XOMA Corp
Form 10-Q
May 04, 2016
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2016

or

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____to_____

Commission File No. 0-14710

XOMA Corporation

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	52-2154066 (I.R.S. Employer Identification No.)
2910 Seventh Street, Berkeley, California 94710 (Address of principal executive offices, including zip code)	(510) 204-7200 (Telephone Number)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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

Large accelerated filer o Accelerated filer x
Non-accelerated filer o (Do not check if a smaller reporting company) Smaller reporting company o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act of 1934). Yes o No x

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

Class	Outstanding at May 2, 2016
Common Stock, $0.0075 par value	120,367,541

XOMA CORPORATION

FORM 10-Q

TABLE OF CONTENTS

PART I - FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

XOMA CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share amounts)

	March 31, 2016 (unaudited)	December 31, 2015 (Note 1)
ASSETS		
Current assets:		
Cash and cash equivalents	$46,153	$65,767
Marketable securities	454	496
Trade and other receivables, net	1,977	4,069
Prepaid expenses and other current assets	1,568	1,887
Total current assets	50,152	72,219
Property and equipment, net	1,793	1,997
Other assets	664	664
Total assets	$52,609	$74,880
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	$4,593	$6,831
Accrued and other liabilities	4,387	7,025
Deferred revenue	899	3,198
Interest bearing obligations – current	10,244	5,910
Accrued interest on interest bearing obligations – current	327	331
Total current liabilities	20,450	23,295
Interest bearing obligations – non-current	36,007	42,757
Contingent warrant liabilities	3,532	10,464
Other liabilities – non-current	148	673
Total liabilities	60,137	77,189
Commitments and Contingencies (Note 10)		
Stockholders' deficit:		
Preferred stock, $0.05 par value, 1,000,000 shares authorized, 0 issued and outstanding	—	—
Common stock, $0.0075 par value, 277,333,332 shares authorized, 120,367,541	903	893

and 119,045,592 shares issued and outstanding at March 31, 2016 and December 31, 2015, respectively		
Additional paid-in capital	1,140,059	1,136,881
Accumulated comprehensive loss	(42)	—
Accumulated deficit	(1,148,448)	(1,140,083)
Total stockholders' deficit	(7,528)	(2,309)
Total liabilities and stockholders' deficit	$52,609	$74,880

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

(Note 1) The condensed consolidated balance sheet as of December 31, 2015 has been derived from the audited consolidated financial statements as of that date included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

XOMA CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(unaudited)

(in thousands, except per share amounts)

	Three Months Ended March 31,	
	2016	2015
Revenues:		
License and collaborative fees	$2,491	$263
Contract and other	1,471	2,388
Total revenues	3,962	2,651
Operating expenses:		
Research and development	13,610	20,004
Selling, general and administrative	4,305	5,220
Restructuring	36	—
Total operating expenses	17,951	25,224
Loss from operations	(13,989)	(22,573)
Other income (expense):		
Interest expense	(1,002)	(1,115)
Other income (expense), net	(306)	2,010
Revaluation of contingent warrant liabilities	6,932	(40)
Net loss	$(8,365)	$(21,718)
Basic and diluted net loss per share of common stock	$(0.07)	$(0.19)
Shares used in computing basic and diluted net loss per share of common stock	119,568	116,193
Other comprehensive loss:		
Net loss	$(8,365)	$(21,718)
Net unrealized loss on marketable securities	(42)	—
Comprehensive loss	$(8,407)	$(21,718)

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

2

XOMA CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

(in thousands)

	Three Months Ended March 31,	
	2016	2015
Cash flows used in operating activities:		
Net loss	$(8,365)	$(21,718)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	215	458
Common stock contribution to 401(k)	785	986
Stock-based compensation expense	2,306	3,665
Revaluation of contingent warrant liabilities	(6,932)	40
Amortization of debt discount, final payment fee on debt, and debt issuance costs	354	296
Loss on loan extinguishment	—	429
Unrealized loss (gain) on foreign currency exchange	559	(1,949)
Other	(2)	5
Changes in assets and liabilities:		
Trade and other receivables, net	2,092	38
Prepaid expenses and other current assets	415	(2)
Accounts payable and accrued liabilities	(4,901)	(6,455)
Accrued interest on interest bearing obligations	(6)	90
Deferred revenue	(2,306)	(163)
Other liabilities	(500)	—
Net cash used in operating activities	(16,286)	(24,280)
Cash flows from investing activities:		
Net purchase of property and equipment	(31)	(225)
Net cash used in investing activities	(31)	(225)
Cash flows from financing activities:		
Proceeds from issuance of common stock, net of issuance costs	—	134
Proceeds from issuance of long term debt	—	20,000
Debt issuance costs and loan fees	—	(477)
Principal payments debt	(3,271)	(6,083)
Principal payments capital lease	(28)	—
Net cash (used in) provided by financing activities	(3,299)	13,574
Effect of exchange rate changes on cash	2	(23)
Net decrease in cash and cash equivalents	(19,614)	(10,954)
Cash and cash equivalents at the beginning of the period	65,767	78,445

Cash and cash equivalents at the end of the period	$46,153	$67,491
Supplemental Cash Flow Information:		
Cash paid for interest	$646	$333
Non-cash financing activities:		
Issuance of warrants	$—	$450

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

XOMA CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. Description of Business

XOMA Corporation ("XOMA" or the "Company"), a Delaware corporation, combines a portfolio of clinical programs and research activities to develop innovative therapeutic antibodies that it intends to commercialize. XOMA focuses its scientific research on allosteric modulation, which offers opportunities for new classes of therapeutic antibodies to treat a wide range of human diseases. XOMA's scientific research has produced five product candidates to treat diseases within the endocrine therapeutic area. These include candidates from the XMet platform, which consists of several Selective Insulin Receptor Modulator antibodies that could offer new approaches in the treatment of metabolic diseases. The lead compound from the XMet platform, XOMA 358, is a fully human monoclonal negative allosteric modulating antibody that binds to insulin receptors and attenuates insulin action. XOMA intends to investigate this compound as a novel treatment for non-drug-induced, endogenous hyperinsulinemic hypoglycemia (low blood glucose caused by excessive insulin produced by the body). In October 2015, the Company initiated a Phase 2 proof-of-concept study for XOMA 358 in patients with congenital hyperinsulinemia. XOMA's endocrine portfolio also includes a Phase 2 ready product candidate targeting the prolactin receptor as well as other preclinical or research stage programs. The Company's products are presently in various stages of development and are subject to regulatory approval before they can be commercially launched.

In March 2016, the Company announced the closure of its gevokizumab Phase 3 study in pyoderma gangrenosum, and on March 26, 2016, the termination of XOMA's collaboration agreement with Les Laboratories Servier ("Servier") became effective (see Note 4).

Liquidity and Management Plans

The Company has incurred operating losses since its inception and had an accumulated deficit of $1.1 billion at March 31, 2016. Management expects operating losses and negative cash flows to continue for the foreseeable future. As of March 31, 2016, the Company had $46.6 million in cash, cash equivalents and marketable securities, which is available to fund future operations. Taking into account the repayment of its outstanding debt classified within current liabilities on the Company's condensed consolidated balance sheet as of March 31, 2016, the Company anticipates that it has adequate resources to fund its operations through March 31, 2017.

The Company's ability to raise additional capital in the equity and debt markets, should the Company choose to do so, is dependent on a number of factors, including, but not limited to, the market demand for the Company's common stock, which itself is subject to a number of pharmaceutical development and business risks and uncertainties, as well as the uncertainty that the Company would be able to raise such additional capital at a price or on terms that are favorable to the Company.

2. Basis of Presentation and Significant Accounting Policies

Basis of Presentation

The condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany accounts and transactions among consolidated entities were eliminated upon consolidation. The unaudited financial statements were prepared in accordance with generally accepted accounting principles ("GAAP") in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. As permitted under those rules certain footnotes or other financial information can be condensed or omitted. These financial statements and related disclosures have been prepared with the assumption that users of the interim financial information have read or have access to the audited consolidated financial statements for the preceding fiscal year. Accordingly, these statements should be read in conjunction with the audited consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015, filed with the U.S. Securities and Exchange Commission ("SEC") on March 9, 2016.

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

XOMA CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Use of Estimates

The preparation of financial statements in conformity with GAAP in the United States requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosures. On an on-going basis, management evaluates its estimates including, but not limited to, those related to contingent warrant liabilities, revenue recognition, debt amendments, research and development expense, long-lived assets, restructuring liabilities, legal contingencies, derivative instruments and stock-based compensation. The Company bases its estimates on historical experience and on various other market-specific and other relevant assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ significantly from these estimates, such as the Company's billing under government contracts and the Company's accrual for clinical trial expenses. Under the Company's contracts with the National Institute of Allergy and Infectious Diseases ("NIAID"), a part of the National Institutes of Health ("NIH"), the Company bills using NIH provisional rates and thus is subject to future audits at the discretion of NIAID's contracting office. These audits can result in an adjustment to revenue previously reported which potentially could be significant. In March 2016, the Company effected the novation of one of its contracts with NIAID to Nanotherapeutics, Inc. ("Nanotherapeutics") (see Note 6). The billings made prior to the effective date of the novation of such contract are still subject to future audits, which may result in significant adjustments to reported revenues. The Company's accrual for clinical trials is based on estimates of the services received and efforts expended pursuant to contracts with clinical trial centers and clinical research organizations. Payments under the contracts depend on factors such as the achievement of certain events, successful enrollment of patients, and completion of portions of the clinical trial or similar conditions.

Revenue Recognition

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

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

applicable revenue recognition criteria are applied to each of the separate units. Advance payments received in excess of amounts earned are classified as deferred revenue until earned.

License and Collaborative Fees

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

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

XOMA CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

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

Contract and Other Revenues

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

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

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

Research and Development Expenses

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

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

Restructuring Costs

Restructuring costs, which primarily include termination benefits and contract termination costs, are recorded at estimated fair value. Key assumptions in determining the restructuring costs include the terms and payments that may be negotiated to terminate certain contractual obligations and the timing of employees leaving the Company.

XOMA CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Stock-Based Compensation

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

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

To establish an estimate of forfeiture rate, the Company considers its historical experience of option forfeitures and terminations. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from estimates.

Warrants

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

Net Loss per Share of Common Stock

Basic net loss per share of common stock is based on the weighted average number of shares of common stock outstanding during the period. Diluted net loss per share of common stock is based on the weighted average number of shares outstanding during the period, adjusted to include the assumed conversion of certain stock options, RSUs, and warrants for common stock. The calculation of diluted loss per share of common stock requires that, to the extent the average market price of the underlying shares for the reporting period exceeds the exercise price of the warrants and the presumed exercise of such securities are dilutive to earnings (loss) per share of common stock for the period, adjustments to net income or net loss used in the calculation are required to remove the change in fair value of the warrants for the period. Likewise, adjustments to the denominator are required to reflect the related dilutive shares.

Concentration of Risk

Cash equivalents, marketable securities and receivables are financial instruments, which potentially subject the Company to concentrations of credit risk, as well as liquidity risk for certain cash equivalents, such as money market funds. The Company has not encountered any such liquidity issues during 2016.

The Company has not experienced any significant credit losses and does not generally require collateral on receivables. For the three months ended March 31, 2016, three customers represented 38%, 27% and 23% of total revenues. For the three months ended March 31, 2015, two customers represented 72% and 26% of total revenues. As of March 31, 2016, four customer represented 46%, 12%, 11% and 10% of the accounts receivable balance. As of December 31, 2015, four customers represented 39%, 25%, 18% and 10% of the accounts receivables balance.

XOMA CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Recent Accounting Pronouncements

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-09, Compensation-Stock Compensation (Topic 718) Improvements to Employee Share-Based Payment Accounting ("ASU 2016-09"), which is intended to simplify several aspects of the accounting for employee share-based payment transactions, including the income tax consequences, the determination of forfeiture rates, classification of awards as either equity or liabilities, and classification on the statement of cash flows. This ASU is effective for fiscal years and interim periods within those years beginning after December 15, 2016 and early adoption is permitted. The Company is currently evaluating the impact that the adoption of ASU 2016-09 will have on its consolidated financial statements and related disclosures.

3. Condensed Consolidated Financial Statements Detail

Cash and Cash Equivalents

As of March 31, 2016, cash and cash equivalents consisted of demand deposits of $3.0 million and money market funds of $43.1 million with maturities of less than 90 days at the date of purchase. As of December 31, 2015, cash and cash equivalents consisted of demand deposits of $23.2 million and money market funds of $42.6 million with maturities of less than 90 days at the date of purchase.

Marketable Securities

At March 31, 2016 and December 31, 2015, marketable securities consisted of an investment in the common stock of a public entity of $0.5 million. The Company had an unrealized loss of $42,000 associated with its marketable securities as of March 31, 2016. At each reporting date, the Company performs an evaluation of its equity securities to determine if unrealized losses are other-than-temporary. In performing this assessment, the Company determines whether it expects the security to recover in the near term and considers its ability and intent to hold the security until anticipated recovery. This determination considers the duration and severity of the impairment and the financial condition of the investment as well as the Company's ability to hold the investment until a recovery of fair value. As of March 31, 2016, the Company determined that the unrealized loss for its marketable securities is not an other-than-temporary impairment.

Accrued and Other Liabilities

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

	March 31, 2016	December 31, 2015
Accrued payroll and other benefits	$1,573	$ 2,156
Deferred rent	724	608
Accrued clinical trial costs	517	406
Accrued legal and accounting fees	511	517
Accrued incentive compensation	243	2,609
Accrued restructuring costs	138	459
Other	681	270
Total	$4,387	$ 7,025

Net Loss Per Share of Common Stock

Potentially dilutive securities are excluded from the calculation of diluted net loss per share of common stock if their inclusion is anti-dilutive.

XOMA CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

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

	Three Months Ended March 31,	
	2016	2015
Common stock options and RSUs	10,704	8,756
Warrants for common stock	18,230	20,690
Total	28,934	29,446

4. Collaborative and Other Agreements

Servier

In December 2010, the Company entered into a license and collaboration agreement ("Collaboration Agreement") with Servier, to jointly develop and commercialize gevokizumab in multiple indications. Under the terms of the agreement, Servier had worldwide rights to cardiovascular disease and diabetes indications and had rights outside the United States and Japan to all other indications, including non-infectious intermediate, posterior or pan-uveitis ("NIU"), Behçet's disease uveitis, pyoderma gangrenosum, and other inflammatory and oncology indications. Under the Collaboration Agreement, Servier funded all activities to advance the global clinical development and future commercialization of gevokizumab in cardiovascular-related diseases and diabetes. Also, Servier funded the first $50.0 million of gevokizumab global clinical development and chemistry, manufacturing and controls expenses related to the three pivotal clinical trials under the EYEGUARD program. All remaining expenses related to these three pivotal clinical trials were shared equally between Servier and the Company. For the three months ended March 31, 2016 and 2015, the Company recorded revenue of $0.3 million and $0.5 million, respectively, from this Collaboration Agreement.

On January 9, 2015, concurrent with a loan amendment (see Note 8), the Company and Servier entered into Amendment No. 2 to the Collaboration Agreement ("Collaboration Amendment"). Under the Collaboration Amendment, the Company was eligible to receive up to approximately €356.5 million in the aggregate in milestone payments if the Company re-acquired cardiovascular and/or diabetes rights for use in the United States, and approximately €633.8 million in aggregate milestone payments if the Company did not re-acquire those rights. Under the Collaboration Amendment, the Company was eligible to receive up to €341.5 million in the aggregate in milestone payments in the event the Company re-acquired the cardiovascular and/or diabetes rights for use in the United States and approximately €618.8 million if the Company did not re-acquire those rights. The milestone reductions were related to a low prevalence indication for which Servier would not have pursued development had these payments

been required. All other terms of the Collaboration Agreement remained unchanged.

On September 28, 2015, Servier notified XOMA of its intention to terminate the Collaboration Amendment and return the gevokizumab rights to XOMA. The termination, which became effective on March 25, 2016, did not result in a change to the maturity date of the Company's loan with Servier. Prior to September 28, 2015, the Company had been amortizing the deferred revenue recorded upon issuance of the loan over the expected period of performance under the Collaboration Amendment of January 15, 2018, which was also the maturity date of the loan (see Note 8). As the Company will no longer be required to provide services to Servier under the Collaboration Amendment, the Company therefore recognized all remaining deferred revenue of $0.6 million through March 25, 2016. The final reconciliation of cost sharing under the collaboration is pending and may result in additional revenues or expenses to XOMA.

NIAID

In October 2011, the Company announced that NIAID had awarded the Company a new contract under Contract No. HHSN272201100031C (the "NIAID Contract") for up to $28.0 million over five years to develop broad-spectrum antitoxins for the treatment of human botulism poisoning. The contract work was being performed on a cost plus fixed fee basis over the life of the contract and the Company was recognizing revenue under the arrangement as the services were performed on a proportional performance basis. The Company recognized revenue of $1.1 million and $1.6 million under this contract, for the three months ended March 31, 2016 and 2015, respectively.

XOMA CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

In March 2016, the Company effected a novation of the NIAID Contract to Nanotherapeutics. The novation was effected upon obtaining regulatory approval to transfer the NIAID Contract to Nanotherapeutics pursuant to the asset purchase agreement executed in November 2015 (see Note 6).

5. Fair Value Measurements

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

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

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

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

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

	Fair Value Measurements at March 31, 2016 Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total

Assets:				
Money market funds [1]	$43,110	$ —	$ —	$43,110
Marketable securities	454	—	—	454
	$43,564	$ —	$ —	$43,564
Liabilities:				
Contingent warrant liabilities	$—	$ —	$ 3,532	$3,532

	Fair Value Measurements at December 31, 2015 Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
Money market funds [1]	$42,590	$ —	$ —	$42,590
Marketable securities	496	—	—	496
Total	$43,086	$ —	$ —	$43,086
Liabilities:				
Contingent warrant liabilities	$—	$ —	$ 10,464	$10,464

(1) Included in cash and cash equivalents

During the three month period ended March 31, 2016, there were no transfers between Level 1, Level 2, or Level 3 assets or liabilities reported at fair value on a recurring basis and the valuation techniques used did not change compared to the Company’s established practice.

XOMA CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

The estimated fair value of the contingent warrant liabilities at March 31, 2016 and December 31, 2015, was determined using the Black-Scholes Model, which requires inputs such as the expected term of the warrants, volatility and risk-free interest rate. These inputs are subjective and generally require significant analysis and judgment to develop. The Company's common stock price represents a significant input that affects the valuation of the warrants. The change in the estimated fair value is recorded as a gain or loss in the revaluation of contingent warrant liabilities line of the condensed consolidated statements of comprehensive loss.

The estimated fair value of the contingent warrant liabilities was estimated using the following range of assumptions at March 31, 2016, and December 31, 2015:

	March 31, 2016	December 31, 2015
Expected volatility	115% - 186%	166% - 183%
Risk-free interest rate	0.50% - 0.60%	0.64% - 0.74%
Expected term	0.69 - 0.94	0.94 - 1.19

The following table provides a summary of changes in the estimated fair value of the Company's Level 3 financial liabilities for the three months ended March 31, 2016 (in thousands):

Balance at December 31, 2015	$10,464
Decrease in estimated fair value of contingent warrant liabilities upon revaluation	(6,932)
Balance at March 31, 2016	$3,532

The estimated fair value of the Company's outstanding interest-bearing obligations is estimated using the net present value of the payments, discounted at an interest rate that is consistent with market interest rates, which is a Level 2 input. The carrying amount and the estimated fair value of the Company's outstanding interest-bearing obligations at March 31, 2016, and December 31, 2015, are as follows (in thousands):

	March 31, 2016		December 31, 2015	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Hercules term loan	$19,849	$ 21,231	$19,653	$ 21,231
Novartis note	13,683	13,450	13,683	13,394
Servier loan	12,719	12,626	15,331	15,185
Total	$46,251	$ 47,307	$48,667	$ 49,810

6. Dispositions

On November 4, 2015, XOMA and Nanotherapeutics entered into an asset purchase agreement (the “Purchase Agreement”), pursuant to which Nanotherapeutics agreed, subject to the terms and conditions set forth in the Purchase Agreement, to acquire XOMA’s biodefense business and related assets (including, subject to regulatory approval, certain contracts with the U.S. government), and to assume certain liabilities of XOMA (the “Transaction”). As part of the Transaction, the parties, subject to the terms and conditions of the Purchase Agreement and the satisfaction of certain conditions, entered into an intellectual property license agreement (the “License Agreement”), pursuant to which XOMA agreed to license to Nanotherapeutics, subject to the terms and conditions set forth in the License Agreement, certain intellectual property rights related to the purchased assets. Under the License Agreement, the Company is eligible to receive contingent consideration up to a maximum of $4.5 million in cash based upon Nanotherapeutics achieving certain specified future operation objectives. In addition, the Company is eligible to receive 15% royalties on net sales of any future products related to the treatment of human botulism poisoning.

XOMA CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

On March 17, 2016, the Company effected a novation of the NIAID Contract to Nanotherapeutics. On March 23, 2016, the Company completed the transfer of the NIAID Contract and certain related third-party service contracts and materials, and the grant of non-exclusive licenses for certain of its patents and general know-how to Nanotherapeutics. The Company believes that the NIAID Contract and certain related third-party service contracts and materials related to the biodefense program transferred to Nanotherapeutics include a sufficient number of key inputs and processes necessary to generate output from a market participant's perspective. Accordingly, the Company has determined that such assets qualify as a business. The Transaction had no impact on the Company's consolidated financial statements as of March 31, 2016. Any contingent consideration or royalties will be recognized in the condensed consolidated statements of comprehensive loss when received.

7. Restructuring Charges

On July 22, 2015, the Company that announced the Phase 3 EYEGUARD-B study of gevokizumab in patients with Behçet's disease uveitis, run by Servier, did not meet the primary endpoint of time to first acute ocular exacerbation. Due to the results and the Company's belief they would be predictive of results in its other EYEGUARD studies, in August 2015, XOMA announced its intention to end the EYEGUARD global Phase 3 program. On August 21, 2015, the Company, in connection with its efforts to lower operating expenses and preserve capital while continuing to focus on its endocrine product pipeline, implemented a restructuring plan (the "2015 Restructuring") that included a workforce reduction resulting in the termination of 52 employees during the second half of 2015.

During the three months ended March 31, 2016, the Company recorded charges of $2,000 related to severance, other termination benefits and outplacement services in connection with the workforce reduction resulting from the 2015 Restructuring. In addition, the Company recognized an additional restructuring charge of $34,000 in contract termination costs, which primarily include costs in connection with the discontinuation of the EYEGUARD studies.

In the first quarter of 2016, the Company paid $0.4 million associated with the restructuring activities and expects to pay the remaining $0.1 million in the second quarter of 2016.

The outstanding restructuring liabilities are included in accrued and other liabilities on the condensed consolidated balance sheets. The components of the restructuring liabilities are shown below (in thousands):

	Employee Severance and Other Benefits	Contract Termination Costs	Total
Balance at December 31, 2015	$ 343	$ 116	$459
Restructuring charges	2	34	36
Cash payments	(212)	(145)	(357)
Balance at March 31, 2016	$ 133	$ 5	$138

8. Long-Term Debt

Novartis Note

In May 2005, the Company executed a secured note agreement (the “Note Agreement”) with Novartis AG (“Novartis”), which was due and payable in full in June 2015. Under the Note Agreement, the Company borrowed semi-annually to fund up to 75% of the Company’s research and development and commercialization costs under its collaboration arrangement with Novartis, not to exceed $50.0 million in aggregate principal amount. Interest on the principal amount of the loan accrued at six-month LIBOR plus 2%, which was equal to 2.81% at March 31, 2016 and is payable semi-annually in June and December of each year. Additionally, the interest rate resets in June and December of each year. At the Company’s election, the semi-annual interest payments could be added to the outstanding principal amount, in lieu of a cash payment, as long as the aggregate principal amount did not exceed $50.0 million. The Company made this election for all interest payments. Loans under the Note Agreement were secured by the Company’s interest in its collaboration with Novartis, including any payments owed to it thereunder. Pursuant to the terms of the arrangement as restructured in November 2008, the Company did not make any additional borrowings under the Novartis note.

XOMA CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

In June 2015, the Company and Novartis Vaccines and Diagnostics, Inc. ("NVDI") agreed to extend the maturity date of the Note Agreement from June 21, 2015, to September 30, 2015 (the "June 2015 Extension Letter"). On September 30, 2015, concurrent with the execution of a license agreement with Novartis International Pharmaceutical Ltd., XOMA and NVDI executed an amendment to the June 2015 Extension Letter (the "Secured Note Amendment"). Pursuant to the Secured Note Amendment, the parties further extended the maturity date of the June 2015 Extension Letter from September 30, 2015 to September 30, 2020, and eliminated the mandatory prepayment previously required to be made with certain proceeds of pre-tax profits and royalties. In addition, upon achievement of a specified development and regulatory milestone, the then-outstanding principal amount of the note will be reduced by $7.3 million rather than the Company receiving such amount as a cash payment. All other terms of the original Note Agreement remain unchanged.

As of March 31, 2016 and December 31, 2015, the outstanding principal balance under this Secured Note Amendment was $13.7 million and was included in interest bearing obligations – long term in the accompanying consolidated balance sheets.

Servier Loan Agreement

In December 2010, in connection with the Collaboration Agreement entered into with Servier, the Company executed a loan agreement with Servier (the "Servier Loan Agreement"), which provided for an advance of up to €15.0 million. The loan was fully funded in January 2011, with the proceeds converting to approximately $19.5 million. The loan is secured by an interest in XOMA's intellectual property rights to all gevokizumab indications worldwide, excluding certain rights in the U.S. and Japan. Interest is calculated at a floating rate based on a Euro Inter-Bank Offered Rate ("EURIBOR") and subject to a cap. The interest rate is reset semi-annually in January and July of each year. The interest rate for the initial interest period was 3.22% and has been reset semi-annually ranging from 1.95% to 3.83%. Interest for the six-month period from mid-July 2015 through mid-January 2016 was reset to 2.05%. Interest for the six-month period from mid-January 2016 through mid-July 2016 was reset to 1.95%. Interest is payable semi-annually.

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

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

The loan discount is amortized to interest expense under the effective interest method over the remaining life of the loan. The loan discount balance at the time of the Loan Amendment was $1.9 million, which is being amortized over the remaining term of the Loan Amendment. The Company recorded non-cash interest expense resulting from the amortization of the loan discount of $0.2 million and $0.2 million, for the three months ended March 31, 2016 and 2015, respectively. At March 31, 2016 and December 31, 2015, the net carrying value of the loan was $ 12.7 million and $15.3 million, respectively. For the three months ended March 31, 2016 and 2015, the Company recorded unrealized foreign exchange gains of $38,000 and $0.2 million, respectively, related to the re-measurement of the loan discount.

On September 28, 2015, Servier terminated the Collaboration Agreement with the required 180-day notice and none of the acceleration clauses were triggered; therefore, the termination of the Collaboration Agreement had no impact on the loan balance. The outstanding principal balance under this loan was $13.6 million and $16.4 million, using a euro to US dollar exchange rate of 1.136 and 1.091, as of March 31, 2016 and December 31, 2015, respectively. The Company recorded an unrealized foreign exchange loss of $0.5 million and an unrealized foreign exchange gain of $1.9 million for the three months ended March 31, 2016 and 2015, respectively, related to the re-measurement of the loan.

XOMA CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Hercules Term Loan

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

If the Company prepays the loan prior to the loan maturity date, it will pay Hercules a prepayment charge, based on a prepayment fee equal to 3.00% of the amount prepaid, if the prepayment occurs in any of the first 12 months following the Closing Date, 2.00% of the amount prepaid, if the prepayment occurs after 12 months from the Closing Date but prior to 24 months from the Closing Date, and 1.00% of the amount prepaid if the prepayment occurs after 24 months from the Closing Date. The Hercules Term Loan includes customary affirmative and restrictive covenants, but does not include any financial maintenance covenants, and also includes standard events of default, including payment defaults. Upon the occurrence of an event of default, a default interest rate of an additional 5% may be applied to the outstanding loan balances, and Hercules may declare all outstanding obligations immediately due and payable and take such other actions as set forth in the Hercules Term Loan.

The Company incurred debt issuance costs of $0.5 million in connection with the Hercules Term Loan. The Company will be required to pay a final payment fee equal to $1.2 million on the maturity date, or such earlier date as the term loan is paid in full. The debt issuance costs and final payment fee are being amortized and accreted, respectively, to interest expense over the term of the term loan using the effective interest method. The Company recorded non-cash interest expense resulting from the amortization of the debt issuance costs and accretion of the final payment of $0.2 million and $49,000 for the three months ended March 31, 2016 and 2015, respectively.

In connection with the Hercules Term Loan, the Company issued unregistered warrants that entitle Hercules to purchase up to an aggregate of 181,268 unregistered shares of XOMA common stock at an exercise price equal to $3.31 per share. These warrants were exercisable immediately and have a five-year term expiring in February 2020. The Company allocated the aggregate proceeds of the Hercules Term Loan between the warrants and the debt obligation. The estimated fair value of the warrants issued to Hercules of $0.5 million was determined using the Black-Scholes Model and was recorded as a discount to the debt obligation. The debt discount is being amortized over the term of the loan using the effective interest method. The warrants are classified in stockholders' equity on the condensed consolidated balance sheets. As of March 31, 2016, all of these warrants were outstanding.

The Company evaluated the Hercules Term Loan in accordance with accounting guidance for derivatives and determined there was de minimis value to the identified derivative features of the loan at inception and March 31, 2016.

As of March 31, 2016 and December 31, 2015, the outstanding principal balance of the Hercules Term Loan was $20.0 million. At March 31, 2016 and December 31, 2015, the net carrying value of the Hercules Term Loan was $19.8 million and $19.7 million, respectively.

Aggregate future principal, final payment fees and discounts of the Company's total interest bearing obligations as of March 31, 2016, are as follows (in thousands):

Nine months ending December 31, 2016	$5,118
Year ended 2017	14,899
Year ended 2018	18,192
Year ended 2019	—
Year ended 2020	15,665
	53,874
Less: Interest, final payment fee, discount and issuance cost	(7,623)
	46,251
Less: interest bearing obligations – current	(10,244)
Interest bearing obligations – non-current	$36,007

XOMA CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Interest Expense

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

	Three Months Ended March 31,	
	2016	2015
Hercules loan	$ 672	$ 234
Servier loan	226	255
GECC term loan	—	548
Novartis note	97	78
Other	7	—
Total interest expense	$ 1,002	$ 1,115

9. Common Stock Warrants

As of March 31, 2016 and December 31, 2015, the following common stock warrants were outstanding (in thousands, except for per share amounts):

Issuance Date	Expiration Date	Balance Sheet Classification	Exercise Price per Share	March 31, 2016	December 31, 2015
December 2011	December 2016	Stockholders' deficit	$ 1.14	263	263
March 2012	March 2017	Contingent warrant liabilities	$ 1.76	9,585	9,585
September 2012	September 2017	Stockholders' deficit	$ 3.54	39	39
December 2014	December 2016	Contingent warrant liabilities	$ 7.90	8,097	8,097
February 2015	February 2020	Stockholders' deficit	$ 3.31	181	181
February 2016	February 2021	Stockholders' deficit	$ 0.77	165	—
				18,330	18,165

In February 2016, in conjunction with services to be provided by a third-party consultant, the Company issued a warrant to purchase up to an aggregate of 165,000 unregistered shares of XOMA’s common stock at an exercise price equal to $0.77 per share. These warrants are exercisable immediately and have a five-year term expiring in February 2021. The estimated fair value of the warrants in the amount of $0.1 million was calculated using the Black-Scholes Model and was classified in stockholders’ deficit on the condensed consolidated balance sheet.

The Company revalued the December 2014 warrants at March 31, 2016 using the Black-Scholes Model and recorded a $2.9 million decrease in the estimated fair value as a gain in the revaluation of contingent warrant liabilities line of the Company's condensed consolidated statements of comprehensive loss. The Company revalued the March 2012 warrants at March 31, 2016 using the Black-Scholes Model and recorded a $4.0 million decrease in the estimated fair value as a gain in the revaluation of contingent warrant liabilities line of the Company's condensed consolidated statements of comprehensive loss. The decrease in liability is primarily due to the decrease in the market price of XOMA's common stock at March 31, 2016 as compared to December 31, 2015.

As of March 31, 2016 and December 31, 2015, the December 2014 warrants had an estimated fair value of $44,000 and $3.0 million, respectively. As of March 31, 2016 and December 31, 2015, the March 2012 warrants had an estimated fair value of $3.5 million and $7.5 million, respectively.

10. Legal Proceedings, Commitments and Contingencies

Collaborative Agreements, Royalties and Milestone Payments

The Company has committed to make potential future "milestone" payments to third parties as part of licensing and development programs. Payments under these agreements become due and payable only upon the achievement of certain developmental, regulatory and/or commercial milestones. Because it is uncertain if and when these milestones will be achieved, such contingencies, aggregating up to $55.7 million (assuming one product per contract meets all milestones events) have not been recorded on the accompanying condensed consolidated balance sheets. The Company is unable to determine precisely when and if payment obligations under the agreements will become due as these obligations are based on milestone events, the achievement of which is subject to a significant number of risks and uncertainties.

XOMA CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Legal Proceedings

On July 24, 2015, a purported securities class action lawsuit was filed in the United States District Court for the Northern District of California, captioned Markette v. XOMA Corp., et al. (Case No. 3:15-cv-3425) against the Company, its Chief Executive Officer and its Chief Medical Officer. The complaint asserts that all defendants violated Section 10(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and SEC Rule 10b-5, by making materially false or misleading statements regarding the Company's EYEGUARD-B study between November 6, 2014 and July 21, 2015. The plaintiffs also allege that Messrs. Varian and Rubin violated Section 20(a) of the Exchange Act. The plaintiffs seek class certification, an award of unspecified compensatory damages, an award of reasonable costs and expenses, including attorneys' fees, and other further relief as the Court may deem just and proper. The Company is awaiting the appointment of a lead plaintiff by the Court. Based on a review of the allegations, the Company believes that the plaintiffs' allegations are without merit, and intends to vigorously defend against the claims. Currently, the Company does not believe that the outcome of this matter will have a material adverse effect on its business or financial condition, although an unfavorable outcome could have a material adverse effect on its results of operations for the period in which such a loss is recognized. The Company cannot reasonably estimate the possible loss or range of loss that may arise from this lawsuit.

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

On November 16 and November 25, 2015, two derivative lawsuits were filed purportedly on the Company's behalf in the United States District Court for the Northern District of California, captioned Fieser v. Van Ness, et al . (Case No. 4:15-CV-05236-HSG) and Csoka v. Varian, et al . (Case No. 3:15-cv-05429-SI), against certain of the Company's officers and the members of its board of directors. The lawsuits assert claims for breach of fiduciary duty and other violations of law based on the dissemination of allegedly false and misleading statements related to the Company's EYEGUARD-B study. Plaintiffs seek unspecified monetary damages and other relief including reforms and improvements to the Company's corporate governance and internal procedures. The parties in the Fieser action have

stipulated that the Company's response to the complaint will be due on May 20, 2016. The Company's response to the Csoka Complaint is currently due on June 3, 2016. Management believes the allegations have no merit and intend to vigorously defend against the claims. Currently, the Company does not believe that the outcome of this matter will have a material adverse effect on its business or financial condition, although an unfavorable outcome could have a material adverse effect on its results of operations for the period in which such a loss is recognized. The Company cannot reasonably estimate the possible loss or range of loss that may arise from this lawsuit.

11. Stock-based Compensation

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

Stock Options

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

XOMA CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

The fair value of the stock options granted during the three months ended March 31, 2016 and 2015, was estimated based on the following weighted average assumptions:

	Three Months Ended March 31,	
	2016	2015
Dividend yield	0 %	0 %
Expected volatility	106 %	82 %
Risk-free interest rate	1.27 %	1.34 %
Expected term	5.6 years	5.6 years

Stock option activity for the three months ended March 31, 2016, was as follows:

	Options	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at January 1, 2016	7,690,297	$ 6.33		
Granted	65,900	1.04		
Forfeited, expired or cancelled	(330,940)	8.71		
Outstanding at March 31, 2016	7,425,257	$ 6.18	6.43	$ —
Vested and expected to vest at March 31, 2016	7,255,365	$ 6.21	6.37	$ —
Exercisable at March 31, 2016	5,739,469	$ 6.58	5.84	$ —

Restricted Stock Units

RSUs generally vest over three years for employees and one year for directors. In the first quarter of 2016, the Company granted 2.3 million RSUs to employees that will vest one year from the date of grant. RSUs held by employees who qualify for retirement age (defined as employees that are a minimum of 55 years of age and the sum of their age plus years of full-time employment with the Company exceeds 70 years) vest on the earlier of scheduled

vest date or the date of retirement.

The valuation of RSUs is determined at the date of grant using the closing stock price.

Unvested RSU activity for the three months ended March 31, 2016, is summarized below:

	Number of Shares	Weighted-Average Grant-Date Fair Value
Unvested balance at January 1, 2016	2,125,761	$ 4.07
Granted	2,290,344	0.76
Vested	(1,052,929)	3.24
Forfeited	(117,627)	3.52
Unvested balance at March 31, 2016	3,245,549	$ 2.03

XOMA CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Stock-based Compensation Expense

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

	Three Months Ended March 31,	
	2016	2015
Research and development	$ 1,137	$ 2,196
Selling, general and administrative	1,169	1,469
Total stock-based compensation expense	$ 2,306	$ 3,665

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

Forward Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, which are subject to the "safe harbor" created by those sections. Forward-looking statements are based on our management's beliefs and assumptions and on information currently available to them. In some cases you can identify forward-looking statements by words such as "may," "will," "should," "could," "would," "expects "plans," "anticipates," "believes," "estimates," "projects," "predicts," "potential," "intend" and similar expressions intended to forward-looking statements. Examples of these statements include, but are not limited to, statements regarding: the implications of interim or final results of our clinical trials, the progress of our research programs, including clinical testing, the extent to which our issued and pending patents may protect our products and technology, our ability to identify new product candidates, the potential of such product candidates to lead to the development of commercial products, our anticipated timing for initiation or completion of our clinical trials for any of our product candidates, our future operating expenses, our future losses, our future expenditures for research and development, the sufficiency of our cash resources, our ability to receive potential milestones and/or royalty payments under collaboration agreements and the timing of receipt of those payments, the timing and adequacy of cost-cutting measures, and our ability to defend against claims that have been made in litigation. These statements are based on assumptions that may not prove accurate. Actual results could differ materially from those anticipated due to certain risks inherent in the biotechnology industry and for companies engaged in the development of new products in a regulated market. Among other things: our product candidates are still being developed, and we will require substantial funds to continue development which may not be available; we have received negative results from certain of our clinical trials, and we face uncertain results of other clinical trials of our product candidates; if our therapeutic product candidates do not receive regulatory approval, neither our third-party collaborators, our contract manufacturers nor we will be able to manufacture and market them; we may not obtain orphan drug exclusivity or we may not receive the full benefit of orphan drug exclusivity even if we obtain such exclusivity; even once approved, a product may be subject to additional testing or significant marketing restrictions, its approval may be withdrawn or it may be voluntarily taken off the market; we may not be successful in commercializing our products, which could also affect our development efforts; we are subject to various state and federal healthcare related laws and regulations that may impact the commercialization of our product candidates and could subject us to significant fines and penalties; and certain of our technologies are in-licensed from third parties, so our capabilities using them are restricted and subject to additional risks. These and other risks, including those related to current economic and financial market conditions, are contained principally in Part II, Item 1A of this Quarterly Report on Form 10-Q and our other filings with the SEC. You should not place undue reliance on these forward-looking statements, which apply only as of the date of this Quarterly Report on Form 10-Q. You should read this Quarterly Report on Form 10-Q completely and with the understanding that our actual future results may be materially different from those we expect. Except as required by law, we assume no obligation to update these forward-looking statements, whether as a result of new information, future events or otherwise.

The following discussion and analysis should be read in conjunction with the unaudited financial statements and notes thereto included in Part I, Item 1 of this Quarterly Report on Form 10-Q and with the audited consolidated financial statements and related notes thereto included as part of our Annual Report on Form 10-K for the year ended December 31, 2015.

Overview

XOMA Corporation (“XOMA”), a Delaware corporation, is a development stage biotechnology company with a portfolio of therapeutic antibodies. Our product candidates are the result of our expertise in developing new monoclonal antibodies, which have created new opportunities to potentially treat a wide range of endocrine diseases. We discover and develop innovative antibody-based therapeutics. Several of our antibodies have unique properties due to their interaction at allosteric sites on a specific protein rather than at the orthosteric, or active, sites. The antibodies are designed to either enhance or diminish the protein’s activity as desired. We believe allosteric modulating antibodies may be more selective and offer a safety advantage in certain disease indications when compared to more traditional modes of action.

Our business efforts are focused on advancing the assets in our portfolio of compounds that could treat a variety of endocrine diseases. Our product candidates are in various stages of development and are subject to regulatory approval before they can be commercially launched.

We currently have five assets in our endocrine portfolio, two of which were developed as part of our proprietary XOMA Metabolism ("XMet") platform. We believe the XMet platform is highly novel as it targets the insulin receptor and has generated new classes of fully human allosteric modulating monoclonal antibodies known as Selective Insulin Receptor Modulators ("SIRMs"). One program of SIRMs produced by the XMet Platform is a negative allosteric modulator of the insulin receptor ("XMetD"). We intend to advance the following two antibodies derived from the XMetD program, which presents potential new therapeutic approaches to the treatment of rare diseases that involve insulin and result in severe hypoglycemia.

- XOMA 358, a potential long-acting treatment for hyperinsulinemic hypoglycemia; and
- XOMA 129, a potential rapid onset, short-acting treatment for severe acute hypoglycemia.

Our endocrine portfolio also includes what we believe is a Phase 2-ready product candidate, XOMA 213, targeting the prolactin receptor as well as research-stage programs targeting the parathyroid receptor ("PTH1R") and the adrenal corticotropic hormone ("ACTH").

Recent Business Developments

In connection with the November 4, 2015 asset purchase agreement with Nanotherapeutics, Inc. ("Nanotherapeutics"), in March 2016, we effected the novation of our contract with the National Institute of Allergy and Infectious Diseases ("NIAID"), and completed the transfer of certain related third-party service contracts and materials, and the grant of non-exclusive licenses for certain of our patents and general know-how to Nanotherapeutics. We are eligible to receive contingent consideration up to a maximum of $4.5 million in cash based upon Nanotherapeutics achieving certain specified future operating objectives. In addition, we are eligible to receive 15% royalties on net sales of any future products related to the treatment of human botulism poisoning.

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

Successful development of drugs is inherently difficult and uncertain. Our business requires significant investments in research and development over many years, and products often fail during the research and development process. Our long-term prospects depend upon our ability, and the ability of our partners, to successfully commercialize new therapeutics. Our financial performance is driven by many factors and is subject to the risks set forth in Part II, Item 1A - Risk Factors.

Critical Accounting Policies

Critical accounting policies are those that require significant judgment and/or estimates by management at the time that the financial statements are prepared such that materially different results might have been reported if other assumptions had been made. We consider certain accounting policies including, but not limited to, those related to revenue recognition, research and development expense, contingent warrant liabilities, and stock-based compensation to be critical policies. There have been no significant changes in our critical accounting policies during the three months ended March 31, 2016, as compared with those previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2015, filed with the SEC on March 9, 2016.

Results of Operations

Revenues

Total revenues for the three months ended March 31, 2016 and 2015, were as follows (in thousands):

	Three Months Ended March 31,		Increase (Decrease)
	2016	2015	
License and collaborative fees	$ 2,491	$ 263	$ 2,228
Contract and other	1,471	2,388	(917)
Total revenues	$ 3,962	$ 2,651	$ 1,311

License and Collaborative Fees

License and collaborative fees include fees and milestone payments related to the out-licensing of our products and technologies. The increase in license and collaborative fee revenue for the three months ended March 31, 2016, as compared to the same period of 2015, was due to $1.5 million in revenue from an upfront payment of a phage display library license, a $0.5 million increase in revenue recognized related to the loan agreement with Servier and a $0.2 million increase in milestone payments related to out-licensing arrangements. The generation of future revenues related to license and other collaborative fees is dependent on our ability to attract new licensees and new collaboration partners to our antibody technologies, or the achievement of milestones by our existing licensees.

Contract and Other Revenues

Contract and other revenues include agreements where we provide contracted research and development services to our contract and collaboration partners, including Servier and NIAID. Contract and other revenues also include net product sales and royalties. The following table shows the activity in contract and other revenues for the three months ended March 31, 2016 and 2015 (in thousands):

	Three Months Ended March 31,		Increase (Decrease)
	2016	2015	
NIAID	$ 1,058	$ 1,902	$ (844)
Servier	307	523	(216)
Other	106	(37)	143
Total contract and other revenues	$ 1,471	$ 2,388	$ (917)

Our revenue from NIAID decreased for the three months ended March 31, 2016 due to reduced activity under our existing NIAID contracts. The decrease in revenue from Servier for the three months ended March 31, 2016 was due primarily to the discontinuation of the gevokizumab studies under our collaboration agreement with Servier in the third quarter of 2015.

We expect total revenue to decrease in 2016 as compared with 2015 levels based on anticipated licensing activities, the termination of our collaboration with Servier, and the novation of our NIAID contract to Nanotherapeutics.

Research and Development Expenses

Research and development expenses were $13.6 million for the three months ended March 31, 2016, compared with $20.0 million for the same period in 2015. The decrease of $6.4 million was primarily due to a decrease of $5.0 million in salaries and related expenses, a decrease of $0.7 million in depreciation and facility expenses due to the sale our manufacturing facility to Agenus West LLC (“Agenus”) in December 2015, and a decrease of $0.6 million in outside consulting services due to the termination of the EYEGUARD global Phase 3 program in the third quarter of 2015.

Salaries and related personnel costs are a significant component of research and development expenses. We recorded $4.5 million in research and development salaries and employee-related expenses for the three months ended March

31, 2016, as compared with $9.5 million for the same period in 2015. The decrease of $5.0 million was due primarily to a $3.9 million decrease in salaries and related personnel costs, primarily due to the restructuring activities initiated in the third quarter of 2015 and the resulting decrease in headcount, and a $1.1 million decrease in stock-based compensation, which is a non-cash expense.

Our research and development activities can be divided into earlier-stage programs and later-stage programs. Earlier-stage programs include molecular biology, process development, pilot-scale production and preclinical testing. Later-stage programs include clinical testing, regulatory affairs and manufacturing clinical supplies. The costs associated with these programs are summarized below (in thousands):

	Three Months Ended March 31,		Increase (Decrease)
	2016	2015	
Earlier stage programs	$ 8,661	$ 5,773	$ 2,888
Later stage programs	4,949	14,231	(9,282)
Total	$ 13,610	$ 20,004	$ (6,394)

Our research and development activities can also be divided into those related to our internal projects and those projects related to collaborative and contract arrangements. The costs related to internal projects versus collaborative and contract arrangements are summarized below (in thousands):

	Three Months Ended March 31,		Increase
	2016	2015	(Decrease)
Internal projects	$ 8,661	$ 13,664	$ (5,003)
Collaborative and contract arrangements	4,949	6,340	(1,391)
Total	$ 13,610	$ 20,004	$ (6,394)

For the three months ended March 31, 2016, gevokizumab, XOMA 358 and our endocrine research-stage programs each accounted for between 20% and 30% of our total research and development expenses. All remaining development programs accounted for less than 10% of our total research and development expenses for the three months ended March 31, 2016. For the three months ended March 31, 2015, the gevokizumab program, for which we incurred the largest amount of expense, accounted for more than 50% but less than 60% of our total research and development expenses. A second development program, XMet, accounted for more than 20% but less than 30% of our total research and development expenses and a third development program, NIAID, accounted for more than 10% but less than 20% of our total research and development expenses. All remaining development programs accounted for less than 10% of our total research and development expenses for the three months ended March 31, 2015.

We expect our research and development spending during the remainder of 2016 will be reduced as compared with 2015 due to our 2015 restructuring efforts, our strategic efforts to focus on our endocrine portfolio, which included the sale of our manufacturing facility to Agenus and transfer of our biodefense assets to Nanotherapeutics, and reduced spending on gevokizumab.

Selling, General and Administrative Expenses

Selling, general and administrative expenses include salaries and related personnel costs, facilities costs and professional fees. Selling, general and administrative expenses were $4.3 million for the three months ended March 31, 2016, compared with $5.2 million for the same period in 2015. The decrease of $0.9 million was due primarily to a $1.2 million decrease in salaries and related personnel costs related to the reduction in headcount from our restructuring activities initiated in the third quarter of 2015, partially offset by a $0.2 million increase in consulting services.

We expect our selling, general and administrative spending during the remainder of 2016 to decline as compared with 2015 due to the restructuring that we implemented in the third quarter of 2015.

Restructuring Charges

On July 22, 2015, we announced the Phase 3 EYEGUARD-B study of gevokizumab in patients with Behçet’s disease uveitis, run by Servier, did not meet the primary endpoint of time to first acute ocular exacerbation. In August 2015, we announced our intention to end the EYEGUARD global Phase 3 program. On August 21, 2015, in connection with our efforts to lower operating expenses and preserve capital while continuing to focus on our endocrine product

pipeline, we implemented a restructuring plan (the “2015 Restructuring”) that included a workforce reduction resulting in the termination of 52 employees in the second half of 2015.

During the three months ended March 31, 2016, we recorded charges of $2,000 related to severance, other termination benefits and outplacement services. In addition, we recognized an additional restructuring charge of $34,000 in contract termination costs during the three months ended March 31, 2016, which primarily include costs in connection with the discontinuation of the EYEGUARD studies.

Other Income (Expense), Net

Interest Expense

Amortization of debt issuance costs and discounts are included in interest expense. Interest expense is shown below for the three months ended March 31, 2016 and 2015 (in thousands):

	Three Months Ended March 31,		Increase (Decrease)
	2016	2015	
Hercules loan	$ 672	$ 234	$ 438
Servier loan	226	255	(29)
GECC term loan	—	548	(548)
Novartis note	97	78	19
Other	7	—	7
Total interest expense	$ 1,002	$ 1,115	$ (113)

Interest expense related to the term loan with General Electric Capital Corporation ("GECC") decreased by $0.5 million during the three months ended March 31, 2016, compared to the same period in 2015. The decrease was due to the extinguishment of the GECC term loan in February 2015. This decrease was partially offset by an increase of $0.4 million in interest expense due to our $20.0 million term loan with Hercules Technology Growth Capital, Inc. that was entered into in February 2015. A portion of the proceeds from the Hercules Term Loan was used to repay our outstanding loan with GECC.

We expect interest expense during the remainder of 2016 to decrease as compared with 2015 due to the decrease in the principal balances of the Hercules and Servier loans.

Other Income (Expense), Net

Other income (expense), net primarily consisted of unrealized (losses) gains. The following table shows the activity in other income (expense), net for the three months ended March 31, 2016 and 2015 (in thousands):

	Three Months Ended March 31,		Increase (Decrease)
	2016	2015	
Other income (expense), net			
Unrealized foreign exchange (loss) gain[1]	$ (559)	$ 1,949	$ (2,508)
Sublease income	226	—	226
Realized foreign exchange gain	2	56	(54)
Unrealized loss on foreign exchange options	—	(6)	6
Other	25	11	14
Total other income (expense), net	$ (306)	$ 2,010	$ (2,316)

(1) Unrealized foreign exchange (loss) gain for the three months ended March 31, 2016 and 2015 primarily relates to the re-measurement of the Servier loan.

Revaluation of Contingent Warrant Liabilities

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

We revalued the March 2012 warrants at March 31, 2016 using the Black-Scholes Model and recorded a $4.0 million decrease in the estimated fair value as a gain in the revaluation of contingent warrant liabilities line of our condensed consolidated statement of comprehensive loss for the three months ended March 31, 2016. This decrease in the estimated fair value of the warrants is primarily due to the decrease in the market price of our common stock at March 31, 2016 as compared to December 31, 2015. We revalued the warrants at March 31, 2015 and recorded a $0.3 million decrease in the estimated fair value as a gain on the revaluation of contingent warrant liabilities line of our condensed consolidated statement of comprehensive loss for the three months ended March 31, 2015.

We revalued the December 2014 warrants at March 31, 2016 using the Black-Scholes Model and recorded a $2.9 million decrease in the estimated fair value as a gain in the revaluation of contingent warrant liabilities line of our condensed consolidated statements of comprehensive loss for the three months ended March 31, 2016. The decrease in the estimated fair value of the warrants is due primarily to the decrease in the market price of our common stock at March 31, 2016 as compared to December 31, 2015. We revalued the warrants at March 31, 2015 and recorded a $0.4 million decrease in the estimated fair value as a gain on the revaluation of contingent warrant liabilities line of our condensed consolidated statement of comprehensive loss for the three months ended March 31, 2015.

Liquidity and Capital Resources

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

	March 31, 2016	December 31, 2015	Change
Cash and cash equivalents	$46,153	$ 65,767	$(19,614)
Marketable securities	$454	$ 496	$(42)
Working capital	$29,702	$ 48,924	$(19,222)

	Three Months Ended March 31,		
	2016	2015	Change
Net cash used in operating activities	$(16,286)	$(24,280)	$(7,994)
Net cash used in investing activities	(31)	(225)	(194)
Net cash (used in) provided by financing activities	(3,299)	13,574	16,873
Effect of exchange rate changes on cash	2	(23)	(25)
Net decrease in cash and cash equivalents	$(19,614)	$(10,954)	$8,660

Cash Used In Operating Activities

The decrease in net cash used in operating activities for the three months ended March 31, 2016, as compared with the same period in 2015, was primarily due to lower salaries and related costs resulting from our 2015 restructuring

efforts combined with decreased research and development spending related to internal and external manufacturing costs and clinical trial costs during the three months ended March 31, 2016.

Cash Used In Investing Activities

Net cash used in investing activities for the three months ended March 31, 2016 of $31,000 was related to the purchase of equipment. Net cash used in investing activities for the same period in 2015 of $0.2 million was due to expenditures for leasehold improvements of $0.2 million.

Cash (Used in) Provided by Financing Activities

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

Net cash provided by financing activities for the three months ended March 31, 2015 of $13.6 million was primarily related to proceeds received from the Hercules Term Loan of $20.0 million, partially offset by $6.1 million in principal payments on the GECC Term Loan, and debt issuance costs of $0.5 million.

Interest Bearing Obligations

Aggregate future principal, final payment fees and discounts of our total interest bearing obligations as of March 31, 2016 are as follows (in thousands):

Nine Months ending December 31, 2016	$5,118
Year ended 2017	14,899
Year ended 2018	18,192
Year ended 2019	—
Year ended 2020	15,665
	53,874
Less: Interest, final payment fee, discount and issuance cost	(7,623)
	46,251
Less: interest bearing obligations – current	(10,244)
Interest bearing obligations – non-current	$36,007

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

* * *

We have incurred significant operating losses since our inception and have an accumulated deficit of $1.1 billion as of March 31, 2016. Management expects operating losses and negative cash flows to continue for the foreseeable future. At March 31, 2016, we had cash, cash equivalents and marketable securities of $46.6 million, which is available to fund future operations. Taking into account the repayment of our outstanding debt classified within current liabilities on our condensed consolidated balance sheet as of March 31, 2016, we anticipate that we have adequate resources to fund operations through at least March 31, 2017.

Our ability to raise additional capital in the equity and debt markets, should we choose to do so, is dependent on a number of factors, including, but not limited to, the market demand for our common stock, which itself is subject to a number of pharmaceutical development and business risks and uncertainties, as well as the uncertainty that we would be able to raise such additional capital at a price or on terms that are favorable to us.

Changes in Contractual Obligations

Our future contractual obligations were reported in our Annual Report on Form 10-K for the year ended December 31, 2015, as filed with the SEC. There have been no material changes from the contractual obligations previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2015.

Off-balance Sheet Arrangements

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

We are exposed to market risks in the ordinary course of our business. These risks primarily include risk related to interest rate sensitivities. Our market risks related to interest rate sensitivities at March 31, 2016, have not changed materially from those discussed in Item 7A of our Form 10-K for the year ended December 31, 2015 filed with the SEC.

Foreign Currency Risk

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

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Controls and Procedures

We have established disclosure controls and procedures, as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended. Our Chief Executive Officer and our Chief Financial Officer have concluded, based on the evaluation of the effectiveness of our disclosure controls and procedures by our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, as of the end of the period covered by this report, that our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control

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

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On July 24, 2015, a purported securities class action lawsuit was filed in the United States District Court for the Northern District of California captioned Markette v. XOMA Corp., et al. (Case No. 3:15-cv-3425) against us, our Chief Executive Officer and our Chief Medical Officer. The complaint asserts that all defendants violated Section 10(b) the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and SEC Rule 10b-5, by making materially false or misleading statements regarding the Company’s EYEGUARD-B study between November 6, 2014 and July 21, 2015. The plaintiffs also allege that Messrs. Varian and Rubin violated Section 20(a) of the Exchange Act. The plaintiffs seek class certification, an award of unspecified compensatory damages, an award of reasonable costs and expenses, including attorneys’ fees, and other further relief as the Court may deem just and proper. We are awaiting the appointment of a lead plaintiff by the Court. Based on a review of the allegations, the Company believes that the plaintiffs’ allegations are without merit, and intends to vigorously defend against the claims.

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

On November 16, and November 25, 2015, two derivative lawsuits were filed purportedly on our behalf in the United States District Court for the Northern District of California, captioned Fieser v. Van Ness, et al. (Case No. 4:15-CV-05236-HSG) and Csoka v. Varian, et al. (Case No. 3:15-cv-05429-SI), against certain of our officers and the members of our board of directors. The lawsuits assert claims for breach of fiduciary duty and other violations of law based on the dissemination of allegedly false and misleading statements related to the Company's EYEGUARD-B study. Plaintiffs seek unspecified monetary damages and other relief including reforms and improvements to our corporate governance and internal procedures. The parties in the Fieser action have stipulated that our response to the complaint will be due on May 20, 2016. Our response to the Csoka Complaint is currently due on June 3, 2016. Management believes the allegations have no merit and intend to vigorously defend against the claims.

ITEM 1A. RISK FACTORS

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

We have marked with an asterisk (*) those risks described below that reflect substantive changes from, or additions to, the risks described under Part I, Item 1A, “Risk Factors” included in our Annual Report on the Form 10-K.

Risks Related to our Financial Results and Capital Requirements

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

We have been and are developing numerous product candidates, and as a result have experienced significant losses. As of March 31, 2016, we had an accumulated deficit of $1.1 billion.

For the three months ended March 31, 2016 and 2015, we had a net loss of $8.4 million and $21.7 million, respectively.

Our product candidates are still being developed, and we do not know whether we will ever achieve sustained profitability or whether cash flow from future operations will be sufficient to meet our needs.

We have devoted most of our financial resources to research and development, including our non-clinical development activities and clinical trials. To date, we have financed our operations primarily through the sale of equity securities and debt, and collaboration and licensing arrangements. The size of our future net losses will depend, in part, on the rate of future expenditures and our ability to generate revenues. We expect to continue to incur substantial expenses as we continue our research and development activities for our product candidates. If our product candidates are not successfully developed or commercialized, or if revenues are insufficient following marketing approval, we will not achieve profitability and our business may fail. Our ability to achieve profitability is dependent in large part on the success of our development programs, obtaining regulatory approval for our product candidates and licensing certain of our preclinical compounds, all of which are uncertain. Our success is also dependent on obtaining regulatory approval to market our product candidates through current and future collaborations, which may not materialize or prove to be successful.

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

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

choose.

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

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

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

Based on our cash, cash equivalents and marketable securities of $46.6 million at March 31, 2016, anticipated spending levels, anticipated cash inflows from collaborations, licensing transactions, we anticipate that we will have adequate capital to fund operations through at least March 31, 2017. Any significant revenue shortfalls, increases in planned spending on development programs, more rapid progress of development programs than anticipated, or the initiation of new clinical trials, as well as the unavailability of anticipated sources of funding, could shorten this period or otherwise have a material adverse impact on our ability to finance our continued operations. Progress or setbacks by potentially competing products also may affect our ability to raise new funding on acceptable terms.

We do not know when or whether:

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

If adequate funds are not available, we will be required to delay, reduce the scope of, or eliminate one or more of our product development programs and further reduce personnel-related costs.

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

Reducing costs is a key element of our current business strategy. On August 21, 2015, we, in connection with our efforts to lower operating expenses and preserve capital while continuing to focus on our product pipeline, implemented a workforce reduction, which led to the termination of 52 employees during the second half of 2015.

We recorded an aggregate restructuring charge of approximately $2.9 million related to severance, other termination benefits and outplacement services in connection with the workforce reduction in the second half of 2015. In addition, we recognized an additional restructuring charge of $0.8 million in total contract termination costs in the second half of 2015, which primarily include costs in connection with the discontinuation of the EYEGUARD studies. Further cost-saving initiatives included the sale of our manufacturing facility to Agenus in December 2015 and the transfer of our NIAID contract to Nanotherapeutics in March 2016.

If we experience excessive unanticipated inefficiencies or incremental costs in connection with restructuring activities, such as unanticipated inefficiencies caused by reducing headcount, we may be unable to meaningfully realize cost savings and we may incur expenses in excess of what we anticipate. Either of these outcomes could prevent us from meeting our strategic objectives and could adversely impact our results of operations and financial condition.

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

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

Our product candidates (including XOMA 358) cannot be manufactured and marketed in the United States or any other countries without required regulatory approvals. The U.S. government and governments of other countries extensively regulate many aspects of our product candidates, including:

- clinical development and testing;
- manufacturing;
- labeling;

- storage;
- record keeping;
- promotion and marketing; and
- importing and exporting.

In the United States, the Food and Drug Administration ("FDA") regulates pharmaceutical products under the Federal Food, Drug, and Cosmetic Act and other laws, including, in the case of biologics, the Public Health Service Act. At the present time, we believe many of our product candidates (including XOMA 358) will be regulated by the FDA as biologics. Initiation of clinical trials requires approval by health authorities. Clinical trials involve the administration of the investigational new drug to healthy volunteers or to patients under the supervision of a qualified principal investigator. Clinical trials must be conducted in accordance with FDA and International Conference on Harmonization Good Clinical Practices and the European Clinical Trials Directive, as applicable, under protocols that detail the objectives of the study, the parameters to be used to monitor safety and the efficacy criteria to be evaluated. Other national, foreign and local regulations also may apply. The developer of the drug must provide information relating to the characterization and controls of the product before administration to the patients participating in the clinical trials. This requires developing approved assays of the product to test before administration to the patient and during the conduct of the trial. In addition, developers of pharmaceutical products must provide periodic data regarding clinical trials to the FDA and other health authorities, and these health authorities may issue a clinical hold upon a trial if they do not believe, or cannot confirm, that the trial can be conducted without unreasonable risk to the trial participants. Based on our interactions with the FDA, XOMA 358 clinical testing is currently limited to single-dose studies in adults. Data has been generated that will be submitted to request expanded testing as part of our clinical development plan. We cannot assure you that U.S. and foreign health authorities will not issue a clinical hold with respect to any of our clinical trials in the future.

The results of the preclinical studies and clinical testing, together with chemistry, manufacturing and controls information, are submitted to the FDA and other health authorities in the form of a New Drug Application ("NDA") for a drug, and in the form of a Biologic License Application ("BLA") for a biological product, requesting approval to commence commercial sales. In responding to an NDA or BLA, the FDA or foreign health authorities may grant marketing approvals, request additional information or further research, or deny the application if it determines the application does not satisfy its regulatory approval criteria. Regulatory approval of an NDA, BLA, or supplement is never guaranteed. The approval process can take several years, is extremely expensive and can vary substantially based upon the type, complexity, and novelty of the products involved, as well as the target indications. FDA regulations and policies permit applicants to request accelerated approval or priority review pathways for products intended to treat certain serious or life-threatening illnesses in certain circumstances. If granted by the FDA, these pathways can provide a shortened timeline to commercialize the product, although the shortened timeline is often accompanied by additional post-market requirements. Although we may pursue the FDA's accelerated approval or priority review programs, we cannot guarantee the FDA will permit us to utilize these pathways or the FDA's review of our application will not be delayed. Moreover, even if the FDA agrees to an accelerated approval or priority review of any of our applications, we ultimately may not be able to obtain approval of our application in a timely fashion or at all. The FDA and foreign health authorities have substantial discretion in the drug and biologics approval processes. Despite the time and expense incurred, failure can occur at any stage, and we could encounter problems that cause us to abandon clinical trials or to repeat or perform additional preclinical, clinical or manufacturing-related studies.

Changes in the regulatory approval policy during the development period, changes in, or the enactment of additional regulations or statutes, or changes in regulatory review for each submitted product application may cause delays in the approval or rejection of an application. State regulations may also affect our proposed products.

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

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

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

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

Drug development has inherent risk, and we are required to demonstrate through adequate and well-controlled clinical trials that our product candidates are effective, with a favorable benefit-risk profile for use in their target profiles before we can seek regulatory approvals for their commercial use. It is possible we may never receive regulatory approval for any of our product candidates. Even if a product candidate receives regulatory approval, the resulting product may not gain market acceptance among physicians, patients, healthcare payors and the medical community. In March 2011, we announced our 421-patient Phase 2b trial of gevokizumab in Type 2 diabetes did not achieve the primary endpoint of reduction in hemoglobin A1c ("HbA1c") after six monthly treatments with gevokizumab compared to placebo. In June 2011, we announced top-line trial results from our six-month 74-patient Phase 2a trial of gevokizumab in Type 2 diabetes, and there were no differences in glycemic control between the drug and placebo groups as measured by HbA1c levels. In March 2014, we reported that despite early positive results in our gevokizumab proof-of-concept study in patients with erosive osteoarthritis of the hand ("EOA") and elevated C-reactive protein, the top-line data at Day 168 in that study, as well as data at Day 84 in patients with EOA and non-elevated CRP, were not positive. In July 2015, we announced that Servier's EYEGUARD-B Phase 3 study of gevokizumab in patients with Behçet's disease uveitis did not meet its primary endpoint. In addition, neither EYEGUARD-A nor EYEGUARD-C produced positive results. In March 2016, we decided to close our Phase 3 studies of gevokizumab in pyoderma gangrenosum. A preliminary review of the available data did not show a clear signal of activity in PG.

Many of our product candidates, including XOMA 358, require significant additional research and development, extensive preclinical studies and clinical trials and regulatory approval prior to any commercial sales. This process is lengthy and expensive, often taking a number of years. As clinical results frequently are susceptible to varying interpretations that may delay, limit or prevent regulatory approvals, the length of time necessary to complete clinical trials and to submit an application for marketing approval for a final decision by a regulatory authority varies significantly. As a result, it is uncertain whether:

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

The timing of the commencement, continuation and completion of clinical trials may be subject to significant delays relating to various causes, including failure to complete preclinical testing and earlier-stage clinical trials in a timely manner, engaging contract research organizations and other service providers, scheduling conflicts with participating clinicians and clinical institutions, difficulties in identifying and enrolling patients who meet trial eligibility criteria and shortages of available drug supply. Patient enrollment is a function of many factors, including the size of the patient population, the proximity of patients to clinical sites, the eligibility criteria for the trial, the existence of competing clinical trials and the availability of alternative or new treatments. Regardless of the initial size or relative complexity of a clinical trial, the costs of such trial may be higher than expected due to increases in duration or size of the trial, changes in the protocol pursuant to which the trial is being conducted, additional or special requirements of one or more of the healthcare centers where the trial is being conducted, or changes in the regulatory requirements applicable to the trial or in the standards or guidelines for approval of the product candidate being tested or for other unforeseen reasons. In addition, we conduct clinical trials in foreign countries, which may subject us to further delays and expenses as a result of increased drug shipment costs, additional regulatory requirements and the engagement of foreign clinical research organizations, and may expose us to risks associated with foreign currency transactions insofar as we might desire to use U.S. Dollars to make contract payments denominated in the foreign currency where the trial is being conducted.

30

All of our product candidates are prone to the risks of failure inherent in drug development. Preclinical studies may not yield results that satisfactorily support the filing of an Investigational New Drug application ("IND") (or a foreign equivalent) with respect to our product candidates. Even if these applications would be or have been filed with respect to our product candidates, the results of preclinical studies do not necessarily predict the results of clinical trials. Similarly, early stage clinical trials in healthy volunteers do not predict the results of later-stage clinical trials, including the safety and efficacy profiles of any particular product candidates. For example, the Phase 3 EYEGUARD-B trial of gevokizumab failed to achieve success on its primary endpoint measures. In addition, there can be no assurance the design of our clinical trials is focused on appropriate indications, patient populations, dosing regimens or other variables that will result in obtaining the desired efficacy data to support regulatory approval to commercialize the drug. Moreover, FDA officials or foreign regulatory agency officials may question the integrity of our data or otherwise subject our clinical trials to additional scrutiny when the clinical trials are conducted by principal investigators who serve, or previously served, as scientific advisors or consultants to us and receive cash compensation in connection with such services. Preclinical and clinical data can also be interpreted in different ways. Accordingly, FDA officials or officials from foreign regulatory authorities could interpret the data differently than we or our collaboration or development partners do, which could delay, limit or prevent regulatory approval.

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

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

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

- significantly greater financial resources;
- larger research and development and marketing staffs;
- larger production facilities;
- entered into arrangements with, or acquired, biotechnology companies to enhance their capabilities; or

·extensive experience in preclinical testing and human clinical trials.

These factors may enable others to develop products and processes competitive with or superior to our own or those of our collaborators. In addition, a significant amount of research in biotechnology is being carried out in universities and other non-profit research organizations. These entities are becoming increasingly interested in the commercial value of their work and may become more aggressive in seeking patent protection and licensing arrangements. Furthermore, many companies and universities tend not to announce or disclose important discoveries or development programs until their patent position is secure or, for other reasons, later; as a result, we may not be able to track development of competitive products, particularly at the early stages. Positive or negative developments in connection with a potentially competing product may have an adverse impact on our ability to raise additional funding on acceptable terms. For example, if another product is perceived to have a competitive advantage, or another product's failure is perceived to increase the likelihood that our product will fail, then investors may choose not to invest in us on terms we would accept or at all.

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

We are developing XOMA 358, a fully human negative allosteric modulating insulin receptor antibody, as a novel treatment for non-drug-induced, endogenous hyperinsulinemic hypoglycemia (low blood glucose caused by excessive insulin produced by the body). Certain other companies are developing products based on improved versions of glucagon, a hormone naturally secreted by the pancreas that counteracts the effects of insulin by raising blood glucose levels.

- Biodel Inc. is developing a formulation of glucagon designed to remain stable in solution for a longer period than existing commercial formulations. FDA has granted orphan drug designation for Biodel's glucagon for the prevention of hypoglycemia in the congenital hyperinsulinism (“CHI”) population

- Eiger Biopharmaceuticals is developing exendin (9-39), a glucagon-like peptide 1 (GLP-1) antagonist, for the treatment of hypoglycemic episodes following gastric bypass surgery

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

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

Our product candidates are monoclonal antibodies and are differentiated due to our expertise in the allosteric modulation of cellular receptors. Our product candidates currently are delivered by intravenous administration. We are developing subcutaneous versions to allow for at-home administration or administration in a physician’s office, thereby reducing the potential that our targeted patient populations increase the demand on over-burdened infusion centers. Eiger Biopharmaceuticals is developing an oral therapy for the treatment of hyperinsulinemic hypoglycemia (“HH”) in patients who have undergone bariatric bypass surgery, and its product candidate is a fragment of a currently marketed drug used widely to treat Type 2 diabetes. Eiger is anticipated to enter multi-dose Phase 2 studies in 2016. Should Eiger obtain positive data from this multi-dose Phase 2 study in HH patients, it will be ahead of us in the clinical development pathway.

Should both Eiger and we successfully complete clinical testing and obtain regulatory approval, we anticipate we will be competing for the same HH patient population. Physicians and patients may prefer daily oral dosing to a longer-acting monoclonal antibody, which will impact the commercial value of XOMA 358.

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

If we or our third-party collaborators or licensees succeed in bringing our product candidates to the market, they may not be considered cost effective, and reimbursement to the patient may not be available or may not be sufficient to allow us to sell our products on a competitive basis. In both the United States and elsewhere, sales of medical products and treatments are dependent, in part, on the availability of reimbursement to the patient from third-party payors, such as government and private insurance plans. Third-party payors are increasingly challenging the prices charged for pharmaceutical products and services. Our business is affected by the efforts of government and third-party payors to contain or reduce the cost of healthcare through various means. In the United States, there have been and will continue

to be a number of federal and state proposals to implement government controls on pricing.

In addition, the emphasis on managed care in the United States has increased and will continue to increase the pressure on the pricing of pharmaceutical products. We cannot predict whether any legislative or regulatory proposals will be adopted or the effect these proposals or managed care efforts may have on our business.

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

Even if products in which we have an interest receive approval in the future, they may not be accepted in the marketplace. In addition, we or our collaborators or licensees may experience difficulties in launching new products, many of which are novel and based on technologies that are unfamiliar to the healthcare community. We have no assurance healthcare providers and patients will accept such products, if developed. For example, physicians and/or patients may not accept a product for a particular indication because it has been biologically derived (and not discovered and developed by more traditional means) or if no biologically derived products are currently in widespread use in that indication. Similarly, physicians may not accept a product if they believe other products to be more effective or more cost effective or are more comfortable prescribing other products.

Furthermore, government agencies, as well as private organizations involved in healthcare, from time to time publish guidelines or recommendations to healthcare providers and patients. Such guidelines or recommendations can be very influential and may adversely affect product usage directly (for example, by recommending a decreased dosage of a product in conjunction with a concomitant therapy or a government entity withdrawing its recommendation to screen blood donations for certain viruses) or indirectly (for example, by recommending a competitive product over our product). Consequently, we do not know if physicians or patients will adopt or use our products for their approved indications.

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

We are exposed to an increased risk of product liability claims.

The testing, marketing and sales of medical products entails an inherent risk of allegations of product liability. In the past, we were party to product liability claims filed against Genentech Inc. and, even though Genentech agreed to indemnify us in connection with these matters and these matters have been settled, there can be no assurance other product liability lawsuits will not result in liability to us or that our insurance or contractual arrangements will provide us with adequate protection against such liabilities. In the event of one or more large, unforeseen awards of damages against us, our product liability insurance may not provide adequate coverage. A significant product liability claim for which we were not covered by insurance or indemnified by a third party would have to be paid from cash or other assets, which could have an adverse effect on our business and the value of our common stock. To the extent we have sufficient insurance coverage, such a claim would result in higher subsequent insurance rates. In addition, product liability claims can have various other ramifications, including loss of future sales opportunities, increased costs associated with replacing products, a negative impact on our goodwill and reputation, and divert our management's attention from our business, each of which could also adversely affect our business and operating results.

If we and our partners are unable to protect our intellectual property, in particular our patent protection for our principal products, product candidates and processes, and prevent its use of the covered subject matter by third parties, our ability to compete in the market will be harmed, and we may not realize our profit potential.

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

- prevent our competitors from duplicating our products;

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

Because of the length of time and the expense associated with bringing new products to the marketplace, we and our collaboration and development partners hold and are in the process of applying for a number of patents in the United States and abroad to protect our product candidates and important processes and also have obtained or have the right to obtain exclusive licenses to certain patents and applications filed by others. However, the mere issuance of a patent is not conclusive as to its validity or its enforceability. The U.S. Federal Courts, the U.S. Patent & Trademark Office or equivalent national courts or patent offices elsewhere may invalidate our patents or find them unenforceable. The America Invents Act introduced post-grant review procedures subjecting U.S. patents to post-grant review procedures similar to European oppositions. U.S. patents owned or licensed by us may therefore be subject to post-grant review procedures, as well as other forms of review and re-examination. A decision in such proceedings adverse to our interests could result in the loss of valuable patent rights, which would have a material adverse effect on our business. In addition, the laws of foreign countries may not protect our intellectual property rights effectively or to the same extent as the laws of the United States. If our intellectual property rights are not protected adequately, we may not be able to commercialize our technologies, products, or services, and our competitors could commercialize our technologies, which could result in a decrease in our sales and market share that would harm our business and operating results. Specifically, the patent position of biotechnology companies generally is highly uncertain and involves complex legal and factual questions. The legal standards governing the validity of biotechnology patents are in transition, and current defenses as to issued biotechnology patents may not be adequate in the future. Accordingly, there is uncertainty as to:

- whether any pending or future patent applications held by us will result in an issued patent, or whether issued patents will provide meaningful protection against competitors or competitive technologies;
- whether competitors will be able to design around our patents or develop and obtain patent protection for technologies, designs or methods that are more effective than those covered by our patents and patent applications; or
- the extent to which our product candidates could infringe on the intellectual property rights of others, which may lead to costly litigation, result in the payment of substantial damages or royalties, and/or prevent us from using technology that is essential to our business.

We established a portfolio of patents, both United States and foreign, related to our bacterial cell expression technology, including claims to novel promoter sequences, secretion signal sequences, compositions and methods for expression and secretion of recombinant proteins from bacteria, including immunoglobulin gene products. Most of the more important licensed European patents in our bacterial cell expression patent portfolio expired in July 2008 or earlier. The last of the more important licensed United States patents in our bacterial cell expression (“BCE”) patent portfolio expired in December 2014. The last-to-expire patent licensed under the majority of our BCE license agreements is Canadian patent 1,341,235, which is expected to expire in May 2018.

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

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

ability to develop or commercialize our products adversely by giving others a competitive advantage or by undermining our patent position.

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

We may be required to engage in litigation or other proceedings to protect our intellectual property. The cost to us of this litigation, even if resolved in our favor, could be substantial. Such litigation also could divert management's attention and resources. In addition, if this litigation is resolved against us, our patents may be declared invalid, and we could be held liable for significant damages. In addition, we may be subject to a claim that we are infringing another party's patent. If such claim is resolved against us, we or our collaborators may be enjoined from developing, manufacturing, selling or importing products, processes or services unless we obtain a license from the other party.

Such license may not be available on reasonable terms, thus preventing us from using these products, processes or services and adversely affecting our revenue.

Risks Related to Government Regulation

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

The FDA has awarded orphan drug status for XOMA 358 for congenital hyperinsulinism. Under the Orphan Drug Act, the first company to receive FDA approval for a drug for the designated orphan drug indication will obtain seven years of marketing exclusivity, during which time the FDA may not approve another company's application for the same drug for the same orphan indication unless the FDA concludes that the later drug is safer, more effective or makes a major contribution to patient care. Even though we have obtained orphan drug designation for certain product candidates for certain indications and even if we obtain orphan drug designation for our future product candidates or for other indications, due to the uncertainties associated with developing pharmaceutical products, we may not be the first to obtain marketing approval of our product candidates for any particular orphan indication, or we may not obtain approval for an indication for which we have obtained orphan drug designation. Further, even if we obtain orphan drug exclusivity for a product, that exclusivity may not protect the product effectively from competition because different drugs can be approved for the same indication. Even after an orphan drug is approved, the FDA can subsequently approve another drug for the same orphan indication if the FDA concludes that the later drug is safer, more effective or makes a major contribution to patient care. Orphan drug designation neither shortens the development time or regulatory review time of a drug, nor gives the drug any advantage in the regulatory review or approval process.

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

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

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

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

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

The United States and some foreign jurisdictions are considering or have enacted a number of legislative and regulatory proposals to change the healthcare system in ways that could affect our ability to sell our products, if approved, profitably. Among policy makers and payers in the United States and elsewhere, there is significant interest in promoting changes in healthcare systems with the stated goals of containing healthcare costs, improving quality and/or expanding access. In the United States, the pharmaceutical industry has been a particular focus of these efforts and has been significantly affected by major legislative initiatives.

We expect that the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act (collectively the "ACA"), as well as other healthcare reform measures that may be adopted in the future, may result in more rigorous coverage criteria and in additional downward pressure on the price that we may receive for any approved product. An expansion in the government's role in the U.S. healthcare industry may cause general downward pressure on the prices of prescription drug products, lower reimbursements for providers, reduce product utilization and adversely affect our business and results of operations. Moreover, certain politicians, including presidential candidates, have announced plans to regulate the prices of pharmaceutical products. We cannot know what form any such legislation may take or the market's perception of how such legislation would affect us. Any reduction in reimbursement from government programs may result in a similar reduction in payments from private payors. The implementation of cost containment measures or other healthcare reforms may prevent us from being able to generate revenue, attain profitability, or commercialize our current product candidates and/or those for which we may receive regulatory approval in the future.

We are subject to various state and federal healthcare related laws and regulations that may impact the commercialization of our product candidates or could subject us to significant fines and penalties.

Our operations may be directly or indirectly subject to various state and federal healthcare laws, including, without limitation, the federal Anti-Kickback Statute, the federal False Claims Act and state and federal privacy and security laws. These laws may impact, among other things, the commercial operations for any of our product candidates that may be approved for commercial sale.

The federal Anti-Kickback Statute prohibits persons from knowingly and willfully soliciting, offering, receiving or providing remuneration, directly or indirectly, in exchange for or to induce either the referral of an individual, or the furnishing or arranging for a good or service for which payment may be made under a federal healthcare program, such as the Medicare and Medicaid programs. Several courts have interpreted the statute's intent requirement to mean that if any one purpose of an arrangement involving remuneration is to induce referrals of federal healthcare covered business, the statute has been violated. The Anti-Kickback Statute is broad and prohibits many arrangements and practices that are lawful in businesses outside of the healthcare industry. Penalties for violations of the federal Anti-Kickback Statute include criminal penalties and civil sanctions such as fines, penalties, imprisonment and possible exclusion from Medicare, Medicaid and other federal healthcare programs.

The federal False Claims Act prohibits persons from knowingly filing, or causing to be filed, a false claim to, or the knowing use of false statements to obtain payment from the federal government. Suits filed under the False Claims Act, known as "qui tam" actions, can be brought by any individual on behalf of the government and such individuals, commonly known as "whistleblowers", may share in any amounts paid by the entity to the government in fines or settlement. The filing of qui tam actions has caused a number of pharmaceutical, medical device and other healthcare companies to have to defend a False Claims Act action. When an entity is determined to have violated the False Claims Act, it may be required to pay up to three times the actual damages sustained by the government, plus civil penalties for each separate false claim. Various states also have enacted laws modeled after the federal False Claims Act.

The Federal Health Insurance Portability and Accountability Act of 1996 ("HIPAA"), created new federal criminal statutes that prohibit executing a scheme to defraud any healthcare benefit program and making false statements relating to healthcare matters. The health care fraud statute prohibits knowingly and willfully executing a scheme to defraud any health care benefit program, including private payors. The false statements statute prohibits knowingly and willfully falsifying, concealing or covering up a material fact or making any materially false, fictitious or fraudulent statement in connection with the delivery of or payment for health care benefits, items or services. HIPAA, as amended by the Health Information Technology and Clinical Health Act ("HITECH"), and its implementing regulations, also impose certain requirements relating to the privacy, security and transmission of individually identifiable health information. We take our obligation to maintain our compliance with these various laws and regulations seriously.

In addition, there has been a recent trend of increased federal and state regulation of payments made to physicians. The ACA, among other things, imposed new requirements on manufacturers of drugs, devices, biologics and medical supplies for which payment is available under Medicare, Medicaid or the Children's Health Insurance Program (with certain exceptions) to report annually to the Centers for Medicare & Medicaid Services ("CMS"), information related to payments or other "transfers of value" made to physicians (defined to include doctors, dentists, optometrists, podiatrists and chiropractors) and teaching hospitals, and applicable manufacturers and group purchasing organizations to report annually to CMS ownership and investment interests held by physicians (as defined above) and their immediate family members and payments or other "transfers of value" to such physician owners and their immediate family members. Failure to submit required information may result in civil monetary penalties of up to an aggregate of $150,000 per year (or up to an aggregate of $1 million per year for "knowing failures"), for all payments, transfers of

value or ownership or investment interests not reported in an annual submission.

Many states also have adopted laws similar to each of the federal laws described above, some of which apply to healthcare items or services reimbursed by any source, not only the Medicare and Medicaid programs. In addition, some states have laws that require pharmaceutical companies to comply with the pharmaceutical industry's voluntary compliance guidelines and the applicable compliance guidance promulgated by the federal government, or otherwise restrict payments that may be made to healthcare providers and other potential referral sources, and to report information related to payments and other transfers of value to physicians and other healthcare providers; and state laws governing the privacy and security of health information in certain circumstances, many of which differ from each other in significant ways and may not have the same effect, thus complicating compliance efforts.

Because of the breadth of these laws, it is possible that some of our business activities could be subject to challenge under one or more of such laws. The ACA also make several important changes to the federal Anti-Kickback Statute, false claims laws, and health care fraud statute by weakening the intent requirement under the anti-kickback and health care fraud statutes that may make it easier for the government, or whistleblowers to charge such fraud and abuse violations. A person or entity no longer needs to have actual knowledge of this statute or specific intent to violate it. In addition, the ACA provides that the government may assert that a claim including items or services resulting from a violation of the federal Anti-Kickback Statute constitutes a false or fraudulent claim for purposes of the false claims statutes.

If we are found to be in violation of any of the laws and regulations described above or other applicable state and federal healthcare laws, we may be subject to penalties, including civil and criminal penalties, damages, fines, exclusion from government healthcare reimbursement programs and the curtailment or restructuring of our operations, any of which could have a material adverse effect on our business and results of operations.

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

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

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

Risks Related to Our Reliance on Third Parties

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

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

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

Our financial resources and our marketing experience and expertise are limited. Consequently, our ability to develop products successfully depends, to a large extent, upon securing the financial resources and/or marketing capabilities of third parties. For example, we have licensed our bacterial cell expression technology, a set of enabling technologies used to discover and screen, as well as develop and manufacture, recombinant antibodies and other proteins for commercial purposes, to over 60 companies. As of March 31, 2016, we were aware of three products manufactured using this technology that have received FDA approval: Genentech's LUCENTIS® (ranibizumab injection) for treatment of neovascular wet age-related macular degeneration, Macular Edema Following Vein Occulsion, Diabetic Macular Edema, and Diabetic Retinopathy in patients with Diabetic Macular Edema; UCB's CIMZIA® (certolizumab pegol) for treatment of Crohn's disease and rheumatoid arthritis; and Pfizer's TRUMENBA®, a meningococcal group B vaccine. In the third quarter of 2009, we sold our LUCENTIS royalty interest to Genentech, and in the third quarter of 2010, we sold our CIMZIA royalty interest. We are receiving a fraction of a percentage royalty on sales of TRUMENBA.

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

We do not know whether we, our collaborators or licensees will successfully develop and market any of the products that are or may become the subject of any of our collaboration or licensing arrangements. In some cases, these arrangements provide for funding solely by our collaborators or licensees, and in other cases, all of the funding for certain projects and a significant portion of the funding for other projects is to be provided by our collaborator or licensee, and we provide the balance of the funding. Even when we have a collaborative relationship, other circumstances may prevent it from resulting in successful development of marketable products. In addition, third-party arrangements such as ours also increase uncertainties in the related decision-making processes and resulting progress under the arrangements, as we and our collaborators or licensees may reach different conclusions, or support different paths forward, based on the same information, particularly when large amounts of technical data are involved. Under our contract with NIAID, we invoice using NIH provisional rates, and these are subject to future audits at the discretion of NIAID's contracting office. These audits can result in an adjustment to revenue previously reported, which potentially could be significant.

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

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

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

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

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

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

We license technologies from third parties. These technologies include but are not limited to phage display technologies licensed to us in connection with our bacterial cell expression technology licensing program and antibody products. However, our use of these technologies is limited by certain contractual provisions in the licenses relating to them, and although we have obtained numerous licenses, intellectual property rights in the area of phage display are particularly complex. If the owners of the patent rights underlying the technologies that we license do not properly maintain or enforce those patents, our competitive position and business prospects could be harmed. If we are unable to maintain our licenses, patents or other intellectual property, we could lose important protections that are material to continuing our operations and for future prospects. They may determine not to pursue litigation against other companies that are infringing these patents, or they may pursue such litigation less aggressively than we would. Our licensors also may seek to terminate our license, which could cause us to lose the right to use the licensed intellectual property and adversely affect our ability to commercialize our technologies, products or services.

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

As a biotechnology company that collaborates with other biotechnology companies, the same factors that affect us directly also can adversely impact us indirectly by affecting the ability of our collaborators, partners and others with whom we do business to meet their obligations to us and reduce our ability to realize the value of the consideration provided to us by these other companies.

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

Risks Related to an Investment in Our Common Stock

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

There can be no assurance the market price of our common stock will not decline below its present market price or there will be an active trading market for our common stock. The market prices of biotechnology companies have been and are likely to continue to be highly volatile. Fluctuations in our operating results and general market conditions for biotechnology stocks could have a significant impact on the volatility of our common stock price. We have experienced significant volatility in the price of our common stock. From January 1, 2016, through May 2, 2016, the share price of our common stock has ranged from a high of $1.36 to a low of $0.69. Factors contributing to such volatility include, but are not limited to:

- results of preclinical studies and clinical trials;
- information relating to the safety or efficacy of products or product candidates;
- developments regarding regulatory filings;
- announcements of new collaborations;
- failure to enter into collaborations;
- developments in existing collaborations;
- our funding requirements and the terms of our financing arrangements;
- technological innovations or new indications for our therapeutic products and product candidates;
- introduction of new products or technologies by us or our competitors;
- sales and estimated or forecasted sales of products for which we receive royalties, if any;
- government regulations;
- developments in patent or other proprietary rights;
- the number of shares issued and outstanding;
- the number of shares trading on an average trading day;
- announcements regarding other participants in the biotechnology and pharmaceutical industries; and
- market speculation regarding any of the foregoing.

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

Our common stock is currently traded on the Nasdaq Global Market. The NASDAQ Stock Market LLC ("NASDAQ") has requirements that a company must meet in order to remain listed on NASDAQ. In particular, NASDAQ rules require us to maintain a minimum bid price of $1.00 per share of our common stock. As previously disclosed in our filings with the SEC on September 4, 2015, we received a letter from the staff (the "Staff") of NASDAQ on September 4, 2015, providing notification that, for the previous 30 consecutive business days, the bid price for the Company's common stock had closed below the minimum $1.00 per share requirement for continued listing on The Nasdaq Global Market under NASDAQ's Listing Rule 5450(a)(1), requiring a minimum bid

price of $1.00 per share (the "Minimum Bid Price Requirement"). On November 2, 2015, the Staff notified us that it had determined that for the last 10 consecutive business days, from October 19, 2015 to October 30, 2015, the closing bid of our common stock had been at or above the minimum $1.00 per share price.

As disclosed in our filing with the SEC on March 15, 2016, we received another letter from the Staff, providing notification that, for the previous 30 consecutive business days, the bid price for the Company's common stock had closed below the minimum $1.00 per share requirement. In accordance with Nasdaq Listing Rule 5810(c)(3)(A), if during the 180 calendar days following the date of the notification, or prior to September 12, 2016, the closing bid price of the Company's common stock is at or above $1.00 for a minimum of 10 consecutive business days, the Staff will provide the Company with written confirmation of compliance. If the Company does not achieve compliance with the Minimum Bid Price Requirement by September 12, 2016, the Company may be eligible for an additional 180 calendar days compliance period if it elects to transfer to the Nasdaq Capital Market, so as to take advantage of the additional compliance period offered on that market. To qualify, the Company would be required to meet the continued listing requirement for market value of publicly held shares and all other initial listing standards for the Nasdaq Capital Market, with the exception of the bid price requirement, and would need to provide written notice of its intention to cure the deficiency during the second compliance period. However, if it appears to the Staff that the Company will not be able to cure the deficiency, or if the Company is otherwise not eligible, the Staff would notify the Company that its securities would be subject to delisting. In the event of such notification, the Company may appeal the Staff's determination to delist its securities, but there can be no assurance the Staff would grant the Company's request for continued listing.

There can be no assurance that we will continue to meet the Minimum Bid Price Requirement, or any other requirement in the future. If we fail to meet the Minimum Bid Price Requirement, NASDAQ may initiate the delisting process with another notification letter. If our common stock were to be delisted, the liquidity of our common stock would be adversely affected and the market price of our common stock could decrease.

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

We expect that significant additional capital will be needed in the future to continue our planned operations. To the extent we raise additional capital by issuing equity securities, including pursuant to our At Market Issuance Sales Agreement ("ATM") with Cowen and Company, LLC, our stockholders may experience substantial dilution. We may sell common stock, convertible securities or other equity securities in one or more transactions at prices and in a manner we determine from time to time. If we sell common stock, convertible securities or other equity securities in more than one transaction, investors may be materially diluted by subsequent sales. These sales may also result in material dilution to our existing stockholders, and new investors could gain rights superior to our existing stockholders. We are authorized to issue, without stockholder approval, 1,000,000 shares of preferred stock, of which none were issued and outstanding as of May 2, 2016, which may give other stockholders dividend, conversion, voting, and liquidation rights, among other rights, which may be superior to the rights of holders of our common stock. In addition, we are authorized to issue, generally without stockholder approval, up to 277,333,332 shares of common stock, of which 120,367,541 were issued and outstanding as of May 2, 2016. If we issue additional equity securities, the price of our common stock may be materially and adversely affected.

In addition, funding from collaboration partners and others has in the past and may in the future involve issuance by us of our common stock. We cannot be certain how the purchase price of such shares, the relevant market price or premium, if any, will be determined or when such determinations will be made.

Any issuance by us of equity securities, whether through an underwritten public offering, an at the market offering, a private placement, in connection with a collaboration or otherwise could result in dilution in the value of our issued and outstanding shares, and a decrease in the trading price of our common stock.

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

In order to raise additional funds to support our operations, we may sell additional equity or debt securities, including under our ATM with Cowen and Company, LLC, which would result in dilution to our stockholders or impose restrictive covenants that may adversely impact our business. The sale of additional equity or convertible debt securities would result in the issuance of additional shares of our capital stock and dilution to all of our stockholders. The incurrence of indebtedness would result in increased fixed payment obligations and could also result in certain restrictive covenants, such as limitations on our ability to incur additional debt, limitations on our ability to acquire, sell or license intellectual property rights and other operating restrictions that could adversely impact our ability to conduct our business. If we are unable to expand our operations or otherwise capitalize on our business

opportunities, our business, financial condition and results of operations could be materially adversely affected and we may not be able to meet our debt service obligations.

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

Our charter and by-laws:

- require certain procedures to be followed and time periods to be met for any stockholder to propose matters to be considered at annual meetings of stockholders, including nominating directors for election at those meetings; and
- authorize our Board of Directors to issue up to 1,000,000 shares of preferred stock without stockholder approval and to set the rights, preferences and other designations, including voting rights, of those shares as the Board of Directors may determine.

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

These provisions of our organizational documents and the DGCL, alone or in combination with each other, may discourage transactions involving actual or potential changes of control, including transactions that otherwise could involve payment of a premium over prevailing market prices to holders of common stock, could limit the ability of stockholders to approve transactions that they may deem to be in their best interests, and could make it considerably more difficult for a potential acquirer to replace management.

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

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

We are subject to foreign currency exchange rate risks.

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

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

Section 382 of the U.S. Internal Revenue Code of 1986, as amended, generally limits the ability of a corporation that undergoes an "ownership change" to utilize its net operating loss carry-forwards ("NOLs") and certain other tax attributes against any taxable income in taxable periods after the ownership change. The amount of taxable income in each taxable year after the ownership change that may be offset by pre-change NOLs and certain other pre-change tax attributes is generally equal to the product of (a) the fair market value of the corporation's outstanding shares (or, in the case of a foreign corporation, the fair market value of items treated as connected with the conduct of a trade or business in the United States) immediately prior to the ownership change and (b) the long-term tax exempt rate (i.e., a rate of interest established by the U.S. Internal Revenue Service ("IRS") that fluctuates from month to month). In general, an "ownership change" occurs whenever the percentage of the shares of a corporation owned, directly or indirectly, by "5-percent shareholders" (within the meaning of Section 382 of the Internal Revenue Code) increases by more than 50 percentage points over the lowest percentage of the shares of such corporation owned, directly or indirectly, by such "5-percent shareholders" at any time over the preceding three years.

Based on an analysis under Section 382 of the Internal Revenue Code (which subjects the amount of pre-change NOLs and certain other pre-change tax attributes that can be utilized to an annual limitation), we experienced ownership changes in 2009 and 2012, which substantially limit the future use of our pre-change NOLs and certain other pre-change tax attributes per year. As of December 31, 2015, we have excluded the NOLs and research and development credits that will expire as a result of the annual limitations. To the extent that we do not utilize our carry-forwards within the applicable statutory carry-forward periods, either because of Section 382 limitations or the lack of sufficient taxable income, the carry-forwards will also expire unused. As a result of changes in our stockholder base during the third quarter of 2015, based on an initial analysis of available data, we concluded that an ownership change under Section 382 has not occurred beyond the ownership changes in 2009 and 2012. Accordingly, our utilization of the 2012 post-change net operating loss and credit carry-forwards should not be limited.

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

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

Our research, product development and business efforts could be affected adversely by the loss of one or more key members of our scientific or management staff, particularly our executive officers: John Varian, our Chief Executive Officer; Patrick J. Scannon, M.D., Ph.D., our Executive Vice President and Chief Scientific Officer; Paul D. Rubin, M.D., our Senior Vice President, Research and Development and Chief Medical Officer; James R. Neal, our Senior Vice President and Chief Operating Officer; and Thomas Burns, our Vice President, Finance and Chief Financial Officer. We currently do not have key person insurance on any of our employees.

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

Our success in developing marketable products and achieving a competitive position will depend, in part, on our ability to attract and retain qualified scientific and management personnel, particularly in areas requiring specific technical, scientific or medical expertise. After a series of restructuring activities and asset sales during 2015, we had approximately 80 employees as of May 2, 2016. We may require additional experienced executive, accounting, research and development, legal, administrative and other personnel from time to time in the future. There is intense competition for the services of these personnel, especially in California. Moreover, we expect that the high cost of living in the San Francisco Bay Area, where our headquarters are located, may impair our ability to attract and retain employees in the future. If we do not succeed in attracting new personnel and retaining and motivating existing personnel, our operations may suffer and we may be unable to implement our current initiatives or grow effectively.

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

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

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

Despite the implementation of security measures, our internal computer systems and those of our current and any future collaborators, licensees, suppliers, contractors and consultants are vulnerable to damage from cyber–attacks, computer viruses, unauthorized access, natural disasters, terrorism, war and telecommunication and electrical failures. We could experience failures in our information systems and computer servers, which could be the result of a cyber–

attack and could result in an interruption of our normal business operations and require substantial expenditure of financial and administrative resources to remedy. System failures, accidents or security breaches can cause interruptions in our operations and can result in a material disruption of our development programs and other business operations. The loss of clinical trial data from completed or future clinical trials could result in delays in our regulatory approval efforts and significantly increase our costs to recover or reproduce the data. Similarly, we rely on third parties to supply components for and manufacture our products and product candidates, and conduct clinical trials of our product candidates, and similar events relating to their computer systems could also have a material adverse effect on our business. To the extent that any disruption or security breach were to result in a loss of, or damage to, our data or applications, or inappropriate disclosure of confidential or proprietary information, we could incur liability and the development of any of our other product candidates could be delayed or otherwise adversely affected.

Data breaches and cyber-attacks could compromise our intellectual property or other sensitive information and cause significant damage to our business and reputation.

In the ordinary course of our business, we maintain sensitive data on our networks, including our intellectual property and proprietary or confidential business information relating to our business and that of our customers and business partners. The secure maintenance of this information is critical to our business and reputation. We believe companies have been increasingly subject to a wide variety of security incidents, cyber-attacks and other attempts to gain unauthorized access. These threats can come from a variety of sources, all ranging in sophistication from an individual hacker to a state-sponsored attack. Cyber threats may be generic, or they may be custom-crafted against our information systems. Over the past year, cyber-attacks have become more prevalent and much harder to detect and defend against. Our network and storage applications may be subject to unauthorized access by hackers or breached due to operator error, malfeasance or other system disruptions. It is often difficult to anticipate or immediately detect such incidents and the damage caused by such incidents. These data breaches and any unauthorized access or disclosure of our information or intellectual property could compromise our intellectual property and expose sensitive business information. A data security breach could also lead to public exposure of personal information of our clinical trial patients, customers and others. Cyber-attacks could cause us to incur significant remediation costs, result in product development delays, disrupt key business operations and divert attention of management and key information technology resources. These incidents could also subject us to liability, expose us to significant expense and cause significant harm to our reputation and business.

We and certain of our officers and directors have been named as defendants in shareholder lawsuits. These lawsuits, and potential similar or related lawsuits, could result in substantial damages, divert management’s time and attention from our business, and have a material adverse effect on our results of operations.

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

On July 24, 2015, a purported securities class action lawsuit was filed in the United States District Court for the Northern District of California, captioned Markette v. XOMA Corp., et al. (Case No. 3:15-cv-3425-HSG) naming as defendants us and certain of our officers. The complaint asserts that all defendants violated Section 10(b) of the Exchange Act and SEC Rule 10b-5, by making materially false or misleading statements regarding the Company’s EYEGUARD-B study between November 6, 2014 and July 21, 2015. The plaintiff also alleges that certain of our officers violated Section 20(a) of the Exchange Act. The plaintiff seeks class certification, an award of unspecified compensatory damages, an award of reasonable costs and expenses, including attorneys’ fees, and other further relief as the Court may deem just and proper. We are awaiting the appointment of a lead plaintiff by the Court. We believe the allegations have no merit and we intend to vigorously defend against the claims.

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

On November 16, and November 25, 2015, two derivative lawsuits were filed purportedly on our behalf in the United States District Court for the Northern District of California, captioned Fieser v. Van Ness, et al. (Case No. 4:15-CV-05236-HSG) and Csoka v. Varian, et al. (Case No. 3:15-cv-05429-SI), against certain of our officers and the members of our board of directors. The lawsuits assert claims for breach of fiduciary duty and other violations of law based on the dissemination of allegedly false and misleading statements related to the our EYEGUARD-B study. Plaintiffs seek unspecified monetary damages and other relief including reforms and improvements to our corporate governance and internal procedures. The parties in the Fieser action have stipulated that the Company's response to the complaint will be due on May 20, 2016. Our response to the Csoka Complaint is currently due on June 3, 2016. Management believes the allegations have no merit and intend to vigorously defend against the claims.

It is possible that additional suits will be filed, or allegations received from stockholders, with respect to these same or other matters and also naming us and/or our officers and directors as defendants. These and any other related lawsuits are subject to inherent uncertainties, and the actual defense and disposition costs will depend upon many unknown factors. The outcome of these lawsuits are uncertain. We could be forced to expend significant resources in the defense of these suits and we may not prevail. In addition, we may incur substantial legal fees and costs in connection with these lawsuits. We currently are not able to estimate the possible cost to us from these lawsuits, as they are currently at an early stage, and we cannot be certain how long it may take to resolve these matters

or the possible amount of any damages that we may be required to pay. We have not established any reserve for any potential liability relating to these lawsuits. It is possible that we could, in the future, incur judgments or enter into settlements of claims for monetary damages. A decision adverse to our interests on these actions could result in the payment of substantial damages, or possibly fines, and could have a material adverse effect on our cash flow, results of operations and financial position.

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

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

In February 2016, we issued a warrant to purchase up to an aggregate of 165,000 shares of our common stock at an exercise price equal to $0.77 per share to an accredited investor in reliance upon the exemption from registration provided by Section 4(a)(2) of the Securities Act of 1933, as amended, as a payment for consulting services. These warrants are immediately exercisable and have a five-year term expiring in February 2021.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

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

SIGNATURES

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

XOMA Corporation

Date: May 4, 2016 By: /s/ JOHN VARIAN
John Varian

Chief Executive Officer (principal executive officer) and Director

Date: May 4, 2016 By: /s/ THOMAS BURNS
Thomas Burns

Vice President, Finance and Chief Financial Officer

(principal financial and principal accounting officer)

EXHIBIT INDEX

Exhibit		Incorporation By Reference			
Number	Exhibit Description	Form	SEC File No.	Exhibit	Filing Date
3.1	Certificate of Incorporation of XOMA Corporation	8-K	000-14710	3.1	01/03/2012
3.2	Certificate of Amendment of Certificate of Incorporation of XOMA Corporation	8-K	000-14710	3.1	05/31/2012
3.3	By-laws of XOMA Corporation	8-K	000-14710	3.2	01/03/2012
4.1	Reference is made to Exhibits 3.1, 3.2 and 3.3				
4.2	Specimen of Common Stock Certificate	8-K	000-14710	4.1	01/03/2012
4.3	Form of Warrant (December 2011 Warrants)	10-K	000-14710	4.9	03/14/2012
4.4	Form of Warrant (March 2012 Warrants)	8-K	000-14710	4.1	03/07/2012
4.5	Form of Warrant (September 2012 Warrants)	8-K	000-14710	4.10	10/03/2012
4.6	Registration rights Agreement dated June 12, 2014, by and among XOMA Corporation, 667, L.P., Baker Brothers Life Sciences, L.P., and 14159. L.P.	8-K	000-14710	4.1	06/12/2014
4.7	Form of Warrant (December 2014 Warrants)	8-K	000-14710	4.1	12/09/2014
4.8	Form of Warrant (February 2015 Warrants)	10-Q	000-14710	4.10	05/07/2015
4.9+	Form of Warrant (February 2016 Warrant)				
10.1+*	2016 Incentive Compensation Plan				
31.1+	Certification of Chief Executive Officer, as required by Rule 13a-14(a) or Rule 15d-14(a)				
31.2+	Certification of Chief Financial Officer, as required by Rule 13a-14(a) or Rule 15d-14(a)				
32.1+	Certification of Chief Executive Officer and Chief Financial Officer, as required by Rule 13a-14(b) or Rule 15d-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. §1350)(1)				
99.1++	Press Release dated May 2, 2016				

101.INS+	XBRL Instance Document
101.SCH+	XBRL Taxonomy Extension Schema Document
101.CAL+	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF+	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB+	XBRL Taxonomy Extension Labels Linkbase Document
101.PRE+	XBRL Taxonomy Extension Presentation Linkbase Document

+ Filed herewith

++ Furnished herewith. The information in Exhibit 99.1 shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of that Section or Sections II and 12(a)(2) of the Securities Act of 1933, as amended. The information contained in Exhibit 99.1 shall not be incorporated by reference into any filing with the U.S. Securities and Exchange Commission made by XOMA Corporation, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

* Indicates a management contract or compensation plan or arrangement.

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