladner patents, which are fundamental to the practice of antibody phage display."

"Through this agreement, Dyax is pleased to add XOMA's bacterial antibody expression technology to the package of technology and services we are able to provide to our current and future antibody technology customers," said Henry E. Blair, Chairman and CEO of Dyax Corp. "We are especially pleased to gain access to this key technology for Dyax's internal therapeutic product development and manufacturing programs."

About XOMA and its Antibody Expression Technology

Bacterial antibody expression is an enabling technology used to discover and screen, as well as develop and manufacture, recombinant antibodies for commercial purposes. Expression of antibodies by phage display technology depends upon the expression and secretion of antibody domains from bacteria as properly folded, functional proteins. XOMA scientists were the first to demonstrate the secretion of antibody domains directly from bacterial cells as fully functional, properly folded molecules. XOMA has received six U.S. patents to date that broadly cover the secretion of functional immunoglobulins from bacteria, including antibody fragments such as Fab and single-chain antibodies. Corresponding foreign patents have also been granted. Access to XOMA's patent estate is necessary for the practice of antibody phage display and other antibody screening applications.

XOMA develops and manufactures innovative biopharmaceuticals for disease targets that include cancer, immunological and inflammatory disorders, and infectious diseases. XOMA's programs include collaborations with: Genentech, Inc. on the Raptiva(TM) antibody for psoriasis (Phase III), rheumatoid arthritis (Phase II) and other indications; Onyx Pharmaceuticals, Inc. to develop and manufacture its ONYX-015 product for various cancers (Phase II and III); Baxter Healthcare Corporation to develop NEUPREX(R) (rBPI-21) for Crohn's disease (Phase II) and other indications; and Millennium Pharmaceuticals, Inc. on two biotherapeutic agents for certain vascular inflammation indications (preclinical). Earlier-stage development programs include compounds to treat cancer, retinopathies, autoimmune diseases and infections. For more information about XOMA's pipeline and activities, please visit XOMA's web site at www.xoma.com.

About Dyax and its Phage Display Technology

Dyax's Ladner patents have the earliest priority date for phage display patents in the United States and are the core patents in phage display technology. With 4 granted patents in the United States, Dyax has over 60 licensees to the Ladner patents, making this patent licensing program one of the most successful in the biotechnology industry. Access to the Ladner pat-

ents is necessary to the practice of any display technology, including the display of antibodies, peptides, and proteins on any cell, spore, or virus, including bacteriophage.

Dyax Corp. is a biopharmaceutical company focused on the discovery, development and commercialization of therapeutic products. The Company uses its patented phage display technology to rapidly identify a broad range of protein, peptide, and antibody compounds that bind with high affinity and high specificity to targets of interest, with the objective of selecting those compounds with the greatest potential for advancement into clinical development. Dyax currently has two recombinant proteins in phase I and II clinical trials. DX-88 is being studied in two indications (hereditary angioedema and cardiopulmonary bypass), while DX-890 is being studied for cystic fibrosis. Dyax leverages its technology

broadly through licenses and collaborations in therapeutics and in non-core areas of affinity separations, diagnostics and imaging, and research reagents. Through its subsidiary, Biotage, Inc., Dyax develops, manufactures and sells chromatography separations systems and products worldwide for drug discovery and purification.

As to XOMA: Statements made in this news release related to collaborative arrangements and development capabilities, or that otherwise relate to future periods, are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements are based on assumptions that may not prove accurate. Actual results could differ materially from those anticipated due to certain risks inherent in the biotechnology industry and for companies engaged in the development of new products in a regulated market. These risks, including those related to changes in the status of existing collaborative relationships, the availability of future collaborative relationships, the ability of collaborators and other partners to meet their obligations, the timing or results of pending or future clinical trials, market demand for products, actions by the Food and Drug Administration or the US Patent and Trademark Office, and uncertainties regarding the status of biotechnology patents, are discussed in XOMA's most recent annual report on Form 10-K and in other SEC filings. Consider such risks carefully in evaluating XOMA's prospects.

As to Dyax: This press release contains forward-looking statements, including statements regarding collaborative arrangements and Dyax's technology. Statements that are not historical facts are based on Dyax's current expectations, beliefs, assumptions, estimates, forecasts and projections about the industry and markets in which Dyax competes. The statements contained in this release are not guarantees of future performance and involve certain risks, uncertainties and assumptions, which are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed in such forward-looking statements. Important factors which may affect Dyax's collaborative arrangements and its technology in-

clude the risks that Dyax may not be able to obtain and maintain intellectual property protection for its products and technologies; others may develop technologies or products superior to Dyax's technologies or products; and other risk factors described or referred to in Dyax's most recent Annual Report on Form 10-K and other periodic reports filed with the Securities and Exchange Commission. Dyax cautions investors not to place undue reliance on the forward-looking statements contained in this release. These statements speak only as of the date of this release, and Dyax undertakes no obligations to update or revise these statements, except as may be required by law. Dyax and the Dyax logo are the registered trademarks of Dyax Corp.

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

LICENSE AGREEMENT

This License Agreement (this "Agreement"), effective as of December 22, 2002 (the "Effective Date"), is entered into by and between XOMA Ireland Limited, a company with limited liability organized under the laws of the Republic of Ireland having offices at Shannon Airport House, Shannon, County Clare, Ireland (with its Affiliates, "XOMA"), and Cambridge Antibody Technology Limited (with its Affiliates, "CAT"), an English company having a principal place of business at Milstein Building, Granta Park, Cambridge, CB1 6GH, England.

BACKGROUND

A. XOMA is the owner or exclusive licensee of certain patent rights;

B. CAT wishes to acquire non-exclusive licenses under such patent rights on the terms and conditions set forth below; and

C. XOMA is willing to grant CAT non-exclusive licenses on the terms and conditions set forth below.

NOW, THEREFORE, in consideration of the promises and the mutual covenants hereinafter recited, the parties agree as follows:

ARTICLE 1

DEFINITIONS

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

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

1.2 "Antibody" means, for purposes of Sections 1.5, 1.6, 1.20 and 1.27 only, a molecule or a gene encoding such a molecule comprising or containing more than one immunoglobulin variable domain or parts of such domains or any existing or future fragments, variants, modifications or derivatives thereof.

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

1.4 "CAT Collaborator" means any person or entity who is an authorized end-user or intended recipient of Licensed Antibody Phage Display Materials (including a CAT Library), Licensed Immunoglobulins or Licensed Immunoglobulin Information transferred from CAT and/or a person or entity on whose behalf CAT knowingly engages in Antibody Phage Display; provided, however, that except for the entities identified on Schedule 1.4 such person or entity shall not be deemed to be a CAT Collaborator unless and until the requirements of Section 2.4 are complied with. An initial list of CAT Collaborators with whom CAT has an agreement in full force and effect as of the Effective Date is identified on Schedule 1.4; provided, that such entities are in compliance with all of the provisions of this Agreement applicable to CAT Collaborators or will be within a reasonable time after the Effective Date. No person or entity shall be deemed to be a CAT Collaborator if such person or entity is engaged in a Commercial Antibody Phage Display Business unless, pursuant to a written agreement (other than this Agreement), executed after the Effective Date, XOMA has granted to such person or entity a valid license or covenant not to sue under the XOMA Patent Rights which explicitly extends to the activities identified in this third sentence of Section 1.4; provided, that a CAT Collaborator listed in column (a) of Schedule 1.4 shall retain its status as such, notwithstanding that it may after the Effective Date engage in a Commercial Antibody Phage Display Business, but in all cases only with respect to activities of such CAT Collaborator that are carried out pursuant to and in accordance with its arrangement with CAT and the applicable terms of this Agreement using Licensed Antibody Phage Display Materials and/or Licensed Immunoglobulins provided by CAT. XOMA shall provide CAT prompt written notice of those written agreements or covenants not to sue which satisfy the requirements of the prior sentence. No person or entity may claim the status of CAT Collaborator with respect to any acts or activities which are unrelated to the use of Licensed Antibody Phage

Display Materials, Licensed Immunoglobulins and/or Licensed Immunoglobulin Information provided by CAT.

1.5 "CAT Library" means the collection of bacteriophages each of which displays an Antibody or a collection of host cells containing such collection of bacteriophages controlled by CAT as of the Effective Date and all updates, additions and improvements to such collection of bacteriophages or collection of host cells containing such collection of bacteriophages.

1.6 "CAT Library Antibody" means any Antibody to a Target identified, generated or derived by XOMA or a Third Party from its use of the CAT Library during the term of this Agreement.

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

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

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

1.10 "Diagnostic Product" means a Product used solely to diagnose any disease or condition in any animal, including a human.

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

1.12 "Immunoglobulin" means any molecule, including without limitation full immunoglobulin molecules (e.g., IgG, IgM, IgE, IgA and IgD molecules) and scFv, Fv and Fab molecules, that has an amino acid sequence by virtue of which it interacts with an antigen and wherein that amino acid sequence consists essentially of a functionally operating region of an antibody variable region including, by way of example and without limitation, any naturally occurring, synthetic, or recombinant form of such a molecule; provided, however, that "Immunoglobulin" shall not include a molecule or gene encoding such a molecule which comprises solely a single variable domain (heavy or light).

1.13 "Insolvency Event" means any one of the following:

(a) a notice shall have been issued to convene a meeting for the purpose of passing a resolution to wind up CAT, or such a resolution shall have been passed other than (i) a resolution for the solvent reconstruction or reorganization of CAT, or (ii) for the purpose of inclusion of any part of the share capital of CAT in the Official List of the London Stock Exchange or in the list of the New York

Stock Exchange, American Stock Exchange or quotation of the same on the Nasdaq Stock Market in relation to an initial public offering; or

(b) a resolution shall have been passed by CAT's directors to seek a winding up or administration order, or a petition for a winding up or administration order shall have been presented against CAT, or such an order shall have been made; or

(c) a receiver, administrative receiver, receiver and manager, interim receiver, custodian, sequestrator or similar officer is appointed in respect of CAT or over a substantial part of its assets or any Third Party takes steps to appoint such an officer in respect of CAT or an encumbrancer takes steps to enforce or enforces its security; or

(d) a proposal for a voluntary arrangement shall have been made in relation to CAT under Part I Insolvency Act 1986 (UK); or

(e) a step or event shall have been taken or arisen outside the United Kingdom which is similar or analogous to any of the steps or events listed at (a) to (d) above; or

(f) CAT proposes or makes any general assignment, composition or arrangement with or for the benefit of all or some of CAT's creditors or makes or suspends or threatens to suspend making payments to all or some of CAT's creditors or CAT submits to any type of voluntary arrangement; or

(g) CAT is deemed to be unable to pay its debts within the meaning of Section 123 Insolvency Act 1986 (UK).

1.14 "Library License" means that certain Antibody Library License Agreement dated December 22, 2002 by and between CAT and XOMA Technology Ltd.

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

matter suitable for display, expression or secretion of an Immunoglobulin in or from any organism or system other than bacteria and (y) any materials or composition of matter otherwise meeting the definition of Licensed Antibody Phage Display Materials but created by or under the control of any entity, other than CAT, engaged in a Commercial Antibody Phage Display Business; provided that, notwithstanding the foregoing, any materials or composition of matter otherwise meeting the definition of Licensed Antibody Phage Display Materials but created by or under the exclusive control of a CAT Collaborator shall constitute Licensed Antibody Phage Display Materials, but only to the extent derived by such CAT Collaborator exclusively from Licensed Antibody Phage Display Materials created by or under the exclusive control of CAT and properly transferred by CAT to such CAT Collaborator in accordance with the applicable provisions of this Agreement and, with respect to such transfers after the Effective Date, such CAT Collaborator acknowledges that the transfer restrictions and other provisions hereof apply thereto. "Licensed Antibody Phage Display Materials" shall not include any such article of manufacture or composition of matter infringing or arising out of the infringement of any Valid Claim of any patent or patent application under the control of CAT and which is excluded from the scope of any license grant made to XOMA Technology Ltd. pursuant to the Library License solely by virtue of Clause 1.1.10.3, 1.1.13(ii) or 7.9 thereof, which are set forth on Schedule 1.15.

1.16 "Licensed Immunoglobulin" means any Immunoglobulin discovered, isolated or characterized by CAT or a CAT Collaborator through the use of Licensed Antibody Phage Display Materials. "Licensed Immunoglobulin" shall not include any such Immunoglobulin infringing or arising out of the infringement of any Valid Claim of any patent or patent application under the control of CAT and which is excluded from the scope of any license grant made to XOMA Technology Ltd. pursuant to the Library License solely by virtue of Clause 1.1.10.3, 1.1.13(ii) or 7.9 thereof, which are set forth on Schedule 1.15.

1.17 "Licensed Immunoglobulin Information" means any data, know-how or other information relating, concerning or pertaining to a Licensed Immunoglobulin, including, without limitation, data, know-how or other information characterizing or constituting such Licensed Immunoglobulin's polynucleotide or amino acid sequence, purported function or utility, antigen binding affinity, or physical or biochemical property. "Licensed Immunoglobulin Information" shall not include any such data, know-how or other information infringing or arising out of the infringement of any Valid Claim of any patent or patent application under the control of CAT and which is excluded from the scope of any license grant made to XOMA Technology Ltd. pursuant to the Library License solely by virtue of Clause 1.1.10.3, 1.1.13(ii) or 7.9 thereof, which are set forth on Schedule 1.15.

1.18 "Major Market" means the United States of America, the United Kingdom, Germany, France, Italy, Spain or Japan.

1.19 "Marketing Authorization" means any approval (including all applicable pricing and governmental reimbursement approvals) required from the relevant regulatory or other competent authority to market or sell a Product in any country.

1.20 "Microarray" means an Antibody based assay containing two (2) or more CAT Library Antibodies of different analyte specificities for the purpose of detecting and/or measuring two (2) or more different analyte molecules in the same assay.

1.21 "MRC" means the Medical Research Council.

1.22 "Net Sales" means the gross invoice price of Product sold, whether directly or through a Third Party, by CAT or any joint venture in which CAT is a participant, to the first independent Third Party after deducting, if not previously deducted, from the amount invoiced or received: (a) trade and quantity discounts; (b) returns, rebates and allowances; (c) chargebacks and other amounts paid on sale or dispensing of Product; (d) retroactive price reductions that are actually allowed or granted; (e) sales commissions paid to distributors and/or selling agents; (f) transportation and insurance charges; and (g) taxes, tariffs, customs and surcharges and other governmental charges incurred in connection with the sale, export or import of Product, all determined in accordance with U.S. generally accepted accounting principles. The deductions set out in (a) to (g) above shall not exceed ten percent (10%) of the gross amount invoiced by or on behalf of CAT, or any joint venture or similar entity or arrangement in which CAT is a participant, to Third Parties. Net Sales shall not include the gross invoice price of Products sold by a CAT Collaborator other than when sold directly or indirectly for CAT. Without limiting the prior sentence, Net Sales shall include the gross invoice price of any Product as to which at any time CAT had or retains decision-making authority over the initiation of clinical trials and/or commercialization of such Product.

1.23 "Phase III Clinical Trial" means a pivotal human clinical trial in any country the results of which could be used to establish safety and efficacy of a Product as a basis for a Marketing Authorization application that would satisfy the requirements of U.S. 21 CFR 312.21(c) or its non-U.S. equivalent.

1.24 "Product" means any composition of matter or article of manufacture, including without limitation any diagnostic, prophylactic or therapeutic or product, which (a) contains a Licensed Immunoglobulin; or (b) was discovered or created by or arose directly out of use of Licensed Antibody Phage Display Materials or the conduct of Antibody Phage Display by CAT or a CAT Collaborator; or (c) is sold by or on behalf of CAT or a CAT Collaborator under conditions which, if unlicensed, would constitute infringement of one or more Valid Claims within the XOMA Patent Rights. For the avoidance of doubt, any composition of matter or article of manufacture arising out of CAT's practice of cell-free ribosome display or yeast display is not included in the definition of Product but only to the extent such practice or the development or manufacture of such composition of matter or article of manufacture does

not include the use of any Licensed Antibody Phage Display Materials or the infringement of any Valid Claim of any XOMA Patent Rights.

1.25 "Research and Development" means the identification, selection, isolation, purification, characterization, study and/or testing of an Immunoglobulin for any purpose, including, without limitation, the discovery and development of human therapeutics or diagnostics. Included within the definition of "Research and Development" shall be all in vitro or in vivo screening or assays customarily performed in pre-clinical and clinical research and uses associated with obtaining FDA or equivalent agency regulatory approval. "Research and Development" shall not include commercial or industrial manufacture or any activities solely directed to the creation of such capacities.

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

1.27 "Target" means (i) DNA and all post-transcriptional material encoded by such DNA, including all naturally occurring or disease-associated truncations, mutations, variants, fragments and post-transcriptional modifications thereof (including but not limited to splice variants) and all material encoded by such post-transcriptional material including but not limited to proteins; (ii) the DNA encoding a polypeptide or protein, as identified by a sequence of amino acids, and all post-translational variants thereof including but not limited to glycosylation and phosphorylation modifications. For the avoidance of doubt for the purposes of this Agreement, an Antibody is not a Target.

1.28 "Third Party" means any person or entity other than CAT or XOMA.

1.29 "Valid Claim" means a claim of an issued and unexpired patent included

within the XOMA Patent Rights or, in the case of Sections 1.15, 1.16 and 1.17, under the control of CAT, in each case that has not been held invalid in a final decision of a court of competent jurisdiction from which no appeal has been or may be taken, and which has not been disclaimed or admitted to be invalid or unenforceable through reissue or otherwise.

1.30 "XOMA Patent Right(s)" means the patent applications and patents listed on Schedule 1.30 hereto and all divisions, continuations, continuations-in-part, applications claiming priority thereto, and substitutions thereof; all foreign patent applications corresponding to the preceding applications; and all U.S. and foreign patents issuing on any of the preceding applications, including extensions, reissues and re-examinations; and any other patent rights owned by XOMA which XOMA has the right to license or sublicense and which would be infringed by the activities of CAT contemplated hereunder but for this Agreement. XOMA Patent Rights shall also include (i) any improvements of the foregoing that are owned or controlled by XOMA and (ii) any patents or patent applications owned or controlled by XOMA containing a claim that is dominating over the foregoing patent rights (i.e., is necessarily in-

fringed by the practicing of a claim in one of the foregoing applications). For the avoidance of doubt and consistent with the interpretation of the foregoing definition that such patents are not included therein, the following patents are excluded from the definition of XOMA Patent Rights: US Patent No. 5,576,195, US Patent No. 5,846,818, and US Patent No. 6,120,787.

ARTICLE 2

XOMA LICENSE TO CAT

2.1 Grants. Subject to the other terms and conditions of this Agreement, XOMA hereby grants to CAT a worldwide, non-exclusive, non-transferable license (unless transferred under Section 8.2), solely on its own behalf and on behalf of any CAT Collaborator, without any right to sublicense, under the XOMA Patent Rights to:

(a) Make or have made Licensed Antibody Phage Display Materials;

(b) Solely for Research and Development purposes, conduct Antibody Phage Display;

(c) Make or have made Research Quantities of a Licensed Immunoglobulin;

(d) Transfer Antibody Phage Display Materials, Research Quantities of a Licensed Immunoglobulin or Licensed Immunoglobulin Information to a CAT Collaborator; and

(e) Use, sell, offer to sell, import and export Licensed Immunoglobulins.

2.2 Covenant Not To Sue. XOMA covenants that it shall not initiate any action asserting a claim of infringement under the XOMA Patent Rights against CAT or any CAT Collaborator solely to the extent reasonably necessary to permit the authorized use of Licensed Antibody Phage Display Materials, Licensed Immunoglobulins or Licensed Immunoglobulin Information for activities or in a manner otherwise permitted under the provisions of this Agreement. The covenant not to sue provided by this Section 2.2:

(a) shall not extend to infringement of the XOMA Patent Rights arising out of making or the means or methods used to make any amount of a Licensed Immunoglobulin or Product other than Research Quantities;

(b) shall become void and without effect with respect to any entity or person who claims its benefit and fails to materially discharge or comply with any term of its written agreement with CAT provided for in Section 2.4, but only with repect to such entity or person;

(c) is personal to CAT or, as applicable, a CAT Collaborator, and, except as provided for by Section 8.2, cannot be assigned or transferred; and

(d) subject to and without prejudice to the release set forth in Section 2.8, does not constitute a release or waiver of past, present or future infringement of the XOMA Patent Rights by CAT or any Third Party, including, without limitation, any CAT Collaborator acting outside of the scope of the written agreement with CAT provided for in Section 2.4.

2.3 No Implied Rights. Only the rights and licenses granted pursuant to the

express terms of this Agreement shall be of any legal force or effect. No license or other rights shall be deemed to have been granted to CAT or a CAT Collaborator other than as expressly provided for in this Agreement. For the avoidance of doubt, the grants of rights made pursuant to Sections 2.1 and 2.2 do not include, and expressly exclude, the following:

(a) any right or license to engage in any activities on behalf of or in collaboration with any Third Party, other than a CAT Collaborator;

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

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

2.4 Transfer Restrictions. (a) Except for any person or entity constituting a CAT Collaborator as of the Effective Date, CAT shall not (i) undertake any Antibody Phage Display activities on behalf of a Third Party or (ii) Dispose of Licensed Antibody Phage Display Materials, a Licensed Immunoglobulin, Licensed Immunoglobulin Information or the product of the practice of any method within the scope of the Valid Claims of the XOMA Patents ("Transferred Materials") to any Third Party until (in the case of either clause (i) or clause (ii)) such time as CAT has provided to such Third Party the redacted copy of this Agreement referred to in Section 4.2 and the form of notice set out at Schedule 2.4. For the avoidance of doubt, any person or entity constituting a CAT Collaborator on the Effective Date may continue to claim the status of CAT Collaborator with respect to articles of manufacture or compositions of matter Disposed of by CAT after the Effective Date only to the extent CAT and such person or entity comply with the requirements of this Section 2.4 with respect thereto.

(b) If CAT enters into a written arrangement after the Effective Date with any Third Party or any entity identified in column (a) of Schedule 1.4 arising out of or relating to activities as to which it or such Third Party does or intends to claim the benefits of any of the licenses or other grants provided for by this Agreement, such written arrangement shall contain provisions (i) pursuant to which the recipient of any Transferred Materials agrees to abide by each of the limitations, restrictions and other obligations applicable to CAT Collaborators provided for by this Agreement as described in Schedule 4.2, including, without limitation, the restrictions on use of Transferred Materials for purposes other than Research and Development; (ii) providing that any amounts paid to CAT shall not constitute payments to XOMA; and (iii) permitting a CAT Collaborator to further Dispose of Licensed Antibody Phage Display Materials or any materials the use of which results in the practice of any method within the scope of any Valid Claim of the XOMA Patent Rights, but only to a Third Party who otherwise meets the definition of a CAT Collaborator as described in Schedule 4.2. Without limiting the foregoing, such CAT Collaborator may transfer to a Third Party a Licensed Immunoglobulin or Licensed Immunoglobulin Information derived from Licensed Antibody Phage Display Materials under this Agreement. XOMA shall be, and the agreements subject to this Section 2.4 shall provide that XOMA shall be, an intended third party beneficiary with respect to the foregoing provisions. If no Disposition of Transferred Materials is contemplated by such arrangement, then the provisions of this Section 2.4(b) shall not apply. If, however, there is a subsequent Disposition of Transferred Materials to such Third Party, then such Disposition must occur under a written agreement which contains the provisions required by this Section 2.4(b) or the Third party shall not have the benefit of any of the licenses or other rights granted in this Agreement.

(c) The provisions of Sections 2.4(a) and (b) shall not apply to any persons or entities engaged solely in academic, non-commercial activity or who are merely evaluating CAT's technology and who subsequently do not enter into any written arrangement. Such persons or entities shall not have the benefit of any of the licenses or other rights granted in this Agreement unless and until the requirements of Sections 2.4(a) and (b) have been complied with.

2.5 Reports, Records and Audits. (a) Thirty (30) days after the end of each calendar quarter, commencing with the first calendar quarter commencing after the Effective Date, CAT shall deliver to XOMA a written report which shall specify the name, address and contact person for each and every CAT Collaborator and any person or entity receiving Licensed Antibody Phage Display Materials or a Licensed Immunoglobulin (other than persons or entities engaged solely in academic, non-commercial activity or who are merely evaluating CAT's technology and who subsequently do not enter into any written arrangement).

(b) Not later than thirty (30) days after the end of each calendar year, commencing with the first calendar year to commence after the Effective Date, as

and to the extent publicly disclosed by CAT (whether in press releases, government filings or otherwise), CAT shall de-

liver to XOMA written materials pertaining to the current status of activities or compositions of matter as to which CAT claims the right of license hereunder.

(c) CAT shall maintain records fully and properly reflecting those activities covered by this Agreement (including, without limitation, work done with the Licensed Antibody Phage Display Materials) and/or to be reported to XOMA pursuant to this Section 2.5 (the "Records"), in reasonable detail and in good scientific manner for at least three (3) years. Upon the written request of XOMA and not more than once in each calendar year, CAT shall permit an independent consultant appointed by XOMA and reasonably acceptable to CAT and which executes a confidentiality agreement reasonably acceptable to CAT, at XOMA's expense, to have access during normal business hours to such of the records of CAT as may be reasonably necessary to verify fulfillment of the terms of this Agreement, as well as the accuracy of the reports hereunder. CAT shall verify in writing any statements by CAT personnel as to their accuracy and correctness. The consultant shall not be permitted to see or receive any specific information concerning targets or antibodies of either CAT or any of its collaborators and shall disclose to XOMA only the results and conclusions of its review and the specific details concerning any discrepancies. No other information shall be shared by the consultant without the prior express written consent of CAT unless disclosure is required by law, regulation or judicial order.

2.6 Ownership; Enforcement. At all times XOMA will retain ownership of the XOMA Patent Rights and may use and commercialize such XOMA Patent Rights itself or with any Third Party. XOMA retains the right, at its sole discretion, to enforce, maintain and otherwise protect the XOMA Patent Rights. CAT will reasonably cooperate with XOMA, at XOMA's expense, with respect to any actions XOMA may choose to take related to the enforcement, maintenance or protection of the XOMA Patent Rights; provided that nothing in the last sentence of this Section 2.6 shall require CAT to breach any contractual obligations to any Third Party.

2.7 Oppositions and/or Appeals to Oppositions. So long as XOMA is in material compliance with its obligations under this Agreement, and subject to any specific contractual obligations of CAT existing on the Effective Date in circumstances constituting, in the reasonable, written opinion of counsel to CAT, a breach thereof, CAT agrees not to enter into any opposition to and/or appeal from any decision by the patent authorities of any country regarding the XOMA Patent Rights and shall not knowingly assist or otherwise cooperate with another party in any such opposition or appeal.

2.8 Release. For consideration set forth herein (including payment in full of the amounts set forth in Section 3.1), the sufficiency of which (once so paid) is hereby acknowledged, XOMA permanently and forever and without further payment or condition releases CAT and its current, former and future parents, subsidiaries, related entities, and their fiduci-

aries, predecessors, successors, officers, directors, shareholders, agents, employees and permitted assigns and those Third Parties identified upon Schedule 1.4 from any and all claims, causes of action, liabilities, demands, rights of action and/or damages (actual, direct, consequential or otherwise) of any nature and of every kind, known or unknown, suspected or unsuspected, disclosed and undisclosed, as of the Effective Date arising out of and/or based upon or relating in any way to any infringement or alleged infringement of the XOMA Patent Rights (the "Release"); provided, however, that the Release provided for in this Section 2.8 shall extend only to claims, causes of action, liabilities, demands, rights of action and/or damages existing as of the Effective Date and which arose solely out of those activities specified in Schedule 1.4. XOMA acknowledges that it may discover facts different from or in addition to those which it now knows or believes to be true and that the Release shall be and remain effective in all respects notwithstanding such different or additional facts or the discovery thereof. XOMA expressly waives the benefits of any statutory provision or common law rule that provides, in sum or substance, that a release does not extend to claims which the party does not know or suspect to exist in its favor at the time of executing the release, which if known by it, would have materially affected its agreement to release the other party. In particular, but without limitation, XOMA expressly waives the provisions of California Civil Code section 1542, which statute reads:

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

Nothing in this Section 2.8 shall be deemed to be a release of any claim, demand or right of action XOMA may now or in the future have against [*] as of the Effective Date or any of their collaborators. The Release shall become irrevocable only upon receipt by XOMA of payment in full by CAT of the amounts set forth in Section 3.1 and shall be revoked in its entirety and null and void ab initio, immediately and without further action of the parties, in the event any such payment by CAT is not received in full by XOMA on or prior to the date on which such amount is due, regardless of any payment received thereafter.

2.9 CAT Covenant Not To Sue. CAT covenants that it shall not initiate or permit any Third Party over whom it has control to initiate or knowingly assist in any way in the initiation or prosecution of any action asserting any claims, including claims of infringement, under any patents or patent applications under CAT's control or with respect to which it has the right to sue against XOMA or any Third Party working with XOMA solely to the extent such claims arise out of XOMA's activities constituting practice or infringement of any Valid Claim of the XOMA Patent Rights; provided, however, that the covenant contained in this Section 2.9 shall not extend to any claim of a patent or patent application that specifically claims a particular Immunoglobulin or a particular Target.

ARTICLE 3

PAYMENTS

3.1 Fees. In consideration for XOMA's execution of this Agreement, including without limitation the license and other rights granted in Sections 2.1 and 2.2 and the release provided by Section 2.8, CAT shall enter into the Library License and pay XOMA a non-refundable fee of Four Million Three Hundred Fifty Thousand United States Dollars (US$4,350,000), payable in installments as follows:

(a) the first such installment, in the amount of Two Million United States Dollars (US$2,000,000), shall be due on or before December 30, 2002 and payable in cash; and

(b) the second such installment, in the amount of Two Million Three Hundred Fifty Thousand United States Dollars (US$2,350,000), shall be due on or before February 15, 2003 and payable in cash.

3.2 Royalties. (a) During the term of this Agreement, CAT shall pay to XOMA (i) a royalty in cash equal to [*] percent ([*]%) of Net Sales of Products other than Diagnostic Products in each calendar quarter and (ii) a royalty in cash equal to[*] percent ([*]%) of Net Sales of Diagnostic Products in each calendar quarter, in each case commencing with the first calendar quarter ending after the Effective Date. Notwithstanding the foregoing, CAT shall have the option of reducing the royalty rate with respect to any particular Product (but only such Product) to [*]% by making a one-time cash payment in the amount of (A) [*] Dollars (US$[*]) to XOMA, provided such payment is made within thirty (30) days of the granting of Marketing Authorization for such Product in the first Major Market in which such a Marketing Authorization is granted, or (B) [*] Dollars (US$[*]) to XOMA, provided such payment is made within thirty (30) days of administration of such Product to the first human subject in the first Phase III Clinical Trial of such Product. Timely payment of the applicable amount set forth in the immediately preceding sentence (i) shall mean the license hereunder shall be fully paid up with respect to the Product as to which such payment was made and (ii) shall serve to reduce the royalty obligation as provided above with respect to all variations in dosage or formulation, any additional indications and any changes in manufacturing with respect to such Product. Any royalty otherwise due hereunder on Net Sales of the CAT-152 (lerdelimumab) human anti-TGF(beta)2 monoclonal antibody, as more fully described in the Investigational New Drug Application submitted to the U.S. Food & Drug Administration in November 2002, is hereby reduced to [*]%.

(b) Royalties due under this Article 3 shall be payable on a country-by-country and Product-by-Product basis from the first commercial sale of such Product until the expiration of the last-to-expire XOMA Patent Right in such country during the time and with respect to

which a Valid Claim covers the manufacture, use, sale, offer for sale, import or export of such Product in such country. CAT shall be obligated to make only one royalty payment for each such Product regardless of how many Valid Claims within the XOMA Patent Rights may cover said Product.

(c) In order to assist in the understanding of the provisions of Section 1.22 and Section 3.2, the following non-limiting examples are provided. Each example assumes that the transactions described therein are bona fide, arms'

length transactions pursuant to legal, valid and binding agreements.

Example 1A: Facts: CAT uses Antibody Phage Display to identify a Licensed Immunoglobulin which it subsequently sells directly or through an agent. Result: CAT owes a royalty to XOMA.

Example 1B: Facts: CAT uses Antibody Phage Display to identify a Licensed Immunoglobulin which it subsequently licenses to a Third Party for such Third Party to sell directly or through an agent or sublicensee. Result: CAT owes a royalty to XOMA.

Example 2: Facts: A CAT Collaborator uses Licensed Antibody Phage Display Materials to identify a Licensed Immunoglobulin which, by or on its own behalf, it subsequently sells directly or through an agent or licensee. Result: CAT and the CAT Collaborator do not owe a royalty to XOMA. This is true regardless of whether CAT is paid a royalty or other consideration contingent on the sales.

Example 3: Facts: A CAT Collaborator provides CAT with a pre-existing Immunoglobulin or Target, and CAT uses Licensed Antibody Phage Display Materials to find an optimized Licensed Immunoglobulin and retains no ownership interest in the Licensed Immunoglobulin. Result: CAT and the CAT Collaborator owe no royalty to XOMA. This is true regardless of whether CAT is paid a royalty or other consideration contingent on amount of sales.

Example 4A: Facts: A CAT Collaborator or CAT uses Licensed Antibody Phage Display Materials to identify a Licensed Immunoglobulin which, in a fifty/fifty joint venture that includes CAT, is sold directly or through an agent or licensee. Result: CAT owes a royalty to XOMA.

Example 4B: Facts: A CAT Collaborator provides Targets to CAT who uses Licensed Antibody Phage Display Materials to identify a Licensed Immunoglobulin. The CAT Collaborator and CAT agree to jointly develop the Licensed Immunoglobulin. CAT retains ownership of the Licensed Immunoglobulin, which is subsequently sold directly or through an agent or licensee. Result: CAT owes a royalty to XOMA.

3.3 Payments; Currency. All cash payments due hereunder shall be paid by wire transfer in United States Dollars in immediately available funds to an account designated by XOMA. Payments required pursuant to Section 3.2 hereof shall be due and payable to XOMA when the corresponding Net Sales are received by CAT (or any joint venture or similar entity in which CAT is a participant) and shall be paid within sixty (60) days of the end of each calendar quarter. If any currency conversion shall be required in connection with the payment of any royalties hereunder, such conversion shall be made by using the exchange rate for the purchase of United States Dollars quoted in the U.S. version of the Wall Street Journal on the last business day of the calendar quarter to which such payments relate.

3.4 Payment Reports. After the first commercial sale of a Product on which royalties are required to be paid hereunder, CAT shall make quarterly written reports to XOMA within sixty (60) days after the end of each calendar quarter, stating in each such report, by country, the number, description, and aggregate Net Sales of each Product sold during the calendar quarter. XOMA shall treat all such reports as Confidential Information of CAT. Concurrently with the making of such reports, CAT shall pay XOMA the amounts specified in Section 3.2 hereof.

3.5 Payment Records and Inspection. CAT shall keep complete, true and accurate books of account and records for the purpose of determining the amounts payable under this Agreement. Such books and records shall be kept at the principal place of business of CAT for at least seven (7) years following the end of the calendar quarter to which they pertain. Upon the written request of XOMA and not more than once in each calendar year, CAT shall permit an independent consultant appointed by XOMA and reasonably acceptable to CAT to have access during normal business hours to such of the records of CAT as may be reasonably necessary to verify the accuracy of the royalty reports hereunder for any year ending not more than twenty-four (24) months prior to the date of such request. The consultant shall disclose to XOMA only the results and conclusions of its review and the specific details concerning any discrepancies. No other information shall be shared by the consultant without the prior express written consent of CAT unless disclosure is required by law, regulation or judicial order. The consultant may be obliged to execute a reasonable confidentiality agreement prior to commencing any such inspection. Inspections conducted under this Section 3.5 shall be at the expense of XOMA, unless an underpayment exceeding five percent (5%) of the amount stated for the full period covered by the inspection is identified, in which case all out-of-pocket costs relating to the inspection will be paid by CAT. Any underpayments or unpaid amounts discovered by such inspections or otherwise will be paid immediately by CAT, with interest from the date(s) such amount(s) were due at a rate equal to the lesser of the prime rate reported by the Bank of America plus three percent (3%) or the highest interest rate permitted under applicable law.

3.6 No Admissions. The parties acknowledge and affirm that the amounts set forth in this Article 3 do not constitute an admission by either party either as to the alleged damages suffered by XOMA with respect to any alleged past infringement of the XOMA Patent Rights or respecting the calculation of a reasonable royalty by any court or trier of fact. The parties further acknowledge and affirm that CAT has determined to enter into this license solely for business reasons and the avoidance of unnecessary litigation, that CAT does not acknowledge or admit that the XOMA Patent Rights are valid or infringed, and that this license agreement may not be used under any circumstances, whether in litigation or otherwise, as evidence of the validity or infringement of any of the XOMA Patent Rights or any claims thereof.

ARTICLE 4

CONFIDENTIALITY

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

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

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

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

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

4.2 Permitted Use and Disclosures. Each party hereto may use or disclose information disclosed to it by the other party to the extent such use or disclosure is reasonably necessary in complying with applicable law or government regulations or conducting clinical trials; provided, however, that if a party is required to make any such disclosure of another party's Confidential Information, other than pursuant to a confidentiality agreement, it will give reasonable advance notice to the latter party of such disclosure and will use its reasonable efforts to secure confidential treatment of such information prior to its disclosure (whether through protective orders or otherwise). Attached hereto as Schedule 4.2 is a redacted copy of

this Agreement which CAT shall be free, without obtaining any consent from XOMA, to provide to Third Parties who indicate an interest in becoming a CAT Collaborator.

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

4.4 Agreement Announcement. The parties hereby agree to the release of a press release in the form attached hereto as Schedule 4.4 upon full execution of this Agreement and that the consummation of this Agreement, as well as such terms as are expressly described in such press release, shall be deemed to be in the public domain.

ARTICLE 5

REPRESENTATIONS AND WARRANTIES

5.1 Representations and Warranties. (a) XOMA represents and warrants to CAT that: (i) it is the sole and exclusive owner or exclusive licensee of all right, title and interest in the XOMA Patent Rights; (ii) XOMA has the legal right, authority and power to enter into this Agreement; (iii) this Agreement shall

constitute a valid and binding obligation of XOMA enforceable in accordance with its terms; (iv) the performance of obligations under this Agreement by XOMA will not result in a breach of any agreements, contracts or other arrangements to which it is a party; and (v) based on the representation by CAT set forth in Section 5.1(b)(iv), to XOMA's knowledge the patents set forth in the last sentence of Section 1.30 need not be licensed to CAT.

(b) CAT represents and warrants to XOMA that: (i) CAT has the legal right, authority and power to enter into this Agreement; (ii) this Agreement shall constitute a valid and binding obligation of CAT enforceable in accordance with its terms; (iii) the performance of obligations under this Agreement by CAT will not result in a breach of any agreements, contracts or other arrangements to which it is a party; and (iv) CAT does not use and has not used the pelB signal sequence.

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

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

(b) An admission, acceptance, acknowledgment, statement, declaration, or representation by either party as to the infringement, validity or scope of any claim or patent within the patents licensed hereunder or as to which rights are granted hereunder;

(c) A warranty or representation that anything made, used, sold, or otherwise disposed of under any license granted in this Agreement is or will be free from infringement of any patent rights or similar intellectual property right of any Third Party; or

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

5.3 No Other Warranties. EXCEPT AS OTHERWISE SET FORTH IN SECTION 5.1 ABOVE, XOMA MAKES NO WARRANTIES WITH RESPECT TO ANY OF THE PATENT RIGHTS LICENSED HEREUNDER, EXPRESS OR IMPLIED, EITHER IN FACT OR BY OPERATION OF LAW, BY STATUTE OR OTHERWISE, AND XOMA SPECIFICALLY DISCLAIMS ANY EXPRESS OR IMPLIED WARRANTY OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, VALIDITY OF SUCH PATENT RIGHTS OR NON-INFRINGEMENT OF THE INTELLECTUAL PROPERTY RIGHTS OF ANY THIRD PARTY.

5.4 Certain Agreements. CAT represents and warrants that it has in its possession, and agrees that throughout the term of this Agreement and for five (5) years thereafter it will maintain in an accessible location, true, complete and legible copies of each of the agreements set forth on Schedule 1.4 as in effect on the Effective Date, including all schedules, exhibits and other similar documents necessary for the correct interpretation of the provisions thereof.

ARTICLE 6

INDEMNIFICATION

6.1 Indemnification. CAT agrees to indemnify, defend and hold XOMA and its directors, officers, employees and agents (the "Indemnified Parties" and each, an "Indemnified Party") harmless from and against any and all liabilities, losses and expenses (including, without limitation, reasonable attorneys and professional fees and other costs of litigation), resulting from any claims, demands or causes of action by any party other than CAT (each, a "Liability") arising out of (i) the possession, manufacture, use, sale or other disposition of Product, Licensed Antibody Phage Display Materials, Licensed Immunoglobulin or the provisions of any service or goods relating thereto by CAT or any customer, vendor or other representative of CAT, whether based on breach of warranty, negligence, product liability or otherwise, or (ii) the exercise of any right granted to CAT pursuant to this Agreement, except to the ex-

tent, in each case, that such Liability is caused by the negligence or willful misconduct of XOMA.

6.2 Procedure. To receive the benefit of indemnification under Section 6.1, an Indemnified Party must (a) promptly notify CAT in writing of a claim or suit; provided that failure to give such notice shall not relieve CAT of its indemnification obligations except where, and solely to the extent that, such failure actually and materially prejudices the rights of CAT; (b) provide reasonable cooperation (at CAT's expense); and (c) tender to CAT (and its insurer) full authority to defend or settle the claim or suit; provided that no settlement requiring any admission by the Indemnified Party or that imposes any

obligation on the Indemnified Party shall be made without the Indemnified Party's consent, which consent shall not be unreasonably withheld; and provided, further, that nothing herein shall be deemed to give CAT any right to control any proceeding involving the XOMA Patent Rights or any claim XOMA may bring against any Third Party. CAT shall not have any obligation to indemnify the other party in connection with any settlement made without CAT's written consent. The Indemnified Party has the right to participate at its own expense, such expense not to be deemed a Liability, in the claim or suit and in selecting counsel therefor. The Indemnified Party shall cooperate with CAT (and its insurer), as reasonably requested.

ARTICLE 7

TERM AND TERMINATION

7.1 Term. Subject to Sections 7.4 and 7.5 hereof, the term of this Agreement will commence on the Effective Date and remain in full force and effect until the expiration of the last patent within the XOMA Patent Rights unless earlier terminated pursuant to Sections 7.2, 7.3 or 7.6.

7.2 Termination Event. This Agreement may be terminated by either CAT or XOMA upon any material breach or default by XOMA or CAT, as the case may be, in the performance of any obligation or condition of this Agreement or if any representation or warranty made by XOMA or CAT, as the case may be, in this Agreement is untrue or materially misleading, in any case effective fifteen (15) days after giving notice to the breaching party of such termination in the case of a payment breach and sixty (60) days after giving written notice to the breaching party of such termination in the case of any other breach, which notice shall describe such breach in reasonable detail. The foregoing notwithstanding, (a) if such breach is cured or shown to be non-existent within the aforesaid fifteen (15) or sixty (60) day period, the notice shall be deemed automatically withdrawn and of no effect and the notifying party shall provide written notice to the breaching party of the withdrawal; (b) no such termination shall be effective so long as the parties are engaged in arbitration under Section 8.13 in connection with such breach or default; and (c) with respect to any person or entity constitut-

ing a CAT Collaborator as of the date of such a termination by XOMA, any such termination shall be effective against such CAT Collaborator unless, within forty-five (45) days after written notice from XOMA of such termination, such CAT Collaborator executes a written agreement with XOMA directly obligating such CAT Collaborator to comply with all of the provisions of this Agreement applicable to CAT Collaborators and to fulfill the obligations of CAT (including without limitation any royalty obligations) with respect to any and all Licensed Antibody Phage Display Materials and Licensed Immunoglobulins Disposed of by CAT to such CAT Collaborator as of the date of such termination. Upon any termination by XOMA under this Section 7.2, CAT shall promptly (and in any event not later than forty-five (45) days thereafter) deliver to XOMA a written report specifying as of the date of such termination the information required by Section 2.5(a).

7.3 Termination for Insolvency. If voluntary or involuntary proceedings by or against CAT are instituted in bankruptcy under any insolvency law, or a receiver or custodian is appointed for CAT, or an Insolvency Event occurs in relation to CAT, or substantially all of the assets of CAT are seized or attached and not released within sixty (60) days thereafter, XOMA may immediately terminate this Agreement effective upon notice of such termination.

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

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

(c) Except as expressly provided in Section 7.2, all licenses granted under Article 2 hereof shall terminate and be of no further effect upon the termination of this Agreement. No termination of this Agreement shall in and of itself effect the validity of any provision hereof during any period prior thereto or the applicability of any provision hereof to any activities conducted

prior thereto.

7.5 Survival. Sections 2.5, 2.6, 2.8, 2.9, 3.2 (only as to any Products identified prior to the date of termination, as to which the license provided in Section 2.1 shall also survive), 3.3, 3.4, 3.5, 3.6, 7.2, 7.4, 7.5 and 7.6, and Articles 4, 5, 6 and 8 of this Agreement,

shall survive any termination hereof; provided, however, that Section 2.9 shall not survive any termination of this Agreement by CAT pursuant to Section 7.2. Section 2.1 shall survive termination but only as provided in the parenthetical clause of the immediately preceding sentence and as to any Product for which the license hereunder is fully paid up prior to the date of termination in accordance with the third sentence of Section 3.2(a).

7.6 Contested Validity. Except to the extent CAT is compelled to do so by legal process and subject to any specific contractual obligations of CAT existing on the Effective Date in circumstances constituting, in the reasonable, written opinion of counsel to CAT, a breach thereof, if CAT, a CAT Collaborator or any person or entity controlled by any of the foregoing contests, directs another to contest or knowingly assists another in contesting the validity or enforceability of any of the XOMA Patent Rights licensed hereunder, XOMA shall have the right to terminate all of the rights and licenses hereby granted to CAT and any CAT Collaborator under the XOMA Patent Rights; provided, however, that in the event a CAT Collaborator or any person or entity controlled by a CAT Collaborator contests the validity or enforceability of any of the XOMA Patent Rights licensed hereunder other than at the direction, and without the knowing assistance, of CAT, then the foregoing termination right of XOMA shall apply only to the rights hereby granted to such CAT Collaborator; and provided, further, that, in the event of any such termination resulting from activities of CAT, with respect to any person or entity constituting a CAT Collaborator as of the date of such termination, any such termination shall be effective against such CAT Collaborator unless, within forty five (45) days after written notice from XOMA of such termination, such CAT Collaborator executes a written agreement with XOMA directly obligating such CAT Collaborator to comply with all of the provisions of this Agreement applicable to CAT Collaborators and to fulfill the obligations of CAT (including without limitation any royalty obligations) with respect to any and all Licensed Antibody Phage Display Materials and Licensed Immunoglobulins Disposed of by CAT to such CAT Collaborator as of the date of such termination. Upon any termination under this Section 7.6 resulting from activities of CAT, CAT shall promptly (and in any event not later than forty five (45) days thereafter) deliver to XOMA a written report specifying as of the date of such termination the information required by Section 2.5(a).

ARTICLE 8

MISCELLANEOUS PROVISIONS

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

8.2 Assignment. (a) Neither party may transfer or assign this Agreement, directly or indirectly, or any of its rights hereunder, other than to one or more of its Affiliates and other than to a successor of XOMA Ltd. under a Change in Control of XOMA Ltd. or to a successor of Cambridge Antibody Technology Group plc under a Change in Control of Cambridge Antibody Technology Group plc to which Section 8.3 does not apply, without the prior written consent of the other party. Any such attempted transfer or assignment in violation of this Section 8.2 shall be void; provided, that in the event of a permitted Change in Control, the original party's (or its successor's) obligations hereunder shall continue. This Agreement shall be binding upon and inure to the benefit of the parties and their permitted successors and assigns.

(b) Notwithstanding the first sentence of Section 8.2(a), in the event CAT disposes of at least a majority interest of a subsidiary, Affiliate or other business unit the primary business of which is the making and/or selling of Microarrays (a "Microarray Spin-out"), the entity resulting from such Microarray Spin-out shall not have the benefit of this Agreement unless, within thirty (30) days after consummation of that Microarray Spin-out, such entity executes and delivers to XOMA for execution a written agreement incorporating all of the terms of this Agreement (including without limitation the license grant in Section 2.1, the covenant not to sue in Section 2.2 and the royalty obligations of Sections 3.2 through 3.5, in the latter case modified to apply to such entity's revenues from (i) its use of Licensed Antibody Phage Display Materials,

(ii) services provided by it arising out of the license grants in such agreement and/or (iii) the sale by it of Products), other than Section 3.1 and this Section 8.2(b).

8.3 Certain Changes in Control. (a) Notwithstanding any other provision of this Agreement to the contrary, except as set forth in Section 8.3(b), this Agreement shall automatically terminate, without further action by the parties, in the event of (i) a transaction or series of related transactions in which [*] is a party and which results in a Change of Control of CAT, or (ii) a transaction or series of related transactions in which CAT is a party and which results in a Change in Control of a person or entity described in clause (i) above; provided, that this Section 8.3(a) shall not apply if CAT shall make to XOMA a cash payment of [*] Dollars (US$[*]) within five (5) business days following consummation of such transaction or series of related transactions.

(b) In the event that (i) a transaction or series of related transactions described in Section 8.3(a) is consummated in accordance with the proviso thereto and (ii) the party to such transaction or series of transactions other than CAT (the "Acquisition Party") has in place at the time of such transaction or series of transactions a license agreement with XOMA under the XOMA Patent Rights covering substantially the same activities as are covered by this Agreement (a "Separate License"), then (A) for so long as the phage display businesses of CAT, on the one hand, and the Acquisition Party, on the other hand, are operated as separate business units (as reflected in contemporaneous Records and similarly reliable documents of

the Acquisition Party), then the Separate License shall apply to the business of the Acquisition Party and this Agreement shall apply to the business of CAT; and (B) if the phage display businesses of CAT, on the one hand, and the Acquisition Party, on the other hand, are no longer operated as separate business units, then this Agreement shall apply to the combined phage display business of CAT and the Acquisition Party, except that the Separate License shall continue to apply to any composition of matter or article of manufacture identified as a potential product by the separate business unit operating the phage display business of the Acquisition Party while such business was separately operated (as reflected in contemporaneous Records and similarly reliable documents of the Acquisition Party). Nothing herein shall affect any license or grant of rights by any Acquisition Party to XOMA or, except as expressly provided above with respect to obligations directly related to the activities covered by this Agreement, any obligations of any Acquisition Party to XOMA.

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

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

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

CAT: Cambridge Antibody Technology Limited
Milstein Building
Granta Park
Cambridge, CB1 6GH
England
Attn: Company Secretary

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

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

XOMA (US) LLC
2910 Seventh Street
Berkeley, CA 94710
U.S.A.
Attn: Company Secretary

8.7 Independent Contractors. Both parties are independent contractors under this Agreement. Nothing contained in this Agreement is intended nor is to be construed so as to constitute XOMA or CAT as partners or joint venturers with respect to this Agreement. Except as expressly provided herein, neither party shall have any express or implied right or authority to assume or create any obligations on behalf of or in the name of the other party or to bind the other party to any other contract, agreement, or undertaking with any third party.

8.8 Compliance with Laws. In exercising their rights under this license, the parties shall comply in all material respects with the requirements of any and all applicable laws, regulations, rules and orders of any governmental body having jurisdiction over the exercise of rights under this Agreement. CAT shall be responsible, at its expense, for making any required registrations or filings with respect to this Agreement and obtaining any necessary governmental approvals with respect hereto.

8.9 Bankruptcy. All rights and licenses granted under or pursuant to this Agreement by one party to the other are, for all purposes of Section 365(n) of Title XI of the United States Code ("Title XI"), licenses of rights to "intellectual property" as defined in Title XI. During the term of this Agreement each party shall create and maintain current copies to the extent practicable of all such intellectual property. If a bankruptcy proceeding is commenced by or against one party under Title XI, the other party shall be entitled to a copy of any and all such intellectual property and all embodiments of such intellectual property, and the same, if not in the possession of such other party, shall be promptly delivered to it (a) upon such party's written request following the commencement of such bankruptcy proceeding, unless the party subject to such bankruptcy proceeding, or its trustee or receiver, elects within thirty (30) days to continue to perform all of its obligations under this Agreement, or (b) if not delivered as provided under clause (a) above, upon such other party's request following the rejection of this Agreement by or on behalf of the party subject to such bankruptcy proceeding. If a party has taken possession of all applicable embodiments of the intellectual property of the other party pursuant to this Section 8.9 and the trustee in bankruptcy of the other party does not reject this Agreement, the party in possession of such intellectual property shall return such embodiments upon request. If a party seeks or involuntarily is placed under Title XI and the trustee rejects this Agreement as contemplated under 11 U.S.C. 365(n)(1), the other

party hereby elects, pursuant to Section 365(n) of Title XI, to retain all rights granted to it under this Agreement to the extent permitted by law.

8.10 Use of Name. Neither party shall use the name or trademarks of the other party, except to the extent that a party is permitted to use the Confidential Information of the other party pursuant to Article 4, without the prior written consent of such other party.

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

8.12 Entire Agreement; Amendment. This Agreement constitutes the entire and exclusive Agreement between the parties with respect to the subject matter hereof and supersedes and cancels all previous discussions, agreements, commitments and writings in respect thereof. No amendment or addition to this Agreement shall be effective unless reduced to writing and executed by the authorized representatives of the parties.

8.13 Arbitration. (a) Solely with respect to any dispute between the parties to this Agreement (other than any dispute which arises out of or relates to alleged infringement, validity and/or enforceability of the XOMA Patent Rights) upon ten (10) days written notice, any party involved in the dispute may initiate arbitration by giving notice to that effect to the other party or parties involved in the dispute and by filing the notice with the American Arbitration Association or its successor organization ("AAA") in accordance with its Commercial Arbitration Rules. Such dispute shall then be settled by arbitration in New York, New York, in accordance with the Commercial Arbitration Rules of the AAA or other rules agreed to by the parties involved in the dispute, by a panel of three neutral arbitrators, who shall be selected by the parties involved in the dispute using the procedures for arbitrator selection of the AAA.

(b) The parties acknowledge that this Agreement evidences a transaction involving interstate commerce. Insofar as it applies, the United States Arbitration Act shall govern the interpretation of, enforcement of, and proceedings pursuant to the arbitration clause in this Agreement. Except insofar as the United States Arbitration Act applies to such matters, the agreement to arbitrate set forth in this Section 8.13 shall be construed, and the legal relations among the parties shall be determined in accordance with, the substantive laws of the State of New York.

(c) The panel shall render its decision and award, including a statement of reasons upon which such award is based, within thirty (30) days after the arbitration hearing. The decision of the panel shall be determined by majority vote among the arbitrators, shall be in writing and shall be binding upon the parties involved in the dispute, final and non-appealable. Judgment upon the award rendered by the panel may be entered in any court having jurisdiction thereof in accordance with Section 8.14(a).

(d) Except as provided under the United States Arbitration Act, no action at law or in equity based upon any dispute that is subject to arbitration under this Section 8.13 shall be instituted.

(e) All expenses of any arbitration pursuant to this Section 8.13, including fees and expenses of the parties' attorneys, fees and expenses of the arbitrators, and fees and expenses of any witness or the cost of any proof produced at the request of the arbitrators, shall be paid by the non-prevailing party.

8.14 Venue; Jurisdiction. (a) Any action or proceeding brought by either party seeking to enforce any provision of, or based on any right arising out of, this Agreement must be brought against any of the parties in the courts of the State of California. Each party (i) hereby irrevocably submits to the jurisdiction of the state courts of the State of California and to the jurisdiction of any United States District Court in the State of California, for the purpose of any suit, action, or other proceeding arising out of or based upon this Agreement or the subject matter hereof brought by any party or its successors or assigns, (ii) hereby waives, and agrees not to assert, by way of motion, as a defense, or otherwise, in any such suit, action, or proceeding, any claim that it is not subject personally to the jurisdiction of the above-named courts, that its property is exempt or immune from attachment or execution, that the suit, action or proceeding is brought in an inconvenient forum, that the venue of the suit, action, or proceeding is improper or that this Agreement or the subject matter hereof may not be enforced in or by such court, and (iii) hereby waives and agrees not to seek any review by any court of any other jurisdiction that may be called upon to grant an enforcement of the judgment of any such California state or federal court.

(b) Process in any action or proceeding seeking to enforce any provision of, or based on any right arising out of, this Agreement may be served on any party anywhere in the world. Each party consents to service of process by registered mail at the address to which notices are to be given and further consent that any service of process, writ, judgment or other notice of legal process shall be deemed and held in every respect to be effectively served upon it in connection with proceedings in the State of California, if delivered to CT Corporation System, whose current address is 1350 Treat Boulevard, Suite 100, Walnut Creek, CA 94596, which each party irrevocably designates and appoints as its authorized agent for the service of process in the courts in the State of California. Nothing herein shall affect the right of a party to serve process in any other manner permitted by applicable law. Without affecting the validity of process served otherwise pursuant to this Section 8.14(b), XOMA shall simultaneously provide CAT with written notice thereof. Each party further agrees that final judgment against it in any such action or proceeding arising out of or relating to this Agreement shall be conclusive and may be enforced in any other jurisdiction within or outside the United States of America by suit on the judgment, a certified or exemplified copy of which shall be conclusive evidence of the fact and of the amount of its liability.

(c) Each party agrees that it shall not, and that it shall instruct those in its control not to, take any action to frustrate or prevent the enforcement of any writ, decree, final judgment, award (arbitral or otherwise) or order entered against it with respect to this Agreement or the XOMA Patent Rights and shall agree to be bound thereby as if issued or executed by a competent judicial tribunal having personal jurisdiction situated in its country of residence or domicile.

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

IN WITNESS WHEREOF, XOMA and CAT have executed this Agreement in duplicate

originals by duly authorized officers.

CAMBRIDGE ANTIBODY TECHNOLOGY LIMITED	XOMA IRELAND LIMITED
By: _____	By: _____
Name:	Alan Kane, Director
Title:	duly authorized for and on behalf of XOMA Ireland

Limited in the presence of:

Schedule 1.4

[*]

Schedule 1.15

Certain Library License Provisions

1.1.10 "CAT Background IP Third Party Improvements" - shall mean any Materials and Know How which constitute improvements of, enhancements to or modifications of the CAT Background IP and:

1.1.10.1 which are conceived, originated or reduced to practice by Third Party licensees of CAT (other than a XOMA Collaborator or XOMA licensee) of the CAT Background IP; and

1.1.10.2 which come into the Control of CAT during the term of [the Library License] pursuant to agreements between CAT and such Third Parties; and

1.1.10.3 for which no consideration was payable by CAT to such Third Parties pursuant to such agreements; and

1.1.10.4 which CAT has the right to license to XOMA hereunder.

1.1.13 "CAT Background Patent Rights" - shall mean the Patent Rights more particularly set out in Schedule 1 relating to the CAT Library and its use together with any Patent Rights which become Controlled by CAT after the Effective Date which relate to the CAT Library or its use. For the avoidance of doubt, CAT Background Patent Rights do not and shall not include (i) the CAT Diabodies Patent Rights, (ii) any Patent Rights acquired by or licensed to CAT after the Effective Date for which the consideration paid by CAT exceeds one hundred thousand US dollars (US$100,000), or equivalent in the case of non-cash consideration and (iii) the practice of the CAT Background Patent Rights within the fields licensed to Third Parties pursuant to the agreements set out in Schedule 7 (the "Additional Excluded Fields") for as long as such Additional Excluded Fields are exclusively licensed to such Third Parties pursuant to those agreements.

7.9 Nothing in this Agreement shall confer any right upon XOMA and XOMA shall not exercise or use the CAT IP in the commercial sale or sublicense of single variable domains (heavy or light) of Antibodies.

To aid in understanding the foregoing, the following additional definitions from the Library License are provided:

1.1.8 "CAT Background IP" - shall mean the CAT Background Materials, CAT Background Know How, CAT Background Patent Rights and the CAT Library.

1.1.11 "CAT Background Know How" - shall mean (a) all of the Know How Controlled by CAT at the Effective Date which relates to the CAT Library and its use and (b) any Know How which relates to any improved version of the CAT Library made available to XOMA by CAT during the term of the Library Licence [as defined in the Library License] as set forth in Clause 4.2 [of the Library License].

1.1.12 "CAT Background Materials" - shall mean (a) the Materials (including without limitation cloning and expression vectors, polynucleotides and phagemid vectors) comprising or relating to the CAT Library at the Effective Date and (b) the Materials (including without limitation cloning and expression vectors, polynucleotides and phagemid vectors) comprising or relating to any improved version of the CAT Library made available to XOMA by CAT during the term of the Library Licence [as defined in the Library License] as set forth in Clause 4.2 [of the Library License].

1.1.18 "CAT IP" - shall mean CAT Background IP, CAT Foreground IP and CAT Foreground Patent Rights.

1.1.28 "Control", "Controls" or "Controlled by" - shall mean either (a) being an Affiliate of either XOMA or CAT, (b) with respect to any item of CAT IP or XOMA IP, the possession of (whether by ownership or licence, other than pursuant to [the Library License]) or the ability of such [p]arty to grant access to or a licence or sublicence thereof without violating the terms of any agreement or other arrangement with any Third Party existing at the time such [p]arty would be required hereunder to grant the other [p]arty such access or licence or sublicence or (c) with respect to any Materials, the CAT Library or an Antibody, physical possession.

1.1.35 "Effective Date" - shall mean the date of execution of [the Library License] by [CAT and XOMA].

1.1.55 "Patent Rights" - shall mean patent applications and patents, author certificates, inventor certificates, utility certificates, improvement patents and models and certificates of addition and all foreign counterparts of them, including any divisional applications and patents, refilings, renewals, continuations, continuations-in-part, patents of addition, extensions, reissues, substitutions, confirmations, registrations, revalidation and additions of or to any of them, as well as any supplementary protection certificates and equivalent protection rights in respect of any of them.

Schedule 1.30

Patent Rights

Title: Modular Assembly of Antibody Genes, Antibodies Prepared Thereby and Use

Inventors: Robinson, Liu, Horwitz, Wall, Better

1) Based on PCT/US86/02269, which is a continuation-in-part of U.S. Serial No. 06/793,980 filed November 1, 1985 (abandoned).

COUNTRY	SERIAL NO.	PATENT NO.
*United States	06/793,980	
Australia	65981/86	Issued 606,320
Canada	521,909	Abandoned
Denmark	3385/87	Pending
Taiwan	75105650	Issued 51922
*United States	U.S. National Phase of PCT/US86/02269	

2) Based on PCT/US88/02514, which corresponds to U.S. Serial No. 07/077,528, which is a continuation-in-part of PCT/US86/02269 (abandoned), which is a continuation-in-part of U.S. Serial No. 06/793,980 (abandoned).

COUNTRY	SERIAL NO.	PATENT NO.
Australia	23244/88	Issued 632,462
Austria	EP 88907510.7	Granted EP/0371998
Belgium	EP 88907510.7	Granted EP/0371998
Canada	572,398	Granted 1,341,235
Denmark	192/90	Pending
Europe	EP 88907510.7	Granted EP/0371998
Europe	EP 95119798.7	Granted EP/0731167
France	EP 88907510.7	Granted EP/0371998
Germany	EP 88907510.7	Granted EP/0371998
Italy	EP 88907510.7	Granted EP/0371998
Japan	506481/88	Granted 2991720

Luxembourg	EP 88907510.7	Granted EP/0371998
Netherlands	EP 88907510.7	Granted EP/0371998
Sweden	EP 88907510.7	Granted EP/0371998
Switzerland/ Liechtenstein	EP 88907510.7	Granted EP/0371998

COUNTRY	SERIAL NO.	PATENT NO.
United Kingdom	EP 88907510.7	Granted EP/0371998
Europe	EP 93100041.8	Granted EP/0550400
Austria	EP 93100041.8	Granted EP/0550400
Belgium	EP 93100041.8	Granted EP/0550400
France	EP 93100041.8	Granted EP/0550400
Germany	EP 93100041.8	Granted EP/0550400
Italy	EP 93100041.8	Granted EP/0550400
Luxembourg	EP 93100041.8	Granted EP/0550400
Netherlands	EP 93100041.8	Granted EP/0550400
Sweden	EP 93100041.8	Granted EP/0550400
Switzerland/ Liechtenstein	EP 93100041.8	Granted EP/0550400
United Kingdom	EP 93100041.8	Granted EP/0550400
*United States	07/077,528	

3) Based on U.S. Serial No. 07/501,092 filed March 29, 1990, which is a continuation-in-part of U.S. Serial No. 07/077,528 (Modular Assembly of Antibody Genes, Antibodies Prepared Thereby and Use; Robinson, Liu, Horwitz, Wall, Better) and of U.S. Serial No. 07/142,039 (Novel Plasmid Vector with Pectate Lyase Signal Sequence; Lei, Wilcox).

COUNTRY	SERIAL NO.	PATENT NO.
*United States	07/501,092	
*United States	07/987,555	
*United States	07/870,404	
*United States	08/020,671	
United States	08/235,225	5,618,920
United States	08/299,085	5,595,898
United States	08/472,691	6,204,023
United States	08/467,140	5,698,435
United States	08/450,731	5,693,493
United States	08/466,203	5,698,417

* Cases abandoned in favor of a continuing application.

Schedule 2.4

Form of Notice

XOMA owns a number of patents said to cover various aspects of bacterial antibody expression and phage display.

XOMA has licensed these patents on a non-exclusive basis to CAT.

Under the license agreement with XOMA:

- CAT cannot provide phage display services or transfer phage display materials, products or information to you without first showing you a redacted copy of its license from XOMA and this notice.

- If you and CAT enter into a written agreement by which you become a "CAT Collaborator," then you will be permitted to use phage display services, phage display materials, products and information from CAT to research, develop and commercialize antibody products.

- Collaborators do not, however, have the right to produce commercial quantities of antibodies under the XOMA license. Rather, collaborators only have the right to make research and development quantities of antibodies under that license. Thus, the collaborator may wish to obtain a commercial production license from XOMA (which may be available), or produce commercial quantities of antibodies using another method.

- If you and CAT enter into a written agreement, that agreement must contain the following provisions:

  - Terms pursuant to which you, as the recipient of any transferred materials, would agree to abide by each of the limitations,

restrictions and other applicable obligations provided for by the license agreement with XOMA, including, without limitation, the restrictions on use of such transferred materials for purposes other than research and development.

- A provision stating that any amounts paid to CAT shall not constitute payments to XOMA.

- An agreement by you to further dispose of phage display materials or materials covered by the XOMA patents only to a third party who otherwise meets the definition of a "CAT Collaborator" set forth in the license agreement with XOMA.

Schedule 4.4

Form of Press Release

Investor and Media Contacts:
- ----------

Laura Zobkiw
Corporate Communications & Investor Relations
(510) 204-7200

Peter Davis
Chief Financial Officer
(510) 204-7200

Cambridge Antibody Technology Contacts:
- ----------
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Tel: 001 212 477 9007
Brad Miles, ext 17 (media)
Brandon Lewis, ext.15 (investors)

Cambridge Antibody Technology (CAT) and XOMA
Cross-License Antibody Technologies

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CAMBRIDGE, UK and BERKELEY, CALIFORNIA, USA --December XX, 2002 --Cambridge Antibody Technology (LSE: CAT; Nasdaq: CATG) and XOMA Ltd. (Nasdaq: XOMA) announce today that they have entered into a cross-licensing arrangement for antibody-related technologies.

Under the agreement CAT, and its collaborators, receive rights to use the XOMA antibody expression technology for developing products using CAT's phage-based antibody technology, in return for license payments to XOMA. XOMA will receive the right to use CAT's phage antibody libraries for its target discovery and research programs, with an option to develop antibodies into therapeutics. Should any therapeutic antibodies derived from CAT's libraries be identified and developed by XOMA, license payments will be made by XOMA to CAT.

Peter Chambre, CAT's Chief Executive Officer, commented, "Clarifying the intellectual property issues in the antibody field remains an important priority for both CAT and XOMA. As CAT progresses with its transition to a product-based biopharmaceutical company, we are pleased to have reached this cross-licensing arrangement with XOMA".

"We are very pleased to enter into this phage-based antibody related licensing arrangement with CAT, a company with excellent capabilities in the important field of antibody drug discovery," said Jack Castello, Chairman, President and Chief Executive Officer of XOMA. "Our license to CAT, which is the fourth such license we've entered into with a significant antibody library company this year, further validates the fundamental position our antibody expression technology holds in the phage display arena."

Cambridge Antibody Technology (CAT):

- CAT is a UK-based biotechnology company and a leader in the discovery and development of human therapeutic antibodies: HumiraTM, the leading CAT-derived antibody, has been submitted for regulatory review by Abbott (responsible for development and marketing) following the

completion of Phase III trials. Six other CAT-derived human therapeutic

antibodies are at various stages of clinical trials.

- CAT has an advanced proprietary platform technology for rapidly isolating human monoclonal antibodies using phage display systems. CAT has extensive phage antibody libraries, currently incorporating more than 100 billion distinct antibodies. These libraries form the basis for the Company's strategy to discover and develop a portfolio of antibody-based drugs.

- CAT has alliances with a large number of pharmaceutical and biotechnology companies to discover, develop and commercialize human monoclonal antibody-based products. CAT has also licensed its proprietary human phage antibody libraries to several companies for target validation and drug discovery. CAT's collaborators include: Abbott, Amgen, Amrad, Chugai, Elan, Genzyme, Human Genome Sciences, Merck & Co, Pharmacia and Wyeth Research.

- Based near Cambridge, England, CAT currently employs around 290 people.

- CAT is listed on the London Stock Exchange and on NASDAQ since June 2001. CAT raised (pound)41m in its IPO in March 1997 and (pound)93m in a secondary offering in March 2000.

About XOMA and its Antibody Expression Technology:

XOMA scientists were the first to demonstrate the secretion of antibody domains directly from bacterial cells as fully functional, properly folded molecules. XOMA has received nine U.S. patents to date relating to aspects of its bacterial cell expression system, including six patents that broadly cover the secretion of functional immunoglobulins from bacteria, including antibody fragments such as Fab and single-chain antibodies. Corresponding foreign patents have also been granted.

Bacterial antibody expression is an enabling technology used to discover and screen, as well as develop and manufacture, recombinant antibodies for commercial purposes. Bacterial antibody expression is also a key technology used in multiple systems for high-throughput screening of antibody domains. Further information on XOMA's bacterial cell expression technology can be found at l_expression.jsp.

XOMA develops and manufacturers innovative biopharmaceuticals for disease targets that include cancer, immunological and inflammatory disorders, and infectious diseases. XOMA's programs include collaborations: with Genentech, Inc. on the Raptiva(TM) antibody for psoriasis (Phase III), rheumatoid arthritis (Phase II) and other indications; with Onyx Pharmaceuticals, Inc. to develop and manufacture its ONYX-015 product for various cancers (Phase II and III); with Baxter Healthcare Corporation to develop NEUPREX(R) (rBPI-21) for Crohn's disease (Phase II) and other indications; and with Millennium Pharmaceuticals, Inc. on two biotherapeutic agents, CAB-2 and MLN-01, for certain vascular inflammation indications (preclinical). Earlier-stage development programs include compounds to treat cancer, retinopathies, autoimmune diseases and infections. For more information about XOMA's pipeline and activities, please visit XOMA's web site at .

As to CAT: Application of the Safe Harbor of the Private Securities Litigation Reform Act of 1995: This press release contains statements about Cambridge Antibody Technology Group plc ("CAT") that are forward looking statements. All statements other than statements of historical facts included in this press release may be forward looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934. These forward looking statements are based on numerous assumptions regarding CAT's present and future business strategies and the environment in which CAT will operate in the future. Certain factors that could cause CAT's actual results, performance or achievements to differ materially from those in the forward looking statements include: market conditions, CAT's ability to enter into and maintain collaborative arrangements, success of product candidates in clinical trials, regulatory developments and competition.

As to XOMA:

Statements made in this news release to collaborative arrangements and development capabilities, or that otherwise relate to future periods, are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements are based on assumptions that may not prove accurate. Actual results could differ materially from those anticipated due to certain risks inherent in the biotechnology industry and for companies engaged in the development of new products in a regulated market. These risks, including those related to changes in the status of existing collaborative relationships, the availability of future collaborative relationships, the ability of collaborators and other partners to meet their obligations, the timing of results of pending or future clinical trials, market demand for products, actions by the Food and Drug

Administration or the US Patent and Trademark Office, and uncertainties regarding the status of biotechnology patents, are discussed in XOMA's most recent annual report on Form 10-K and in other SEC filings. Consider such risks carefully in evaluating XOMA's prospects.

Exhibit 23.1

CONSENT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statements on Form S-3 (Nos. 333-07263, 333-50134, 33-59241, 33-60503, 333-74205, 333-84585, 333-85607, 333-87227, 333-93029, 333-30370 and 333-101035) and the related Prospectuses and in the Registration Statements on Form S-8 (Nos. 333-66171 and 333-39155) pertaining to the Share Option Plan, Restricted Shares Plan, Directors Share Option Plan and Employee Share Purchase Plan of XOMA Ltd. of our report dated February 7, 2003, except for Note 13 as to which the date is February 28, 2003, with respect to the consolidated financial statements of XOMA Ltd. included in this Annual Report (Form 10-K) for the year ended December 31, 2002.

/s/ ERNST & YOUNG LLP

Palo Alto, California
March 13, 2003

EXHIBIT 99.1

Certification Accompanying Periodic Report

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C.ss.1350)

Each of the undersigned officers of XOMA Ltd. (the "Company") hereby certify that (1) the Annual Report on Form 10-K for the year ended December 31, 2002 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

XOMA Ltd.

Dated: March 14, 2003 By: /s/ John L. Castello

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

Dated: March 14, 2003 By: /s/ Peter B. Davis

Peter B. Davis
Vice President, Finance and Chief Financial Officer