

XOMA LTD /DE/  
Form DEF 14A  
April 20, 2011

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**SCHEDULE 14A**

**Proxy Statement Pursuant to Section 14(a) of the**  
**Securities Exchange Act of 1934**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

**Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material under §240.14a-12

**XOMA LTD.**

(Name of Registrant as Specified in its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

**XOMA LTD.**

**2910 Seventh Street**

**Berkeley, California 94710**

**(510) 204-7200**

April 21, 2011

To Our Shareholders:

You are cordially invited to attend the annual general meeting of shareholders of XOMA Ltd. on May 26, 2011 at 9:00 a.m. local time, which will be held at our offices at 2910 Seventh Street, Berkeley, California.

Details of the business to be conducted at the annual general meeting are provided in the enclosed notice of annual general meeting of shareholders and proxy statement. Also enclosed for your information is a copy of our annual report to shareholders for 2010. Some of our shareholders will be accessing these materials and appointing a proxy through the Internet and may not be receiving a paper proxy card by mail.

We hope that you will attend the annual general meeting. In any event, please promptly sign, date and return the enclosed proxy in the accompanying reply envelope or appoint a proxy by telephone or through the Internet.

Sincerely yours,

Steven B. Engle

Chairman of the Board,

Chief Executive Officer and President

Enclosures

**XOMA LTD.**

**NOTICE OF ANNUAL GENERAL MEETING OF SHAREHOLDERS**

**TO BE HELD AT 9:00 A.M. ON MAY 26, 2011**

To the Shareholders of XOMA Ltd.:

Notice is hereby given that the annual general meeting of shareholders of XOMA Ltd. (the Company) will be held at the Company's offices at 2910 Seventh Street, Berkeley, California, on May 26, 2011, at 9:00 a.m. local time, for the following purposes:

1. To elect directors;
  2. To appoint Ernst & Young LLP to act as the Company's independent registered public accounting firm for the 2011 fiscal year and authorize the Board of Directors to agree to such firm's fees;
  3. To approve the increase of the Company's authorized share capital by the creation of an additional 46,000,000 common shares, par value US\$.0075 per share;
  4. To approve an amendment to the Company's 2010 Long Term Incentive and Share Award Plan to (a) increase the number of common shares issuable over the term of the plan by an additional 5,500,000 to 6,277,102 shares in the aggregate and (b) provide that, in the case of awards granted out of the additional 5,500,000 share allotment, for each share appreciation right, restricted share, restricted share unit, performance share, performance unit, dividend equivalent or other share-based award issued, the number of available shares under the plan will be reduced by 1.3 shares;
  5. To approve an amendment to the Company's 1998 Employee Share Purchase Plan to increase the number of common shares issuable over the term of the plan by 100,000 to 233,333 shares in the aggregate;
  6. To consider a non-binding advisory vote to approve the compensation of our named executive officers disclosed in this proxy statement;
  7. To consider a non-binding advisory vote on the desired frequency of a non-binding advisory vote to approve our named executive officer compensation; and
  8. To consider and transact such other business as may properly come before the meeting or any adjournment or postponement thereof.
- In addition, in accordance with Bermuda law, the Company's audited financial statements for fiscal year 2010 will be laid before the annual general meeting.

The Board of Directors has fixed the close of business on April 8, 2011, as the record date for the determination of shareholders entitled to notice of, and to vote at, this meeting and at any adjournment or postponement thereof. On April 8, 2011, the Company had 29,773,456 common shares issued and outstanding.

By Order of the Board of Directors  
Christopher J. Margolin

Secretary

April 21, 2011

Berkeley, California

**YOUR VOTE IS IMPORTANT**

**You are cordially invited to attend the meeting in person. Whether or not you plan to attend the meeting, please promptly mark, sign and date the enclosed proxy and mail it in the accompanying postage pre-paid envelope or appoint a proxy by telephone or through the Internet.**

**IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE ANNUAL GENERAL MEETING OF SHAREHOLDERS TO BE HELD MAY 26, 2011**

**Our proxy statement and our Annual Report on Form 10-K for the fiscal year ended December 31, 2010 are available on our website, [www.xoma.com](http://www.xoma.com), by clicking **Investors** and then **SEC Filings**.**

**XOMA LTD.**

**PROXY STATEMENT**

**TO THE SHAREHOLDERS:**

The enclosed proxy is solicited on behalf of the Board of Directors (the Board) of XOMA Ltd., a company organized under the laws of Bermuda (XOMA or the Company), for use at the annual general meeting of shareholders to be held at the Company's offices at 2910 Seventh Street, Berkeley, California, on May 26, 2011, at 9:00 a.m. local time, or any adjournment or postponement thereof, at which shareholders of record holding Common Shares on April 8, 2011, will be entitled to vote. On April 8, 2011, the Company had issued and outstanding 29,773,456 common shares, par value US\$.0075 per share (Common Shares). Holders of Common Shares are entitled to one vote for each share held. All share and share-related numbers in this proxy statement that relate to a date or period prior to the Company's 1-for-15 share consolidation, or reverse stock split, that became effective on August 18, 2010, have been adjusted to give effect to the reverse stock split.

All registered shareholders can appoint a proxy by paper proxy or by telephone by following the instructions included with their proxy card. Shareholders whose Common Shares are registered in the name of a bank or brokerage firm should follow the instructions provided by their bank or brokerage firm on voting their Common Shares. Shareholders whose Common Shares are registered in the name of a bank or brokerage firm participating in the Broadridge Financial Services, Inc. online program may appoint a proxy electronically through the Internet. Instruction forms will be provided to shareholders whose bank or brokerage firm is participating in Broadridge's program. Signing and returning the proxy card or submitting the proxy by telephone or through the Internet does not affect the right to vote in person at the annual general meeting.

In the case of registered shareholders, a proxy may be revoked at any time prior to its exercise by (a) giving written notice of such revocation to the Secretary of the Company at the Company's principal office, 2910 Seventh Street, Berkeley, California 94710, (b) appearing and voting in person at the annual general meeting, (c) properly completing and executing a later-dated proxy and delivering it to the Company at or before the annual general meeting or (d) retransmitting a subsequent proxy by telephone before the annual general meeting. Presence without voting at the annual general meeting will not automatically revoke a proxy, and any revocation during the meeting will not affect votes previously taken. Shareholders whose Common Shares are registered in the name of a bank or brokerage firm should follow the instructions provided by their bank or brokerage firm on revoking their previously appointed proxies. Abstentions and broker non-votes are each included in the number of Common Shares present and entitled to vote for purposes of establishing a quorum but are not counted in tabulations of the votes cast on proposals presented to shareholders.

The Company will bear the entire cost of solicitation, including preparation, assembly, printing, and mailing of this proxy statement, the proxy card, and any additional material furnished to shareholders. Copies of solicitation material will be furnished to brokerage houses, fiduciaries, and custodians holding in their names Common Shares that are beneficially owned by others to forward to such beneficial owners. The solicitation of proxies may be supplemented by one or more of telephone, telegram, or personal solicitation by directors, officers, or employees of the Company for no additional compensation. We have also engaged Georgeson Inc. to assist in such solicitation at an estimated fee of \$7,500 plus disbursements. Shareholders appointing a proxy through the Internet should understand that there may be costs associated with electronic access, such as usage charges from Internet access providers and telephone companies, that will be borne by the shareholder.

The Company intends to mail this proxy statement and make it available on the Internet on or about April 21, 2011.

### SHARE OWNERSHIP

The following table sets forth certain information regarding all shareholders known by the Company to be the beneficial owners of more than 5% of the Company's issued and outstanding Common Shares and regarding each director, each named executive officer and all directors and named executive officers as a group, together with the approximate percentages of issued and outstanding Common Shares owned by each of them. Percentages are calculated based upon shares issued and outstanding plus shares which the holder has the right to acquire under share options exercisable within 60 days. Unless otherwise indicated, amounts are as of April 8, 2011 and each of the shareholders has sole voting and investment power with respect to the Common Shares beneficially owned, subject to community property laws where applicable. An individual's presence on this or any other table presented herein is not intended to be reflective of such person's status as a reporting person under Section 16(a) of the Securities Exchange Act of 1934, as amended.

Name of Beneficial Owner	Number of Common Shares Beneficially Owned	Percentage of Common Shares Beneficially Owned
Eastern Capital Limited(1)	2,577,861	8.66%
William K. Bowes, Jr.(2)	22,994	*
Steven B. Engle(3)	592,415	1.95%
Peter Barton Hutt(4)	23,508	*
Fred Kurland(5)	126,571	*
Christopher J. Margolin(6)	133,081	*
Patrick J. Scannon, M.D., Ph.D.(7)	140,086	*
W. Denman Van Ness(8)	34,464	*
John Varian(9)	14,159	*
Timothy P. Walbert(10)	5,900	*
Charles C. Wells(11)	85,160	*
Jack L. Wyszomierski(12)	6,707	*
All directors and named executive officers as a group as of the record date (11 persons)(13)	1,185,045	3.83%

\* Indicates less than 1%.

- (1) Based on a Schedule 13G filed with the Securities and Exchange Commission (SEC). Eastern Capital Limited is wholly-owned by Portfolio Services Ltd., which is wholly-owned by Kenneth B. Dart. Information is as of February 4, 2011.
- (2) Includes 20,923 Common Shares issuable upon the exercise of options exercisable as of 60 days after the record date. Assumes shareholder approval on May 26, 2011 of shares underlying options granted on January 7, 2011.
- (3) Represents 592,415 Common Shares issuable upon the exercise of options exercisable as of 60 days after the record date. Assumes shareholder approval on May 26, 2011 of shares underlying options granted on January 7, 2011. Does not include 4,523 Common Shares that have vested pursuant to the Company's Deferred Savings Plan.
- (4) Represents 23,508 Common Shares issuable upon the exercise of options exercisable as of 60 days after the record date. Assumes shareholder approval on May 26, 2011 of shares underlying options granted on January 7, 2011.
- (5) Includes 5,000 Common Shares held by The Kurland Family Living Trust. Includes 121,571 Common Shares issuable upon the exercise of options exercisable as of 60 days after the record date. Assumes shareholder approval on May 26, 2011 of shares underlying options granted on January 7, 2011. Does not include 3,417 Common Shares that have vested pursuant to the Company's Deferred Savings Plan.
- (6) Includes 128,033 Common Shares issuable upon the exercise of options exercisable as of 60 days after the record date. Assumes shareholder approval on May 26, 2011 of shares underlying options granted on January 7, 2011. Does not include 6,329 Common Shares that have vested pursuant to the Company's Deferred Savings Plan.



- (7) Includes 4,053 Common Shares held by The Patrick J. Scannon Separate Property Trust. Includes 131,715 Common Shares issuable upon the exercise of options exercisable as of 60 days after the record date. Assumes shareholder approval on May 26, 2011 of shares underlying options granted on January 7, 2011. Does not include 6,360 Common Shares that have vested pursuant to the Company's Deferred Savings Plan.
- (8) Includes 3,298 Common Shares held by The Van Ness 1983 Revocable Trust, of which Mr. Van Ness is a trustee. Includes 31,136 Common Shares issuable upon the exercise of options exercisable as of 60 days after the record date. Assumes shareholder approval on May 26, 2011 of shares underlying options granted on January 7, 2011.
- (9) Represents 14,159 Common Shares issuable upon the exercise of options exercisable as of 60 days after the record date. Assumes shareholder approval on May 26, 2011 of shares underlying options granted on January 7, 2011.
- (10) Represents 5,900 Common Shares issuable upon the exercise of options exercisable as of 60 days after the record date. Assumes shareholder approval on May 26, 2011 of shares underlying options granted on January 7, 2011.
- (11) Includes 82,448 Common Shares issuable upon the exercise of options exercisable as of 60 days after the record date. Assumes shareholder approval on May 26, 2011 of shares underlying options granted on January 7, 2011. Does not include 4,160 Common Shares that have vested pursuant to the Company's Deferred Savings Plan.
- (12) Represents 6,707 Common Shares issuable upon the exercise of options exercisable as of 60 days after the record date. Assumes shareholder approval on May 26, 2011 of shares underlying options granted on January 7, 2011.
- (13) Includes 1,158,515 Common Shares issuable upon exercise of options exercisable as of 60 days after the record date. Assumes shareholder approval on May 26, 2011 of shares underlying options granted on January 7, 2011. Does not include 24,789 Common Shares that have vested pursuant to the Company's Deferred Savings Plan.

## COMPENSATION OF EXECUTIVE OFFICERS

### Compensation Discussion and Analysis

The primary objectives of the Company's compensation program are to enable the Company to attract, motivate and retain outstanding individuals and align their success with that of the Company's shareholders over the long term through the creation of shareholder value and achievement of strategic corporate objectives that are fundamental to our business model. We attract and retain executives by benchmarking against peer companies in our industry to ensure that our compensation packages remain competitive. This practice is discussed in greater detail below under the heading *Benchmarking*. When creating an executive's overall compensation package, the different elements of compensation are considered in light of the role the executive will play in our achieving near term and longer term goals as well as the compensation packages provided to similarly situated executives at peer companies. We also tie short and long-term cash and equity rewards to the achievement of measurable corporate and individual performance criteria to create incentives that we believe enhance executive performance. Such performance criteria vary depending on individual executives' roles, but include value-adding achievements such as revenue generation, cost reduction, gains in production efficiency and timely completion of undertakings. None of our employees are covered by a pension plan or other similar benefit plan that provides for payments or other benefits at, following, or in connection with retirement.

### *Benchmarking*

The Compensation Committee has the authority under its charter to engage the services of outside advisors, experts and others to assist the Compensation Committee. In accordance with this authority, the Compensation Committee has retained the services of Compensia, an independent consulting firm that specializes in executive compensation consulting (the *Consultant*), to assist the Compensation Committee in evaluating the Company's executive compensation program against the relevant market and to review executive compensation changes. The Consultant looked at base salary, incentive compensation, long-term share options and benefits. No other services were provided by the Consultant.

The Consultant created a survey (the *Executive Compensation Survey*) which compared the Company's executive pay levels to those of a peer group of 15 companies. The peer group was developed by targeting Phase 2 business and labor comparators with similar market capitalization. The companies that comprised the peer group are: Ardea Biosciences, ArQule, Array BioPharma, Curis, Cytokinetics, Idera Pharmaceuticals, Immunomedics, Infinity Pharmaceuticals, Lexicon Pharmaceuticals, Micromet, Neurocrine Biosciences, Peregrine Pharmaceuticals, Rigel Pharmaceuticals, Sangamo Biosciences and Trubion Pharmaceuticals. In preparing the Executive Compensation Survey, the Compensation Committee has relied on the Consultant to conduct its own research, compile its own survey data and provide a summary of such data relevant to the Compensation Committee's decisions with respect to setting executive compensation levels.

As noted above, the Compensation Committee considers various benchmarks (i.e., the 25th percentile, the 50th percentile and the 75th percentile) based on the Executive Compensation Survey and chooses a benchmark for a particular year based on the level it deems most appropriate for the Company. For 2011, the Compensation Committee chose the 50th percentile as the benchmark. This process is performed to ensure that total compensation is competitive within the industry and appropriate when certain levels of performance are achieved. If, based on this evaluation, the Compensation Committee determines that the Company's current compensation levels are not appropriate or tailored to our compensation objectives, then the Compensation Committee may adjust the applicable compensation levels and targets accordingly.

As part of the benchmarking process, the Compensation Committee recognizes the practical reality that job responsibilities of persons with similar titles may vary significantly from company to company, and that a person's title is not necessarily descriptive of a person's duties. The Compensation Committee considers the scope and complexity of executive positions within the Executive Compensation Survey and compares these

positions to the scope and complexity of our executive positions. The result is an assessment of the compensation being paid to our executives in light of the compensation being paid to persons performing duties of similar scope and complexity at the companies participating in the Executive Compensation Survey. The Compensation Committee uses this assessment to assist it in making decisions regarding appropriate compensation levels for our executive positions. The underlying principle of the evaluation methodology is to focus on identifying those positions that have a scope and complexity of responsibilities that are comparable to those duties exercised by each of our particular executives.

### ***Compensation Components***

***Base Salary.*** The level of compensation paid to an officer is determined on the basis of the individual's overall experience, responsibility, performance and compensation level in his or her prior position (for newly hired officers), the individual's overall performance and compensation level at the Company during the prior year (for current employees), the compensation levels of peer companies (including the biotechnology companies listed above) and other labor markets in which the Company competes for employees, the performance of the Company's Common Shares during the prior fiscal year and such other factors as may be appropriately considered by the Board, by the Compensation Committee and by management in making its proposals to the Compensation Committee.

***Long-Term Incentive Program.*** Long-term incentive compensation principally takes the form of incentive and non-qualified option grants pursuant to shareholder-approved equity-based compensation plans. These grants are designed to promote the convergence of long-term interests between the Company's key employees and its shareholders; specifically, the value of options granted will increase or decrease with the value of the Company's Common Shares. In this manner, key individuals are rewarded commensurately with increases in shareholder value. These grants also typically include a 4-year vesting period to encourage continued employment. The size of a particular option grant is determined based on the individual's position and contribution to the Company.

For grants during 2010, the number of options granted were determined based on employee performance and perceived potential, the numbers of options granted to such individuals in the previous fiscal year, the aggregate number of options held by each such individual, the number of options granted to similarly situated individuals in the pharmaceutical and biotechnology industries, the price of the Company's Common Shares relative to other companies in such industries and the resulting relative value of such options. It was also noted that all outstanding options had exercise prices in excess of the current market price of the Common Shares. No specific measures of corporate performance were considered.

In March of 2010, Mr. Engle was granted options to purchase 226,665 common shares, Dr. Scannon was granted options to purchase 79,999 common shares, Mr. Kurland was granted options to purchase 73,332 common shares, Mr. Margolin was granted options to purchase 83,332 common shares, and Mr. Wells was granted options to purchase 16,665 common shares. These numbers were arrived at after consideration of the factors described in the foregoing paragraph, without any of such factors being assigned a specific weighting or measured against quantified criteria, except when considering the number of options granted to similarly situated individuals in the pharmaceutical and biotechnology industries. In considering that factor, the number of options granted was benchmarked against the 50th percentile of the peer group companies.

Historically, option grants intended as long-term incentive compensation have been made pursuant to the Company's 1981 Share Option Plan (the Option Plan) and Restricted Share Plan (the Restricted Plan). In May of 2010, the Compensation Committee and the full Board adopted, and in July of 2010 the Company's shareholders approved, a new equity-based compensation plan, the 2010 Long Term Incentive and Share Award Plan (the Long Term Incentive Plan). The Long Term Incentive Plan is intended to consolidate the Company's long-term incentive compensation under a single plan, by replacing the Option Plan, the Restricted Plan and the 1992 Directors Share Option Plan (the Directors Plan) going forward, and to provide a more current set of terms pursuant to which to provide this type of compensation. The Long Term Incentive Plan is described in greater detail below under Item 4 Amendment to Long Term Incentive Plan.

*Cash Bonus Plans.*

*CICP.* In 2004, the Compensation Committee, the Board and the shareholders approved the CEO Incentive Compensation Plan (the *CICP*) in order to make the Chief Executive Officer's (*CEO*) compensation more commensurate with that of industry peers and because the Compensation Committee believed that it was not appropriate to include the CEO in the Management Incentive Compensation Plan given the CEO's active role in administering that plan.

Only our CEO is eligible to participate in the *CICP* and, depending on his or her performance and that of the Company, earn incentive compensation. As soon as practicable after the end of each fiscal year (the *Plan Period*), the Compensation Committee recommends to the Board and the Board determines whether and to what extent certain pre-established Company objectives for that *Plan Period* (*Company Objectives*) have been met, each *Company Objective* having been assigned a percentage toward completion of the *Company Objectives* overall (each, a *Achievement Percentage*). For each *Plan Period*, unless 70% of the *Company Objectives* for that *Plan Period* have been met, no incentive compensation will be awarded. The Board retains considerable discretion both in determining the extent to which the *Company Objectives* are achieved and in considering additional factors which may influence its overall determinations.

The incentive compensation under the *CICP* is weighted based 70% on meeting *Company Objectives* and 30% based on a discretionary evaluation by the Compensation Committee. The award opportunity range for the CEO expressed as a percentage of his or her base salary is as follows: minimum award opportunity 25%; target award opportunity 50%; and maximum award opportunity 75%, in each case, of base salary.

The performance of the CEO is typically rated as soon as practicable following the conclusion of the *Plan Period*. Distribution of incentive compensation is generally made in February or March of the succeeding year after the *Plan Period*. The incentive awards granted under the *CICP* are payable in cash.

*MICP.* Certain employees are also compensated through the Management Incentive Compensation Plan (the *MICP*), in which officers (other than the CEO) and employees who have the title of Senior Director, Director or Manager, as well as certain additional discretionary participants chosen by the CEO, are eligible to participate. Under the *MICP*, at the beginning of each *Plan Period*, the Board (with advice from the Compensation Committee) establishes a target incentive compensation pool, which is then adjusted at year-end to reflect the Company's performance in achieving the *Company Objectives*.

After each *Plan Period*, the Board, based on the recommendation of the Compensation Committee, makes a determination as to the performance of the Company and *MICP* participants in meeting the *Company Objectives* and individual objectives for that *Plan Period*, which are determined from time to time by the Board in its sole discretion. Awards to *MICP* participants vary depending upon the level of achievement of the *Company Objectives*, the size of the incentive compensation pool and the *MICP* participants' base salaries and performance during the *Plan Period* as well as their expected ongoing contribution to the Company. The Company must meet a minimum percentage of the *Company Objectives* (currently 70%) for a particular *Plan Period* before any awards are made under the *MICP* for that *Plan Period*. The Board retains considerable discretion both in determining the extent to which the *Company Objectives* are achieved and in considering additional factors which may influence its overall determinations.

For officers, including the executive officers named in the Summary Compensation Table below other than the CEO, the incentive compensation under the *MICP* is weighted based 50% on meeting *Company Objectives*, 30% based on individual objectives and 20% based on a discretionary evaluation by the CEO. The target awards for these officers as a percentage of base salary range from 30% to 40%, with an award opportunity range of 15% to 60% of base salary. For other *MICP* participants, the incentive compensation is weighted based either 40% or 30% on meeting *Company Objectives*, either 40% or 50% on individual objectives and, in all cases, 20% on a discretionary evaluation by the CEO. The award opportunities for these participants as a percentage of base salary range from a minimum of 5% to a maximum of 37.5% of base salary, depending on among other things the participants' position within the Company.

The performance of the MICP participants is typically rated as soon as practicable following the conclusion of the Plan Period. Distribution of incentive compensation is generally made in February or March of the succeeding year after the Plan Period. Awards under the MICP are payable in cash.

For 2010, 119 individuals were determined to be eligible to participate in the MICP, including all of the executive officers named in the Summary Compensation Table below other than Mr. Engle.

*BCP*. Employees who are not eligible to participate in the CICIP or the MICP are also compensated through the Bonus Compensation Plan (the BCP). Under the BCP, at the beginning of each Plan Period, the Board (with advice from the Compensation Committee) establishes a target incentive compensation pool, which is then adjusted at year-end to reflect the Company's performance in achieving the Company Objectives.

After each Plan Period, the Board, based on the recommendation of the Compensation Committee, makes a determination as to the performance of the Company and BCP participants in meeting the Company Objectives, which are determined from time to time by the Board in its sole discretion. Awards to BCP participants vary depending upon the level of achievement of the Company Objectives, the size of the incentive compensation pool and the BCP participants' base salaries. The Company must meet a minimum percentage of the Company Objectives (currently 70%) before any awards are made under the BCP. Awards under the BCP are payable in cash.

For 2010, 93 individuals were determined to be eligible to participate in the BCP.

*Bonus Determinations for 2010.* For 2010, the Compensation Committee recommended and the Board approved the following Company Objectives: (1) generate \$76 million in cash with an emphasis on sources that are non- or less dilutive to shareholders, which was assigned a 40% Achievement Percentage, (2) advance the clinical development of the Company's lead product candidate, XOMA 052, which was assigned a 30% Achievement Percentage, (3) accelerate the Company's capabilities in manufacturing XOMA 052, which was assigned a 20% Achievement Percentage, and (4) advance the Company's pipeline of pre-clinical product candidates, which was assigned a 10% Achievement Percentage. In February of 2010, the Board determined that the first such Company Objective had been achieved and that the second, third and fourth such Company Objectives had been exceeded.

After evaluating the relevant facts and circumstances, the Board concluded that in excess of 100% of the Company Objectives had been achieved for the 2010 Plan Period. As a result, the CEO and each of the other named executive officers received in excess of the target amounts attributable to achievement of the Company Objectives under the CICIP and the MICP, as applicable.

Under the CICIP, Mr. Engle had no individual objectives for 2010 other than the Company Objectives. Individual objectives for 2010 under the MICP for Dr. Scannon were to: (1) carry out his role in connection with the first Company Objective described above, (2) carry out his role in connection with the second Company Objective described above, (3) advance the Company's biodefense efforts, and (4) advance the development of the Company's antibody platform and manufacturing technologies. In February of 2011, the CEO determined and the Compensation Committee concurred that Dr. Scannon had exceeded the second such objective and achieved his remaining objectives, except for the third such objective. Individual objectives for 2010 under the MICP for Mr. Kurland were to: (1) carry out his role in connection with the first Company Objective described above, (2) implement the Company's financial strategy, (3) maintain budgeted levels of Company expenses, and (4) assure Company compliance with financial reporting and related requirements. In February of 2011, the CEO determined and the Compensation Committee concurred that Mr. Kurland had exceeded all of such objectives. Individual objectives for 2010 under the MICP for Mr. Margolin were to: (1) carry out his role in connection with the first Company Objective described above, (2) carry out his role in connection with the second Company Objective described above, (3) implement the Company's intellectual property strategy, and (4) assure Company compliance with legal-related requirements. In February of 2010, the CEO determined and the Compensation

Committee concurred that Mr. Margolin had exceeded all of such objectives. Individual objectives for 2010 under the MICP for Mr. Wells were to: (1) strengthen the Company's organizational capabilities, corporate culture and internal communications, (2) implement a succession planning process, (3) assess and align the Company's information technology strategy to reflect changes within the Company, and (4) ensure adherence to information technology controls. In February of 2010, the CEO determined and the Compensation Committee concurred that Mr. Wells had achieved all of such objectives, except for certain aspects of the first such objective.

As to that portion of Mr. Engle's bonus based on a discretionary evaluation of the CEO's overall performance in 2010, the Compensation Committee determined to include no additional percentage of Mr. Engle's target bonus amount as a portion of his bonus. In addition, the CEO determined and the Compensation Committee concurred to include between 15% and 30% of each other named executive officer's target bonus amount as the portion of such officer's bonus based on a discretionary evaluation.

The evaluation process and resulting determinations described above resulted in cash bonus payments under the CICP and the MICP to the executive officers named in the Summary Compensation Table below for 2010 as follows:

	Base Salary	Target Bonus Percentage	Target Bonus Amount	Actual Bonus Percentage	Actual Bonus Amount
Steven B. Engle	\$ 551,550	50%	\$ 275,775	44.6%	\$ 246,130
Patrick J. Scannon M.D., Ph.D.	\$ 399,040	35%	\$ 139,664	45.0%	\$ 179,539
Fred Kurland	\$ 322,400	40%	\$ 128,960	51.7%	\$ 166,681
Christopher J. Margolin	\$ 347,020	35%	\$ 121,457	42.3%	\$ 146,660
Charles C. Wells	\$ 312,100	35%	\$ 109,235	42.5%	\$ 132,721

*Other Compensation.* The Company maintains broad-based benefits and perquisites that are provided to all employees, including health insurance, life and disability insurance, vision and dental insurance, a 401(k) plan and temporary housing and other living expenses for relocated employees. The Company also maintains an Employee Share Purchase Plan, designed to give employees an opportunity to purchase Common shares through payroll deductions, thereby encouraging employees to share in the economic growth and success of the Company.

*Tax Treatment.* Section 162(m) of the Internal Revenue Code of 1986, as amended (the Code) generally limits the deductible amount of annual compensation paid to certain individual executive officers (i.e., the chief executive officer and the four other most highly compensated executive officers of the Company) to no more than \$1 million. However, qualifying performance-based compensation will be excluded from the \$1 million cap on deductibility, and the Compensation Committee believes, based on information currently available, that the Company's options issued to its executive officers qualify for this exclusion. Considering the current executive officer compensation and the availability of deferral opportunities, the Compensation Committee and the Company believe that the Company will not be denied any significant tax deduction for 2010. The Company and the Compensation Committee will continue to review tax consequences as well as other relevant considerations in connection with compensation decisions.

### Compensation Risk Assessment

We believe that risks arising from our compensation policies and practices for our employees are not reasonably likely to have a material adverse effect on our Company. We believe that our approach to goal-setting, setting of targets with payouts at multiple levels of performance, and evaluation of performance results assist in mitigating excessive risk-taking that could harm our value. We believe we have allocated our compensation among base salary and short- and long-term compensating target opportunities in such a way as not to encourage excessive risk-taking.

**Summary Compensation Table**

The following table sets forth certain summary information for the prior three years concerning the compensation earned by the Company's Chief Executive Officer, Chief Financial Officer, our three other most highly compensated officers who were named executive officers of the Company as of December 31, 2010. Information for 2008 concerning Mr. Wells has been omitted in accordance with SEC rules because he was not a named executive officer during that year.

Name and Principal Position	Year	Salary (\$)(1)	Bonus (\$)(2)	Stock Awards (\$)	Option Awards (\$)(3)	Non-Equity Incentive Plan Compensation (\$)(4)(5)	Change in Pension Value and Non-qualified Deferred	All Other Compensation (\$)(6)	Total (\$)
							Earnings		
Steven B. Engle (Chairman of the Board, Chief Executive Officer and President)	2010	\$ 551,550	\$ 0	\$ 0	\$ 686,069	\$ 246,130	N/A	\$ 35,300	\$ 1,519,049
	2009	\$ 540,750	\$ 0	\$ 0	\$ 212,280	\$ 262,267	N/A	\$ 38,725	\$ 1,054,022
	2008	\$ 515,000	\$ 0	\$ 0	\$ 243,787	\$ 0	N/A	\$ 390,489	\$ 1,149,276
Patrick J. Scannon, M.D., Ph.D. (Executive Vice President and Chief Scientific Officer)	2010	\$ 399,040	\$ 0	\$ 0	\$ 242,140	\$ 179,539	N/A	\$ 14,102	\$ 834,821
	2009	\$ 389,340	\$ 0	\$ 0	\$ 70,760	\$ 123,811	N/A	\$ 13,136	\$ 597,047
	2008	\$ 370,800	\$ 0	\$ 0	\$ 86,680	\$ 0	N/A	\$ 17,045	\$ 474,525
Fred Kurland (Vice President, Finance and Chief Financial Officer)	2010	\$ 322,400	\$ 0	\$ 0	\$ 221,961	\$ 166,681	N/A	\$ 13,555	\$ 724,597
	2009	\$ 310,000	\$ 0	\$ 0	\$ 70,760	\$ 108,655	N/A	\$ 12,785	\$ 502,200
	2008	\$ 3,577	N/A	N/A	\$ 305,680	\$ 0	N/A	\$ 0	\$ 309,257
Christopher J. Margolin (Vice President, General Counsel and Secretary)	2010	\$ 347,020	\$ 0	\$ 0	\$ 252,229	\$ 146,660	N/A	\$ 26,696	\$ 772,605
	2009	\$ 338,520	\$ 0	\$ 0	\$ 70,760	\$ 114,810	N/A	\$ 28,356	\$ 552,446
	2008	\$ 322,400	\$ 0	\$ 0	\$ 86,680	\$ 0	N/A	\$ 29,944	\$ 439,024
Charles C. Wells (Vice President, Human Resources and Information Technology)	2010	\$ 312,100	\$ 0	\$ 0	\$ 50,441	\$ 132,721	N/A	\$ 10,493	\$ 505,755
	2009	\$ 304,500	\$ 0	\$ 0	\$ 70,760	\$ 95,918	N/A	\$ 11,568	\$ 482,746

- (1) Mr. Kurland was appointed to the position of Vice President, Finance and Chief Financial Officer effective December 28, 2008. The amount in this column representing his 2008 salary was earned in 2008 but paid in 2009.
- (2) The bonus amounts paid to Mr. Engle under the Company's CICIP and the amounts paid to Dr. Scannon and Messrs. Kurland, Margolin and Wells under the Company's MICIP are represented in the amounts under Non-Equity Incentive Plan Compensation. CICIP and MICIP awards are reported on an earned basis.
- (3) The amounts in this column do not reflect compensation actually received by the named executive officers but represent the aggregate grant date fair value for option awards calculated in accordance with FASB ASC Topic 718. Amounts for 2008 have been recomputed under the same methodology in accordance with SEC rules. See Notes 2 and 9 of the consolidated financial statements in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2010 (the 2010 Form 10-K) regarding assumptions underlying valuation of equity awards.
- (4) The amounts in this column for 2010 for Dr. Scannon and Messrs. Kurland, Margolin and Wells represent awards under the Company's MICIP paid in 2011 relating to performance in 2010. The amounts in this column for 2009 for Dr. Scannon and Messrs. Kurland, Margolin and Wells represent awards under the MICIP paid in 2010 relating to performance in 2009. With respect to 2008, management had recommended, and the Board had determined, not to award bonuses under the MICIP in light of economic conditions affecting the Company and in order to conserve its cash resources, notwithstanding that the Company had met a percentage of its objectives for 2008 in excess of the minimum required for bonuses to be awarded. Consequently, there were no payouts under the MICIP in 2009 for performance in 2008.
- (5) The amount in this column for 2010 for Mr. Engle represents an award under the Company's CICIP paid in 2011 relating to performance in 2010. The amount in this column for 2009 for Mr. Engle represents an award under the CICIP paid in 2010 relating to performance in 2009. With respect to 2008, management had





recommended, and the Board had determined, not to award a bonus under the CICP in light of economic conditions affecting the Company and in order to conserve its cash resources, notwithstanding that the Company had met a percentage of its objectives for 2008 in excess of the minimum required for a bonus to be awarded. Consequently, there was no payout under the CICP in 2009 for performance in 2008.

(6) Amounts in this column for 2010, 2009 and 2008 include:

Mr. Engle (a) cash payments in lieu of earned vacation and/or personal holidays in the amount of \$21,212, \$24,758 and \$1,903, respectively;

(b) relocation in the amount of \$241,954 in 2008; (c) taxes paid by the Company on Mr. Engle's behalf in the amount of \$135,002 in 2008;

(d) Company Common Shares contributed to an account under the Company's Deferred Savings Plan in the amounts of 2,343, 1,074 and 1,013 Common Shares, respectively; and (e) group term life insurance premiums in the amount of \$3,179, \$2,966 and \$1,380, respectively.

Dr. Scannon (a) cash payments in lieu of earned vacation and/or personal holidays in the amounts of \$2,769 in 2008; (b) Company Common

Shares contributed to an account under the Company's Deferred Savings Plan in the amounts of 2,343, 1,074 and 1,013 Common Shares, respectively; (c) group term life insurance premiums in the amount of \$2,301, \$2,136 and \$4,026, respectively; and (d) miscellaneous gifts in the amount of \$892 in 2010.

Mr. Kurland (a) Company Common Shares contributed to an account under the Company's Deferred Savings Plan in the amounts of 2,343 and

1,074 Common Shares in 2010 and 2009, respectively; (b) group term life insurance premiums in the amounts of \$1,857 and \$1,785 in 2010 and 2009, respectively; and (c) miscellaneous gifts in the amount of \$789 in 2010.

Mr. Margolin (a) cash payments in lieu of earned vacation and/or personal holidays in the amounts of \$13,346, \$15,499 and \$14,784,

respectively; (b) Company Common Shares contributed to an account under the Company's Deferred Savings Plan in the amounts of 2,343,

1,074 and 1,013 Common Shares, respectively; (c) group term life insurance premiums in the amounts of \$1,952, \$1,857 and \$4,910, respectively; and (d) miscellaneous gifts in the amount of \$489 in 2010.

Mr. Wells (a) cash payments in lieu of earned vacation and/or personal holidays in the amounts of \$2,230 in 2009; (b) Company Common Shares

contributed to an account under the Company's Deferred Savings Plan in the amount of 1,662 and 749 in 2010 and 2009, respectively; (c) group term life insurance premiums in the amount of \$1,800 and \$1,670 in 2010 and 2009, respectively; and (d) miscellaneous gifts in the amount of \$892 in 2010.

Company Common Shares contributed under the Company's Deferred Savings Plan were valued in 2010, 2009 and 2008 at fiscal year-end formula prices of \$4.694, \$10.233 and \$10.113, respectively, per share.

**Grants of Plan-Based Awards**

The following table contains information concerning the grant of awards to our named executive officers under any plan during 2010.

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards			All Other Stock Awards: Number of Shares of Stock or Units (#)	All Other Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards (\$/Sh)	Grant Date Fair Value of Stock and Option Awards (1)
		Threshold	Target	Maximum	Threshold	Target	Maximum				
Steven B. Engle	03-01-2010								226,665	\$ 7.35	\$ 686,069
Patrick J. Scannon, M.D., Ph.D.	03-01-2010								79,999	\$ 7.35	\$ 242,140
Fred Kurland	03-01-2010								73,332	\$ 7.35	\$ 221,961
Christopher J. Margolin	03-01-2010								83,332	\$ 7.35	\$ 252,229
Charles C. Wells	03-01-2010								16,665	\$ 7.35	\$ 50,441

- (1) The grant date fair values were calculated in accordance with FASB ASC 718. See Notes 2 and 9 of the consolidated financial statements in the 2010 Form 10-K regarding assumptions underlying valuation of equity awards.

**Outstanding Equity Awards as of December 31, 2010**

The following table provides information as of December 31, 2010 regarding unexercised options and restricted common share awards held by each of our named executive officers.

Name	Number of Securities Underlying Unexercised Options (#)		Option Awards Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#)			Option Exercise Price (\$)	Option Expiration Date
	Exercisable	Unexercisable	Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date		
Steven B. Engle	33,333	0	0	\$ 75.000	08-03-2017		
	55,555	11,111	0	\$ 32.550	08-03-2017		
	61,111	12,222	0	\$ 32.550	08-03-2017		
	79,167	20,833	0	\$ 55.050	10-31-2017		
	10,625	4,375	0	\$ 40.650	02-21-2018		
	30,332	9,667	0	\$ 8.400	02-26-2019		
	42,499	184,166	0	\$ 7.350	03-01-2020		
Patrick J. Scannon, M.D., Ph.D.	1,665	0	0	\$ 129.375	02-21-2011		
	1,665	0	0	\$ 152.400	02-20-2012		
	1,999	0	0	\$ 49.950	02-26-2013		
	1,999	0	0	\$ 86.550	02-25-2014		
	1,999	0	0	\$ 21.000	02-23-2015		
	2,000	0	0	\$ 25.200	02-28-2016		
	2,555	111	0	\$ 50.850	02-21-2017		
	21,112	5,554	0	\$ 55.050	10-31-2017		
	3,778	1,555	0	\$ 40.650	02-21-2018		
	10,109	3,223	0	\$ 8.400	02-26-2019		
14,999	65,000	0	\$ 7.350	03-01-2020			
Fred Kurland	26,668	26,664	0	\$ 9.300	12-29-2018		
	10,110	3,222	0	\$ 8.400	02-26-2019		
	13,749	59,583	0	\$ 7.350	03-01-2020		
Christopher J. Margolin	1,665	0	0	\$ 129.375	02-21-2011		
	1,665	0	0	\$ 152.400	02-20-2012		
	2,665	0	0	\$ 49.950	02-26-2013		
	665	0	0	\$ 58.800	04-10-2013		
	1,999	0	0	\$ 86.550	02-25-2014		
	1,999	0	0	\$ 21.000	02-23-2015		
	1,666	0	0	\$ 26.700	10-25-2015		
	2,000	0	0	\$ 25.200	02-28-2016		
	2,555	111	0	\$ 50.850	02-21-2017		
	1,000	0	0	\$ 55.050	10-31-2017		
	13,986	3,679	0	\$ 55.050	10-31-2017		
	3,778	1,555	0	\$ 40.650	02-21-2018		
	10,110	3,223	0	\$ 8.400	02-26-2019		
	15,624	67,708	0	\$ 7.350	03-01-2020		
Charles C. Wells	3,331	0	0	\$ 156.750	05-07-2011		

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1,666	0	0	\$ 152.400	02-20-2012
1,999	0	0	\$ 49.950	02-26-2013
1,999	0	0	\$ 86.550	02-25-2014
1,999	0	0	\$ 21.000	02-23-2015
2,000	0	0	\$ 25.200	02-28-2016
2,555	111	0	\$ 50.850	02-21-2017
15,834	4,165	0	\$ 55.050	10-31-2017
3,779	1,554	0	\$ 40.650	02-21-2018
10,110	3,223	0	\$ 8.400	02-26-2019
3,124	13,541	0	\$ 7.350	03-01-2020

**Option Exercises and Shares Vested**

The following table sets forth the number of Common Shares acquired upon exercise of options by each named executive officer during 2010 and the number of share awards held by each named executive officer that vested during 2010.

Name	Option Awards		Stock Awards	
	Number of Shares Acquired On Exercise (#)	Value Realized on Exercise (\$)	Number of Shares Acquired On Vesting (#)	Value Realized on Vesting (\$)
Steven B. Engle	0	\$ 0	0	\$ 0
Patrick J. Scannon M.D., Ph.D.	0	\$ 0	0	\$ 0
Fred Kurland	0	\$ 0	0	\$ 0
Christopher J. Margolin	0	\$ 0	0	\$ 0
Charles C. Wells	0	\$ 0	0	\$ 0

**Pension Benefits**

None of our named executive officers are covered by a pension plan or other similar benefit plan that provides for payments or other benefits at, following, or in connection with retirement.

**Non-Qualified Deferred Compensation**

None of our named executive officers are covered by a defined contribution or other plan that provides for the deferral of compensation on a basis that is not tax-qualified.

**Employment Contracts and Termination of Employment and Change of Control Arrangements**

The Company has entered into an employment agreement with Mr. Engle, dated as of December 30, 2008, that provides for Mr. Engle's employment as CEO and President at a salary of not less than \$515,000 per year. Under the employment agreement, Mr. Engle is entitled to participate in any benefit plan for which key executives of the Company are eligible, including the CICP. Upon termination of his employment for any reason other than cause or upon his resignation for good reason, Mr. Engle will be entitled to one and one-half times his then current base salary and target bonus for the then current fiscal year and benefits for eighteen (18) months, as well as a pro-rated portion of his then current target bonus and outplacement services for twelve (12) months not to exceed \$15,000 in value. The employment agreement will continue for one year and will be automatically extended (without further action by the parties) for one year thereafter and again on each subsequent anniversary thereof, unless notice of non-extension of the term is given by either party.

The Company has entered into an employment agreement with Dr. Scannon, dated as of December 30, 2008, that provides for his employment as Executive Vice President and Chief Scientific Officer at a salary of not less than \$360,000 per year. Under the agreement, Dr. Scannon is entitled to participate in any benefit plan for which key executives of the Company are eligible, including the MICP. Upon termination of his employment by the Company for any reason other than cause or upon his resignation from the Company for good reason, Dr. Scannon will be entitled to his then current base salary, target bonus and benefits for nine (9) months, as well as a pro-rated portion of his then current target bonus and outplacement services for six (6) months not to exceed \$8,000 in value. The agreement will continue for one year and will be automatically extended (without further action by the parties) for one year thereafter and again on each subsequent anniversary thereof, unless terminated by mutual written consent of the parties.

The Company has entered into an employment agreement with Mr. Kurland, dated as of December 28, 2008, that provides for his employment as Vice President, Finance and Chief Financial Officer at a salary of not less than \$310,000 per year. Under the agreement, Mr. Kurland will be entitled to participate in any benefit plan

for which key executives of the Company are eligible, including the MICP. Upon termination of his employment by the Company for any reason other than cause or upon his resignation from the Company for good reason, Mr. Kurland will be entitled to his then current base salary, target bonus and benefits for nine (9) months, as well as a pro-rated portion of his then current target bonus and outplacement services for six (6) months not to exceed \$8,000 in value. The agreement will continue for one year and will be automatically extended (without further action by the parties) for one year thereafter and again on each subsequent anniversary thereof, unless terminated by mutual written consent of the parties.

The Company has entered into an employment agreement with Mr. Margolin, dated as of December 30, 2008, that provides for his employment as Vice President, General Counsel and Secretary at a salary of not less than \$310,000 per year. Under the agreement, Mr. Margolin will be entitled to participate in any benefit plan for which key executives of the Company are eligible, including the MICP. Upon termination of his employment by the Company for any reason other than cause or upon his resignation from the Company for good reason, Mr. Margolin will be entitled to his then current base salary, target bonus and benefits for nine (9) months, as well as a pro-rated portion of his then current target bonus and outplacement services for six (6) months not to exceed \$8,000 in value. The agreement will continue for one year and will be automatically extended (without further action by the parties) for one year thereafter and again on each subsequent anniversary thereof, unless terminated by mutual written consent of the parties.

The Company has entered into an employment agreement with Mr. Wells, effective as of December 30, 2008, that provides for his employment as Vice President, Human Resources and Information Technology at a salary of not less than \$280,000 per year. Under the agreement, Mr. Wells is entitled to participate in any benefit plan for which key executives of the Company are eligible, including the MICP. Upon termination of his employment by the Company for any reason other than cause or upon his resignation from the Company for good reason, Mr. Wells will be entitled to his then current base salary, target bonus and benefits for nine (9) months, as well as a pro-rated portion of his then current target bonus and outplacement services for six (6) months not to exceed \$8,000 in value. The agreement will continue for one year and will be automatically extended (without further action by the parties) for one year thereafter and again on each subsequent anniversary thereof, unless terminated by mutual written consent of the parties.

#### **Certain Other Payments Upon a Change of Control**

*Named Executive Officers.* Each of our named executive officers has entered into change of control severance agreements (the *Change of Control Agreements*) that may require us to make certain payments and/or provide certain benefits to certain executive officers in the event of a termination of employment or a change of control.

*Change of Control.* A change of control is defined in the Change of Control Agreements as the occurrence of any of the following events: (i) a merger, amalgamation or acquisition in which the Company is not the surviving or continuing entity, except for a transaction the principal purpose of which is to change the jurisdiction of the Company's organization; (ii) the sale, transfer or other disposition of all or substantially all of the assets of the Company; (iii) any other reorganization or business combination in which fifty percent (50%) or more of the Company's outstanding voting securities are transferred to different holders in a single transaction or series of related transactions; (iv) any approval by the shareholders of the Company of a plan of complete liquidation of the Company; (v) any person (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended) becoming the beneficial owner (as defined in Rule 13d-3 under said Act), directly or indirectly, of securities of the Company representing more than fifty percent (50%) of the total voting power represented by the Company's then outstanding voting securities; or (vi) a change in the composition of the Board, as a result of which fewer than a majority of the directors are incumbent directors.

*Vesting of Options.* If a named executive officer's employment is involuntarily terminated within eighteen (18) months of a change of control, the exercisability of all options granted to such named executive officer by

the Company shall automatically be accelerated so that all the options may be exercised immediately upon such involuntary termination for any or all of the shares subject thereto and the post-termination exercise period shall be extended to sixty (60) months or the remainder of the maximum term of the options (or such shorter period of time to avoid the application of Section 409A of the Code). The options shall continue to be subject to all other terms and conditions of the Company's share option plans and the applicable option agreements between the employee and the Company.

*Outplacement Program.* If a named executive officer's employment is involuntarily terminated within eighteen (18) months of a change of control, the named executive officer will immediately become entitled to participate in a twelve (12) month executive outplacement program provided by an executive outplacement service, at the Company's expense not to exceed \$15,000.

*Cash Severance.* If a named executive officer's employment is involuntarily terminated within eighteen (18) months of a change of control, then the named executive officer shall be entitled to receive a severance payment equal to the sum of (A) an amount equal to 1.5 times (or, in the case of Mr. Engle, 2.0 times) the named executive officer's annual base salary as in effect immediately prior to the involuntary termination, plus (B) an amount equal to 1.5 times (or, in the case of Mr. Engle, 2.0 times) the named executive officer's target bonus as in effect for the fiscal year in which the involuntary termination occurs.

*Health and Other Benefits.* If a named executive officer's employment is involuntarily terminated within eighteen (18) months of a change of control, then for a period of eighteen (18) months (or, in the case of Mr. Engle, twenty-four (24) months) following such termination, (A) the Company shall make available and pay for the full cost of the coverage (plus an additional amount to pay for the taxes on such payments, if any, plus any taxes on such additional amount) of the named executive officer and his or her spouse and eligible dependents under any group health plans of the Company on the date of such termination of employment at the same level of health (i.e., medical, vision and dental) coverage and benefits as in effect for the named executive officer or such covered dependents on the date immediately preceding the date of his or her termination and (B) if the named executive officer is, at the time of such termination, an eligible participant in the Company's mortgage differential program, the Company shall continue to make mortgage assistance payments to such named executive officer pursuant to such program as in effect at the time of such termination.

#### **Compensation Committee Report on Executive Compensation**

The Company's compensation program for officers (including the named executive officers) is administered by the Compensation Committee, which is composed of four independent directors. Following review and approval by the Compensation Committee, all issues pertaining to officer compensation are submitted to the full Board for approval.

Based on the review and discussions referred to above, the Compensation Committee recommended to the Board that the Compensation Discussion and Analysis be included in the 2010 Form 10-K.

W. Denman Van Ness, Chairman

William K. Bowes, Jr.

Timothy P. Walbert

Jack L. Wyszomierski

## Compensation of Directors

The primary objectives of the Company's director compensation program are to enable the Company to attract, motivate and retain outstanding individuals and align their success with that of the Company's shareholders through the creation of shareholder value. We attract and retain directors by benchmarking against companies in our industry of similar size to ensure that our director compensation packages remain competitive. The different elements of director compensation are considered in light of the compensation packages provided to similarly situated directors at peer companies.

The Compensation Committee has retained the services of the Consultant to assist in evaluating the Company's director compensation program against the relevant market. The Consultant created a survey (the Director Compensation Survey) which compared the Company's director pay levels to those of the same peer group of companies used in the Executive Compensation Survey. In preparing the Director Compensation Survey, the Compensation Committee has relied on the Consultant to conduct its own research, compile its own survey data and provide a summary of such data relevant to the Compensation Committee's decisions with respect to setting director compensation levels. The benchmarking process for director compensation used by the Compensation Committee based on the Director Compensation Survey is substantially similar to the process for evaluating executive compensation described above under Compensation Discussion and Analysis. Following the benchmarking process for 2011, the only changes to directors compensation were an increase in the number of options to be granted to non-employee directors upon initial election from 11,666 to 12,000 and an increase in the number of options to be granted annually to the Lead Independent Director from 6,333 to 6,500.

The table below sets forth the non-employee director compensation for 2010.

Name	Fees Earned or Paid in Cash (\$)	Stock Awards (\$)	Option Awards \$(1)	Non-Equity Incentive Plan Compensation (\$)	Change in Pension Value and Nonqualified Deferred Compensation		All Other Compensation (\$)	Total
					Nonqualified Deferred Compensation Earnings	All Other Compensation		
William K. Bowes, Jr.	\$ 54,750	\$ 0	\$ 17,272	\$ 0	\$ 0	\$ 0	\$ 0	\$ 72,022
Charles J. Fisher, Jr., M.D.(2)	\$ 41,000	\$ 0	\$ 17,272	\$ 0	\$ 0	\$ 0	\$ 0	\$ 58,272
Peter Barton Hutt	\$ 41,000	\$ 0	\$ 17,272	\$ 0	\$ 0	\$ 0	\$ 0	\$ 58,272
W. Denman Van Ness	\$ 76,250	\$ 0	\$ 21,876	\$ 0	\$ 0	\$ 0	\$ 0	\$ 98,126
John Varian	\$ 48,139	\$ 0	\$ 17,272	\$ 0	\$ 0	\$ 0	\$ 0	\$ 65,411
Timothy P. Walbert	\$ 5,361	\$ 0	\$ 20,505	\$ 0	\$ 0	\$ 0	\$ 0	\$ 25,866
Jack L. Wyszomierski	\$ 16,097	\$ 0	\$ 20,707	\$ 0	\$ 0	\$ 0	\$ 0	\$ 36,804
Patrick J. Zenner(3)	\$ 12,500	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 12,500
Total	\$ 295,097	\$ 0	\$ 132,176	\$ 0	\$ 0	\$ 0	\$ 0	\$ 427,273

- The option amounts represent the aggregate grant date fair value for option awards computed in accordance with FASB ASC Topic 718. See Notes 2 and 9 of the consolidated financial statements in the 2010 Form 10-K regarding assumptions underlying valuation of equity awards. As of December 31, 2010, the aggregate option amounts outstanding for each non-employee director were as follows: Mr. Bowes 16,296; Dr. Fisher 18,238; Mr. Hutt 18,371; Mr. Van Ness 24,296 (17,963 of which are held by The Van Ness 1983 Revocable Trust); Mr. Varian 11,999, Mr. Walbert- 12,000 and Mr. Wyszomierski 11,666.
- Dr. Fisher resigned from the Board effective February 21, 2011.
- Mr. Zenner did not stand for re-election at the Company's annual general meeting of shareholders held on July 21, 2010 and is no longer a director of the Company.

### Director Compensation Policy

Effective July 1, 2010, each non-employee director will receive an annual retainer of \$35,000, plus an additional (1) \$20,000, in the case of the chairman of the Audit Committee, (2) \$9,000, in the case of any other



member of the Audit Committee, (3) \$12,000, in the case of the chairman of the Compensation Committee or Nominating & Governance Committee, (4) \$6,000, in the case of any other member of the Compensation Committee or Nominating & Governance Committee, and (5) \$20,000, in the case of the Lead Independent Director. The Company's directors do not receive meeting fees.

Additionally, each non-employee director will be granted options to purchase 12,000 Common Shares pursuant to the Long Term Incentive Plan upon initial election to the Board and will be annually granted an option to purchase 5,000 Common Shares (other than the Lead Independent Director, who is annually granted an option to purchase 6,500 Common Shares) pursuant to the Long Term Incentive Plan upon reelection to the Board, each at an exercise price per share equal to the closing market price of the Common Shares on the date of grant. In 2010, Messrs. Bowes, Hutt and Varian and Dr. Fisher each were granted an option to purchase 5,000 Common Shares pursuant to the Long Term Incentive Plan and Mr. Van Ness, the Lead Independent Director, was granted an option to purchase 6,333 Common Shares pursuant to the Long Term Incentive Plan, all at an exercise price of \$5.235 per share. Also in 2010, Mr. Walbert, a newly-elected director, was granted an option to purchase 12,000 Common Shares pursuant to the Long Term Incentive Plan at an exercise price of \$2.46 per share, and Mr. Wyszomierski, a newly-elected director, was granted an option to purchase 11,666 Common Shares pursuant to the Long Term Incentive Plan at an exercise price of \$2.69 per share.

Directors who are employees of the Company are neither paid any fees or other remuneration nor awarded options or Common Shares of the Company for services as members of the Board or its committees.

### ITEM 1 ELECTION OF DIRECTORS

The Company's directors are elected annually to serve until the next annual general meeting of shareholders or until their successors are elected, or until their death, resignation or removal. The nominees for the Board are set forth below. Unless otherwise instructed, the proxy holders will vote all proxies received by them in the accompanying form for the nominees for directors listed below. In the event any nominee should become unavailable for election due to an unexpected occurrence, the proxies will be voted for any such substitute nominee as may be designated by the present Board to fill the vacancy. In the event that additional persons are nominated for election as directors, the proxy holders intend to vote all proxies received by them for the nominees listed below. Each person nominated for election has agreed to serve if elected, and management has no reason to believe that any of the nominees listed below will be unable to serve. The eight candidates receiving the highest number of affirmative votes of the Common Shares entitled to vote at the annual general meeting will be elected as directors of the Company.

In the past, banks and brokerage firms were permitted under applicable rules to vote shares beneficially owned by their clients even when they had not received instructions on how to vote those shares regarding certain discretionary matters, including uncontested director elections. Due to recent changes in these rules, uncontested director elections are no longer discretionary, so if your shares are registered in the name of a bank or brokerage firm, you *must* follow your bank's or brokerage firm's instructions in order to participate in the election of our directors.

#### Nominees to the Board

Name	Title	Age
Steven B. Engle	Chairman of the Board, Chief Executive Officer and President	56
Patrick J. Scannon, M.D., Ph.D.	Executive Vice President, Chief Scientific Officer and Director	63
W. Denman Van Ness	Lead Independent Director	68
William K. Bowes, Jr.	Director	84
Peter Barton Hutt	Director	76
John Varian	Director	51
Timothy P. Walbert	Director	43
Jack L. Wyszomierski	Director	55

*Steven B. Engle* became the Company's Chief Executive Officer and President and a director in August of 2007 and its Chairman of the Board in October of 2007. He has more than 25 years of executive leadership and biotechnology and pharmaceutical industry experience. In 2010, he was elected to the board of directors of the Biotechnology Industry Organization, or BIO, and since 2009 has served on the board of directors of BayBio, northern California's life sciences association. Prior to joining the Company, he served as Chairman of the Board and Chief Executive Officer of La Jolla Pharmaceutical Company, a publicly-held biopharmaceutical company focused on the research and development of therapeutic products for autoimmune and antibody-mediated diseases. He joined La Jolla Pharmaceutical Company in 1993, became President and a Director in 1994, Chief Executive Officer in 1995, and Chairman of the Board in 1997. Prior to joining La Jolla, he held executive-level positions at Cygnus Therapeutic Systems, a developer of drug delivery systems, and Micro Power Systems, Inc., a manufacturer of high technology products, including medical devices. He began his professional career with the Strategic Decisions Group and the Stanford Research Institute. In addition to his current affiliations, he served on the board of directors of BIOCOM, southern California's life sciences association, from 2000 to 2010, and from 2000 to 2004 was a member of the board of directors of the Lupus Foundation of America, Inc., a non-profit organization focused on finding the causes and cure for lupus. Mr. Engle holds an M.S.E.E. and a B.S.E.E. with a focus in biomedical engineering from the University of Texas. Mr. Engle has significant experience in building and leading biopharmaceutical companies as a chief executive officer, board chairman and director, and an extensive network of contacts in the pharmaceutical and biotechnology industries. With his strong operational and leadership background and his knowledge of the Company's operations, he provides the Board with a comprehensive understanding of the Company's operations and opportunities.

*Patrick J. Scannon, M.D., Ph.D.* is one of the Company's founders and has served as a director since its formation. Dr. Scannon became Executive Vice President and Chief Scientific Officer in February of 2011. Previously he was Executive Vice President and Chief Medical Officer beginning in March of 2009 and served as Executive Vice President and Chief Biotechnology Officer from May of 2006 until March of 2009, Chief Scientific and Medical Officer from March of 1993 until May of 2006, Senior Vice President from May of 1999 to May of 2006, Vice Chairman, Scientific and Medical Affairs from April of 1992 to March of 1993 and President from the Company's formation until April of 1992. In 2007, Dr. Scannon was invited to join the newly formed National Biodefense Science Board, reporting to the Secretary of the Department of Health and Human Services. He also serves on the Defense Sciences Research Council for the Defense Advanced Research Projects Agency (DARPA) and on the Threat Reduction Advisory Committee for the Department of Defense. In 2007, he was appointed to the Board of Directors of Pain Therapeutics, Inc, a biopharmaceutical company. From 1979 until 1981, Dr. Scannon was a clinical research scientist at the Letterman Army Institute of Research in San Francisco. A Board-certified internist, Dr. Scannon holds a Ph.D. in organic chemistry from the University of California, Berkeley and an M.D. from the Medical College of Georgia. Dr. Scannon's experience in founding and building the Company is integral to the Company and its mission. His medical and scientific background, experience in all aspects of biopharmaceutical product discovery and development, board and government advisory experience and operational knowledge provide strategic guidance to the Company and the Board.

*W. Denman Van Ness* has been a director since October of 1981 and was appointed Lead Independent Director in January of 2008. He is Chairman of Hidden Hill Advisors, a venture capital consulting firm. From April of 1996 through October of 1999, he was a Managing Director of CIBC Capital Partners, an international merchant banking organization. From 1986 to 1996, Mr. Van Ness was a General Partner of Olympic Venture Partners II and Rainier Venture Partners, venture capital funds, and from 1977 until 1985, he was a General Partner of the venture capital group at Hambrecht & Quist, the manager of several venture capital funds. Mr. Van Ness brings to the Board an extensive understanding of corporate development and background in assessing a wide range of corporate funding sources and partnering opportunities. His leadership skills, including past service on the boards of other companies, contribute to his role as Lead Independent Director.

*William K. Bowes, Jr.* has been a director since February of 1986. He has been a General Partner of U.S. Venture Partners since 1981 and currently holds the position of Founding Partner. Mr. Bowes is a member of the Board or the Business Advisory Council of a number of academic initiatives at institutions such as Harvard

University, Stanford University, the University of California, San Francisco and the University of California, Berkeley. Mr. Bowes provides exceptional knowledge and advice on capital markets and development strategies for biopharmaceutical companies.

*Peter Barton Hutt*, former Chief Counsel for the Food and Drug Administration (FDA), became a director in May of 2005. Mr. Hutt is currently Senior Counsel to the Washington, D.C. law firm of Covington & Burling, specializing in food and drug law. Since 1994, he has taught a course on food and drug law at Harvard Law School and taught the same course at Stanford Law School in 1998. He is also a co-author of *Food and Drug Law: Cases and Materials*. Mr. Hutt is a member of the Institute of Medicine (IOM) of the National Academy of Sciences (NAS). He has served on a wide variety of academic and advisory boards, including the Panel on the Administrative Restructuring of the National Institutes of Health (NIH). He serves as Legal Counsel to the Society of Risk Analysis as well as the American College of Toxicology. Formerly, he has served on the IOM Executive Committee, Advisory Committee to the Director of the NIH, the NAS Committee on Research Training in the Biomedical and Behavioral Sciences, and the National Committee to Review Current Procedures for Approval of New Drugs for Cancer and AIDS established by the President's Cancer Panel of the National Cancer Institute at the request of President George Bush. Mr. Hutt received his undergraduate degree from Yale University, and law degrees from Harvard University and New York University. Mr. Hutt currently serves as a director of Celera Corporation, Ista Pharmaceuticals, and Momenta Pharmaceuticals. Mr. Hutt's extensive and unique combination of legal, government, and industry experience is a key asset to the Board. He brings significant insight into the regulatory aspects of pharmaceutical development.

*John Varian* has been a director since December of 2008. He has served as Chief Operating Officer of Aryx Therapeutics since December of 2003 and served as its Chief Financial Officer from April of 2006 to March of 2011. Prior to joining Aryx Therapeutics, Mr. Varian was the CFO of Genset S.A., where he was a key member of the team negotiating the company's sale to Serono S.A. in 2002. Mr. Varian served on the Board of Nventa Biopharmaceuticals Corporation until the company merged with Akela Pharma Inc. in March of 2009. From October of 1998 to April of 2000, Mr. Varian served as Senior Vice President, Finance and Administration of Elan Pharmaceuticals, Inc., joining the company as part of its acquisition of Neurex Corporation. Prior to the acquisition, he served as Neurex Corporation's CFO from June of 1997 until October of 1998. From 1991 until 1997, Mr. Varian served as the VP Finance and CFO of Anergen Inc. Mr. Varian was an Audit Principal/Senior Manager at Ernst & Young from 1987 until 1991 where he focused on life sciences. He is a founding member of the Bay Area Bioscience Center and a former chairman of the Association of Bioscience Financial Officers International Conference. Mr. Varian received a B.B.A. degree from Western Michigan University. Mr. Varian has significant experience in building biopharmaceutical companies and brings a specific focus on financing, corporate financial management and related matters to the Board.

*Timothy P. Walbert* has been a director since November of 2010. Mr. Walbert is Chairman, President and Chief Executive Officer of Horizon Pharma, a privately held biopharmaceutical company focused on developing and commercializing innovative medicines for unmet therapeutic needs in arthritis, pain and inflammatory diseases. Horizon has raised private equity of over \$100 million and has an upcoming FDA action date in January for its lead product candidate HZT-501 for treatment of osteoarthritis, rheumatoid arthritis and pain. While at Horizon, Mr. Walbert recently orchestrated the strategic acquisition of Nitec Pharma AG, broadening Horizon's product portfolio. From 2007 until 2009, Mr. Walbert was President, Chief Executive Officer and a director of IDM Pharma, Inc., a publicly traded oncology-focused biotechnology company. During his tenure, he drove the process of achieving European regulatory approval for MEPACT for the treatment of osteosarcoma, reorganized the company and its management team, and led the successful acquisition of IDM by Takeda America. Prior to IDM, he was Executive Vice President of Commercial Operations for NeoPharm, Inc., a publicly traded biopharmaceutical company, where he oversaw global marketing, sales, reimbursement and business development. From 2001 to 2005, Mr. Walbert was with Abbott in positions of increasing responsibility, most recently as Vice President, International Marketing responsible for overseeing strategy for the global cardiovascular franchise. As Abbott's Divisional Vice President and General Manager for Immunology, Mr. Walbert created and had full P&L management of the global immunology franchise that led the global

development and introduction of HUMIRA<sup>®</sup>, the multi-indication biologic that was the most successful launch in Abbott's history and is on track for over \$6 billion in annual sales in 2010. Prior to his tenure at Abbott, Mr. Walbert was with Searle/Pharmacia where he held several marketing roles for CELEBREX<sup>®</sup> in North America and coordinated international CELEBREX<sup>®</sup> launch and post-launch activities in key global markets. Mr. Walbert holds a B.A. degree from Muhlenberg College, Allentown, PA. He serves on the Board of the Illinois Biotechnology Association and the Greater Chicago Arthritis Foundation.

*Jack L. Wyszomierski* has been a director since August of 2010. From 2004 until his retirement in 2009, Mr. Wyszomierski was Executive Vice President and Chief Financial Officer of VWR International, LLC, a global laboratory supply, equipment and distribution business that serves the world's pharmaceutical and biotechnology companies, as well as industrial and governmental organizations. At Schering-Plough, a global health care company which had worldwide sales of over \$8 billion in 2004, Mr. Wyszomierski held positions of increasing responsibility from 1982 to 2004 culminating in his appointment as Executive Vice President and Chief Financial Officer. Mr. Wyszomierski also serves on the Board of Directors of Athersys, Inc. and Exelixis, Inc. He holds an M.S. in Industrial Administration and a B.S. in Administration, Management Science and Economics from Carnegie Mellon University.

#### **Executive Officers**

Mr. Engle and Dr. Scannon are executive officers of the Company. The remaining executive officers are listed below.

*Fred Kurland* is the Company's Vice President, Finance and Chief Financial Officer. He joined the Company on December 28, 2008. Mr. Kurland is responsible for directing the Company's financial strategy, accounting, financial planning and investor relations functions. He has more than 30 years of experience in biotechnology and pharmaceutical companies including Aviron/MedImmune, Protein Design Labs and Syntex/Roche. Prior to joining XOMA, Mr. Kurland served as Chief Financial Officer of Bayhill Therapeutics, Inc., Concept Therapeutics Incorporated and Genitope Corporation. From 1998 to 2002, Mr. Kurland served as Senior Vice President and Chief Financial Officer of Aviron, acquired by MedImmune in 2001 and developer of FluMist. From 1996 to 1998, he was Vice President and Chief Financial Officer of Protein Design Labs, Inc., an antibody design company, and from 1995 to 1996, he served as Vice President and Chief Financial Officer of Applied Immune Sciences, Inc. Mr. Kurland also held a number of financial management positions at Syntex Corporation, a pharmaceutical company acquired by Roche, including Vice President and Controller between 1991 and 1995. He received his J.D. and M.B.A. degrees from the University of Chicago and his B.S. degree from Lehigh University.

*Christopher J. Margolin* is the Company's Vice President, General Counsel and Secretary. During his time with the Company, Mr. Margolin has been responsible for the legal and intellectual property function and, at various times, the business development, human resources and licensing functions. Prior to joining the Company in 1991, Mr. Margolin was a corporate attorney holding several different executive legal positions for Raychem Corporation, an international high technology company, for 11 years. From 1975 to 1980, he was a division counsel for TRW Inc. and from 1972 to 1975, he was an associate at the law firm of McCutchen, Black, Verleger and Shea in Los Angeles. Mr. Margolin holds a B.A. from Princeton University, a J.D. from the University of Pennsylvania and an M.B.A. from the University of California, Los Angeles.

#### **Board Matters**

##### ***Board Leadership Structure and Risk Oversight***

The Board has chosen to combine the principal executive officer and Board chairman positions and has appointed a Lead Independent Director. The independent directors believe that Mr. Engle's in-depth knowledge of the biopharmaceutical industry and vision for its development, as well as his leadership skills and style, make him the best-qualified director to serve as chairman. The Lead Independent Director has the responsibility of

presiding at all executive sessions of the Board, consulting with the Chairman of the Board, Chief Executive Officer and President on Board and committee meeting agendas, acting as a liaison between management and the independent directors, including maintaining frequent contact with the Chairman of the Board, Chief Executive Officer and President and advising him on the efficiency of Board meetings, facilitating teamwork and communication between the independent directors and management, as well as additional responsibilities. Mr. Van Ness was selected as Lead Independent Director based on his extensive experience with the Company and his leadership skills.

The Board is responsible for consideration and oversight of risks facing the Company and is responsible for ensuring that material risks are identified and managed appropriately. As set forth in the Audit Committee charter, the Audit Committee meets periodically with management in order to review the Company's major financial exposures and the steps management has taken to monitor and control such exposures. In fulfilling this role, the Audit Committee conducts periodic risk assessments and reports its findings to the full Board. The Audit Committee also oversees related-party transactions.

#### ***Board Meetings***

During the fiscal year ended December 31, 2010, the Board held 10 meetings. Each Board member attended at least 75% of the aggregate number of meetings of the Board and the committees of the Board on which he served that were held during the last fiscal year. Each of Messrs. Bowes, Hutt, Van Ness, Varian, Walbert and Wyszomierski is independent as defined in the listing standards of The NASDAQ Stock Market (NASDAQ). Directors are encouraged to attend the Company's annual general meetings of shareholders where practicable. All of the current directors except Mr. Varian attended last year's annual general meeting of shareholders.

The Board has standing audit, compensation and nominating & governance committees.

#### ***Compensation Committee***

The Compensation Committee is responsible for recommending and reviewing the compensation, including options and perquisites, of the Company's officers and other employees. The Compensation Committee, currently consisting of Messrs. Bowes, Van Ness, Walbert and Wyszomierski, held two meetings during 2010. The Board has adopted a written charter for the Compensation Committee, a copy of which is available on the Company's website at [www.xoma.com](http://www.xoma.com). See Compensation Committee Report on Executive Compensation and Compensation Discussion and Analysis.

#### ***Compensation Committee Interlocks and Insider Participation***

None of the members of the Compensation Committee who served on the Compensation Committee in 2010 or who presently serve on the Compensation Committee has interlocking relationships as defined by the SEC or had any relationships requiring disclosure by the Company under the SEC's rules requiring disclosure of certain relationships and related party transactions.

#### ***Nominating & Governance Committee***

The Nominating & Governance Committee assists the Board by identifying individuals qualified to become Board members, recommends to the Board the director nominees for the next annual general meeting of shareholders, recommends to the Board the director nominees for each committee and develops, recommends to the Board and oversees the governance principles applicable to the Company. The Nominating & Governance Committee, currently consisting of Messrs. Bowes (Chairman), Hutt, Van Ness and Walbert, held three meetings during 2010. Each member of the Nominating & Governance Committee is independent as defined in the listing standards of NASDAQ. The Board has adopted a written charter for the Nominating & Governance Committee, a copy of which is available on the Company's website at [www.xoma.com](http://www.xoma.com).

The Nominating & Governance Committee's charter provides that the committee will, on behalf of the Board, review letters from shareholders regarding the Company's annual general meeting and governance process. Beyond this, the committee has no formal policy regarding consideration of director candidates recommended by shareholders, in large part because the Company has never received from any of its shareholders a recommendation of a director nominee with reasonably adequate qualifications. The need for a more formal policy was considered and determined to be unnecessary by the committee. The committee will consider candidates recommended by shareholders, and a shareholder wishing to submit a recommendation should send a letter to the Secretary of the Company at 2910 Seventh Street, Berkeley, California 94710. The mailing envelope must contain a clear notation indicating that the enclosed letter is a Director Nominee Recommendation. The letter must identify the author as a shareholder and provide a complete listing of the candidate's qualifications to serve on the Board, the candidate's current principal occupation, most recent five-year employment history and current directorships and a statement that the proposed nominee has consented to the nomination, as well as contact information for both the candidate and the author of the letter. Shareholders may also nominate candidates who are not first recommended to the Nominating & Governance Committee by following procedures set forth in our bye-laws.

To be considered by the Nominating & Governance Committee, a director nominee must have experience as a board member or senior officer of a company in the healthcare or other industries, have a strong financial background, be a leading participant in another field relative to the Company's business or have achieved national prominence in a relevant field as a faculty member, professional or government official. In addition to these minimum requirements, the committee seeks director candidates based on a number of qualifications, including their independence, knowledge, judgment, leadership skills, education, experience, financial literacy, standing in the community and ability to foster a diversity of backgrounds and views and complement the Board's existing strengths. The Board believes that diversity with respect to all of these factors is an important consideration in appropriate Board composition.

The Board and the Nominating & Governance Committee begin the process of identifying and evaluating director nominees by seeking recommendations from a wide variety of contacts, including current executive officers and directors and industry, academic and community leaders. The Board or the committee may retain a search firm to identify and screen candidates, conduct reference checks, prepare biographies for review by the committee and the Board and assist in setting up interviews. The Nominating & Governance Committee and one or more of the Company's other directors interview candidates, and the committee selects, and recommends to the full Board, nominees that best suit the Company's needs.

#### *Audit Committee*

The Audit Committee is primarily responsible for approving the services performed by the Company's independent registered public accounting firm and reviewing the Company's accounting practices and systems of internal accounting controls. In 2010, this committee held eight meetings and consisted of Messrs. Van Ness, Varian (Chairman) and Wyszomierski. Each member of the Audit Committee is independent as defined in the listing standards of NASDAQ. The Board has determined that each of Messrs. Varian and Wyszomierski is an audit committee financial expert as defined by the rules of the SEC. The Board has adopted a written charter for the Audit Committee, a copy of which is available on the Company's website at [www.xoma.com](http://www.xoma.com). A copy of the Audit Committee charter is also attached as Appendix 1 to this proxy statement.

In accordance with rules established by the SEC, the Audit Committee has prepared the following report for inclusion in this proxy statement:

As part of its ongoing activities, the Audit Committee has:

met with management periodically to consider the adequacy of the Company's internal controls and the objectivity of its financial reporting, and discussed these matters with the Company's independent registered public accounting firm and with appropriate Company financial personnel;

regularly met privately with the independent registered public accounting firm, who have unrestricted access to the committee;

recommended the appointment of the independent registered public accounting firm and reviewed periodically their performance and independence from management;

reviewed the Company's financing plans and reported recommendations to the full Board for approval and to authorize action;

reviewed and discussed with management the Company's audited consolidated financial statements for the fiscal year ended December 31, 2010;

discussed with the independent registered public accounting firm the matters required to be discussed by Statement on Auditing Standards No. 61, Communications with Audit Committees, as amended (AICPA AU Section 380), as adopted by the Public Company Accounting Oversight Board ( PCAOB ) in Rule 3200T; and

received the written disclosures and the letter from the independent registered public accounting firm required by PCAOB Rule 3526, Communication with Audit Committees Concerning Independence, and discussed with the independent registered public accounting firm their independence.

Based on the review and discussions referred to above, the Audit Committee recommended to the Board that the audited consolidated financial statements be included in the 2010 Form 10-K.

John Varian, Chairman

W. Denman Van Ness

Jack L. Wyszomierski

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**ITEM 2 APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board, on the recommendation of its Audit Committee, recommends the appointment of Ernst & Young LLP ( Ernst & Young ) to serve as the Company s independent registered public accounting firm for 2011. Ernst & Young has been acting as the Company s independent registered public accounting firm since fiscal year 1998.

*Audit Fees.* The aggregate fees billed for each of the 2009 and 2010 fiscal years for professional services rendered by Ernst & Young for the audit of the Company s annual financial statements, review of financial statements included in the Company s Form 10-Q, services that are normally provided by Ernst & Young in connection with statutory and regulatory filings or engagements and for attestation services related to Sarbanes-Oxley compliance for those fiscal years were \$579,406 and \$567,253, respectively.

*Audit-Related Fees.* The aggregate fees billed for each of the 2009 and 2010 fiscal years for audit-related services rendered by Ernst & Young for audit-related were \$118,500 and \$157,100, respectively, excluding the services described in the preceding paragraph.

*Tax Fees.* The aggregate fees billed for each of the 2009 and 2010 fiscal years for products and services provided by Ernst & Young for tax compliance, tax advice and tax planning were \$67,500 and \$257,238, respectively.

*All Other Fees.* The aggregate fees billed for each of the 2009 and 2010 fiscal years for products and services provided by Ernst & Young other than the services reported in the three immediately preceding paragraphs were \$0 and \$14,400, respectively.

The Audit Committee considered whether the provision of the services covered in the four immediately preceding paragraphs of this section is compatible with maintaining Ernst & Young s independence.

The Audit Committee s policy is to pre-approve all audit and permissible non-audit services provided by the Company s independent accountants. Pre-approval is generally provided for up to one year, is detailed as to the particular service or category of services and is generally subject to a specific budget. The committee may also pre-approve particular services on a case-by-case basis. In assessing requests for services by the independent accountants, the committee considers whether such services are consistent with the auditor s independence, whether the independent accountants are likely to provide the most effective and efficient service based on their familiarity with the Company, and whether the service could enhance the Company s ability to manage or control risk or improve audit quality. The committee has delegated pre-approval authority to its chairman, who must report any decisions to the committee at its next scheduled meeting.

The recommendation to appoint Ernst & Young and the authorization of the Board to agree to Ernst & Young s fees are being submitted to the shareholders at the annual general meeting. If such appointment is not made, the Board will consider other independent registered public accounting firms for appointment. The Board recommends voting **FOR** the appointment of Ernst & Young as the Company s independent registered public accounting firm for the 2011 fiscal year and the authorization of the Board to agree to Ernst & Young s fees.

A representative of Ernst & Young is expected to be present at the meeting with an opportunity, if desired, to make a statement and to respond to your questions.



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**ITEM 3 INCREASE IN THE NUMBER OF AUTHORIZED COMMON**

**SHARES AND SHARE CAPITAL**

**Background**

Currently, the Company is authorized to issue 46,666,666 Common Shares in the aggregate. In February of 2011, the Board unanimously approved a proposal to increase the Company's authorized share capital by the creation of an additional 46,000,000 Common Shares (the Authorized Share Increase).

On April 8, 2011, the Company had issued and outstanding 29,773,456 Common Shares. As of that date, the Company had reserved approximately 16,090,211 shares for issuance upon exercise of outstanding options and warrants and in connection with existing share-based compensation and benefit plans and financing arrangements. Consequently, the Company has approximately 802,999 shares available for other issuances.

**Effects of Adoption of the Proposal**

The adoption of this proposal would increase the authorized share capital of the Company from US\$400,000, consisting of 46,666,666 Common Shares and 1,000,000 Preference Shares, to US\$745,000, consisting of 92,666,666 Common Shares and 1,000,000 Preference Shares. The additional Common Shares for which authorization is sought would be part of the existing class of Common Shares, and, to the extent issued, would have the same rights and privileges as the Common Shares currently issued and outstanding. No holder of the Common Shares is entitled to any preemptive right to subscribe for or purchase any shares or other securities of the Company. The issuance of a substantial amount of Common Shares or the granting of an option to purchase a substantial amount of Common Shares could have a potential anti-takeover effect with respect to the Company which may make it more difficult to effect a change in control of the Company (for example, by decreasing the percentage of share ownership of those persons seeking to obtain control), although the Board is not presenting the proposal for that reason and does not anticipate using the newly authorized shares for such a purpose. Under applicable law, the Board is required to make any determination to issue such shares based on its judgment at the time of such issuance as to the best interest of the Company.

Approval of the proposal would not affect the number of authorized preference shares or the number of shares issuable under any of the Company's existing share-based compensation or benefit plans.

**Recommendation**

The Company has approximately 16,893,210 Common Shares reserved for issuance upon exercise of outstanding options and warrants and in connection with existing share-based compensation and benefit plans and financing arrangements and available for other issuances. The Board considers it necessary and in the best interest of the Company to have a sufficient number of Common Shares available for issuance in order to provide the Company with business and financing flexibility. The Board also believes in the importance of share-based compensation and benefits plans to align employee and shareholder interests and to continue to attract and retain the services of outstanding employees. Common Shares may be issued by the Company in connection with future strategic business collaborations or equity financings, upon conversion or exchange of outstanding securities. The Company is also obligated to reserve shares for issuance to certain existing investors. Except as described in this paragraph, there are currently no agreements or understandings regarding the issuance of any of the additional Common Shares that would become available if the Company's authorized share capital is increased as proposed. For these reasons, the Board unanimously recommends a vote **FOR** approval. Approval of the Authorized Share Increase requires the affirmative vote of the holders of a majority of the votes cast at the annual general meeting on the proposal.

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#### ITEM 4 AMENDMENT TO LONG TERM INCENTIVE PLAN

The Board has adopted, subject to shareholder approval, an amendment to the Long Term Incentive Plan to (a) increase the number of Common Shares issuable over the term of the plan by an additional 5,500,000 to 6,277,102 Common Shares in the aggregate and (b) provide that, in the case of awards granted out of the additional 5,500,000 share allotment, for each share appreciation right ( SAR ), restricted share, restricted share unit, performance share, performance unit, dividend equivalent or other share-based award issued, the number of available shares under the Long Term Incentive Plan will be reduced by 1.3 shares, while option grants will continue to reduce the number of available shares under the Long Term Incentive Plan by one share for each option to purchase one share granted. The Long Term Incentive Plan is designed to encourage equity ownership of the Company by the employees, consultants and directors who are primarily responsible for its management, growth and financial success, to align the interests of such employees, consultants and directors with those of the Company's shareholders and to assist the Company in attracting and retaining the services of such employees, consultants and directors (see Compensation Discussion and Analysis above). For certain additional information for consideration in connection with this proposal, see Supplemental Option Plan-Related Information below.

The following summary of the Long Term Incentive Plan is qualified in its entirety by reference to the Long Term Incentive Plan, a copy of which, as proposed to be amended as set forth in this Item 4, is attached as Appendix 2 to this proxy statement.

##### General

The Long Term Incentive Plan is intended to provide incentives to attract, retain and motivate employees, consultants and directors and to provide for competitive compensation opportunities, to encourage long term service, to recognize individual contributions and reward achievement of performance goals, and to promote the creation of long term value for shareholders by aligning the interests of such persons with those of shareholders. The Long Term Incentive Plan will provide for the grant to eligible employees, consultants and directors of share options, SARs, restricted shares, restricted share units, performance shares, performance units, dividend equivalents, and other share-based awards (the Awards ). Although no further grants or awards will be made under the Option Plan, the Restricted Share Plan or the Directors Plan, shares underlying options previously issued under the Option Plan, the Restricted Share Plan or the Directors Plan that are currently outstanding will, upon forfeiture, cancellation, surrender or other termination without distribution of Common Shares to holders thereof, become available under the Long Term Incentive Plan.

Of the 777,102 Common Shares currently authorized for issuance under the Long Term Incentive Plan, as of April 8, 2011, no shares had been issued upon the exercise of options granted under the Long Term Incentive Plan, 467,631 shares were subject to outstanding options under the Long Term Incentive Plan that are not subject to shareholder approval of this Item 4, 309,471 shares were authorized for issuance under future option grants to be made under the Long Term Incentive Plan. In addition, as of April 8, 2011, 1,040,220 shares were subject to outstanding options under the Long Term Incentive Plan that are subject to shareholder approval of this Item 4. The expiration dates for all such outstanding options range from May 21, 2020 (at the earliest) to March 7, 2021 (at the latest). After amendment of the Long Term Incentive Plan as proposed in this Item 4, 4,769,251 shares will be available for issuance under the Long Term Incentive Plan. However, in the case of Awards granted out of the additional 5,500,000 share allotment, for each SAR, restricted share, restricted share unit, performance share, performance unit, dividend equivalent or other share-based award issued, the number of shares available under the Long Term Incentive Plan will be reduced by 1.3 shares. Forfeiture of Awards that were counted as 1.3 shares under the provision described above will result in the addition to shares available under the Long Term Incentive Plan of 1.3 shares per share forfeited.

The Common Shares issuable over the term of the Long Term Incentive Plan will be made available from authorized but unissued Common Shares. Each option will have an exercise price per share of not less than 100% of the fair market value per Common Share on the date of grant.

During each calendar year (i) the maximum number of shares with respect to which options and SARs may be granted to a participant under the Long Term Incentive Plan will be 466,666 Common Shares, and (ii) the maximum number of Common Shares which may be granted to a participant under the Long Term Incentive Plan with respect to Awards intended to qualify as performance-based compensation under the Code (other than options and SARs) will be 466,666 Common Shares. In addition, no more than 2,000,000 Common Shares may be issued as ISOs under the Long Term Incentive Plan. This limitation has no effect, however, on the number of shares available under the Long term Incentive Plan. These Common Share amounts are subject to anti-dilution adjustments in the event of certain changes in the Company's capital structure, as described below. Common Shares issued pursuant to the Long Term Incentive Plan may consist, in whole or in part, of authorized but unissued Common Shares or treasury shares including Common Shares acquired by purchase in the open market or in private transactions.

### **Eligibility and Administration**

Officers and other employees of, and consultants to, the Company and its subsidiaries and affiliates and directors of the Company will be eligible to be granted Awards under the Long Term Incentive Plan. Approximately 226+ officers, other employees and directors are currently eligible to participate in the Long Term Incentive Plan. Although the Company utilizes the services of a number of consultants who are or would be eligible to be granted Awards under the Long Term Incentive Plan from time to time, it has seldom granted options or shares under its equity-based plans to consultants.

The Long Term Incentive Plan will be administered by the Compensation Committee or such other Board committee or committees (or the entire Board) as may be designated by the Board. Different committees (including the entire Board) may administer the Long Term Incentive Plan with respect to different groups of eligible participants, but in this proxy statement we refer to all of them together as the LTIP Administrator. Unless otherwise determined by the Board, the LTIP Administrator will consist of two or more members of the Board who are nonemployee directors within the meaning of Rule 16b-3 of the Exchange Act and outside directors within the meaning of Section 162(m) of the Code. The LTIP Administrator will determine which eligible employees, consultants and directors receive Awards, the types of Awards to be received and the terms and conditions thereof. The LTIP Administrator will have authority to waive conditions relating to an Award or accelerate vesting of Awards.

The LTIP Administrator may delegate to other members of the Board or officers or managers of the Company or any subsidiary or affiliate the authority, subject to such terms as the LTIP Administrator shall determine, to perform administrative functions and, with respect to Awards granted to persons not subject to Section 16 of the Exchange Act, to perform such other functions as the LTIP Administrator may determine to the extent permitted under Rule 16b-3 and applicable law.

Except for certain anti-dilution adjustments, unless the approval of shareholders of the Company is obtained, options and SARs issued under the Long Term Incentive Plan will not be amended to lower their exercise price or exchanged for other options or SARs with lower exercise prices, options and SARs with an exercise price in excess of the fair market value of the underlying Common Shares will not be exchanged for cash or other property, and no other action will be taken with respect to options or SARs that would be treated as a repricing under the rules of the principal stock exchange on which the Common Shares are listed.

### **Awards**

ISOs intended to qualify for special tax treatment in accordance with the Code and nonqualified stock options not intended to qualify for special tax treatment under the Code may be granted for such number of Common Shares as the LTIP Administrator determines. The LTIP Administrator will be authorized to set the terms relating to an option, including exercise price and the time and method of exercise. However, the exercise price of options will not be less than the fair market value of the Common Shares on the date of grant, and the term will not be longer than ten years from the date of grant of the options.

An SAR will entitle the holder thereof to receive with respect to each share subject thereto, an amount equal to the excess of the fair market value of one Common Share on the date of exercise over the exercise price of the SAR set by the LTIP Administrator as of the date of grant. However, the exercise price of the SARs will not be less than the fair market value of the Common Shares on the date of grant, and the term will not be longer than ten years from the date of grant of the SARs. Payment with respect to SARs may be made in cash or Common Shares as determined by the LTIP Administrator.

Awards of restricted shares will be subject to such restrictions on transferability and other restrictions, if any, as the LTIP Administrator may impose. Such restrictions will lapse under circumstances as the LTIP Administrator may determine, including based upon a specified period of continued employment or upon the achievement of performance criteria referred to below. Except as otherwise determined by the LTIP Administrator, eligible employees granted restricted shares will have all of the rights of a shareholder, including the right to vote restricted shares and receive dividends thereon, and unvested restricted shares will be forfeited (including by repurchase at a nominal price, where required by Bermuda law) upon termination of employment during the applicable restriction period.

A restricted share unit will entitle the holder thereof to receive Common Shares or cash at the end of a specified deferral period. Restricted share units will also be subject to such restrictions as the LTIP Administrator may impose. Such restrictions will lapse under circumstances as the LTIP Administrator may determine, including based upon a specified period of continued employment or upon the achievement of performance criteria referred to below. Except as otherwise determined by the LTIP Administrator, restricted share units subject to restriction will be forfeited upon termination of employment during any applicable restriction period.

Performance shares and performance units will provide for future issuance of Common Shares or payment of cash, respectively, to the recipient upon the attainment of performance objectives over specified performance periods. Except as otherwise determined by the LTIP Administrator, performance shares and performance units will be forfeited (including by repurchase at a nominal price, where required by Bermuda law) upon termination of employment during any applicable performance period. Performance objectives may vary from person to person and will be based upon such performance criteria as the LTIP Administrator may deem appropriate. The LTIP Administrator may revise performance objectives if significant events occur during the performance period which the LTIP Administrator expects to have a substantial effect on such objectives.

The LTIP Administrator may also grant dividend equivalent rights and it is authorized, subject to limitations under applicable law, to grant such other Awards that may be denominated in, valued in, or otherwise based on, Common Shares, as deemed by the LTIP Administrator to be consistent with the purposes of the Long Term Incentive Plan.

If the LTIP Administrator determines that an Award of restricted shares, restricted share units, performance shares, performance units or other share-based awards should qualify under the performance-based compensation exception to the \$1 million cap on deductibility under Section 162(m) of the Code, the grant, vesting, exercise and/or settlement of such awards shall be contingent upon achievement of pre-established performance goals based on one or more of the following business criteria for the Company and/or for specified subsidiaries or affiliates or other business units or lines of business of the Company: (1) earnings per share (basic or fully diluted); (2) revenues; (3) earnings, before or after taxes, from operations (generally or specified operations), or before or after interest expense, depreciation, amortization, incentives, or extraordinary or special items; (4) cash flow, free cash flow, cash flow return on investment (discounted or otherwise), net cash provided by operations, or cash flow in excess of cost of capital; (5) return on net assets, return on assets, return on investment, return on capital, return on equity; (6) economic value added; (7) operating margin or operating expense; (8) net income; (9) Common Share price or total shareholder return; (10) book value or adjusted book value; (11) expense ratio; (12) operating income; and (13) strategic business criteria, consisting of one or more objectives based on meeting specified market penetration, geographic business expansion goals, cost targets, customer satisfaction, supervision of litigation and information technology, and goals relating to acquisitions or divestitures of

subsidiaries, affiliates or joint ventures. The targeted level or levels of performance with respect to such business criteria may be established at such levels and in such terms as the LTIP Administrator may determine, in its discretion, including in absolute terms, as a goal relative to performance in prior periods, or as a goal compared to the performance of one or more comparable companies or an index covering multiple companies. The maximum amount payable upon settlement of a cash-settled performance unit (or any other cash-settled award) granted under the Long Term Incentive Plan that is intended to satisfy the requirements for performance-based compensation under Section 162(m) of the Code for any calendar year to any participant will not exceed \$3,000,000.

#### **Nontransferability**

Unless otherwise set forth by the LTIP Administrator in an award agreement, Awards (except for vested shares) will generally not be transferable by the participant other than by will or the laws of descent and distribution and will be exercisable during the lifetime of the participant only by such participant or his or her guardian or legal representative.

#### **Change in Control**

In the event of a change in control (as defined in the Long Term Incentive Plan), all Awards granted under the Long Term Incentive Plan then outstanding but not then exercisable (or subject to restrictions) shall become immediately exercisable, all restrictions shall lapse, and any performance criteria shall be deemed satisfied, unless otherwise provided in the applicable Award agreement.

#### **Capital Structure Changes**

If the LTIP Administrator determines that any dividend in shares, recapitalization, share split, reverse split, reorganization, merger, consolidation, amalgamation, spin-off, combination, repurchase, share exchange, extraordinary distribution or other similar corporate transaction or event affects the shares such that an adjustment is appropriate in order to prevent dilution or enlargement of the rights of eligible participants under the Long Term Incentive Plan, then the LTIP Administrator shall make such equitable changes or adjustments as it deems appropriate, including adjustments to (i) the number and kind of shares which may thereafter be issued under the Long Term Incentive Plan, (ii) the number and kind of shares, other securities or other consideration issued or issuable in respect of outstanding Awards, and (iii) the exercise price, grant price or purchase price relating to any Award. Under such circumstances, the LTIP Administrator also has the authority to provide for a distribution of cash or property in respect of any Award.

#### **Amendment and Termination**

The Long Term Incentive Plan may be amended, altered, suspended or terminated by the Board at any time, in whole or in part, without the consent of shareholders or plan participants. However, any amendment for which shareholder approval is required under the rules of any stock exchange or automated quotation system on which the Common Shares may then be listed or quoted will not be effective until such shareholder approval has been obtained. In addition, no amendment, suspension, or termination of the Long Term Incentive Plan may materially and adversely affect the rights of a participant under any Award theretofore granted to him or her without the consent of the affected participant. The LTIP Administrator may waive any conditions or rights, amend any terms, or amend, suspend or terminate, any Award granted, provided that, without participant consent, such amendment, suspension or termination may not materially and adversely affect the rights of such participant under any Award previously granted to him or her.

#### **Effective Date and Term**

The Long Term Incentive Plan became effective on July 21, 2010, the date of approval by our shareholders. Unless earlier terminated or extended, the Long Term Incentive Plan will expire on May 25, 2020 (unless sooner terminated by the Board) and no further awards may be granted thereunder after such date.

## **Federal Income Tax Consequences**

The following is a summary of the federal income tax consequences of the Long Term Incentive Plan, based upon current provisions of the Code, the Treasury regulations promulgated thereunder and administrative and judicial interpretations thereof, and does not address the consequences under any state, local or foreign tax laws.

### *Stock Options*

In general, the grant of an option will not be a taxable event to the recipient and it will not result in a deduction to the Company. The tax consequences associated with the exercise of an option and the subsequent disposition of Common Shares acquired on the exercise of such option depend on whether the option is a nonqualified stock option or an ISO.

Upon the exercise of a nonqualified stock option, the participant will recognize ordinary taxable income equal to the excess of the fair market value of the Common Shares received upon exercise over the exercise price. The Company or a subsidiary that employs the participant will generally be able to claim a deduction in an equivalent amount. Any gain or loss upon a subsequent sale or exchange of the Common Shares will be capital gain or loss, long-term or short-term, depending on the holding period for the Common Shares.

Generally, a participant will not recognize ordinary taxable income at the time of exercise of an ISO and no deduction will be available to the Company or a subsidiary that employs the participant, provided the option is exercised while the participant is an employee or within three months following termination of employment (longer, in the case of disability or death). If an ISO granted under the Long Term Incentive Plan is exercised after these periods, the exercise will be treated for federal income tax purposes as the exercise of a nonqualified stock option. Also, an ISO granted under the Long Term Incentive Plan will be treated as a nonqualified stock option to the extent it (together with other ISOs granted to the participant by the Company) first becomes exercisable in any calendar year for Common Shares having a fair market value, determined as of the date of grant, in excess of \$100,000.

If Common Shares acquired upon exercise of an ISO are sold or exchanged more than one year after the date of exercise and more than two years after the date of grant of the option, any gain or loss will be long-term capital gain or loss. If Common Shares acquired upon exercise of an ISO are disposed of prior to the expiration of these one-year or two-year holding periods (a Disqualifying Disposition), the participant will recognize ordinary income at the time of disposition, and the Company or a subsidiary that employs the participant will generally be entitled to a deduction, in an amount equal to the excess of the fair market value of the Common Shares at the date of exercise over the exercise price. Any additional gain will be treated as capital gain, long-term or short-term, depending on how long the Common Shares have been held. Where Common Shares are sold or exchanged in a Disqualifying Disposition (other than certain related party transactions) for an amount less than their fair market value at the date of exercise, any ordinary income recognized in connection with the Disqualifying Disposition will be limited to the amount of gain, if any, recognized in the sale or exchange, and any loss will be a long-term or short-term capital loss, depending on how long the Common Shares have been held.

If an option is exercised through the use of Common Shares previously owned by the participant, such exercise generally will not be considered a taxable disposition of the previously owned Common Shares and, thus, no gain or loss will be recognized with respect to such previously owned Common Shares upon such exercise. The amount of any built-in gain on the previously owned Common Shares generally will not be recognized until the new Common Shares acquired on the option exercise are disposed of in a sale or other taxable transaction.

Although the exercise of an ISO as described above would not produce ordinary taxable income to the participant, it would result in an increase in the participant's alternative minimum taxable income and may result in an alternative minimum tax liability.

#### *Restricted Shares*

A participant who receives restricted Common Shares will generally recognize ordinary income at the time that they vest, *i.e.*, when they are not subject to a substantial risk of forfeiture. The amount of ordinary income so recognized will generally be the fair market value of the Common Shares at the time the Common Shares vest, less the amount, if any, paid for the Common Shares. This amount is generally deductible for federal income tax purposes by the Company or a subsidiary that employs the participant. Dividends paid with respect to Common Shares that are nonvested will be ordinary compensation income to the participant (and generally deductible by the Company or a subsidiary that employs the participant). Any gain or loss upon a subsequent sale or exchange of the Common Shares, measured by the difference between the sale price and the fair market value on the date the Common Shares vest, will be capital gain or loss, long-term or short-term, depending on the holding period for the Common Shares. The holding period for this purpose will begin on the date following the date the Common Shares vest.

In lieu of the treatment described above, a participant may elect immediate recognition of income under Section 83(b) of the Code. In such event, the participant will recognize as income the fair market value of the restricted shares at the time of grant (determined without regard to any restrictions other than restrictions which by their terms will never lapse), and the Company or a subsidiary that employs the participant will generally be entitled to a corresponding deduction. Dividends paid with respect to Common Shares as to which a proper Section 83(b) election has been made will not be deductible to the Company or a subsidiary that employs the participant. If a Section 83(b) election is made and the restricted shares are subsequently forfeited, the participant will not be entitled to any offsetting tax deduction.

#### *SARs and Other Awards*

With respect to SARs, restricted share units, performance shares, performance units, dividend equivalents and other Awards under the Long Term Incentive Plan not described above, generally, when a participant receives payment with respect to any such Award granted to him or her under the Long Term Incentive Plan, the amount of cash and the fair market value of any other property received will be ordinary income to such participant and will be allowed as a deduction for federal income tax purposes to the Company or a subsidiary that employs the participant.

#### *Payment of Withholding Taxes*

The Company may withhold, or require a participant to remit to it, an amount sufficient to satisfy any federal, state, local or foreign withholding tax requirements associated with Awards under the Long Term Incentive Plan.

#### *Deductibility Limit on Compensation in Excess of \$1 Million*

Section 162(m) of the Code generally limits the deductible amount of annual compensation paid (including, unless an exception applies, compensation otherwise deductible in connection with Awards granted under the Long Term Incentive Plan) by a public company to each covered employee (i.e., the chief executive officer, the chief financial officer and the three most highly compensated executive officers of the Company other than the chief executive officer or the chief financial officer) to no more than \$1 million. The Company currently intends to structure share options granted under the Long Term Incentive Plan to comply with an exception to nondeductibility under Section 162(m) of the Code.

#### **New Plan Benefits**

The amount of benefits payable in the future under the Long Term Incentive Plan is not currently determinable.

## Recommendation

At the annual general meeting, the Company's shareholders will be asked to approve the proposal to amend the Long Term Incentive Plan to (a) increase the number of Common Shares issuable over the term of the plan by an additional 5,500,000 to 6,277,102 Common Shares in the aggregate and (b) provide that, in the case of awards granted out of the additional 5,500,000 share allotment, for each SAR, restricted share, restricted share unit, performance share, performance unit, dividend equivalent or other share-based award issued, the number of available shares under the Long Term Incentive Plan will be reduced by 1.3 shares. The Board believes that the Company will be at a competitive disadvantage in its efforts to attract and retain employees, consultants and directors if it does not have the ability to issue equity-based compensation awards and believes that approval of the proposed amendment is in the best interest of the Company and its employees, consultants and directors because it will assist the Company in retaining the services of outstanding employees, consultants and directors. In addition, the Board believes that the Company needs to maintain the flexibility to issue SAR, restricted share, restricted share unit, performance share, performance unit, dividend equivalent and other share-based awards, as well as share options, to participants in the Long Term Incentive Plan. However, the Board also recognizes that SAR, restricted share, restricted share unit, performance share, performance unit, dividend equivalent or other share-based awards generally have a greater cost to the Company than share options, and accordingly the proposal includes a provision whereby, in the case of awards granted out of the additional 5,500,000 share allotment, for each SAR, restricted share, restricted share unit, performance share, performance unit, dividend equivalent or other share-based award issued, the number of available shares under the Long Term Incentive Plan will be reduced by 1.3 shares. As a result, the Board unanimously recommends voting **FOR** approval. Approval of the amendment requires the affirmative vote of the holders of a majority of the votes cast at the annual general meeting on the proposal.

## ITEM 5 ADDITION OF SHARES TO THE 1998 EMPLOYEE SHARE PURCHASE PLAN

The 1998 Employee Share Purchase Plan (the "Share Purchase Plan") is designed to give employees of the Company an opportunity to purchase Common Shares through payroll deductions, thereby encouraging employees to share in the economic growth and success of the Company.

The Board has adopted, subject to shareholder approval, an amendment to the Share Purchase Plan to increase the number of Common Shares issuable over the term of the plan by 100,000 to 233,333 Common Shares in the aggregate. The proposed amendment will enable the Company to continue to encourage its employees to purchase Common Shares.

The following summary of the Share Purchase Plan is qualified in its entirety by reference to the Share Purchase Plan, which is incorporated by reference as an exhibit to the 2010 Form 10-K and a copy of which may be obtained by contacting the Secretary of the Company.

### Description of the Share Purchase Plan

Any person who is an employee on a given enrollment date of an offering period, generally the beginning of every calendar quarter (the "Offering Period"), who is scheduled to work at least 20 hours per week on a regular basis is eligible to participate in the Share Purchase Plan. An Offering Period will generally be a 3-month period beginning with the enrollment date. Common Shares will be purchased for participants in the Share Purchase Plan as of the last day of each Offering Period with the money deducted from their paychecks during the Offering Period. The purchase price per Common Share will be an amount equal to 95% of the fair market value of a Common Share on the last day of such Offering Period.

A participant may elect to have payroll deductions made under the Share Purchase Plan for the purchase of Common Shares in an amount not to exceed 20% of the participant's compensation. Compensation for purposes of the Share Purchase Plan means total cash compensation, including regular pay, overtime pay and bonuses, and



it also includes pre-tax employee contributions under a Section 401(k) plan or Section 125 plan. Contributions to the Share Purchase Plan will be on an after-tax basis (i.e., such contributions are subject to federal, state and local taxes). A participant may terminate his or her payroll deductions at any time. A participant may elect (not more than once each quarter) to decrease the amount of payroll deductions with respect to the current Offering Period. Increases may be made only by electing to participate in a future Offering Period.

A share purchase account will be established for each participant in the Share Purchase Plan. Amounts deducted from participants' paychecks will be credited to their accounts with respect to the current Offering Period. No interest will accrue with respect to any amounts credited to the accounts. As of the last day of each Offering Period, the amount credited to a participant's share purchase account with respect to such Offering Period will be used to purchase the largest number of whole Common Shares at the price as determined above. The Common Shares will be purchased directly from the Company. No brokerage or other fees will be charged to participants. Unless approved by the Compensation Committee, fractional shares will not be purchased, and any payroll deductions which are not sufficient to purchase a whole Common Share, or which otherwise remain in a participant's account, will be returned to the participant.

The maximum number of Common Shares that a participant may purchase during an Offering Period with respect to such Offering Period is 50,000 Common Shares. That maximum will be reduced if, after the purchase, the participant would own Common Shares of the Company (including Common Shares he or she could purchase under any outstanding options) possessing 5% or more of the total voting power or value of all classes of shares of the Company, or if the total fair market value of the Common Shares to be purchased for the participant determined on the first day of the Offering Period would exceed \$25,000 for each calendar year during which the Offering Period is in effect as determined in accordance with Section 423(b)(8) of the Code. If the aggregate shares purchase accounts to be used for the purchase of Common Shares as of the last day of an Offering Period would purchase more Common Shares than are reserved for purchase and sale under the Share Purchase Plan, the number of Common Shares which would otherwise be purchased for each participant will be reduced proportionately and the remaining account balance of each participant will be distributed to each such participant.

A participant may withdraw from participation in the Share Purchase Plan at any time during an Offering Period by written notice to the Company. Upon withdrawal, a participant's account balance will be distributed as soon as practicable and no Common Shares with respect to such Offering Period(s) will be purchased. Rights to purchase Common Shares under the Share Purchase Plan are exercisable only by the participant and are not transferable.

If not sooner terminated automatically because all shares reserved under the Share Purchase Plan have been issued and sold, the Share Purchase Plan will continue in effect until terminated by the Board. The Board may amend, suspend, or terminate the Share Purchase Plan at any time, except that certain amendments may be made only with the approval of the shareholders of the Company.

#### **Federal Income Tax Consequences**

The following is a summary of certain of the federal income tax consequences to participants in the Share Purchase Plan and to the Company, based upon current provisions of the Code and the regulations and rulings thereunder, and does not address the consequences under state or local or any other applicable tax laws.

Rights to purchase shares under the Share Purchase Plan are referred to in the Code as options. Participants in the Share Purchase Plan will not recognize income at the time options are granted to them at the beginning of an Offering Period or when they exercise such options and purchase Common Shares at the end of the Offering Period. However, participants will be taxed on amounts withheld from their salary under the Share Purchase Plan as if actually received, and the Company will generally be entitled to a corresponding income tax deduction.

If a participant disposes of the Common Shares purchased pursuant to the Share Purchase Plan after one year from the end of the applicable Offering Period and two years from the beginning of the applicable Offering Period, the participant must include in gross income as compensation (as ordinary income and not as capital gain) for the taxable year of disposition an amount equal to the lesser of (a) the excess of the fair market value of the Common Shares at the beginning of the applicable Offering Period over the purchase price computed on the first day of the Offering Period or (b) the excess of the fair market value of the Common Shares at the time of disposition over their purchase price. Thus, if the one and two year holding periods described above are met, a participant's ordinary compensation income will be limited to the discount available to the participant on the first day of the applicable Offering Period. If the amount recognized upon such a disposition by way of sale or exchange of the Common Shares exceeds the purchase price plus the amount, if any, included in income as ordinary compensation income, such excess will be long-term capital gain. If the one and two year holding periods described above are met, the Company will not be entitled to any income tax deduction.

If a participant disposes of Common Shares within one year from the end of the applicable Offering Period or two years from the beginning of the Offering Period, the participant will recognize ordinary income at the time of disposition which will equal the excess of the fair market value of the Common Share on the date the participant purchased the Common Shares (i.e., the end of the applicable Offering Period) over the amount paid for the Common Shares. The Company will generally be entitled to a corresponding income tax deduction. The excess, if any, of the amount recognized on disposition of such Common Shares over their fair market value on the date of purchase (i.e., the end of the applicable Offering Period) will be short-term capital gain, unless the participant's holding period for the Common Shares (which will begin at the time of the participant's purchase at the end of the Offering Period) is more than one year. If the participant disposes of the Common Shares for less than the purchase price for the shares, the difference between the amount recognized and such purchase price will be a long- or short-term capital loss, depending upon the participant's holding period for the Common Shares.

### Recommendation

At the annual general meeting, the Company's shareholders will be asked to approve the proposal to amend the Share Purchase Plan to increase the number of Common Shares issuable over the term of the Share Purchase Plan by 100,000 to 233,333 Common Shares in the aggregate. The Board believes that approval of the proposed amendment is in the best interest of the Company and its employees because it will continue to encourage employees to share in the economic growth and success of the Company and unanimously recommends voting **FOR** approval. Approval of the amendment requires the affirmative vote of the holders of a majority of the votes cast at the annual general meeting on the proposal.

### EQUITY COMPENSATION PLAN INFORMATION

We show below information as of December 31, 2010 on equity compensation plans under which the Common Shares are authorized for issuance.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column)
Equity compensation plans approved by security holders	2,258,117	\$ 25.1277	695,241(1)
Equity compensation plans not approved by security holders	73,333	\$ 32.55	0
Total	2,331,450	\$ 25.36	695,241

- (1) Assuming Items 4 and 5 of this proxy statement are approved, the number of securities remaining available for future issuance under equity compensation plans in this column would be 6,295,241. Does not give effect to grants made after December 31, 2010.

### Supplemental Option Plan-Related Information

The following table sets forth certain information for consideration in connection with the proposal relating to the Long Term Incentive Plan described in this proxy statement. **The information below is as of April 8, 2011 (the record date for the annual general meeting), assumes Item 4 of this proxy statement is approved by shareholders and gives effect to options granted subject to such approval and assumes no forfeiture, cancellation, surrender or other termination without distribution in respect of outstanding options.**

Shares available for grant as options	4,769,251(1)
Shares available for direct issuance	3,668,654(1)
Options outstanding(2)	3,726,304
Average exercise price of outstanding options	\$ 17.3875
Average remaining term of outstanding options (in years)	8.30
Shares issued directly (during the period 1994-2010)(3)	73,628

- (1) In July of 2011, the Company's shareholders approved the Long Term Incentive Plan, which replaced the Option Plan, the Restricted Share Plan and the Directors Plan going forward. Although no further grants or awards will be made under the Option Plan, the Restricted Share Plan or the Directors Plan, shares underlying options previously issued under the Option Plan, the Restricted Share Plan or the Directors Plan that are currently outstanding will, upon forfeiture, cancellation, surrender or other termination without distribution of Common Shares to holders thereof, become available under the Long Term Incentive Plan.
- (2) There are no unvested restricted shares, restricted share units, performance shares, performance units, SARs, dividend equivalents or other share-based awards outstanding.
- (3) 73,521 of which were issued pursuant to shareholder-approved bonus plans (which have since been amended to require that all bonus payments thereunder be made entirely in cash) and 107 of which were issued pursuant to shareholder-approved option and restricted share plans.

### ITEM 6 ADVISORY VOTE ON EXECUTIVE COMPENSATION

#### Background

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") requires that shareholders have the opportunity to cast an advisory (non-binding) vote on executive compensation commencing with our 2011 annual meeting (a so-called "say-on-pay" vote), as well as an advisory vote with respect to whether future say-on-pay votes will be held every one, two or three years, which is the subject of Item 7 below.

The advisory vote on executive compensation is a non-binding vote on the compensation of the Company's named executive officers, as described in the Compensation Discussion and Analysis section, the tabular disclosure regarding such compensation, and the accompanying narrative disclosure, set forth in this proxy statement. The advisory vote on executive compensation is not a vote on the Company's general compensation policies, compensation of the Company's Board of Directors, or the Company's compensation policies as they relate to risk management. The Dodd-Frank Act requires the Company to hold the advisory vote on executive compensation at least once every three years.

Our philosophy in setting compensation policies for executive officers has two fundamental objectives: (1) to enable the Company to attract, motivate and retain outstanding individuals and (2) to align their success with that of the Company's shareholders through the creation of shareholder value and achievement of strategic corporate objectives. The Compensation Committee believes that executive compensation should be directly linked both to continuous improvements in corporate performance (so-called "pay for performance") and accomplishments that are expected to increase shareholder value. The Compensation Discussion and Analysis section starting on page 4 provides a more detailed discussion of the executive compensation program and compensation philosophy.

The vote under this Item 6 is advisory, and therefore not binding on the Company, the Board or our Compensation Committee. However, our Board, including our Compensation Committee, values the opinions of our shareholders and, to the extent there is any significant vote against the executive officer compensation as disclosed in this proxy statement, we will consider our shareholders' concerns and evaluate what actions may be appropriate to address those concerns.

Shareholders will be asked at the annual general meeting to approve the following resolution pursuant to this Item 6:

RESOLVED, that the shareholders of XOMA Ltd. (the Company) approve, on an advisory basis, the compensation of the Company's named executive officers as such compensation is described in the Compensation Discussion and Analysis section, the tabular disclosure regarding such compensation, and the accompanying narrative disclosure, set forth in the Company's definitive proxy statement for the 2011 Annual General Meeting of Shareholders.

#### **Recommendation**

The Board of Directors recommends a vote **FOR** approval of the foregoing resolution. Approval of this resolution requires the affirmative vote of the holders of a majority of the votes cast at the annual general meeting. Abstentions will have the same effect as voting against the resolution. Because broker non-votes are not counted as votes for or against this resolution, they will have no effect on the outcome of the vote.

### **ITEM 7 ADVISORY VOTE ON FREQUENCY OF ADVISORY VOTE ON EXECUTIVE COMPENSATION**

#### **Background**

We are also required by the Dodd-Frank Act to provide shareholders with a separate advisory (non-binding) vote for the purpose of asking shareholders to express their preference for the frequency of future say-on-pay votes. Shareholders may indicate whether they would prefer an advisory vote on executive compensation once every one, two or three years. However, because this vote is advisory and not binding on the Board of Directors or the Company, the Board may decide that it is in the best interests of our shareholders and the Company to hold an advisory vote on executive compensation more or less frequently than the option selected by a plurality of our shareholders. We are required to solicit shareholder votes on the frequency of future say-on-pay proposals at least once every six years, although we may seek shareholder input more frequently.

#### **Recommendation**

The Board of Directors recommends a vote in favor of an advisory vote on executive compensation once every **THREE** years. The Board believes that such a vote is most appropriate for the Company because it would provide shareholders with the appropriate timeframe to evaluate the Company's overall compensation philosophy, design and implementation. As described in the Compensation Discussion and Analysis, the Company's executive officer compensation is designed with a long-term focus to retain outstanding individuals and align their success with that of the Company's shareholders. Key elements of the program include performance criteria that require creation of shareholder value and achievement of strategic corporate objectives that are fundamental to our business model. Due to the very nature of biopharmaceutical research and development, many aspects of our business model, and consequently most of our strategic objectives, extend well beyond an annual timeframe. A three-year period is more closely aligned with the longer-term view that the Compensation Committee takes with respect to the more significant components of our named executive officers' compensation, and would allow shareholders the opportunity to evaluate the effectiveness of these programs over the time frames that they are intended to generate performance. The Board intends that the Company's executive officer compensation program be responsive to shareholder concerns, but is concerned that

annual votes on the program could foster short-term focus and undermine its long-term features. Additionally, a longer period between votes would provide the opportunity for shareholders and advisory services to engage in more thoughtful analysis and would facilitate more meaningful dialogue between shareholders and the Board regarding the Company's executive compensation practices.

The frequency period that receives the most votes (every one, two or three years) will be deemed to be the recommendation of the shareholders. As a result, any shares that are not voted, whether by abstention, broker non-votes or otherwise, will not affect the outcome of this proposal, except to the extent that the failure to vote for a particular frequency period may result in another frequency period receiving a larger proportion of the votes cast.

#### **RECEIPT OF AUDITED FINANCIAL STATEMENTS**

In accordance with Bermuda company law and practice, the Company's audited financial statements for fiscal year 2010 will be laid before the annual general meeting. No shareholder action is required in connection therewith.

#### **COMPLIANCE WITH SECTION 16(a) OF THE SECURITIES EXCHANGE ACT OF 1934**

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's executive officers and directors to file initial reports of ownership and changes in ownership with the SEC and NASDAQ. Such executive officers and directors are required by SEC regulations to furnish the Company with copies of all Section 16(a) forms they file. Based on a review of the copies of the forms furnished to the Company and written representations from the Company's executive officers and directors, all persons subject to the reporting requirements of Section 16(a) filed the required reports with respect to 2010 on a timely basis.

#### **TRANSACTIONS WITH RELATED PERSONS**

There were no reportable transactions with related persons during 2010. The Company or a subsidiary of the Company may occasionally enter into transactions with certain related persons, such as executive officers, directors or nominees for directors of the Company, their immediate family members or beneficial owners of more than 5% of the Company's outstanding Common Shares, in which the related party has a direct or indirect material interest. Each such transaction is subject to review and pre-approval by the Audit Committee.

#### **OTHER MATTERS**

The Board does not know of any matters to be presented at this annual general meeting other than those set forth in this proxy statement and in the notice accompanying this proxy statement. If other matters should properly come before the meeting, it is intended that the proxy holders will vote on such matters in accordance with their best judgment.

It is important that your Common Shares be represented at the meeting, regardless of the number of Common Shares which you hold. You are, therefore, urged to promptly execute and return the accompanying proxy in the postage prepaid envelope which has been enclosed for your convenience or appoint a proxy by telephone or through the Internet.

**SHAREHOLDER PROPOSALS AND OTHER COMMUNICATIONS**

A shareholder who intends to present a proposal at the 2012 meeting of shareholders must submit such proposal to the Company by December 17, 2011 for inclusion in the Company's 2012 proxy statement and proxy card relating to such meeting, assuming the Company returns to its historical practice of holding its annual general meetings in May. The proposal must be mailed to the Company's principal office, at 2910 Seventh Street, Berkeley, California 94710, Attention: Secretary. Under Bermuda law, shareholders holding not less than 5% of the total voting rights or 100 or more registered shareholders together may require the Company to give notice to shareholders of a proposal to be submitted at an annual general meeting. Generally, notice of such a proposal must be received at our registered office in Bermuda not less than six weeks before the date of the meeting and must otherwise comply with the requirements of Bermuda law.

For all other shareholder communications with the Board or a particular director, a shareholder may send a letter to the Company's principal office, at 2910 Seventh Street, Berkeley, California 94710, Attention: Secretary. The mailing envelope must contain a clear notation indicating that the enclosed letter is a Shareholder-Board Communication or Shareholder-Director Communication. The letter must identify the author as a shareholder and clearly state whether the intended recipients are all members of the Board or just certain specified individual directors.

By Order of the Board,  
Christopher J. Margolin  
Secretary

April 21, 2011

Berkeley, California

**Appendix 1**

**XOMA LTD.**

**AUDIT COMMITTEE CHARTER\***

1. **Designation of Committee.** The Audit Committee (the Audit Committee or the Committee) of the Board of Directors of XOMA Ltd. (the Company) has heretofore been designated by the Board of Directors. The Committee shall continue to function in accordance with the prior determinations of the Board of Directors, the Company's By-laws and this Charter, as originally adopted at the meetings of the Board of Directors and the Audit Committee both held on February 23, 2000 and as amended at the meetings of the Board of Directors and the Audit Committee both held on October 30, 2002 and February 24, 2011.
2. **Policy confirmation.** The operation and function of the Committee is based on the recognition that the independent registered public accountant for the Company is ultimately accountable to the shareholders of the Company, to the Board of Directors, and to the Audit Committee of the Company, and that the Audit Committee and Board of Directors, as the shareholders' representatives, have the ultimate authority and responsibility to select, evaluate and, where appropriate, replace the independent registered public accountant (or to nominate the independent registered public accountant to be proposed for shareholder approval in any proxy statement).
3. **Independence confirmation.** The Audit Committee is responsible for ensuring that the independent registered public accountant submits on a periodic (but at least annual) basis to the Audit Committee a formal written statement delineating all relationships between the independent registered public accountant and the Company and the number of previous consecutive fiscal years in which each of the audit partners responsible for the audit of the Company have performed audit services for the Company. The Audit Committee is responsible for actively engaging in a dialogue with the independent registered public accountant with respect to any disclosed relationships or services that may impact the objectivity and independence of the independent registered public accountant and for recommending that the Board of Directors take appropriate action to ensure the independence of the independent registered public accountant.
4. **Membership.** Effective June 14, 2001, the Audit Committee shall consist of not less than three (3) members of the Board of Directors.
  - (a) The Audit Committee shall be composed entirely of independent members of the Board of Directors, and no person who is employed by the Company or who is designated as the Chairman of the Board shall be a member of the Audit Committee. No member of the Audit Committee shall have any relationship to the Company or to the Chairman of the Board that may interfere with the exercise of his or her independence from management and the Company.
  - (b) No person may be named to the Audit Committee or shall serve as a member of the Audit Committee who is related by blood or marriage to the Chairman of the Board or to any employee of the Company, who has a business relationship with, or accepts any fees from, the Company (other than as Director), or who is an affiliated person of the Company or a member of such other body or board as gives him or her a cross compensation link, as such terms are defined either by the United States Securities and Exchange Commission (the SEC) or by the National Association of Securities Dealers, Inc. (the NASD).
  - (c) Each member of the Audit Committee shall be financially literate, as such qualification is interpreted by the Board of Directors in its business judgment.
  - (d) At least one member of the Audit Committee (i) shall have accounting or related financial management expertise, as such qualification is interpreted by the Board of Directors in its business judgment and (ii) upon effectiveness of the SEC's adoption of a definition of the term financial expert (the absence of which on the Committee would require disclosure in the Company's periodic reports filed with the SEC), shall meet such definition.

- (e) In setting the qualifications for the members of the Audit Committee and in electing members to the Audit Committee, the Board of Directors may take into consideration academic background or training in financial analysis or business management, business experience throughout the career of the individual which involved or required financial management analysis and understanding, service as a Director and membership on its Audit Committee and such other factors as the Board of Directors may deem appropriate.
- (f) The composition and membership of the Audit Committee shall otherwise comply with the rules of the SEC and the rules and regulations of the NASD.

5. **Purposes.** The purposes of the Audit Committee are:

- (a) to oversee the accounting and financial reporting policies and practices of the Company, the effectiveness of the Company's internal control over financial reporting and, as appropriate, the internal controls of certain service providers;
- (b) to oversee the quality and objectivity of the financial statements of the Company and the independent audit thereof; and
- (c) to act as a liaison between the Company's independent registered public accountant and the Board of Directors.

In general, the function of the Audit Committee is oversight; it is management's responsibility to maintain appropriate systems for accounting and internal control, and the independent registered public accountant's responsibility to plan and carry out a proper audit.

6. **Duties and powers.** To carry out its purposes, the Audit Committee shall have the following duties and powers:

- (a) to be directly responsible for the selection, appointment, retention, compensation, oversight and termination of independent registered public accountant and, in connection therewith, to evaluate the independence of the independent registered public accountant, including whether the independent registered public accountant provide any consulting services to the Company, and to receive the independent registered public accountant's specific representations as to their independence;
- (b) to meet with the independent registered public accountant of the Company, including private meetings, as necessary (i) to review the arrangements for and scope of the annual audit, quarterly reports, and any special audits; (ii) to discuss any matters of concern relating to the financial statements of the Company, including any adjustments to such statements recommended by the independent registered public accountant, or other results of said audit(s); (iii) to review with the independent registered public accountant the financial personnel, policies, procedures and internal accounting controls of the Company, and management's responses thereto; (iv) to review the form of opinion the independent registered public accountant propose to render to the Board of Directors and shareholders; (v) to receive the independent registered public accountant's reports concerning critical accounting policies, alternative treatments of financial information within GAAP and other material written communications with management; (vi) to discuss with management and the Company's Corporate Compliance function management's process for assessing the effectiveness of internal control over financial reporting under Section 404 of the Sarbanes-Oxley Act, including any material weaknesses or significant deficiencies identified and to review management's report on its assessment of the effectiveness of internal control over financial reporting as of the end of each fiscal year and the independent registered public accountants' report on the effectiveness of internal control over financial reporting and (vii) to discuss such other matters that the independent registered public accountant believe merit discussion;
- (c) to discuss with management its process for performing its required quarterly certifications under Section 302 of the Sarbanes-Oxley Act, including the evaluation of the effectiveness of disclosure controls by the Chief Executive Officer and Chief Financial Officer;



- (d) to consider the effect upon the Company of any changes in accounting principles or practices proposed by management or the independent registered public accountant, and to discuss with management and the independent registered public accountant all critical accounting policies as disclosed in the Company's public filings with the SEC;
- (e) to review the fees charged by the independent registered public accountant for audit services, and to pre-approve any permissible non-audit services rendered by the independent registered public accountant requiring such pre-approval. The chairman of the Audit Committee, if any, may represent the entire Committee for purposes of pre-approval of all audit, audit-related and tax services of up to One Hundred Fifty Thousand Dollars (\$150,000) and such pre-approval shall be ratified by the entire Committee at the next Audit Committee meeting;
- (f) to review and pre-approve all related-party transactions;
- (g) to disclose (i) in the Company's proxy statement whether the Audit Committee members are independent, as such qualification is interpreted by the Board of Directors in its business judgment and (ii) in the Company's periodic reports the Committee's approval of any non-audit services;
- (h) to inquire of management and the independent registered public accountant about significant risks or exposures and assess the steps management has taken to minimize such risks to the Company;
- (i) as requested by management, to review reports received from regulators and other legal and regulatory matters that may have a material effect on the financial statements or related Company compliance procedures;
- (j) as requested by the management or as required by the SEC or the NASD, to review and discuss the quarterly financial statements, including Management's Discussion and Analysis of Financial Condition and Results of Operations, with management and the independent registered public accountants prior to the filing of the Company's Quarterly Report on Form 10-Q (or prior to the press release of results, if possible). Also, the Committee shall discuss the results of the quarterly review and any other matters required to be communicated to the Committee by the independent registered public accountants under the standards of the Public Company Accounting Oversight Board (PCAOB) (United States). The chairman of the Audit Committee, if any, may represent the entire committee for purposes of this review;
- (k) to provide a report in the Company's proxy statement disclosing whether the Audit Committee has (i) reviewed and discussed the audited financial statements with management; (ii) discussed the matters required to be discussed by Statement on Accounting Standards No. 61, as amended, with the independent registered public accountant; (iii) reviewed the written disclosure described in Paragraph 3 of this Charter; and (iv) recommended to the Board of Directors the inclusion of the audited financial statements in the Company's annual report on Form 10-K;
- (l) to review management's disclosures to the Audit Committee pursuant to Rules 13a-14 and 15d-14 under the United States Securities Exchange Act of 1934, as amended;
- (m) to investigate improprieties or suspected improprieties in Company operations, and to establish procedures for the retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters, and the confidential, anonymous submission by the Company's employees of concerns regarding questionable accounting or auditing matters;
- (n) to serve as a compliance contact to which directors, officers, employees and others covered by the Company's Code of Ethics may report any violation thereof related to the Company's financial practices and dealings. The Chairman of the Audit Committee, if any, may represent the entire Committee for this purpose; and



- (o) to report its activities and submit the minutes of all meetings to the Board of Directors on a regular basis and to make such recommendations with respect to the above and other matters as the Audit Committee may deem necessary or appropriate.
7. **Meetings and communications.** The Audit Committee shall meet on a regular basis and is empowered to hold special meetings as circumstances require. In addition, the chairman of the Audit Committee, if any, or other designated member of the Audit Committee shall make suitable provision for ongoing communication between the independent registered public accountant and himself or herself concerning matters arising between such meetings of the Audit Committee, including without limitation, consideration of changes in accounting policies or practices, unusual events which may require independent registered public accountant comment or disclosure, or preparation and publication of interim financial statements by the Company.
8. **Authority.** The Audit Committee shall have the resources and authority appropriate to discharge its responsibilities, including the authority to retain special counsel and other experts or consultants at the expense of the Company.
9. **Annual Charter review.** The Audit Committee shall review this Charter at least annually and recommend any changes to be made to the Board of Directors.
10. **Written Affirmation.** At any time that there is a change in the composition of the Audit Committee, and otherwise approximately once each year, the Company shall confirm in writing to the NASD regarding:
- (a) any determination that the Board of Directors has made regarding the independence of the Audit Committee pursuant to any provision of this Audit Committee Charter;
  - (b) the financial literacy of the Audit Committee members;
  - (c) the determination that at least one of the Audit Committee members has accounting or related financial management expertise and/or (if required) is a financial expert, as such terms are or are to be defined in this Audit Committee Charter and the applicable rules of the SEC or the NASD; and
  - (d) the annual review and reassessment of the adequacy of this Audit Committee Charter.

\*Most recently reviewed and approved by the Audit Committee on February 24, 2011.

**Appendix 2**

**XOMA LTD.**

**2010 LONG TERM INCENTIVE AND SHARE AWARD PLAN**

**(as amended through April 21, 2011, subject to shareholder approval)**

1. Purposes.

The purposes of the XOMA Ltd. 2010 Long Term Incentive and Share Award Plan are to advance the interests of XOMA Ltd. and its shareholders by providing a means to attract, retain, and motivate employees, consultants and directors of the Company, its Subsidiaries and Affiliates, to provide for competitive compensation opportunities, to encourage long term service, to recognize individual contributions and reward achievement of performance goals, and to promote the creation of long term value for shareholders by aligning the interests of such persons with those of shareholders.

2. Definitions.

For purposes of this Plan, the following terms shall be defined as set forth below:

(a) **Affiliate** means any entity other than the Company and its Subsidiaries that is designated by the Board or the Committee as a participating employer under this Plan; **provided, however,** that the Company directly or indirectly owns at least 20% of the combined voting power of all classes of stock of such entity or at least 20% of the ownership interests in such entity.

(b) **Award** means any Option, SAR, Restricted Share, Restricted Share Unit, Performance Share, Performance Unit, Dividend Equivalent, or Other Share-Based Award granted to an Eligible Person under this Plan.

(c) **Award Agreement** means any written agreement, contract, or other instrument or document evidencing an Award.

(d) **Beneficiary** means the person, persons, trust or trusts which have been designated by an Eligible Person in his or her most recent written beneficiary designation filed with the Company to receive the benefits specified under this Plan upon the death of the Eligible Person, or, if there is no designated Beneficiary or surviving designated Beneficiary, then the person, persons, trust or trusts entitled by will or the laws of descent and distribution to receive such benefits.

(e) **Board** means the Board of Directors of the Company.

(f) **Change in Control** means the occurrence of any of the following events:

(i) a merger, amalgamation or acquisition in which the Company is not the surviving or continuing entity, except for a transaction the principal purpose of which is to change the jurisdiction of the Company's organization;

(ii) the sale, transfer or other disposition of all or substantially all of the assets of the Company;

(iii) any other reorganization or business combination in which fifty percent (50%) or more of the Company's outstanding voting securities are transferred to different holders in a single transaction or series of related transactions;

(iv) any approval by the shareholders of the Company of a plan of complete liquidation of the Company;

(v) any person (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) becoming the beneficial owner (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing more than fifty percent (50%) of the total voting power represented by the Company's then outstanding voting securities; or

- (vi) a change in the composition of the Board, as a result of which fewer than a majority of the directors are Incumbent Directors.
- (g) Code means the Internal Revenue Code of 1986, as amended from time to time. References to any provision of the Code shall be deemed to include successor provisions thereto and regulations thereunder.
- (h) Committee means the Compensation Committee of the Board, or such other Board committee or committees (which may include the entire Board) as may be designated by the Board to administer all or any portion of this Plan; provided, however, that, unless otherwise determined by the Board, a Committee shall consist of two or more directors of the Company, each of whom is a non-employee director within the meaning of Rule 16b-3 under the Exchange Act, to the extent applicable, and each of whom is an outside director within the meaning of Section 162(m) of the Code, to the extent applicable; provided, further, that the mere fact that a Committee shall fail to qualify under either of the foregoing requirements shall not invalidate any Award made by such Committee which Award is otherwise validly made under this Plan. Different Committees may administer this Plan with respect to different groups of Eligible Persons. As used herein, the singular Committee shall include the plural Committees if applicable, except where the context requires otherwise.
- (i) Company means XOMA Ltd., a company organized under the laws of Bermuda, or any successor company.
- (j) Director means a member of the Board who is not an employee of the Company, a Subsidiary or an Affiliate.
- (k) Dividend Equivalent means a right, granted under Section 5(g), to receive cash, Shares, or other property equal in value to dividends paid with respect to a specified number of Shares. Dividend Equivalents may be awarded on a free-standing basis or in connection with another Award, and may be paid currently or on a deferred basis.
- (l) Effective Date means July 21, 2010, contingent on shareholder approval of this Plan on such date.
- (m) Eligible Person means (i) an employee or consultant of the Company, a Subsidiary or an Affiliate, including any director who is an employee, or (ii) a Director. Notwithstanding any provisions of this Plan to the contrary, an Award may be granted to an employee or consultant in connection with his or her hiring or retention prior to the date the employee or consultant first performs services for the Company, a Subsidiary or an Affiliate; provided, however, that any such Award shall not become vested or exercisable prior to the date the employee or consultant first performs such services.
- (n) Exchange Act means the Securities Exchange Act of 1934, as amended from time to time. References to any provision of the Exchange Act shall be deemed to include successor provisions thereto and regulations thereunder.
- (o) Fair Market Value means:
- (i) if the Shares are not at the time listed or admitted to trading on any stock exchange but are traded in the over-the-counter market, the fair market value shall be the closing selling price per Share on the date in question, as such price is reported by the National Association of Securities Dealers through its Nasdaq National Market or any successor system; provided that if there is no reported closing selling price for Shares on the date in question, then the closing selling price on the last preceding date for which such quotation exists shall be determinative of fair market value;
- (ii) if the Shares are at the time listed or admitted to trading on any stock exchange, then the fair market value shall be the closing selling price per Share on the date in question on the stock exchange determined by the Committee to be the primary market for the Shares, as such price is officially quoted on such exchange; provided that if there is no reported sale of Shares on such exchange on the date in question, then the fair market value shall be the closing selling price on the exchange on the last preceding date for which such quotation exists; or

(iii) if the Shares are at the time neither listed nor admitted to trading on any stock exchange nor traded in the over-the-counter market (or if the Committee determines that the value as determined pursuant to subsection (i) or (ii) above does not reflect fair market value), then the Committee shall determine fair market value after taking into account such factors as it deems appropriate, including one or more independent professional appraisals.

(p) Incumbent Directors means directors who (i) are directors of the Company as of the date hereof, (ii) are elected, or nominated for election, to the Board with the affirmative votes of the directors of the Company as of the date hereof, or (iii) are elected, or nominated for election, to the Board with the affirmative votes of at least a majority of those directors whose election or nomination was not in connection with any transaction described in subsections (i) through (v) of the definition of Change in Control or in connection with an actual or threatened proxy contest relating to the election of directors of the Company.

(q) ISO means any Option intended to be and designated as an incentive stock option within the meaning of Section 422 of the Code.

(r) NQSO means any Option that is not an ISO.

(s) Option means a right, granted under Section 5(b), to purchase Shares.

(t) Other Share-Based Award means a right, granted under Section 5(h), that relates to or is valued by reference to Shares.

(u) Participant means an Eligible Person who has been granted an Award under this Plan.

(v) Performance Award shall have the meaning set forth in Section 7(a).

(w) Performance Period shall have the meaning set forth in Section 5(f)(i).

(x) Performance Share means a performance share granted under Section 5(f).

(y) Performance Unit means a performance unit granted under Section 5(f).

(z) Plan means this XOMA Ltd. 2010 Long Term Incentive and Share Award Plan.

(aa) Restricted Shares means an Award of Shares under Section 5(d) that may be subject to certain restrictions and to a risk of forfeiture.

(bb) Restricted Share Unit means a right, granted under Section 5(e), to receive Shares or cash at the end of a specified deferral period.

(cc) Rule 16b-3 means Rule 16b-3, as from time to time in effect and applicable to this Plan and Participants, promulgated by the Securities and Exchange Commission under Section 16 of the Exchange Act.

(dd) SAR or Share Appreciation Right means the right, granted under Section 5(c), to be paid an amount measured by the difference between the exercise price of the right and the Fair Market Value of Shares on the date of exercise of the right, with payment to be made in cash, Shares, or property as specified in the Award or determined by the Committee.

(ee) Shares means common shares of the Company, and such other securities as may be substituted for Shares pursuant to Section 4(c) hereof.

(ff) Subsidiary means any company (other than the Company) in an unbroken chain of companies beginning with the Company if each of the companies (other than the last company in the unbroken chain) owns shares possessing 50% or more of the total combined voting power of all classes of stock in one of the other companies in the chain.

(gg) Termination of Service means the termination of the Participant's employment, consulting services or directorship with the Company, its Subsidiaries and its Affiliates, as the case may be. A Participant employed by a Subsidiary of the Company or one of its Affiliates shall also be deemed to incur a Termination of Service if the Subsidiary of the Company or Affiliate ceases to be such a Subsidiary or an Affiliate, as the case

may be, and the Participant does not immediately thereafter become an employee or director of, or a consultant to, the Company, another Subsidiary of the Company or an Affiliate. In the event that a Participant who is an employee of the Company, a Subsidiary or an Affiliate becomes a Director or a consultant to the Company, a Subsidiary or an Affiliate upon the Participant's termination of employment, unless otherwise determined by the Committee in its sole discretion, no Termination of Service shall be deemed to occur until such time as such Participant is no longer an employee of, or consultant to, the Company, a Subsidiary or an Affiliate or a Director, as the case may be. If a Participant who is a Director becomes an employee of, or a consultant to, the Company, a Subsidiary or an Affiliate upon such Participant ceasing to be a Director, unless otherwise determined by the Committee in its sole discretion, such termination of the Participant's directorship shall not be treated as a Termination of Service unless and until the Participant's employment or consultancy, as the case may be, terminates. Temporary absences from employment because of illness, vacation or leave of absence and transfers among the Company and its Subsidiaries and Affiliates shall not be considered a Termination of Service.

3. Administration.

(a) Authority of the Committee. This Plan shall be administered by the Committee, and the Committee shall have full and final authority to take the following actions, in each case subject to and consistent with the provisions of this Plan:

(i) to select Eligible Persons to whom Awards may be granted;

(ii) to designate Affiliates;

(iii) to determine the type or types of Awards to be granted to each Eligible Person;

(iv) to determine the type and number of Awards to be granted, the number of Shares to which an Award may relate, the terms and conditions of any Award granted under this Plan (including, but not limited to, any exercise price, grant price, or purchase price, any restriction or condition, any schedule for lapse of restrictions or conditions relating to transferability or forfeiture, exercisability, or settlement of an Award, and waiver or accelerations thereof, and waivers of performance conditions relating to an Award, based in each case on such considerations as the Committee shall determine), and all other matters to be determined in connection with an Award;

(v) to determine whether, to what extent, and under what circumstances an Award may be settled, or the exercise price of an Award may be paid, in cash, Shares, other Awards, or other property, or an Award may be canceled, forfeited (including by repurchase at a nominal price, where required by Bermuda law), exchanged, or surrendered;

(vi) to determine whether, to what extent, and under what circumstances cash, Shares, other Awards, or other property payable with respect to an Award will be deferred either automatically, at the election of the Committee, or at the election of the Eligible Person, provided that such deferral shall be intended to be in compliance with Section 409A of the Code;

(vii) to prescribe the form of each Award Agreement, which need not be identical for each Eligible Person;

(viii) to adopt, amend, suspend, waive, and rescind such rules and regulations and appoint such agents as the Committee may deem necessary or advisable to administer this Plan;

(ix) to correct any defect or supply any omission or reconcile any inconsistency in this Plan and to construe and interpret this Plan and any Award, rules and regulations, Award Agreement, or other instrument hereunder;

(x) to accelerate the exercisability or vesting of all or any portion of any Award or to extend the period during which an Award is exercisable;

(xi) to determine whether uncertificated Shares may be used in satisfying Awards and otherwise in connection with this Plan; and

(xii) to make all other decisions and determinations as may be required under the terms of this Plan or as the Committee may deem necessary or advisable for the administration of this Plan.

(b) Manner of Exercise of Committee Authority. The Committee shall have sole discretion in exercising its authority under this Plan. Any action of the Committee with respect to this Plan shall be final, conclusive, and binding on all persons, including the Company, Subsidiaries, Affiliates, Eligible Persons, any person claiming any rights under this Plan from or through any Eligible Person, and shareholders. The express grant of any specific power to the Committee, and the taking of any action by the Committee, shall not be construed as limiting any power or authority of the Committee. The Committee may delegate to other members of the Board or officers or managers of the Company or any Subsidiary or Affiliate the authority, subject to such terms as the Committee shall determine, to perform administrative functions and, with respect to Awards granted to persons not subject to Section 16 of the Exchange Act, to perform such other functions as the Committee may determine, to the extent permitted under Rule 16b-3 (if applicable) and applicable law.

(c) Limitation of Liability. Each member of the Committee shall be entitled to, in good faith, rely or act upon any report or other information furnished to him or her by any officer or other employee of the Company or any Subsidiary or Affiliate, the Company's independent certified public accountants, or other professional retained by the Company to assist in the administration of this Plan. No member of the Committee, and no officer or employee of the Company acting on behalf of the Committee, shall be personally liable for any action, determination, or interpretation taken or made in good faith with respect to this Plan, and all members of the Committee and any officer or employee of the Company acting on their behalf shall, to the extent permitted by law, be fully indemnified and protected by the Company with respect to any such action, determination, or interpretation.

(d) Limitation on Committee's Discretion. Anything in this Plan to the contrary notwithstanding, in the case of any Award which is intended to qualify as performance-based compensation within the meaning of Section 162(m)(4)(C) of the Code, the Committee shall have no discretion to increase the amount of compensation payable under the Award to the extent such an increase would cause the Award to lose its qualification as such performance-based compensation.

(e) No Option or SAR Repricing Without Shareholder Approval. Except as provided in the first sentence of Section 4(c) hereof relating to certain anti-dilution adjustments, unless the approval of shareholders of the Company is obtained, (i) Options and SARs shall not be amended to lower their exercise price, (ii) Options and SARs will not be exchanged for other Options or SARs with lower exercise prices, (iii) Options and SARs with an exercise price in excess of the Fair Market Value of the underlying Shares will not be exchanged for cash or other property and (iii) no other action shall be taken with respect to Options or SARs that would be treated as a repricing under the rules of the principal stock exchange on which the Shares are listed.

(f) Limitation on Committee's Authority under 409A. Anything in this Plan to the contrary notwithstanding, the Committee's authority to modify outstanding Awards shall be limited to the extent necessary so that the existence of such authority does not (i) cause an Award that is not otherwise deferred compensation subject to Section 409A of the Code to become deferred compensation subject to Section 409A of the Code or (ii) cause an Award that is otherwise deferred compensation subject to Section 409A of the Code to fail to meet the requirements prescribed by Section 409A of the Code.

#### 4. Shares Subject to this Plan.

(a) Subject to adjustment as provided in Section 4(c) hereof, the total number of Shares reserved for issuance in connection with Awards under this Plan shall be (i) 6,150,718 plus (ii) the number of Shares subject to awards granted prior to the Effective Date of this Plan under the Company's 1981 Share Option Plan, its Restricted Share Plan or its 1992 Directors Share Option Plan which awards are, after the Effective Date, forfeited, canceled, surrendered or otherwise terminated without a distribution of Shares to the holder of the award; provided, however, that, subject to adjustment as provided in Section 4(c) hereof, no more than 2,000,000 Shares may be issued as ISOs under this Plan; and, provided, further, that, in the case of Awards granted out of the 5,500,000 Share allotment added to such total number of available Shares with the approval of the



Company's shareholders effective May 26, 2011, for each SAR, Restricted Share, Restricted Share Unit, Performance Share, Performance Unit, Dividend Equivalent or Other Share-Based Award issued, such total number of available Shares shall be reduced by 1.3 Shares. No Award may be granted if the number of Shares to which such Award relates, when added to the number of Shares previously issued under this Plan, exceeds the number of Shares reserved under the applicable provisions of the preceding sentence. If any Awards are forfeited (including by repurchase at a nominal price, where required by Bermuda law), canceled, terminated, exchanged or surrendered or such Award is settled in cash or otherwise terminates without a distribution of Shares to the Participant, any Shares counted against the number of Shares reserved and available under this Plan with respect to such Award shall, to the extent of any such forfeiture, repurchase, settlement, termination, cancellation, exchange or surrender, again be available for Awards under this Plan. Upon the exercise of any Award granted in tandem with any other Awards, such related Awards shall be canceled to the extent of the number of Shares as to which the Award is exercised.

(b) Subject to adjustment as provided in Section 4(c) hereof, the maximum number of Shares (i) with respect to which Options or SARs may be granted during a calendar year to any Eligible Person under this Plan shall be 466,666 Shares, and (ii) with respect to which Performance Shares, Performance Units, Restricted Shares or Restricted Share Units intended to qualify as performance-based compensation within the meaning of Section 162(m)(4)(C) of the Code may be granted during a calendar year to any Eligible Person under this Plan shall be 466,666 Shares.

(c) In the event that the Committee shall determine that any dividend in Shares, recapitalization, Share split, reverse split, reorganization, merger, consolidation, spin-off, combination, repurchase, share exchange, extraordinary distribution or other similar corporate transaction or event, affects the Shares such that an adjustment is appropriate in order to prevent dilution or enlargement of the rights of Eligible Persons under this Plan, then the Committee shall make such equitable changes or adjustments as it deems appropriate and, in such manner as it may deem equitable, (i) adjust any or all of (x) the number and kind of shares which may thereafter be issued under this Plan, (y) the number and kind of shares, other securities or other consideration issued or issuable in respect of outstanding Awards, and (z) the exercise price, grant price, or purchase price relating to any Award, or (ii) provide for a distribution of cash or property in respect of any Award; provided, however, in each case that, with respect to ISOs, such adjustment shall be made in accordance with Section 424(a) of the Code, unless the Committee determines otherwise; provided, further, that no adjustment shall be made pursuant to this Section 4(c) that causes any Award that is not otherwise deferred compensation subject to Section 409A of the Code to be treated as deferred compensation pursuant to Section 409A of the Code. In addition, the Committee is authorized to make adjustments in the terms and conditions of, and the criteria and performance objectives, if any, included in, Awards in recognition of unusual or non-recurring events (including, without limitation, events described in the preceding sentence) affecting the Company or any Subsidiary or Affiliate or the financial statements of the Company or any Subsidiary or Affiliate, or in response to changes in applicable laws, regulations, or accounting principles; provided, however, that the Committee shall not have discretion to increase the amount of compensation payable under any Award intended to qualify as performance-based compensation for purposes of Section 162(m)(4)(C) of the Code to the extent such an increase would cause the Award to lose its qualification as performance-based compensation for purposes of Section 162(m)(4)(C) of the Code and the regulations thereunder.

(d) Any Shares distributed pursuant to an Award may consist, in whole or in part, of authorized and unissued Shares or treasury Shares including Shares acquired by purchase in the open market or in private transactions.

#### 5. Specific Terms of Awards.

(a) General. Awards may be granted on the terms and conditions set forth in this Section 5. In addition, the Committee may impose on any Award or the exercise thereof, at the date of grant or thereafter (subject to Section 9(d)), such additional terms and conditions, not inconsistent with the provisions of this Plan, as the Committee shall determine, including terms regarding forfeiture (including by repurchase at a nominal price, where required by Bermuda law) of Awards or continued exercisability of Awards in the event of Termination of Service by the Eligible Person.

(b) Options. The Committee is authorized to grant Options, which may be NQSOs or ISOs, to Eligible Persons on the following terms and conditions:

(i) Exercise Price. The exercise price per Share purchasable under an Option shall be determined by the Committee; provided, however, that the exercise price per Share of an Option shall not be less than the Fair Market Value of a Share on the date of grant of the Option. The Committee may, without limitation, set an exercise price that is based upon achievement of performance criteria if deemed appropriate by the Committee.

(ii) Option Term. The term of each Option shall be determined by the Committee; provided, however, that such term shall not be longer than ten years from the date of grant of the Option.

(iii) Time and Method of Exercise. The Committee shall determine at the date of grant or thereafter the time or times at which an Option may be exercised in whole or in part (including, without limitation, upon achievement of performance criteria if deemed appropriate by the Committee), the methods by which such exercise price may be paid or deemed to be paid (including, without limitation, broker-assisted exercise arrangements), the form of such payment (including, without limitation, cash, Shares or other property), and the methods by which Shares will be delivered or deemed to be delivered to Eligible Persons.

(iv) ISOs. The terms of any ISO granted under this Plan shall comply in all respects with the provisions of Section 422 of the Code, including but not limited to the requirement that the ISO shall be granted within ten years from the earlier of the date of adoption or shareholder approval of this Plan. ISOs may only be granted to employees of the Company or a Subsidiary.

(c) SARs. The Committee is authorized to grant SARs (Share Appreciation Rights) to Eligible Persons on the following terms and conditions:

(i) Right to Payment. A SAR shall confer on the Eligible Person to whom it is granted a right to receive with respect to each Share subject thereto, upon exercise thereof, the excess of (1) the Fair Market Value of one Share on the date of exercise over (2) the exercise price per Share of the SAR, as determined by the Committee as of the date of grant of the SAR (which shall not be less than the Fair Market Value per Share on the date of grant of the SAR and, in the case of a SAR granted in tandem with an Option, shall be equal to the exercise price of the underlying Option).

(ii) Other Terms. The Committee shall determine, at the time of grant or thereafter, the time or times at which a SAR may be exercised in whole or in part (which shall not be more than ten years after the date of grant of the SAR), the method of exercise, method of settlement, form of consideration payable in settlement, method by which Shares will be delivered or deemed to be delivered to Eligible Persons, whether or not a SAR shall be in tandem with any other Award, and any other terms and conditions of any SAR. Unless the Committee determines otherwise, a SAR (1) granted in tandem with an NQSO may be granted at the time of grant of the related NQSO or at any time thereafter and (2) granted in tandem with an ISO may only be granted at the time of grant of the related ISO.

(d) Restricted Shares. The Committee is authorized to grant Restricted Shares to Eligible Persons on the following terms and conditions:

(i) Issuance and Restrictions. Restricted Shares shall be subject to such restrictions on transferability and other restrictions, if any, as the Committee may impose at the date of grant or thereafter, which restrictions may lapse separately or in combination at such times, under such circumstances (including, without limitation, upon achievement of performance criteria if deemed appropriate by the Committee), in such installments, or otherwise, as the Committee may determine. Except to the extent restricted under the Award Agreement relating to the Restricted Shares, an Eligible Person granted Restricted Shares shall have all of the rights of a shareholder including, without limitation, the right to vote Restricted Shares and the right to receive dividends thereon.

(ii) Forfeiture. Except as otherwise determined by the Committee, at the date of grant or thereafter, upon Termination of Service during the applicable restriction period, Restricted Shares shall be repurchased by the Company for a nominal amount equal to their par value and any accrued but unpaid dividends or Dividend Equivalents that are at that time subject to restrictions shall be forfeited; provided, however, that the Committee may provide, by rule or regulation or in any Award Agreement, or may determine in any individual case, that restrictions or forfeiture conditions relating to Restricted Shares will be waived in whole or in part in the event of Termination of Service resulting from specified causes, and the Committee may in other cases waive in whole or in part the forfeiture of Restricted Shares.

(iii) Certificates for Shares. Restricted Shares granted under this Plan may be evidenced in such manner as the Committee shall determine. If certificates representing Restricted Shares are registered in the name of the Eligible Person, such certificates shall bear an appropriate legend referring to the terms, conditions, and restrictions applicable to such Restricted Shares, and, unless otherwise determined by the Committee, the Company shall retain physical possession of the certificate and the Participant shall deliver a stock power to the Company, endorsed in blank, relating to the Restricted Shares.

(iv) Dividends. Dividends paid on Restricted Shares shall be either paid at the dividend payment date, or deferred for payment to such date, and subject to such conditions, as determined by the Committee, in cash or in restricted or unrestricted Shares having a Fair Market Value equal to the amount of such dividends. Unless otherwise determined by the Committee, Shares distributed in connection with a Share split or dividend in Shares, and other property distributed as a dividend, shall be subject to restrictions and a risk of forfeiture to the same extent as the Restricted Shares with respect to which such Shares or other property has been distributed.

(e) Restricted Share Units. The Committee is authorized to grant Restricted Share Units to Eligible Persons, subject to the following terms and conditions:

(i) Award and Restrictions. Delivery of Shares or cash, as the case may be, will occur upon expiration of the deferral period specified for Restricted Share Units by the Committee (or, if permitted by the Committee, as elected by the Eligible Person). In addition, Restricted Share Units shall be subject to such restrictions as the Committee may impose, if any (including, without limitation, the achievement of performance criteria if deemed appropriate by the Committee), at the date of grant or thereafter, which restrictions may lapse at the expiration of the deferral period or at earlier or later specified times, separately or in combination, in installments or otherwise, as the Committee may determine.

(ii) Forfeiture. Except as otherwise determined by the Committee at the date of grant or thereafter, upon Termination of Service during the applicable deferral period or portion thereof to which forfeiture conditions apply (as provided in the Award Agreement evidencing the Restricted Share Units), or upon failure to satisfy any other conditions precedent to the delivery of Shares or cash to which such Restricted Share Units relate, all Restricted Share Units that are at that time subject to deferral or restriction shall be forfeited; provided, however, that the Committee may provide, by rule or regulation or in any Award Agreement, or may determine in any individual case, that restrictions or forfeiture conditions relating to Restricted Share Units will be waived in whole or in part in the event of Termination of Service resulting from specified causes, and the Committee may in other cases waive in whole or in part the forfeiture of Restricted Share Units.

(iii) Dividend Equivalents. Unless otherwise determined by the Committee at the date of grant, Dividend Equivalents on the specified number of Shares covered by a Restricted Share Unit shall be either (A) paid with respect to such Restricted Share Unit at the dividend payment date in cash or in restricted or unrestricted Shares having a Fair Market Value equal to the amount of such dividends, or (B) deferred with respect to such Restricted Share Unit and the amount or value thereof automatically deemed reinvested in additional Restricted Share Units or other Awards, as the Committee shall determine.

(f) Performance Shares and Performance Units. The Committee is authorized to grant Performance Shares or Performance Units or both to Eligible Persons on the following terms and conditions:

(i) Performance Period. The Committee shall determine a performance period (the Performance Period ) of one or more years or other periods and shall determine the performance objectives for grants of Performance Shares and Performance Units. Performance objectives may vary from Eligible Person to Eligible Person and shall be based upon the performance criteria as the Committee may deem appropriate. The performance objectives may be determined by reference to the performance of the Company, or of a Subsidiary or Affiliate, or of a division or unit of any of the foregoing. Performance Periods may overlap and Eligible Persons may participate simultaneously with respect to Performance Shares and Performance Units for which different Performance Periods are prescribed.

(ii) Award Value. At the beginning of a Performance Period, the Committee shall determine for each Eligible Person or group of Eligible Persons with respect to that Performance Period the range of number of Shares, if any, in the case of Performance Shares, and the range of dollar values, if any, in the case of Performance Units, which may be fixed or may vary in accordance with such performance or other criteria specified by the Committee, which shall be paid to an Eligible Person as an Award if the relevant measure of Company performance for the Performance Period is met.

(iii) Significant Events. If during the course of a Performance Period there shall occur significant events as determined by the Committee which the Committee expects to have a substantial effect on a performance objective during such period, the Committee may revise such objective; provided, however, that, in the case of any Award intended to qualify as performance-based compensation for purposes of Section 162(m)(4)(C) of the Code, the Committee shall not have any discretion to increase the amount of compensation payable under the Award to the extent such an increase would cause the Award to lose its qualification as performance-based compensation for purposes of Section 162(m)(4)(C) of the Code and the regulations thereunder.

(iv) Forfeiture. Except as otherwise determined by the Committee at the date of grant or thereafter, upon Termination of Service during the applicable Performance Period, Performance Shares and Performance Units for which the Performance Period was prescribed shall be forfeited; provided, however, that the Committee may provide, by rule or regulation or in any Award Agreement, or may determine in an individual case, that restrictions or forfeiture conditions relating to Performance Shares and Performance Units will be waived in whole or in part in the event of Terminations of Service resulting from specified causes, and the Committee may in other cases waive in whole or in part the forfeiture of Performance Shares and Performance Units.

(v) Payment. Each Performance Share or Performance Unit may be paid in whole Shares, or cash, or a combination of Shares and cash either as a lump sum payment or in installments, all as the Committee shall determine, at the time of grant of the Performance Share or Performance Unit or otherwise, commencing at the time determined by the Committee.

(vi) Restriction on Dividends. No dividends or Dividend Equivalents shall be paid on any Performance Share or Performance Unit until such time (if ever) as the performance criteria associated therewith have been met.

(g) Dividend Equivalents. The Committee is authorized to grant Dividend Equivalents to Eligible Persons. The Committee may provide, at the date of grant or thereafter, that Dividend Equivalents shall be paid or distributed when accrued or shall be deemed to have been reinvested in additional Shares, or other investment vehicles as the Committee may specify; provided, however, that, unless otherwise determined by the Committee, Dividend Equivalents (other than freestanding Dividend Equivalents) shall be subject to all conditions and restrictions of any underlying Awards to which they relate.

(h) Other Share-Based Awards. The Committee is authorized, subject to limitations under applicable law, to grant to Eligible Persons such other Awards that may be denominated or payable in, valued in

whole or in part by reference to, or otherwise based on, or related to, Shares, as deemed by the Committee to be consistent with the purposes of this Plan, including, without limitation, unrestricted shares awarded purely as a bonus and not subject to any restrictions or conditions, other rights convertible or exchangeable into Shares, purchase rights for Shares, Awards with value and payment contingent upon performance of the Company or any other factors designated by the Committee, and Awards valued by reference to the performance of specified Subsidiaries or Affiliates. The Committee shall determine the terms and conditions of such Awards at date of grant or thereafter. Shares delivered pursuant to an Award in the nature of a purchase right granted under this Section 5(h) shall be purchased for such consideration, paid for at such times, by such methods, and in such forms, including, without limitation, cash, Shares, notes or other property, as the Committee shall determine. Cash awards, as an element of or supplement to any other Award under this Plan, shall also be authorized pursuant to this Section 5(h).

6. Certain Provisions Applicable to Awards.

(a) Stand-Alone, Additional, Tandem and Substitute Awards. Awards granted under this Plan may, in the discretion of the Committee, be granted to Eligible Persons either alone or in addition to, in tandem with, or in exchange or substitution for, any other Award granted under this Plan or any award granted under any other plan or agreement of the Company, any Subsidiary or Affiliate, or any business entity to be acquired by the Company or a Subsidiary or Affiliate, or any other right of an Eligible Person to receive payment from the Company or any Subsidiary or Affiliate. Awards may be granted in addition to or in tandem with such other Awards or awards, and may be granted either as of the same time as, or a different time from, the grant of such other Awards or awards. Subject to the provisions of Section 3(e) hereof prohibiting Option and SAR repricing without shareholder approval, the per Share exercise price of any Option, or grant price of any SAR, which is granted in connection with the substitution of awards granted under any other plan or agreement of the Company or any Subsidiary or Affiliate, or any business entity to be acquired by the Company or any Subsidiary or Affiliate, shall be determined by the Committee, in its discretion.

(b) Term of Awards. The term of each Award granted to an Eligible Person shall be for such period as may be determined by the Committee; provided, however, that in no event shall the term of any Option or SAR exceed a period of ten years from the date of its grant (or, in the case of ISOs, such shorter period as may be applicable under Section 422 of the Code).

(c) Form of Payment Under Awards. Subject to the terms of this Plan and any applicable Award Agreement, payments to be made by the Company or a Subsidiary or Affiliate upon the grant, maturation, or exercise of an Award may be made in such forms as the Committee shall determine at the date of grant or thereafter, including, without limitation, cash, Shares, notes or other property, and may be made in a single payment or transfer, in installments, or on a deferred basis, provided that any such deferral shall be intended to be in compliance with Section 409A of the Code. The Committee may make rules relating to installment or deferred payments with respect to Awards, including the rate of interest to be credited with respect to such payments, and the Committee may require deferral of payment under an Award if, in the sole judgment of the Committee, it may be necessary in order to avoid nondeductibility of the payment under Section 162(m) of the Code.

(d) Nontransferability. Awards shall not be transferable by an Eligible Person except by will or the laws of descent and distribution (except pursuant to a Beneficiary designation) and shall be exercisable during the lifetime of an Eligible Person only by such Eligible Person or his or her guardian or legal representative, provided that Awards that are NQSOs may be transferred or assigned by the optionee to the optionee's spouse or descendent (any such spouse or descendent, an Immediate Family Member) or a corporation, partnership, limited liability company or trust so long as all of the shareholders, partners, members or beneficiaries thereof, as the case may be, are either the optionee or the optionee's Immediate Family Member, provided, further, that (i) there may be no consideration for any such transfer and (ii) subsequent transfers of the transferred NQSO will be prohibited other than by will or the laws of descent and distribution. An Eligible Person's rights under this Plan may not be pledged, mortgaged, hypothecated, or otherwise encumbered, and shall not be subject to claims of the Eligible Person's creditors.

(e) Noncompetition. The Committee may, by way of the Award Agreements or otherwise, establish such other terms, conditions, restrictions and/or limitations, if any, of any Award, provided they are not inconsistent with this Plan, including, without limitation, the requirement that the Participant not engage in competition with, solicit customers or employees of, or disclose or use confidential information of the Company or its Affiliates.

7. Performance Awards.

(a) Performance Awards Granted to Covered Employees. If the Committee determines that an Award (other than an Option or SAR) to be granted to an Eligible Person should qualify as performance-based compensation for purposes of Section 162(m) of the Code, the grant, vesting, exercise and/or settlement of such Award (each, a Performance Award ) shall be contingent upon achievement of preestablished performance goals and other terms set forth in this Section 7(a).

(i) Performance Goals Generally. The performance goals for such Performance Awards shall consist of one or more business criteria and a targeted level or levels of performance with respect to each of such criteria, as specified by the Committee consistent with this Section 7(a). The performance goals shall be objective and shall otherwise meet the requirements of Section 162(m) of the Code and regulations thereunder (including Treasury Regulation 1.162-27 and successor regulations thereto), including the requirement that the level or levels of performance targeted by the Committee result in the achievement of performance goals being substantially uncertain. The Committee may determine that such Performance Awards shall be granted, vested, exercised and/or settled upon achievement of any one performance goal or that two or more of the performance goals must be achieved as a condition to grant, vesting, exercise and/or settlement of such Performance Awards. Performance goals may differ for Performance Awards granted to any one Participant or to different Participants.

(ii) Business Criteria. One or more of the following business criteria for the Company, on a consolidated basis, and/or for specified Subsidiaries or Affiliates or other business units or lines of business of the Company shall be used by the Committee in establishing performance goals for such Performance Awards: (1) earnings per share (basic or fully diluted); (2) revenues; (3) earnings, before or after taxes, from operations (generally or specified operations), or before or after interest expense, depreciation, amortization, incentives, or extraordinary or special items; (4) cash flow, free cash flow, cash flow return on investment (discounted or otherwise), net cash provided by operations, or cash flow in excess of cost of capital; (5) return on net assets, return on assets, return on investment, return on capital, return on equity; (6) economic value added; (7) operating margin or operating expense; (8) net income; (9) Share price or total stockholder return; (10) book value; (11) expense ratio; (12) operating income; and (13) strategic business criteria, consisting of one or more objectives based on meeting specified market penetration, geographic business expansion goals, cost targets, customer satisfaction, supervision of litigation and information technology, and goals relating to acquisitions or divestitures of Subsidiaries, Affiliates or joint ventures. The targeted level or levels of performance with respect to such business criteria may be established at such levels and in such terms as the Committee may determine, in its discretion, including in absolute terms, as a goal relative to performance in prior periods, or as a goal compared to the performance of one or more comparable companies or an index covering multiple companies.

(iii) Performance Period; Timing for Establishing Performance Goals; Per-Person Limit. Achievement of performance goals in respect of such Performance Awards shall be measured over a performance period, as specified by the Committee. A performance goal shall be established not later than the earlier of (A) 90 days after the beginning of any performance period applicable to such Performance Award or (B) the time 25% of such performance period has elapsed. In all cases, the maximum Performance Award of any Participant shall be subject to the limitation set forth in Section 4(b) or 7(a)(v), as applicable.

(iv) Settlement of Performance Awards; Other Terms. Settlement of such Performance Awards shall be in cash, Shares, other Awards or other property, in the discretion of the Committee. The Committee may, in its discretion, reduce the amount of a settlement otherwise to be made in connection with such Performance Awards, but may not exercise discretion to increase any such amount payable to the Participant

in respect of a Performance Award subject to this Section 7(a). Any settlement which changes the form of payment from that originally specified shall be implemented in a manner such that the Performance Award and other related Awards do not, solely for that reason, fail to qualify as performance-based compensation for purposes of Section 162(m) of the Code. The Committee shall specify the circumstances in which such Performance Awards shall be paid or forfeited (including by repurchase for a nominal amount, where required by Bermuda law) in the event of Termination of Service of the Participant or other event (including a Change in Control) prior to the end of a performance period or settlement of such Performance Awards.

(v) Maximum Annual Cash Award. The maximum amount payable upon settlement of a cash-settled Performance Unit (or other cash-settled Award) granted under this Plan that is intended to satisfy the requirements for performance-based compensation under Section 162(m) of the Code for any calendar year to any Eligible Person shall not exceed \$3,000,000.

(b) Written Determinations. Determinations by the Committee as to the establishment of performance goals, the amount potentially payable in respect of Performance Awards, the level of actual achievement of the specified performance goals relating to Performance Awards and the amount of any final Performance Award shall be recorded in writing in the case of Performance Awards intended to qualify under Section 162(m) of the Code. Specifically, the Committee shall certify in writing, in a manner conforming to applicable regulations under Section 162(m), prior to settlement of each such Award, that the performance objective relating to the Performance Award and other material terms of the Award upon which settlement of the Award was conditioned have been satisfied.

8. Change in Control Provisions. Unless otherwise provided by the Committee at the time of the Award grant, in the event of a Change in Control, (i) all outstanding Awards pursuant to which the Participant may have rights the exercise of which is restricted or limited, shall become fully exercisable at the time of the Change in Control, and (ii) unless the right to lapse of restrictions or limitations is waived or deferred by a Participant prior to such lapse, all restrictions or limitations (including risks of forfeiture and deferrals) on outstanding Awards subject to restrictions or limitations under this Plan shall lapse, and all performance criteria and other conditions to payment of Awards under which payments of cash, Shares or other property are subject to conditions shall be deemed to be achieved or fulfilled at target (if applicable) and shall be waived by the Company at the time of the Change in Control. However, if so determined by the Board, notwithstanding the foregoing, an outstanding Award shall not be subject to the treatment provided in 8(a)(i) and 8(a)(ii) above if and to the extent such Award is, in connection with the Change in Control, either to be assumed by the successor company or parent thereof or to be replaced with comparable awards with respect to capital stock of the successor company or parent thereof, such comparability to be determined by the Committee.

9. General Provisions.

(a) Compliance with Legal and Trading Requirements. This Plan, the granting and exercising of Awards thereunder, and the other obligations of the Company under this Plan and any Award Agreement, shall be subject to all applicable federal, state and foreign laws, rules and regulations, and to such approvals by any stock exchange, regulatory or governmental agency as may be required. The Company, in its discretion, may postpone the issuance or delivery of Shares under any Award until completion of such stock exchange or market system listing or registration or qualification of such Shares or any required action under any state, federal or foreign law, rule or regulation as the Company may consider appropriate, and may require any Participant to make such representations and furnish such information as it may consider appropriate in connection with the issuance or delivery of Shares in compliance with applicable laws, rules and regulations. No provisions of this Plan shall be interpreted or construed to obligate the Company to register any Shares under federal, state or foreign law. The Shares issued under this Plan may be subject to such other restrictions on transfer as determined by the Committee.

(b) No Right to Continued Employment or Service. Neither this Plan nor any action taken thereunder shall be construed as giving any employee, consultant or director the right to be retained in the employ or service of the Company or any of its Subsidiaries or Affiliates, nor shall it interfere in any way with

the right of the Company or any of its Subsidiaries or Affiliates to terminate any employee s, consultant s or director s employment or service at any time.

(c) Taxes. The Company or any Subsidiary or Affiliate is authorized to withhold from any Award granted, any payment relating to an Award under this Plan, including from a distribution of Shares, or any payroll or other payment to an Eligible Person, amounts of withholding and other taxes due in connection with any transaction involving an Award, and to take such other action as the Committee may deem advisable to enable the Company and Eligible Persons to satisfy obligations for the payment of withholding taxes and other tax obligations relating to any Award. This authority shall include authority to withhold or receive Shares or other property and to make cash payments in respect thereof in satisfaction of an Eligible Person s tax obligations; provided, however, that the amount of tax withholding to be satisfied by withholding Shares shall be limited to the minimum amount of taxes, including employment taxes, required to be withheld under applicable Federal, state and local law.

(d) Changes to this Plan and Awards. The Board may amend, alter, suspend, discontinue, or terminate this Plan or the Committee s authority to grant Awards under this Plan without the consent of shareholders of the Company or Participants, except that any such amendment or alteration shall be subject to the approval of the Company s shareholders (i) to the extent such shareholder approval is required under the rules of any stock exchange or automated quotation system on which the Shares may then be listed or quoted, or (ii) as it applies to ISOs, to the extent such shareholder approval is required under Section 422 of the Code; provided, however, that, without the consent of an affected Participant, no amendment, alteration, suspension, discontinuation, or termination of this Plan may materially and adversely affect the rights of such Participant under any Award theretofore granted to him or her. The Committee may waive any conditions or rights under, amend any terms of, or amend, alter, suspend, discontinue or terminate, any Award theretofore granted, prospectively or retrospectively; provided, however, that, without the consent of a Participant, no amendment, alteration, suspension, discontinuation or termination of any Award may materially and adversely affect the rights of such Participant under any Award theretofore granted to him or her.

(e) No Rights to Awards; No Shareholder Rights. No Eligible Person or employee shall have any claim to be granted any Award under this Plan, and there is no obligation for uniformity of treatment of Eligible Persons and employees. No Award shall confer on any Eligible Person any of the rights of a shareholder of the Company unless and until Shares are duly issued or transferred to the Eligible Person in accordance with the terms of the Award.

(f) Unfunded Status of Awards. This Plan is intended to constitute an unfunded plan for incentive compensation. With respect to any payments not yet made to a Participant pursuant to an Award, nothing contained in this Plan or any Award shall give any such Participant any rights that are greater than those of a general creditor of the Company; provided, however, that the Committee may authorize the creation of trusts or make other arrangements to meet the Company s obligations under this Plan to deliver cash, Shares, other Awards, or other property pursuant to any Award, which trusts or other arrangements shall be consistent with the unfunded status of this Plan unless the Committee otherwise determines with the consent of each affected Participant.

(g) Nonexclusivity of this Plan. Neither the adoption of this Plan by the Board nor its submission to the shareholders of the Company for approval shall be construed as creating any limitations on the power of the Board to adopt such other incentive arrangements as it may deem desirable, including, without limitation, the granting of options and other awards otherwise than under this Plan, and such arrangements may be either applicable generally or only in specific cases.

(h) Not Compensation for Benefit Plans. No Award payable under this Plan shall be deemed salary or compensation for the purpose of computing benefits under any benefit plan or other arrangement of the Company for the benefit of its employees, consultants or directors unless the Company shall determine otherwise.

(i) No Fractional Shares. No fractional Shares shall be issued or delivered pursuant to this Plan or any Award. The Committee shall determine whether cash, other Awards, or other property shall be issued or paid



in lieu of such fractional Shares or whether such fractional Shares or any rights thereto shall be forfeited (including by repurchase at a nominal price, where required by Bermuda law) or otherwise eliminated.

(j) Governing Law. The validity, construction, and effect of this Plan, any rules and regulations relating to this Plan, and any Award Agreement shall be determined in accordance with the laws of Bermuda without giving effect to principles of conflict of laws thereof.

(k) Effective Date: Plan Termination. This Plan became effective as of the Effective Date. This Plan shall terminate as to future awards on May 25, 2020 unless earlier terminated or extended by amendment.

(l) Section 409A. Awards under this Plan are intended to comply with, or be exempt from, the applicable requirements of Section 409A of the Code and shall be limited, construed and interpreted in accordance with such intent. Although the Company does not guarantee any particular tax treatment, to the extent that any Award is subject to Section 409A of the Code, it shall be paid in a manner that is intended to comply with Section 409A of the Code, including regulations and any other guidance issued by the Secretary of the Treasury and the Internal Revenue Service with respect thereto. In no event whatsoever shall the Company be liable for any additional tax, interest or penalties that may be imposed on a Participant by Section 409A of the Code or any damages for failing to comply with Section 409A of the Code.

(m) Titles and Headings. The titles and headings of the sections in this Plan are for convenience of reference only. In the event of any conflict, the text of this Plan, rather than such titles or headings, shall control.

XOMA LTD.

2910 SEVENTH STREET

BERKELEY, CA 94710

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS

The undersigned hereby appoints STEVEN B. ENGLE and CHRISTOPHER J. MARGOLIN, and each of them, with full power of substitution, as the proxy or proxies of the undersigned to vote all Common Shares of XOMA Ltd. (the Company) which the undersigned is entitled to vote at the annual general meeting of shareholders of XOMA Ltd. to be held at the Company's offices at 2910 Seventh Street, Berkeley, California on May 26, 2011, at 9:00 a.m. local time, and at any adjournment or postponement thereof, with all powers that the undersigned would have if personally present thereat:

**This proxy when properly executed will be voted in the manner directed herein by the undersigned shareholder. If no direction is made, this proxy will be voted FOR each of the nominees, FOR Proposals 2 through 6 and for 3 YEARS with respect to Proposal 7.**

(Continued, and to be marked, dated and signed, on other side)

Address Change/Comments (Mark the corresponding box on the reverse side)

D FOLD AND DETACH HERE D

**YOU CAN VOTE IN ONE OF TWO WAYS:**

1. Call **TOLL FREE 1-800-560-1965** on a touch tone telephone and follow the instructions on the reverse side. There is **NO CHARGE** to you for this call.
2. Mark, sign and date your proxy card and return it promptly in the enclosed envelope.

Please Mark Here for Address Change or Comments  
SEE REVERSE SIDE

**(The Board of Directors**

**recommends a vote FOR**

**all of the nominees, FOR**

**Proposals 2 through 6 and**

**for 3 YEARS with respect**

**to Proposal 7.)**

1. Election of Directors

FOR all  
nominees  
(except as  
marked to  
the  
contrary)  
..

WITHHOLD  
AUTHORITY to  
vote for all  
nominees  
..

2. Proposal to appoint Ernst & Young LLP to act  
FOR .. AGAINST .. ABSTAIN ..

Nominees:

Ernst & Young LLP to act

as the Company's

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01 Steven B. Engle	05 Peter Barton Hutt	independent registered
02 Patrick J. Scannon, M.D.	06 John Varian	public accounting firm for
03 W. Denman Van Ness	07 Timothy P. Walbert	the 2011 fiscal year and
04 William K. Bowes, Jr.	08 Jack L. Wyszomierski	authorize the Board to
		agree to such firm's fees.

This proxy will be voted in the election of directors in the manner described in the proxy statement for the 2011 annual meeting of shareholders. (INSTRUCTIONS: To withhold authority to vote for one or more individual nominees, write such name or names in the space provided below.)

3. Proposal to approve the increase of the Company's authorized share capital by the creation of an

FOR      AGAINST      ABSTAIN  
 ..                      ..                      ..

additional 46,000,000 common shares, par value US\$.0075 per share.

4. Proposal to approve an amendment to the Company's 2010 Long Term Incentive and Share Award Plan to (a) increase the number of common shares issuable over the term of the plan by an additional 5,500,000 and (b) provide that, in the case of awards granted out of the additional 5,500,000 share allotment, for each share appreciation right,

FOR      AGAINST      ABSTAIN  
 ..                      ..                      ..

\*Exceptions

restricted share, restricted

share unit, performance

share, performance unit,

dividend equivalent or

other share-based award  
issued, the number of

available shares under the

plan will be reduced by

1.3 shares.

5. Proposal to approve an	FOR	AGAINST	ABSTAIN
---------------------------	-----	---------	---------

amendment to the  
Company's 1998  
Employee Share Purchase

..	..	..
----	----	----

Plan to increase the  
number of common shares

issuable over the term of

the plan by 100,000 to

233,333 shares in the

aggregate.

6. Non-binding advisory	FOR	AGAINST	ABSTAIN
-------------------------	-----	---------	---------

proposal to approve the

..	..	..
----	----	----

compensation of the

Company's named

executive officers

disclosed in the proxy

statement for its 2011

annual general meeting of

shareholders.

7. Non-binding advisory	1 YEAR	2 YEARS	3 YEARS	ABSTAIN
-------------------------	--------	---------	---------	---------

proposal to determine the  
desired frequency of a

..	..	..	..
----	----	----	----

non-binding advisory vote

to approve the Company's

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named executive officer

compensation.

In their discretion, the proxies are authorized to vote upon such other business as may properly come before the meeting and at any adjournment or postponement thereof.

Dated: \_\_\_\_\_  
\_\_\_\_\_, 2011

Signature of Shareholder

Signature if held jointly

Please sign exactly as name appears above. When shares are held by joint tenants, both should sign. When signing as attorney, executor, administrator, trustee or guardian, please give full title as such. If a corporation, please sign in full corporate name by President or other authorized person.

**\*\*\*IF YOU WISH TO VOTE BY TELEPHONE, PLEASE**

**PLEASE MARK, SIGN, DATE AND RETURN THE PROXY CARD**

**READ THE INSTRUCTIONS BELOW \*\*\***

**PROMPTLY USING THE ENCLOSED ENVELOPE.**

D FOLD AND DETACH HERE D

Vote by Telephone or Mail

24 Hours a Day, 7 Days a Week

Telephone voting is available through 11:59 PM Eastern Time

the business day prior to annual meeting day.

Your Telephone vote authorizes the named proxies to vote your shares in the same manner

as if you marked, signed and returned your proxy card.

**Telephone**

**1-800-560-1965**

**OR**

**Mail**

Mark, sign and date your proxy card and return it in the

Use any touch-tone telephone to vote

enclosed postage-paid envelope.

your proxy. Have your proxy card in hand when you call.

If you vote your proxy by telephone,

you do NOT need to mail back your proxy card.

**Important notice regarding the Internet availability of proxy materials for the annual general meeting of shareholders.** The Proxy Statement and the 2011 Annual Report to Shareholders are available at: <http://wfss.mobular.net/wfss/XOMA>