XOMA Corp
Form 10-Q
November 06, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2017

or

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

Commission File No. 0-14710

XOMA Corporation

(Exact name of registrant as specified in its charter)

Delaware	52-2154066
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2910 Seventh Street, Berkeley, California 94710	
(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 No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated

filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer		Accelerated filer
Non-accelerated filer	(Do not check if a smaller reporting company)	Smaller reporting company
Emerging growth company		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act of 1934). Yes No

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

Class	Outstanding at November 1, 2017
Common Stock, $0.0075 par value	8,144,077

XOMA CORPORATION

FORM 10-Q

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PART I - FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

XOMA CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share amounts)

	September 30, 2017 (unaudited)	December 31, 2016 (Note 1)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 47,747	$ 25,742
Trade and other receivables, net	1,026	566
Prepaid expenses and other current assets	318	852
Total current assets	49,091	27,160
Property and equipment, net	97	1,036
Other assets	522	481
Total assets	$ 49,710	$ 28,677
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable	$ 4,046	$ 5,689
Accrued and other liabilities	1,601	4,215
Accrued restructuring costs	444	3,594
Income taxes payable	1,706	—
Deferred revenue – current	6,287	899
Interest bearing obligations – current	—	17,855
Accrued interest on interest bearing obligations – current	140	254
Total current liabilities	14,224	32,506
Deferred revenue – non-current	17,101	18,000
Interest bearing obligations – non-current	14,322	25,312
Other liabilities – non-current	—	69
Total liabilities	45,647	75,887
Commitments and Contingencies (Note 10)		
Stockholders' equity (deficit):		
Preferred stock, $0.05 par value, 1,000,000 shares authorized, 5,003 and 0 shares issued and outstanding as of September 30, 2017 and December 31, 2016, respectively	—	—
Common stock, $0.0075 par value, 277,333,332 shares authorized, 8,143,643 and	61	46

6,114,145 shares issued and outstanding at September 30, 2017 and December 31, 2016, respectively		
Additional paid-in capital	1,181,742	1,146,357
Accumulated deficit	(1,177,740)	(1,193,613)
Total stockholders' equity (deficit)	4,063	(47,210)
Total liabilities and stockholders' equity (deficit)	$ 49,710	$ 28,677

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

(Note 1) The condensed consolidated balance sheet as of December 31, 2016 has been derived from the audited consolidated financial statements as of that date included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

XOMA CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(unaudited)

(in thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Revenues:				
License and collaborative fees	$36,068	$430	$46,993	$3,196
Contract and other	115	205	340	1,844
Total revenues	36,183	635	47,333	5,040
Operating expenses:				
Research and development	307	8,674	7,215	35,986
General and administrative	7,255	4,053	17,625	13,138
Restructuring charge (credit)	(29)	—	3,451	15
Total operating expenses	7,533	12,727	28,291	49,139
Income (loss) from operations	28,650	(12,092)	19,042	(44,099)
Other income (expense):				
Interest expense	(202)	(982)	(1,108)	(2,991)
Other (expense) income, net	(263)	289	337	585
Revaluation of contingent warrant liabilities	—	260	—	10,455
Loss on extinguishment of debt	(135)	—	(650)	—
Income (loss) before income tax	28,050	(12,525)	17,621	(36,050)
Provision for income taxes	(1,706)	—	(1,706)	—
Net income (loss) and comprehensive income (loss)	$26,344	$(12,525)	$15,915	$(36,050)
Basic net income (loss) available to common stockholders	$16,038	$(12,525)	$6,609	$(36,050)
Diluted net income (loss) available to common stockholders	$16,418	$(12,525)	$6,669	$(36,050)
Basic net income (loss) per share available to common stockholders	$2.06	$(2.08)	$0.89	$(6.00)
Diluted net income (loss) per share available to common stockholders	$1.98	$(2.08)	$0.88	$(6.00)
Weighted average shares used in computing basic net income (loss) per share available to common stockholders	7,786	6,029	7,424	6,010
Weighted average shares used in computing diluted net income (loss) per share available to common stockholders	8,275	6,029	7,617	6,010

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

XOMA CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

(in thousands)

	Nine Months Ended September 30,	
	2017	2016
Cash flows from operating activities:		
Net income (loss)	$15,915	$(36,050)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation	289	603
Common stock contribution to 401(k) plan	506	785
Stock-based compensation expense	4,893	6,200
Revaluation of contingent warrant liabilities	—	(10,455)
Amortization of debt issuance costs, debt discount and final payment fee on debt	444	1,075
Loss on extinguishment of debt	650	—
Gain on sale of marketable securities	—	(126)
Net gain on sale and disposal of equipment	(1,123)	—
Unrealized loss on foreign currency exchange	1,447	384
Other	262	79
Changes in assets and liabilities:		
Trade and other receivables, net	(460)	3,313
Prepaid expenses and other assets	493	676
Accounts payable and accrued liabilities	(4,247)	(4,100)
Accrued restructuring costs	(3,150)	(440)
Accrued interest on interest bearing obligations	143	175
Income taxes payable	1,706	—
Deferred revenue	(9,857)	(2,306)
Other liabilities	—	(500)
Net cash provided by (used in) operating activities	7,911	(40,687)
Cash flows from investing activities:		
Proceeds from sale of property and equipment	1,614	45
Proceeds from sale of marketable securities	—	622
Purchase of property and equipment	(24)	(31)
Net cash provided by investing activities	1,590	636
Cash flows from financing activities:		
Proceeds from issuance of common and preferred stock, net of issuance costs	29,959	45
Principal payments debt	(16,380)	(5,057)
Payment of final fee related to loan extinguishment	(1,150)	—
Principal payments capital lease	(51)	(84)

Taxes paid related to net share settlement of equity awards	(41)	—
Net cash provided by (used in) financing activities	12,337	(5,096)
Effect of exchange rate changes on cash	167	(2)
Net increase (decrease) in cash and cash equivalents	22,005	(45,149)
Cash and cash equivalents at the beginning of the period	25,742	65,767
Cash and cash equivalents at the end of the period	$47,747	$20,618
Supplemental cash flow information:		
Cash paid for interest	$518	$1,724
Non-cash investing and financing activities:		
Repayment of principal and accrued interest under the Servier loan	$14,346	$—
Interest added to principal balance on long-term debt	$236	$194

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 (referred to as "XOMA" or the "Company"), a Delaware corporation, has a long history of discovering and developing innovative therapeutics derived from its unique platform of antibody technologies. The Company has historically advanced product candidates into the earlier stages of development and then sought to license product candidates to licensees who assume the responsibilities of later stage development, approval and commercialization. In 2016, XOMA focused its research and development efforts to advancing a portfolio of product candidates that have the potential to treat a variety of endocrine diseases, including the advancement of X358 for the treatment of congenital hyperinsulinism and hypoglycemia in hyperinsulinemic patients following bariatric surgery. In addition, XOMA has historically licensed antibody technologies on a non-exclusive basis to other companies who desire to access the antibody platform for their own discovery efforts. In March 2017, the Company revised its strategy to instead focus on building out its portfolio of programs that are fully funded by other biotechnology and pharmaceutical companies and for which milestone and royalty payments are potentially due. The result is a focus by the Company on out-licensing its un-partnered product candidates to partners who will continue the development and commercialization of these assets. The Company expects that a significant portion of any future revenue will be based on payments it may receive from its licensees. In addition, the Company intends to acquire potential milestone and royalty revenue streams on additional assets.

Liquidity and Management Plans

The Company has incurred operating losses since its inception resulting in an accumulated deficit of $1.2 billion, it has working capital of $34.9 million and $14.3 million in total outstanding debt at September 30, 2017. As of June 30, 2017, there was a substantial doubt about the Company's ability to continue as a going concern since it did not have sufficient financial resources available to fund its operations and make scheduled loan payments beyond August 2018. The Company alleviated this concern in August 2017, when it entered into license agreements with Novartis Pharma AG ("Novartis AG") in which the Company received total cash proceeds of $25.7 million. Concurrently, Novartis AG settled the Company's outstanding debt with Les Laboratories Servier ("Servier Loan") and extended the maturity date of the Company's debt to Novartis Institutes for BioMedical Research, Inc. ("NIBR") from September 30, 2020 to September 30, 2022 (see Notes 4 and 8). In conjunction with the license agreements, the Company and Novartis AG also entered into a common stock purchase agreement in which the Company received total cash proceeds of $5.0 million (see Note 12). As of September 30, 2017, the Company had $47.7 million in cash and cash equivalents, which is available to fund its operations through the next 12 months from the date the condensed consolidated financial statements are issued.

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 consolidated financial statements were prepared in accordance with generally accepted accounting principles ("GAAP") in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. As permitted under those rules certain footnotes or other financial information can be condensed or omitted. These financial statements and related disclosures have been prepared with the assumption that users of the interim financial information have read or have access to the audited consolidated financial statements for the preceding fiscal year. Accordingly, these statements should be read in conjunction with the audited consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016, filed with the U.S. Securities and Exchange Commission ("SEC") on March 16, 2017.

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

Use of Estimates

The preparation of financial statements in conformity with GAAP in the United States requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosures. On an ongoing basis, management evaluates its estimates including, but not limited to, those related to revenue recognition, debt amendments, long-lived assets, restructuring liabilities, legal contingencies, and stock-based compensation. The Company bases its estimates on historical experience and on various other market-specific and other relevant assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ significantly from these estimates. Under the Company's contracts with the National Institute of Allergy and Infectious Diseases ("NIAID"), a part of the National Institutes of Health ("NIH"), the Company billed NIAID using NIH's provisional rates and thus is subject to future audits at the discretion of NIAID's contracting office. These audits can result in an adjustment to revenue previously reported which potentially could be significant. In March 2016, the Company effected the novation of its remaining active contract with NIAID to Ology Bioservices, Inc. ("Ology Bioservices") (formerly known as Nanotherapeutics, Inc.) (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.

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

License and Collaborative Fees

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

recognized. Changes to these estimates are recorded on a prospective basis.

License and collaboration agreements with certain third parties also provide for contingent payments to be paid to the Company based solely upon the performance of the partner. For such contingent payments, revenue is recognized upon completion of the milestone event, once confirmation is received from the third party, provided that collection is reasonably assured and the other revenue recognition criteria have been satisfied.

Contract and Other Revenues

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

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

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

Sale of Future Revenue Streams

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

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

Research and Development Expenses

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

Stock-Based Compensation

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

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

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

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

Restructuring and Impairment Charges

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

Warrants

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

Income Taxes

The Company accounts for income taxes using the liability method under which deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. Valuation allowances are established when necessary to reduce deferred tax assets to the amount which is more likely than not to be realizable.

The recognition, derecognition and measurement of a tax position is based on management's best judgment given the facts, circumstances and information available at each reporting date. The Company's policy is to recognize interest and penalties related to the underpayment of income taxes as a component of income tax expense. To date, there have been no interest or penalties charged in relation to the unrecognized tax benefits.

Net Income (Loss) per Share Available to Common Stockholders

Basic net income (loss) per share available to common stockholders is based on the weighted average number of shares of common stock outstanding during the period. Net income (loss) available to common stockholders consists of net income (loss), as adjusted for the convertible preferred stock deemed dividends related to the beneficial conversion feature on this instrument at issuance. During periods of income, the Company allocates participating securities a proportional share of net income, after deduction of any deemed dividends on preferred stock, determined by dividing total weighted average participating securities by the sum of the total weighted average number of common stock and participating securities (the "two-class method"). The Company's convertible preferred stock participates in any dividends declared by the Company on its common stock and are therefore considered to be participating securities. During periods of loss, the Company allocates no loss to participating securities because they have no contractual obligation to share in the losses of the Company. Diluted net income (loss) per share available to common stockholders is based on the weighted average number of shares outstanding during the period, adjusted to include the assumed conversion of preferred stock, certain stock options, RSUs, and warrants for common stock. The calculation of diluted income (loss) per share available to common stockholders requires that, to the extent the average market price of the underlying shares for the reporting period exceeds the exercise price of the warrants and the presumed exercise of such securities are dilutive to earnings (loss) per share available to common stockholders for the period, adjustments to net income (loss) used in the calculation are required to remove the change in fair value of the warrants for the period. Likewise, adjustments to the denominator are required to reflect the related dilutive shares.

Concentration of Risk

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

The Company has not experienced any significant credit losses and does not generally require collateral on receivables. For the three months ended September 30, 2017, one customer represented 98% of total revenues. For the nine months ended September 30, 2017, one customer represented 96% of total revenues. For the three months ended September 30, 2016, three customers represented 51%, 37% and 12% of total revenues, respectively. For the nine months ended September 30, 2016, four customers represented 30%, 21%, 18%, and 10% of total revenues, respectively. As of September 30, 2017, two customers represented 55% and 45% of the trade receivables balance. As of December 31, 2016, one customer represented 85% of the trade receivables balance.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued guidance codified in Accounting Standards Codification ("ASC") 606, Revenue Recognition — Revenue from Contracts with Customers, which amends the guidance in ASC 605, Revenue Recognition. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In August 2015, the FASB issued an accounting update to defer the effective date by one year for public entities such that it is now applicable for annual and interim periods beginning after December 15, 2017. ASC 606 also permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (the modified retrospective method). The Company is required to adopt the standard on January 1, 2018. To date, the Company has primarily derived its revenues from various license and collaboration arrangements and sale of future royalties. The consideration the Company is eligible to receive under these agreements includes upfront payments, milestone payments and royalties. Each of the Company's agreements has unique terms that will need to be evaluated separately under ASC 606. The Company is

currently assessing its active license and collaboration agreements and sale of future royalty arrangements. The Company is still assessing the impact of the new guidance on its consolidated financial statements, as well as evaluating the disclosure requirements under the new standard. The Company expects to adopt the new standard using the modified retrospective method. While the Company has not completed an assessment of the impact of adoption, the adoption of ASC 606 may have a material effect on its consolidated financial statements.

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

3. Condensed Consolidated Financial Statements Detail

Cash and Cash Equivalents

As of September 30, 2017, cash and cash equivalents consisted of demand deposits of $7.9 million and money market funds of $39.8 million with maturities of less than 90 days at the date of purchase. As of December 31, 2016, cash and cash equivalents consisted of demand deposits of $21.5 million and money market funds of $4.2 million with maturities of less than 90 days at the date of purchase.

Trade and Other Receivables, net

Trade receivables are stated at their net realizable value. Specific allowances are recorded for doubtful accounts or based on other available information. The Company reviews its exposure to accounts receivable, including the requirement for allowances based on management's judgment. The Company has not historically experienced any significant losses.

Trade and other receivables consisted of the following (in thousands):

	September 30, 2017	December 31, 2016
Trade receivables, net	$ 913	$ 474
Other receivables	113	92
Trade and other receivables, net	$ 1,026	$ 566

Property and Equipment, net

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

	September 30, 2017	December 31, 2016
Equipment and furniture	$ 722	$ 14,023
Leasehold improvements	334	554
	1,056	14,577
Less: Accumulated depreciation and amortization	(959)	(13,541)
Property and equipment, net	$ 97	$ 1,036

During the nine months ended September 30, 2017, the Company completed the sale of equipment and disposal of certain equipment located in one of its leased facilities for total proceeds of $1.6 million. The total carrying value of the equipment sold and disposed of was $0.1 million and $0.5 million during the three and nine months ended September 30, 2017, respectively. Accordingly, the Company recorded a loss of $0.1 million and a gain of $1.1 million on the sale and disposal of equipment in the other income (expense), net in its condensed consolidated statements of comprehensive income (loss) for the three and nine months ended September 30, 2017, respectively.

Accrued and Other Liabilities

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

	September 30, 2017	December 31, 2016
Accrued payroll and other benefits	$ 151	$ 1,582
Accrued clinical trial costs	—	458
Accrued incentive compensation	396	—
Accrued legal and accounting fees	231	385
Deferred rent	746	707
Other	77	1,083
Total	$ 1,601	$ 4,215

Net Income (Loss) Per Share Available to Common Stockholders

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Numerator				
Net income (loss)	$26,344	$(12,525)	$15,915	$(36,050)
Less: Deemed dividend on convertible preferred stock	—	—	(5,603)	—
Less: Allocation of undistributed earnings to participating securities	(10,306)	—	(3,703)	—
Net income (loss) available to common stockholders, basic	$16,038	$(12,525)	$6,609	$(36,050)
Adjustments to undistributed earnings allocated to participating securities	380	—	60	—
Net income (loss) available to common stockholders, diluted	$16,418	$(12,525)	$6,669	$(36,050)
Denominator				
Weighted average shares outstanding used for basic net income (loss) per share available to common stockholders	7,786	6,029	7,424	6,010
Effect of dilutive stock options	489	—	193	—
Weighted average shares outstanding used for diluted net income (loss) per share available to common stockholders	8,275	6,029	7,617	6,010

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Convertible preferred stock (as converted)	—	—	4,160	—
Common stock options and RSUs	313	558	753	549
Warrants for common stock	19	917	139	915
Total	332	1,475	5,052	1,464

4. Collaborative, Licensing and Other Arrangements

Novartis

On September 30, 2015, the Company and Novartis International Pharmaceutical Ltd. ("Novartis") entered into a license agreement (the "License Agreement") under which the Company granted Novartis an exclusive, world-wide, royalty-bearing license to the Company's anti-transforming growth factor beta (TGF) antibody program (the "anti-TGF Program"). Under the terms of the License Agreement, Novartis has worldwide rights to the anti-TGF Program and is responsible for the development and commercialization of antibodies and products containing antibodies arising from the anti-TGF Program. Within 90 days of the execution of the License Agreement, the Company completed the transfer of certain proprietary know-how, materials and inventory relating to the anti-TGF Program to Novartis.

Under the License Agreement, the Company received a $37.0 million upfront fee. The Company is also eligible to receive up to a total of $480.0 million in development, regulatory and commercial milestones. Any such payments will be treated as contingent consideration and recognized as revenue when they are achieved, as the Company has no performance obligations under the License Agreement beyond the initial 90-day period. During the nine months ended September 30, 2017, Novartis achieved a clinical development milestone pursuant to the License Agreement and, as a result, the Company earned a $10.0 million milestone payment which was recognized as license and collaborative fees in the condensed consolidated statement of comprehensive income (loss).

On August 24, 2017 (the "Effective Date"), the Company and Novartis AG entered into a license agreement (the "XOMA-052 License Agreement") under which the Company granted to Novartis AG an exclusive, worldwide, royalty-bearing license to gevokizumab, a novel anti-Interleukin-1 ("IL-1") beta allosteric monoclonal antibody (the "Antibody") and related know-how and patents (altogether, the "XOMA IP"). Under the terms of the XOMA-052 License Agreement, Novartis AG will be solely responsible for the development and commercialization of the Antibody and products containing the Antibody. Within 90 days of the Effective Date, the Company will transfer certain proprietary know-how, process, materials and inventory relating to the XOMA IP to Novartis AG.

On August 24, 2017, pursuant to a separate agreement (the "IL-1 Beta Target Agreement"), the Company granted to Novartis AG non-exclusive licenses to its intellectual property covering the use of IL-1 beta targeting antibodies in the treatment and prevention of cardiovascular disease and other diseases and conditions, and an option to obtain an exclusive license (the "Exclusivity Option") to such intellectual property for the treatment and prevention of cardiovascular disease. The Company also granted Novartis AG the right of first negotiation with respect to certain transactions relating to the licensed intellectual property.

Under the XOMA-052 License Agreement, the Company received total consideration of $30.0 million for the license and rights granted to Novartis AG. Of the total consideration, $15.7 million was paid in cash and $14.3 million (equal to €12.0 million) was paid by NIBR, on behalf of the Company, to settle the Company's Servier Loan. In addition, NIBR extended the maturity date on the Company's debt to Novartis (see Note 8). The Company also received $5.0 million cash related to the sale of 539,131 shares of the Company's common stock, at a price per share of $9.2742. The fair market value of the common stock issued to Novartis was $4.8 million, based on the closing stock price of $8.93 per share on August 24, 2017, resulting in a $0.2 million premium paid to the Company (see Note 12). Based on the achievement of pre-specified criteria, the Company also is eligible to receive up to $438.0 million in development, regulatory and commercial milestones. The Company is also eligible to receive royalties on sales of licensed products, which are tiered based on sales levels and range from the high single digits to mid-teens. Under the IL-1 Beta Target Agreement, the Company received an upfront cash payment of $10.0 million. In addition, the Company is eligible to receive low single-digit royalties on canakinumab sales in cardiovascular indications. Should Novartis AG exercise the Exclusivity Option, the royalties on canakinumab sales will increase to the mid-single digits.

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The XOMA-052 License Agreement and IL-1 Beta Target Agreement are being accounted for as one arrangement because they were entered into at the same time in contemplation of each other. The Company concluded that there are multiple deliverables under the arrangements which consist of (i) the licenses to IL-1 beta targeting antibodies, (ii) the license to gevokizumab antibody and (iii) the transfer of know-how, process, materials and inventory related the gevokizumab antibody. The Company concluded that the license to the gevokizumab antibody and the related transfer of know-how process, materials and inventory each do not have stand-alone value. Accordingly, the Company combined these two deliverables into a single unit of accounting. The Company determined that the Exclusivity Option is a substantive option and not priced at a significant and incremental discount. Therefore, the Company concluded that the Exclusivity Option is not a deliverable. The agreements were evaluated pursuant to the provisions of the multiple-element arrangement guidance in determining how to recognize the revenue associated with each unit of account. The total arrangement consideration received from Novartis AG is $40.2 million and consists of the $25.7 million upfront cash payment, the $14.3 million Servier Loan payoff and the $0.2 million premium on the sale of the common stock. The total arrangement consideration is allocated to each unit of account based on their relative selling prices. Revenue is recognized as the revenue recognition criteria are met for each identified unit of account. During the three months ended September 30, 2017, the Company recognized revenue of $31.9 million related to the licenses to IL-1 beta targeting antibodies and $3.5 million related to the amortization of deferred revenue allocated to the license to the gevokizumab antibody and transfer of related XOMA IP. As of September 30, 2017, the Company had a current deferred revenue balance of $4.8 million related to the XOMA-052 License Agreement.

The Company determined that future contingent payments that may be received related to development, regulatory and sales milestones under the XOMA-052 License Agreement are based on the performance of Novartis AG and do not meet the definition of substantive milestones under the accounting guidance. Accordingly, revenue for the achievement of these milestones will be recognized in the period when the milestone is achieved. As of September 30, 2017, the Company has not recognized any milestone payments under the XOMA-052 License Agreement. The Company expects to recognize royalty revenue in the period of sale of the related products, based on the underlying contract terms.

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

There was no revenue recognized from this Collaboration Agreement for the three months ended September 30, 2017 and 2016. For the nine months ended September 30, 2017 and 2016, the Company recorded revenue of zero and $0.3 million, respectively, from this Collaboration Agreement.

NIAID

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

In March 2016, the Company effected a novation of the NIAID Contract to Ology Bioservices. The novation was effected upon obtaining government approval to transfer the NIAID Contract to Ology Bioservices pursuant to the asset purchase agreement executed in November 2015 (see Note 6). There was no revenue recognized under this contract for the three months ended September 30, 2017 and 2016, respectively. The Company recognized revenue of zero and $1.1 million under this contract for the nine months ended September 30, 2017 and 2016, respectively.

Sale of Future Revenue Streams

On December 21, 2016, the Company entered into two Royalty Interest Acquisition Agreements (together, the "Acquisition Agreements") with HealthCare Royalty Partners II, L.P. ("HCRP"). Under the first Acquisition Agreement, the Company sold its right to receive milestone payments and royalties on future sales of products subject to a License Agreement, dated August 18, 2005, between XOMA and Wyeth Pharmaceuticals (subsequently acquired by Pfizer, Inc. ("Pfizer")) for an upfront cash payment of $6.5 million, plus potential additional payments totaling $4.0 million in the event three specified net sales milestones are met in 2017, 2018 and 2019. Under the second Acquisition Agreement, the Company sold all rights to royalties under an Amended and Restated License Agreement dated October 27, 2006 between XOMA and Dyax Corp. for a cash payment of $11.5 million.

The Company classified the proceeds received from HCRP as deferred revenue, to be recognized as contract and other revenue over the life of the license agreements because of the Company's limited continuing involvement in the Acquisition Agreements. Such limited continuing involvement is related to the Company's undertaking to cooperate with HCRP in the event of litigation or a dispute related to the license agreements. Because the transaction was structured as a non-cancellable sale, the Company does not have significant continuing involvement in the generation of the cash flows due to HCRP and there are no guaranteed rates of return to HCRP, the Company recorded the total proceeds of $18.0 million as deferred revenue. The Company allocated the total proceeds between the two Acquisition Agreements based on the relative fair value of expected payments to be made to HCRP under the license agreements. The deferred revenue is being recognized as contract and other revenue over the life of the underlying license agreements under the "units-of-revenue" method. Under this method, amortization for a reporting period is calculated by computing a ratio of the allocated proceeds received from HCRP to the payments expected to be made by the licensees to HCRP over the term of the Acquisition Agreements, and then applying that ratio to the period's cash payment. The Company recognized $0.1 million and $0.3 million as contract and other revenue under these arrangements during the three months and nine months ended September 30, 2017, respectively. As of September 30, 2017, the current and non-current portion of the remaining deferred revenue was $0.6 million and $17.1 million, respectively. As of December 31, 2016, the Company classified the $18.0 million as non-current deferred revenue.

5. Fair Value Measurements

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

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

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

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

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

	Fair Value Measurements at September 30, 2017 Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
Money market funds [1]	$39,811	$ —	$ —	$39,811

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

(1) Included in cash and cash equivalents

During the nine-month period ended September 30, 2017, there were no transfers between Level 1, Level 2, or Level 3 assets or liabilities reported at fair value on a recurring basis and the valuation techniques used did not change compared to the Company's established practice.

The estimated fair value of the Company's outstanding interest-bearing obligations is estimated using the net present value of the payments, discounted at an interest rate that is consistent with market interest rates, which is a Level 2 input. The carrying amount and the estimated fair value of the Company's outstanding interest-bearing obligations at September 30, 2017, and December 31, 2016, are as follows (in thousands):

	September 30, 2017		December 31, 2016	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Hercules term loan	$—	$ —	$16,850	$ 16,453
Novartis note	14,322	14,018	14,086	13,836
Servier loan	—	—	12,231	12,242
Total	$14,322	$ 14,018	$43,167	$ 42,531

6. Dispositions

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

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

In February 2017, the Company executed an Amendment and Restatement to both the asset purchase agreement and Ology Bioservices License Agreement primarily to (i) remove Ology Bioservices' obligation to issue 23,008 shares to the Company of its common stock under the asset purchase agreement, and (ii) revise the payment schedule related to the timing of the $4.5 million cash payments due to the Company under the Ology Bioservices License Agreement. Of the $4.5 million, $3.0 million is contingent upon Ology Bioservices achieving certain specified future operating objectives. In the first quarter of 2017, the Company was entitled to receive $1.6 million under the agreement. During the third quarter of 2017, Ology Bioservices achieved the specified operating objectives and the Company earned the $3.0 million milestone payment. Based on the payment terms pursuant to the amended Ology Bioservices License Agreement, the Company was entitled to receive $4.6 million. Of the $4.6 million, the Company received $0.3 million and $0.7 million during the three and nine months ended September 30, 2017, respectively, which was recognized as other income in the condensed consolidated statements of comprehensive income (loss). As the amended Ology Bioservices License Agreement involves extended payment terms, the remaining $3.9 million, of which $2.7 million is related to the milestone and due in monthly installments and $1.2 million is due in quarterly installments through September 2018, will be recognized as other income as the payments are received.

7. Restructuring Charges

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

During the three and nine months ended September 30, 2017, the Company recorded a credit of $29,000 and a charge of $3.5 million, respectively, related to severance, other termination benefits and outplacement services in connection with the workforce reductions resulting from the 2017 Restructuring and 2016 Restructuring activities. During the nine months ended September 30, 2017, the Company paid a total of $6.6 million associated with the 2017 Restructuring and 2016 Restructuring activities. Of the remaining accrued restructuring of $0.4 million, the Company expects to pay $0.3 million in the remainder of 2017 and the remaining $0.1 million related to executive severance will continue to be paid through March 2018.

The following table summarizes the accrued restructuring costs on the condensed consolidated balance sheet as of September 30, 2017 (in thousands):

	Employee Severance and Other Benefits
Balance at December 31, 2016	$ 3,594
Restructuring charges, net	3,451
Cash payments	(6,601)
Balance at September 30, 2017	$ 444

8. Long-Term Debt

Novartis Note

In May 2005, the Company executed a secured note agreement (the "Note Agreement") with Novartis AG, 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 AG, not to exceed $50.0 million in aggregate principal amount. Interest on the principal amount of the loan accrued at six-month LIBOR plus 2%, which was equal to 3.44% at September 30, 2017 and is payable semi-annually in June and December of each year. Additionally, the interest rate resets in June and December of each year. At the Company's election, the semi-annual interest payments could be added to the outstanding principal amount, in lieu of a cash payment, as long as the aggregate principal amount did not exceed $50.0 million. The Company made this election for all interest payments. Loans under the Note Agreement were secured by the Company's interest in its collaboration with Novartis AG, 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 AG note.

In June 2015, the Company and Novartis Vaccines and Diagnostics, Inc. ("NVDI") agreed to extend the maturity date of the Note Agreement from June 21, 2015, to September 30, 2015 (the "June 2015 Extension Letter"). On September 30, 2015, concurrent with the execution of a license agreement with Novartis, XOMA and NIBR, who assumed the rights to the note from NVDI executed an amendment to the June 2015 Extension Letter (the "Secured Note Amendment") under which the parties further extended the maturity date of the June 2015 Extension Letter from September 30, 2015 to September 30, 2020, and eliminated the mandatory prepayment previously required to be made with certain proceeds of pre-tax profits and royalties. In addition, upon achievement of a specified development and regulatory milestone, the then-outstanding principal amount of the Note Agreement 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.

On September 22, 2017, in connection with the XOMA-052 License Agreement with Novartis AG, the Company and NIBR executed an amendment to the Secured Note Amendment under which the parties further extended the maturity date of the Secured Note Amendment from September 30, 2020 to September 30, 2022. All other terms of the Secured Note Amendment and original Note Agreement remain unchanged. The Company determined that the amendment resulted in a debt modification. As a result, the Secured Note Amendment will continue to be accounted for using the effective interest method, with a new effective interest rate based on revised cash flows calculated on a prospective basis upon the execution of the amendment.

As of September 30, 2017 and December 31, 2016, the outstanding principal balance under the Secured Note Amendment was $14.3 million and $14.1 million, respectively, and was included in interest bearing obligations – non-current in the accompanying consolidated balance sheets.

Servier Loan Agreement

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

Interest for the six-month period from mid-July 2017 through mid-January 2018 was reset to 1.73%. Interest was payable semi-annually.

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

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

Upon initial issuance, the loan had a stated interest rate lower than the market rate based on comparable loans held by similar companies, which represented 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, represented the differential between the stated terms and rates of the loan, and market rates. Based on the association of the loan with the Collaboration Agreement, the Company recorded the offset to this discount as deferred revenue.

The loan discount was amortized to interest expense under the effective interest method over the remaining life of the loan. The loan discount balance at the time of the Loan Amendment was $1.9 million, which was being amortized over the remaining term of the Loan Amendment. The loan discount balance at the time of Amendment No. 3 was $0.4 million, which was being amortized over the remaining term of the loan. The Company recorded non-cash interest expense resulting from the amortization of the loan discount of $0.2 million and $0.2 million, for the three months ended September 30, 2017 and 2016, respectively. The Company recorded non-cash interest expense resulting from the amortization of the loan discount of $0.4 million and $0.5 million, for the nine months ended September 30, 2017 and 2016, respectively. At December 31, 2016, the net carrying value of the loan was $12.2 million. For the three and nine months ended September 30, 2017, the Company recorded unrealized foreign exchange gains of $4,000 and $25,000, respectively, related to the re-measurement of the loan discount. For the three and nine months ended September 30, 2016, the Company recorded unrealized foreign exchange gains of $6,000 and $26,000, respectively, related to the re-measurement of the loan discount.

The outstanding principal balance under this loan was $12.6 million, using a euro to US dollar exchange rate of 1.052 as of December 31, 2016. The Company recorded unrealized foreign exchange losses of $0.6 million and $1.7 million for the three and nine months ended September 30, 2017, respectively, related to the re-measurement of the loan. The Company recorded an unrealized foreign exchange losses of $0.1 million and $0.4 million for the three and nine months ended September 30, 2016, respectively, related to the re-measurement of the loan.

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

Hercules Term Loan

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

Company granted a security interest in substantially all of its existing and after-acquired assets, excluding its intellectual property assets.

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

The Company incurred debt issuance costs of $0.5 million in connection with the Hercules Term Loan. The Company was required to pay a final payment fee equal to $1.2 million on the maturity date, or such earlier date as the term loan was paid in full. The debt issuance costs and final payment fee were being amortized and accreted, respectively, to interest expense over the term of the loan using the effective interest method. The Company recorded non-cash interest expense resulting from the amortization of the debt issuance costs and accretion of the final payment of zero and $0.2 million for the three and nine months ended September 30, 2017, respectively. The Company recorded non-cash interest expense resulting from the amortization of the debt issuance costs and accretion of the final payment of $0.2 million and $0.5 million for the three and nine months ended September 30, 2016, respectively.

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

On March 21, 2017, the Hercules Term Loan was paid in full and the Company was not required to pay the 1% prepayment charge due pursuant to the terms of the loan. A loss on extinguishment of $0.5 million from the payoff of the Hercules Term Loan was recognized in the condensed consolidated statement of comprehensive income (loss) during the nine months ended September 30, 2017.

In connection with the Hercules Term Loan, the Company issued unregistered warrants that entitle Hercules to purchase up to an aggregate of 9,063 unregistered shares of XOMA common stock at an exercise price equal to $66.20 per share. These warrants were exercisable immediately and have a five-year term expiring in February 2020. The Company allocated the aggregate proceeds of the Hercules Term Loan between the warrants and the debt obligation. The estimated fair value of the warrants issued to Hercules of $0.5 million was determined using the Black-Scholes Model and was recorded as a discount to the debt obligation. The debt discount was being amortized over the term of the loan using the effective interest method. The warrants are classified in stockholders' deficit on the condensed consolidated balance sheets. As of September 30, 2017, all of these warrants were outstanding.

Interest Expense

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Hercules term loan	$ —	$ 651	$ 311	$ 2,001
Servier loan	76	223	431	674
Novartis note	126	104	362	299
Other	—	4	4	17
Total interest expense	$ 202	$ 982	$ 1,108	$ 2,991

9. Common Stock Warrants

As of September 30, 2017 and December 31, 2016, the following common stock warrants were outstanding:

Issuance Date	Expiration Date	Balance Sheet Classification	Exercise Price per Share	September 30, 2017	December 31, 2016
March 2012	March 2017	Contingent warrant liability	$ 35.20	—	479,277
September 2012	September 2017	Stockholders' equity (deficit)	$ 70.80	—	1,967
February 2015	February 2020	Stockholders' equity (deficit)	$ 66.20	9,063	9,063
February 2016	February 2021	Stockholders' equity (deficit)	$ 15.40	8,249	8,249
				17,312	498,556

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

10. Legal Proceedings, Commitments and Contingencies

Collaborative Agreements, Royalties and Milestone Payments

The Company has committed to make potential future "milestone" payments to third parties as part of licensing and development programs. Payments under these agreements become due and payable only upon the achievement of certain developmental, regulatory and commercial milestones by the Company's licensees. Because it is uncertain if and when these milestones will be achieved, such contingencies, aggregating up to $15.5 million (assuming one product per contract meets all milestones events) have not been recorded on the accompanying consolidated balance sheets. The Company is unable to determine precisely when and if payment obligations under the agreements will become due as these obligations are based on milestone events, the achievement of which is subject to a significant number of risks and uncertainties.

Lease Agreement

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

In September 2017, the Company entered into a lease agreement for an office facility in Emeryville, California. The lease has a term of 63 months and commenced on October 1, 2017. Under the lease agreement the Company will make total lease payments of $1.3 million through November 2022. The Company accounts for the new lease as an operating lease.

Legal Proceedings

On July 24, 2015, a purported securities class action lawsuit was filed in the United States District Court for the Northern District of California, captioned Markette v. XOMA Corp., et al. (Case No. 3:15-cv-3425) against the Company, its Chief Executive Officer and its Chief Medical Officer. The complaint asserts that all defendants violated Section 10(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and SEC Rule 10b-5, by making materially false or misleading statements regarding the Company's EYEGUARD-B study between November 6, 2014 and July 21, 2015. The plaintiff also alleges that Messrs. Varian and Rubin violated Section 20(a) of the Exchange Act. The plaintiff seeks class certification, an award of unspecified compensatory damages, an award of reasonable costs and expenses, including attorneys' fees, and other further relief as the Court may deem just and proper. On May 13, 2016, the Court appointed a lead plaintiff and lead counsel. The lead plaintiff filed an amended complaint on July 8, 2016 asserting the same claims and adding a former director as a defendant. On September 2,

2016, the defendants filed a motion to dismiss with prejudice the amended complaint. The plaintiff filed his opposition to the motion to dismiss on October 7, 2016. The defendants filed a reply on October 21, 2016. The judge in the case has advised that he will rule on the motion based on those pleadings, but has not yet issued a ruling. On May 26, 2017, the judge ordered supplemental briefing on the motion to dismiss based on a recent decision issued in the United States Court of Appeals for the Ninth Circuit, City of Dearborn Heights Act 345 Police & Retirement Sys. v. Align Tech., Inc., 2017 WL 1753276 (9th Cir. May 5, 2017). The parties filed supplemental briefs on June 9, 2017. On September 28, 2017, the Court granted defendants' motion to dismiss with leave to amend. On October 24, 2017, the parties filed a Joint Stipulation, agreeing to dismiss the action. On October 25, 2017, the Court granted the Stipulation, issuing an Order of Dismissal. The Order dismisses the action with prejudice with respect to the named Plaintiff's individual claims and without prejudice with respect to unnamed class members.

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 its 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 has been stayed pending further developments in the securities class action. Management believes that 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. 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 members of its Board of Directors. The lawsuits assert claims for breach of fiduciary duty and other violations of law based on the dissemination of allegedly false and misleading statements related to the Company's EYEGUARD-B study. Plaintiffs seek unspecified monetary damages and other relief including reforms and improvements to the Company's corporate governance and internal procedures. Both actions have been 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. 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.

In February 2017, the Compensation Committee and the Board of Directors adopted, and in May 2017, the Company's stockholders approved, an amendment to the Company's Amended and Restated 2010 Long Term Incentive and Stock Award Plan (the "Long Term Incentive Plan"). The amendment (a) increases the number of shares of common stock issuable over the term of the plan by an additional 1,470,502 to 2,579,062 shares in the aggregate; (b) increases the number of shares of common stock issuable under the plan as incentive stock options by an additional 2,004,087 to 2,579,062 shares; (c) increases the per person award limits for purposes of compliance with Section 162(m) of the Internal Revenue Code to 2,000,000 shares for options and stock appreciation rights and to 2,000,000 shares for other types of stock awards; and (d) for purposes of Section 162(m) (i) confirms existing performance criteria upon which performance goals may be based with respect to performance awards under the Long Term Incentive Plan, and (ii) confirms existing means of adjustment when calculating the attainment of performance goals for performance awards granted under the Long Term Incentive Plan.

In February 2017, the Compensation Committee and the Board of Directors adopted, and in May 2017, the Company's stockholders approved, an amendment to the Company's 2015 ESPP. The amendment (a) increases by 250,000 the shares of common stock (from 15,000 shares to a total of 265,000 shares) available for issuance under the 2015 ESPP; and (b) increases the maximum number of shares of common stock an employee may purchase in any offering period to 2,500.

Stock Options

In February 2017, the Board of Directors approved a grant of 1,018,000 stock options to members of the Board of Directors, executives, and non-executive employees, subject to approval by the Company's stockholders of an increase in the available shares under the Long Term Incentive Plan at the 2017 Annual Meeting of Stockholders. In May 2017, the shareholders approved the increase in the number of shares available for issuance under the Company's Long Term Incentive Plan and 998,000 stock options were issued upon approval. As such, the stock options approved for grant in February 2017 were not deemed granted for accounting purposes until May 2017. The stock options granted to the non-employee board members and non-executive employees vest monthly over three years from the grant date. The stock options granted to the executives contain a combination of time-based and corporate performance-based vesting conditions. Stock-based compensation expense associated with the corporate performance-based stock options is recognized if the performance condition is considered probable of achievement using management's best estimates. As of September 30, 2017, the achievement of certain corporate-based milestones was deemed probable and therefore the related expense is being recognized over the remaining service period. During the three and nine months ended September 30, 2017, the Company recognized stock-based compensation expense of $0.5 million and $0.7 million, respectively, related to stock options with performance-based vesting criteria.

The stock options generally vest monthly over three to four years for employees and one year for directors. Stock options held by employees who qualify for retirement age (defined as employees that are a minimum of 55 years of age and the sum of their age plus years of full-time employment with the Company exceeds 70 years) vest on the earlier of scheduled vest date or the date of retirement. The fair value of the stock options granted during the three and nine months ended September 30, 2017 and 2016, was estimated based on the following weighted average assumptions:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Dividend yield	0 %	0 %	0 %	0 %
Expected volatility	100 %	102 %	100 %	103 %
Risk-free interest rate	1.88 %	1.13 %	1.79 %	1.14 %
Expected term	5.6 years	5.6 years	5.6 years	5.6 years

Stock option activity for the nine months ended September 30, 2017, was as follows:

	Options	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value (in thousands)

			(in years)	
Outstanding at January 1, 2017	568,292	$ 77.70		
Granted	1,095,722	5.08		
Exercised	(6,458)	4.50		
Forfeited, expired or cancelled	(189,141)	58.28		
Outstanding at September 30, 2017	1,468,415	$ 26.33	$ 8.56	$ 17,448
Exercisable at September 30, 2017	399,969	$ 81.48	$ 6.39	$ 2,120

Of the stock options outstanding as of September 30, 2017, 412,500 were granted subject to performance objectives tied to the achievement of corporate goals set by the Compensation Committee of the Company's Board of Directors and will vest in full or part based on achievement of such goals. As of September 30, 2017, the Company did not consider achievement of certain of the performance objectives to be probable and therefore the Company did not include any stock-based compensation expense for those stock options. As of September 30, 2017, the grant date fair value of awards outstanding for which the Company determined that it was not probable that it will achieve the goals was $0.7 million.

Restricted Stock Units

RSUs generally vest annually over three years for employees and one year for directors. RSUs held by employees who qualify for retirement age (defined as employees that are a minimum of 55 years of age and the sum of their age plus years of full-time employment with the Company exceeds 70 years) vest on the earlier of scheduled vest date or the date of retirement. The valuation of RSUs is determined at the date of grant using the closing stock price.

RSU activity for the nine months ended September 30, 2017, is summarized below:

	Number of Shares	Weighted-Average Grant-Date Fair Value
Unvested at January 1, 2017	91,228	$ 39.82
Granted	11,799	$ 4.67
Vested	(60,886)	$ 37.12
Forfeited	(22,142)	$ 45.45
Unvested at September 30, 2017	19,999	$ 21.04

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 income (loss) (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Research and development	$102	$802	$774	$2,796
General and administrative	1,936	927	4,119	3,404
Total stock-based compensation expense	$2,038	$1,729	$4,893	$6,200

12. Capital Stock

Biotechnology Value Fund Financing

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

BVF purchased the shares of common stock from the Company at a price of $4.03 per share, the closing stock price on the date of purchase. Each share of Series X convertible preferred stock has a stated value of $4,030 per share and is convertible into 1,000 shares of registered common stock based on a conversion price of $4.03 per share of common stock. The total number of shares of common stock issued upon conversion of all issued Series X convertible preferred stock will be 5,003,000 shares. Each share is convertible at the option of the holder at any time, provided that the holder will be prohibited from converting into common stock if, as a result of such conversion, the holder, together with its affiliates, would beneficially own a number of shares above a conversion blocker, which is initially set at 19.99% of the total common stock then issued and outstanding immediately following the conversion of such shares. As of September 30, 2017, BVF owned approximately 18.5% of the Company’s total outstanding shares, and if all of the Series X convertible preferred shares were converted, BVF would own 49.5% of the Company’s total outstanding common shares. As of September 30, 2017, none of the preferred stock has been converted into shares of the Company’s common stock.

The designations, preferences, rights and limitations of the convertible preferred shares are set forth in a Certificate of Designation of Preferences, Rights and Limitations of Series X convertible preferred stock filed with the Delaware Secretary of State. Shares of Series X convertible preferred stock will generally have no voting rights, except as required by law and except that the consent of the holders of the outstanding Series X convertible preferred stock will be required to amend the terms of the Series X preferred stock and to approve certain corporate actions. In the event of the Company's liquidation, dissolution or winding up, holders of Series X convertible preferred stock will participate, on a pro-rata basis, with any distribution of proceeds to holders of common stock. Holders of Series X convertible preferred stock are entitled to receive dividends on shares of Series X convertible preferred stock equal (on an as if converted to common stock basis) to and in the same form as dividends actually paid on the Company's common stock or other junior securities.

The Company evaluated the Series X convertible preferred stock for liability or equity classification under the applicable accounting guidance, and determined that equity treatment was appropriate because the Series X convertible preferred stock did not meet the definition of the liability instruments defined thereunder for convertible instruments. Specifically, the Series X convertible preferred shares are not mandatorily redeemable and do not embody an obligation to buy back the shares outside of the Company's control in a manner that could require the transfer of assets. Additionally, the Company determined that the Series X convertible preferred stock would be recorded as permanent equity, not temporary equity, based on the relevant guidance given that they are not redeemable for cash or other assets (i) on a fixed or determinable date, (ii) at the option of the holder, and (iii) upon the occurrence of an event that is not solely within control of the Company.

The Company has also evaluated the embedded conversion and redemption features within the Series X convertible preferred stock in accordance with the accounting guidance for derivatives. Based on this assessment, the Company determined that the conversion option is clearly and closely related to the equity host, and thus, bifurcation is not required. The contingent redemption feature was determined to not be clearly and closely related to the equity-like host; however, it met the criteria as a scope exception for derivative accounting. Therefore, the contingent redemption feature was also not bifurcated from the Series X convertible preferred stock.

The fair value of the common stock into which the Series X convertible preferred stock is convertible exceeded the allocated purchase price of the Series X convertible preferred stock by $5.6 million on the date of issuance, as such the Company recorded a deemed dividend. The Company recognized the resulting beneficial conversion feature as a deemed dividend equal to the number of shares of Series X convertible preferred stock sold on February 16, 2017 multiplied by the difference between the fair value of the common stock and the Series X convertible preferred stock effective conversion price per share on that date. The dividend was reflected as a one-time, non-cash, deemed dividend to the holders of Series X convertible preferred stock on the date of issuance, which is the date the stock first became convertible.

ATM Agreements

On November 12, 2015, the Company entered into an At Market Issuance Sales Agreement (the "2015 ATM Agreement") with Cowen and Company, LLC ("Cowen"), under which the Company may offer and sell from time to time at its sole discretion shares of its common stock through Cowen as its sales agent, in an aggregate amount not to exceed $75 million. Cowen may sell the shares by any method permitted by law deemed to be an "at the market" offering as defined in Rule 415 of the Securities Act, including without limitation sales made directly on The NASDAQ Global Market, on any other existing trading market for the Company's common stock or to or through a market maker. Cowen also may sell the shares in privately negotiated transactions, subject to the Company's prior approval. The Company will pay Cowen a commission equal to 3% of the gross proceeds of the sales price of all shares sold through it as sales agent under the 2015 ATM Agreement. For the nine months ended September 30, 2017, the Company sold a total of 110,252 shares of common stock under the ATM Agreement for aggregate gross proceeds

of $0.6 million. Total offering costs of $0.2 million were offset against the proceeds upon sale of common stock.

Common Stock Purchase Agreement

In August 2017, in connection with the XOMA-052 License Agreement, the Company and Novartis AG entered into a Common Stock Purchase Agreement under which Novartis AG purchased 539,131 shares of the Company's common stock, at a price per share of $9.2742 for the aggregate purchase price of $5.0 million in cash. The fair market value of the common stock issued to Novartis AG was $4.8 million, based on the closing stock price of $8.93 per share on the effective date of the Common Stock Purchase Agreement, or August 24, 2017. The excess of the purchase price over the fair market value of the common stock represents a premium of $0.2 million which was accounted for as additional consideration to the license agreements (See Note 4 for further discussion). The shares issued to Novartis AG are unregistered securities and the Company agreed to use commercially reasonable efforts to make and keep public information available and timely file all reports and other documents with the SEC as required of the Company under the Securities Exchange Act of 1934, as amended. If, after the six month anniversary of the closing of the Common Stock Purchase Agreement, the shares of common stock continue to be restricted securities for purposes of Rule 144 under the Securities Act of 1933, as amended (the "Securities Act"), upon a request by Novartis, the Company will use commercially reasonable efforts to register the shares for resale under the Securities Act on a registration statement on Form S-3, to be filed within 60 days of the written request, and will use commercially reasonable efforts to keep such registration statement continuously effective under the Securities Act until the date all of the shares of common stock covered by such registration statement have been sold or can be sold publicly without restriction or limitation under Rule 144.

13. Income Taxes

The Company's provision for income taxes for the three and nine months ended September 30, 2017 differs from the amounts computed by multiplying the federal statutory rate by income before taxes primary due to a reduction in the valuation allowance and the use of a tax credit carryforward. The Company is subject to an ownership change pursuant to IRC Section 382 which occurred in February 2017 which significantly limits its ability to further use its net operating loss carryforwards against its 2017 taxable income. Due to ongoing losses, the Company did not record a provision for income taxes for any period in 2016.

Accounting standards provide for the recognition of deferred tax assets if realization of such assets is more likely than not. Based upon the weight of available evidence, which includes the Company's historical operating performance and carry-back potential, the Company has determined that its total deferred tax assets should be fully offset by a valuation allowance as of September 30, 2017 and December 31, 2016.

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

Forward Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, and the Private Securities Litigation Reform Act of 1995, which are subject to the "safe harbor" created by those sections. Forward-looking statements are based on our management's beliefs and assumptions and on information currently available to them. In some cases you can identify forward-looking statements by words such as "may," "will," "should," "could," "would," "expects," "plans," "anticipates," "believes," "estimates," "projects," "pred "intend" and similar expressions intended to identify forward-looking statements. Examples of these statements include, but are not limited to, statements regarding: the sufficiency of our cash resources, our future operating expenses, our future losses, our future expenditures for research and development, our ability to consummate our proposed agreement with Servier, 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 ability to receive potential milestone or royalty payments under collaboration agreements and the timing of receipt of those payments, the timing and adequacy of cost-cutting measures, and our ability to defend against claims that have been made in litigation. These statements are based on assumptions that may not prove accurate. Actual results could differ materially from those anticipated due to certain risks inherent in the biotechnology industry and for companies engaged in the development of new products in a regulated market. Among other things: our product candidates are still being developed, and we will require substantial funds to continue development which may not be available; we may not realize the expected benefits of our cost-saving initiatives; we may not be successful in entering into out-license agreements for our product candidates; if our therapeutic product candidates do not receive regulatory approval, neither our third-party licensees, our contract manufacturers nor we will be able to manufacture and market them; products or technologies of other companies may render some or all of our product candidates noncompetitive or obsolete; we do not know whether there will be, or will continue to be, a viable market for the products in which we have an ownership or royalty interest; we may not obtain orphan drug exclusivity or we may not receive the full benefit of orphan drug exclusivity even if we obtain such exclusivity; even once approved, a product may be subject to additional testing or significant marketing restrictions, its approval may be withdrawn or it may be voluntarily taken off the market; we and our licensees are subject to various state and federal healthcare related laws and regulations that may impact the commercialization of our product candidates and could subject us to significant fines and penalties; and certain of our technologies are in-licensed from third parties, so our capabilities using them are restricted and subject to additional risks. These and other risks, including those related to current economic and financial market conditions, are contained principally in Part II, Item 1A of this Quarterly Report on Form 10-Q and our other filings with the SEC. You should not place undue reliance on these forward-looking statements, which apply only as of the date of this Quarterly Report on Form 10-Q. You should read this Quarterly Report on Form 10-Q completely and with the understanding that our actual future results may be materially different from those we expect. Except as required by law, we assume no obligation to update these forward-looking statements, whether as a result of new information, future events or otherwise.

The following discussion and analysis should be read in conjunction with the unaudited financial statements and notes thereto included in Part I, Item 1 of this Quarterly Report on Form 10-Q and with the audited consolidated financial statements and related notes thereto included as part of our Annual Report on Form 10-K for the year ended December 31, 2016.

Overview

XOMA Corporation (“XOMA”, “we”, or “us”), a Delaware corporation, has a long history of discovering and developing innovative therapeutics derived from its unique platform of antibody technologies. We have historically advanced product candidates into the earlier stages of development and then sought to license product candidates to licensees who assume the responsibilities of later stage development, approval and commercialization.

In 2016, we dedicated our research and development efforts to advancing our portfolio of product candidates that have the potential to treat a variety of endocrine diseases, including advancing the development of X358 for the treatment of congenital hyperinsulinism (“CHI”) and hypoglycemia in hyperinsulinemic patients post-bariatric surgery (“PBS”). In addition, we have historically licensed our antibody technologies on a non-exclusive basis to other companies who desire to access the antibody platform for their own discovery efforts. In March 2017, we revised our strategy to instead focus on building out our portfolio of programs that are fully funded by other biotechnology and pharmaceutical companies and for which milestone and royalty payments are potentially due. The result is a focus on out-licensing our un-partnered product candidates to partners who will continue the development and commercialization of these assets. We expect that a significant portion of any future revenue will be based on payments we may receive from our licensees. In addition, we intend to acquire potential milestone and royalty revenue streams on additional assets.

Recent Business Developments

Novartis License Agreement

On August 24, 2017 (the "Effective Date"), we entered into a license agreement (the "XOMA-052 License Agreement") with Novartis Pharma AG ("Novartis AG") under which we granted to Novartis AG an exclusive, worldwide, royalty-bearing license to gevokizumab, a novel anti-Interleukin-1 (IL-1) beta allosteric monoclonal antibody (the "Antibody") and related know-how and patents (altogether, the "XOMA IP"). Within 90 days of the Effective Date, we will transfer certain proprietary know-how, process, materials and inventory relating to the XOMA IP to Novartis AG.

On August 24, 2017, pursuant to a separate agreement (the "IL-1 Beta Target Agreement"), we granted to Novartis AG non-exclusive licenses to its intellectual property covering the use of IL-1 beta targeting antibodies in the treatment of cardiovascular disease and other diseases and conditions, and an exclusive option to obtain an exclusive license to such intellectual property for the treatment of cardiovascular disease. We also granted Novartis AG the right of first negotiation with respect to certain transactions relating to the licensed intellectual property.

Under the XOMA-052 License Agreement, we received a total consideration of $30.0 million for the license and rights granted to Novartis AG. Of the total consideration, $15.7 million was paid in cash and $14.3 million (equal to €12.0 million) was paid by Novartis Institutes for BioMedical Research, Inc. ("NIBR"), on behalf of the Company, to settle the Company's debt to Les Laboratories Servier ("Servier Loan"). We also received $5.0 million cash related to the sale of 539,131 shares of our common stock. Based on the achievement of pre-specified criteria, we are eligible to receive up to $438.0 million in development, regulatory and commercial milestones. We are also eligible to receive royalties on sales of licensed products, which are tiered based on sales levels and range from the high single digits to mid-teens. Under the IL-1 Beta Target Agreement, we received a $10.0 million upfront payment and are eligible to receive low-single-digit royalties on canakinumab sales in cardiovascular indications. We also granted to Novartis AG an exclusive option to convert its non-exclusive license with respect to cardiovascular indications into an exclusive license. Should Novartis AG exercise this option, the royalties on canakinumab sales will increase to the mid-single digits.

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

Equity Financing

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

The fair value of the common stock into which the Series X convertible preferred stock is convertible exceeded the allocated purchase price of the Series X convertible preferred stock by $5.6 million on the date of issuance, as such we

recorded a deemed dividend. We recognized the resulting beneficial conversion feature as a deemed dividend equal to the number of shares of Series X convertible preferred stock sold on February 16, 2017 multiplied by the difference between the fair value of the common stock and the Series X convertible preferred stock effective conversion price per share on that date. The dividend was reflected as a one-time, non-cash, deemed dividend to the holders of Series X convertible preferred stock on the date of issuance, which is the date the stock first became convertible.

Hercules Term Loan

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

Servier Loan

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

In August 2017, in connection with the XOMA-052 License Agreement, the Servier Loan balance of €12.0 million was paid in full.

Asset Purchase Agreement and License Agreement with Ology Bioservices, Inc.

In February 2017, we executed an Amendment and Restatement to both the asset purchase agreement and license agreement with Ology Bioservices, Inc. ("Ology Bioservices") (formerly known as Nanotherapeutics, Inc.) primarily to (i) remove the obligation to issue 23,008 shares of common stock of Ology Bioservices under the asset purchase agreement, and (ii) revise the payment schedule related to the timing of the $4.5 million cash payments due to us under the license agreement. Of the $4.5 million, $3.0 million was a milestone contingent upon Ology Bioservices achieving certain specified future operating objectives which were achieved in August 2017. During the nine months ended September 30, 2017, we received a total of $0.7 million, which was recognized as other income in the condensed consolidated statement of comprehensive income (loss) for the nine months ended September 30, 2017. As the amended license agreement involves extended payment terms, the remaining $3.9 million, of which $2.7 million related to the milestone is due in monthly installments and $1.2 million is due in quarterly installments through September 2018 will be recognized as other income as the payments are received.

Termination of Novo Nordisk A/S License Agreement

On April 20, 2017, we received notice from Novo Nordisk A/S regarding the termination of its Exclusive License Agreement with us due to strategic and business reasons. The termination of the Exclusive License Agreement became effective on July 20, 2017 in accordance with Section 10.2 of the Exclusive License Agreement.

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

We have historically specialized in the discovery and development of innovative antibody-based therapeutics. In 2016, we dedicated our research and development efforts to advancing our portfolio of product candidates that have the potential to treat a variety of endocrine diseases, including advancing the development of X358 in CHI and hypoglycemia in hyperinsulinemic patients PBS. We have recently refined our business strategy to prioritize out-licensing of our internally developed product candidates while reducing further internal expenditures for research and development. Our long-term prospects depend upon 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. Except for the issuance of performance-based equity awards, as described below and in Note 2

and Note 11 to the Condensed Consolidated Financial Statements, there have been no significant changes in our critical accounting policies during the nine months ended September 30, 2017, as compared with those previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2016, filed with the SEC on March 16, 2017.

Stock-Based Compensation

Stock-based compensation expense for stock options and other stock awards is estimated at the grant date based on the award's fair value-based measurement. The valuation of stock-based compensation awards is determined at the date of grant using the Black-Scholes option pricing model (the "Black-Scholes Model"). This model requires highly complex and subjective inputs, such as the expected term of the option, expected volatility, and risk-free interest rate. These inputs are subjective and generally require significant analysis and judgment to develop. Our current estimate of volatility is based on the historical volatility of our stock price. To the extent volatility in our stock price increases in the future, our estimates of the fair value of options granted in the future could increase, thereby increasing stock-based compensation cost recognized in future periods. To establish an estimate of expected term, we consider the vesting period and contractual period of the award and our historical experience of stock option exercises, post-vesting cancellations and volatility. The risk-free rate is based on the yield available on United States Treasury zero-coupon issues. In January 2017, pursuant to the adoption of Accounting Standards Update No. 2016-09, Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, we made an election to record forfeitures when they occur.

We review our valuation assumptions quarterly and, as a result, we likely will change our valuation assumptions used to value stock-based awards granted in future periods. In the future, as additional empirical evidence regarding these input estimates becomes available, we may change or refine our approach of deriving these input estimates. These changes could impact our fair value-based measurement of stock options granted in the future. Changes in the fair value-based measurement of stock awards could materially impact our operating results.

For our stock options and service-based awards, we recognize compensation expense on a straight-line basis over the award's vesting period. In May 2017, we granted to certain employees equity awards with performance-based conditions. The actual number of equity awards earned and eligible to vest will be determined based on a specified level of achievement against a Board-approved budget. For awards with performance-based conditions, we record the expense over the remaining service period when management determines that achievement of the milestone is probable. Management evaluates when the achievement of a performance-based condition is probable based on the expected satisfaction of the performance conditions as of the reporting date. The amount of stock-based compensation expense recognized during a period is based on the value of the portion of the awards that are ultimately expected to vest.

Results of Operations

Revenues

Total revenues for the three and nine months ended September 30, 2017 and 2016, were as follows (in thousands):

	Three Months Ended September 30,		Increase	Nine Months Ended September 30,		Increase
	2017	2016	(Decrease)	2017	2016	(Decrease)
License and collaborative fees	$36,068	$430	$ 35,638	$46,993	$3,196	$ 43,797
Contract and other	115	205	(90)	340	1,844	(1,504)
Total revenues	$36,183	$635	$ 35,548	$47,333	$5,040	$ 42,293

License and Collaborative Fees

License and collaborative fees include fees and milestone payments related to the out-licensing of our product candidates and technologies. The increase in license and collaborative fee revenue for the three and nine months ended September 30, 2017, as compared to the same periods of 2016, was primarily due to $35.4 million of license and collaborative fee revenue recognized in connection with the license agreements with Novartis AG and a $10.0 million milestone earned under our license agreement with Novartis International Pharmaceutical Ltd. for which there were no comparable revenues recognized in 2016.

Contract and Other Revenues

Contract and other revenues include agreements where we provided contracted research and development services to our contract and collaboration partners, including Servier and NIAID. Contract and other revenues also include royalties. The following table shows the activity in contract and other revenues for the three and nine months ended September 30, 2017 and 2016 (in thousands):

	Three Months Ended September 30,		Increase (Decrease)	Nine Months Ended September 30,		Increase (Decrease)
	2017	2016		2017	2016	
NIAID	$ —	$ —	$ —	$ —	$ 1,082	$ (1,082)
Servier	—	—	—	—	307	(307)
Royalties and other revenue	115	205	(90)	340	455	(115)
Total contract and other revenues	$ 115	$ 205	$ (90)	$ 340	$ 1,844	$ (1,504)

Our revenue from NIAID decreased for the nine months ended September 30, 2017 due to the novation of our NIAID contract to Ology Bioservices in March 2016. The decrease in revenue from Servier for the nine months ended September 30, 2017 was due to the termination of the collaboration agreement with Servier in March 2016. The royalty revenue for the three and nine months ended September 30, 2017 relates to the amortization of the deferred revenue from the sale of royalty interests in December 2016 under the Royalty Interest Acquisition Agreements with HealthCare Royalty Partners II, L.P.

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

Research and Development Expenses

Research and development expenses were $0.3 million and $7.2 million for the three and nine months ended September 30, 2017, respectively, compared with $8.7 million and $36.0 million for the same periods in 2016. The decrease of $8.4 million for the three months ended September 30, 2017, as compared to the same period of 2016, was primarily due to decreases of $3.5 million in salaries and related expenses, $1.8 million in external manufacturing activities, $1.2 million in the allocation of facilities and information technology costs, $0.9 million in clinical trial costs, and $0.4 million consulting costs. The decrease in external manufacturing costs included a one-time adjustment of $0.7 million to reverse the cost of a batch of drug material that did not meet quality standards. The decrease of $28.8 million for the nine months ended September 30, 2017, as compared to the same period of 2016, was primarily due to decreases of $10.8 million in salaries and related expenses, $7.0 million in external manufacturing activities, $5.7 million in clinical trial costs, $3.2 million in the allocation of facilities and information technology costs, and $0.4 million in consulting costs . The decrease in allocation of facilities and information technology costs are a result of a decreased proportion of research and development employees as a result of our restructuring activities in December 2016 and June 2017.

Salaries and related personnel costs are a significant component of research and development expenses. We recorded $0.4 million and $1.8 million in research and development salaries and employee-related expenses for the three and nine months ended September 30, 2017, respectively, as compared with $3.9 million and $12.6 million for the same periods in 2016. The decrease of $3.5 million for the three months ended September 30, 2017 was primarily due to a $2.5 million decrease in salaries and benefits costs, primarily due to the headcount reductions resulting from the restructuring activities initiated in December 2016 and June 2017, and a $0.7 million decrease in stock-based compensation, which is a non-cash expense. The decrease of $10.8 million for the nine months ended September 30, 2017 was mainly due to a $7.9 million decrease in salaries and benefits costs, primarily due to the headcount reductions resulting from the restructuring activities initiated in December 2016 and June 2017, and a $2.0 million decrease in stock-based compensation, which is a non-cash expense.

As our strategy has changed, so has our research and development spending activity. For the nine months ended September 30, 2016, approximately 14% of our research and development expense spending related to collaborative and contract arrangements with Servier and NIAID with the remaining 86% relating to our internal projects; whereas 100% of our research and development spending for the nine months ended September 30, 2017 relates to our internal projects.

For the nine months ended September 30, 2017, X358, for which we incurred the largest amount of expenses, accounted for between 70% and 80% of our total research and development expenses. Each of our remaining development programs accounted for less than 10% of our total research and development expenses for the nine months ended September 30, 2017. Due to our change in strategy, for the third quarter of 2017, we did not incur

significant expenses for internally developed projects. For the three and nine months ended September 30, 2016, X358, for which we incurred the largest amount of expenses, accounted for between 50% and 60% of our total research and development expenses. The gevokizumab program and our endocrine and immune-oncology research-stage programs each accounted for between 10% and 30% of our total research and development expenses. Each of our remaining development programs accounted for less than 10% of our total research and development expenses for the three and nine months ended September 30, 2016.

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

General and Administrative Expenses

General and administrative expenses include salaries and related personnel costs, facilities costs and professional fees. General and administrative expenses were $7.3 million and $17.6 million for the three and nine months ended September 30, 2017, respectively, compared with $4.1 million and $13.1 million for the same periods in 2016. The increase of $3.2 million for the three months ended September 30, 2017 was due primarily to increases of $1.9 million in consulting services, $1.0 million in the allocation of facilities and information technology costs due to a greater proportion of general and administrative personnel after our restructuring activities, and $1.0 million in stock compensation cost, partially offset by a $0.6 million decrease in salaries and benefits. The increase of $4.5 million for the nine months ended September 30, 2017 was due primarily to increases of $2.9 million in the allocation of facilities and information technology costs due to a greater proportion of general and administrative personnel after our restructuring activities, $2.9 million in consulting services, and $0.7 million increase in stock compensation cost, partially offset by a $2.2 million decrease in salaries and benefits costs related to the reduction in headcount from our restructuring activities. General and administrative costs during the three and nine months ended September 30, 2017 included $1.8 million in additional consulting and legal fees to support the execution of our license agreements with Novartis AG in August 2017.

We expect our general and administrative expenses during the remainder of 2017 to be increased as compared with 2016 levels due to costs incurred associated with the execution of our license agreements with Novartis AG in August 2017 and the increase in allocated facilities and IT costs due to a greater proportion of general and administrative personnel following our restructuring activities.

Restructuring Charges

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

During the three and nine months ended September 30, 2017, we recorded a credit of $29,000 and a charge of $3.5 million, respectively, related to severance, other termination benefits and outplacement services for the 2016 Restructuring and 2017 Restructuring activities. During the nine months ended September 30, 2016, we recorded a charge of $15,000, related to severance costs and contract termination costs resulting from restructuring activities initiated in August 2015. There were no such charges during the three months ended September 30, 2016.

Other Income (Expense)

Interest Expense

Amortization of debt issuance costs and discounts are included in interest expense. Interest expense is shown below for the three and nine months ended September 30, 2017 and 2016 (in thousands):

		Increase		Increase

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2017	2016	(Decrease)	2017	2016	(Decrease)
Hercules term loan	$ —	$ 651	$ (651)	$ 311	$ 2,001	$ (1,690)
Servier loan	76	223	(147)	431	674	(243)
Novartis note	126	104	22	362	299	63
Other	—	4	(4)	4	17	(13)
Total interest expense	$ 202	$ 982	$ (780)	$ 1,108	$ 2,991	$ (1,883)

Interest expense related to the Hercules term loan decreased by $0.7 million and $1.7 million during the three and nine months ended September 30, 2017, respectively, compared to the same periods in 2016 due to the monthly payments of principal starting from July 2016. In addition, we made a special prepayment of $10.0 million under the Hercules term loan in January 2017 and paid off the remaining balance of the debt in March 2017.

We expect interest expense during the remainder of 2017 to decrease as compared with 2016 due to the March 2017 payoff of the Hercules loan and August 2017 payoff of the Servier Loan.

Other (Expense) Income, Net

The following table shows the activity in other (expense) income, net for the three and nine months ended September 30, 2017 and 2016 (in thousands):

	Three Months Ended September 30,		Increase (Decrease)	Nine Months Ended September 30,		Increase (Decrease)
	2017	2016		2017	2016	
Other (expense) income, net						
Unrealized foreign exchange losses	$(248)	$(135)	$ (113)	$(1,447)	$(384)	$ (1,063)
Sublease income	—	297	(297)	28	761	(733)
(Loss) gain on sale and disposal of equipment	(103)	—	(103)	1,123	—	1,123
Income under the agreement with Ology Bioservices	250	—	250	650	—	650
Other	(162)	127	(289)	(17)	208	(225)
Total other (expense) income, net	$(263)	$289	$ (552)	$337	$585	$ (248)

Unrealized foreign exchange losses for the three and nine months ended September 30, 2017 and 2016 primarily relate to the re-measurement of the Servier Loan. The loss of $0.1 million and the gain of $1.1 million on the sale and disposal of equipment and leasehold improvements is primarily related to the sale and disposal of equipment located in one of our leased facilities for the three and nine months ended September 30, 2017.

Revaluation of Contingent Warrant Liabilities

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

We revalued the March 2012 warrants at September 30, 2016 and recorded a $0.3 million and $7.5 million decrease in the estimated fair value as a gain on the revaluation of contingent warrant liabilities line of our condensed consolidated statements of comprehensive income (loss) for the three and nine months ended September 30, 2016, respectively. As of March 31, 2017, all of these warrants had expired unexercised.

We revalued the December 2014 warrants at September 30, 2016 and recorded a zero and $3.0 million decrease in the estimated fair value as a gain on the revaluation of contingent warrant liabilities line of our condensed consolidated statements of comprehensive income (loss) for the three and nine months ended September 30, 2016, respectively. As of December 31, 2016, all of these warrants had expired unexercised.

Loss on Extinguishment of Debt

In March 2017, we paid off our outstanding principal balance, final payment fee and accrued interest totaling $6.5 million under our loan and security agreement with Hercules, and we were not required to pay the 1% prepayment charge pursuant to the terms of the loan. We recognized a loss on extinguishment of $0.5 million from the payoff of the term loan as a separate line item on our condensed consolidated statement of comprehensive income (loss) for the nine months ended September 30, 2017.

In August 2017, NIBR, on our behalf, paid off our outstanding principal balance and accrued interest on our Servier Loan totaling $14.3 million in conjunction with the XOMA-052 License Agreement. We recognized a loss on extinguishment of $0.1 million from the payoff of the loan as a separate line item on our condensed consolidated statements of comprehensive income (loss) for the three and nine months ended September 30, 2017.

Provision for Income Taxes

The Company's provision for income taxes for the three and nine months ended September 30, 2017 differs from the amounts computed by multiplying the federal statutory rate by income before taxes primary due to a reduction in the valuation allowance and the use of a tax credit carryforward. The Company is subject to an ownership change pursuant to IRC Section 382 which occurred in February 2017 which significantly limits its ability to further use its net operating loss carryforwards against its 2017 taxable income. Due to ongoing losses, the Company did not record a provision for income taxes for any period in 2016.

Liquidity and Capital Resources

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

	September 30, 2017	December 31, 2016	Change
Cash and cash equivalents	$ 47,747	$ 25,742	$22,005
Working capital (deficit)	$ 34,867	$ (5,346)	$40,213

	Nine Months Ended September 30,		
	2017	2016	Change
Net cash provided by (used in) operating activities	$7,911	$(40,687)	$48,598
Net cash provided by investing activities	1,590	636	954
Net cash provided by (used in) financing activities	12,337	(5,096)	17,433
Effect of exchange rate changes on cash	167	(2)	169
Net increase (decrease) in cash and cash equivalents	$22,005	$(45,149)	$67,154

Cash Provided by (Used in) Operating Activities

The change in net cash from operating activities for the nine months ended September 30, 2017, as compared with the same period in 2016, was primarily due to the $25.7 million cash receipts under the license agreements executed with Novartis AG in August 2017, and decreased research and development spending related to manufacturing costs and clinical trial costs during the nine months ended September 30, 2017 primarily due to our revised strategy to focus on the out-license of un-partnered product candidates to partners who will continue development and commercialization of these assets.

Cash Provided by Investing Activities

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

Net cash provided by investing activities for the nine months ended September 30, 2016 of $0.6 million was due to the proceeds from the sale of marketable securities.

Cash Provided by (Used in) Financing Activities

Net cash provided by financing activities for the nine months ended September 30, 2017 of $12.3 million was primarily related to the sale of preferred stock and common stock to BVF for total net proceeds of $24.9 million and the sale of common stock to Novartis AG for gross proceeds of $5.0 million. This increase was partially offset by the payoff of our outstanding loans with Hercules of $17.5 million.

Net cash used in financing activities for the nine months ended September 30, 2016 of $5.1 million was primarily related to the principal payments on our loans with Servier and Hercules.

* * *

We have incurred significant operating losses since our inception and have an accumulated deficit of $1.2 billion as of September 30, 2017. As of September 30, 2017, we had cash and cash equivalents of $47.7 million, which is available to fund operations through the next 12 months from the date the condensed consolidated financial statements are issued.

Our ability to raise additional capital in the equity and debt markets, should we choose to do so, is dependent on a number of factors, including the market demand for our common stock or debt, which itself is subject to a number of pharmaceutical development and business risks and uncertainties, as well as the uncertainty that we would be able to raise such additional capital at a price or on terms that are favorable to us.

Changes in Contractual Obligations

Our future contractual obligations were reported in our Annual Report on Form 10-K for the year ended December 31, 2016, as filed with the SEC. There have been no material changes from the contractual obligations previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2016, other than the changes described in Note 8 Long-Term Debt and Note 10 Commitments and Contingencies in this Quarterly Report on Form 10-Q.

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 September 30, 2017, have not changed materially from those discussed in Item 7A of our Form 10-K for the year ended December 31, 2016 filed with the SEC.

Foreign Currency Risk

As of September 30, 2017, we are no longer subject to changes in exchange rates related to our debt with Servier as the outstanding principal balance and accrued interest were paid off in August 2017.

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

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Controls and Procedures

We have established disclosure controls and procedures, as defined in Rule 13a-15(e) of the Exchange Act. Our Chief Executive Officer and our Chief Financial Officer have concluded, based on the evaluation of the effectiveness of our

disclosure controls and procedures by our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, as of the end of the period covered by this report, that our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control

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

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On July 24, 2015, a purported securities class action lawsuit was filed in the United States District Court for the Northern District of California captioned Markette v. XOMA Corp., et al. (Case No. 3:15-cv-3425-HSG) against us, our Chief Executive Officer and our Chief Medical Officer. The complaint asserts that all defendants violated Section 10(b) the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and SEC Rule 10b-5, by making materially false or misleading statements regarding our EYEGUARD-B study between November 6, 2014 and July 21, 2015. The plaintiff also alleges that Messrs. Varian and Rubin violated Section 20(a) of the Exchange Act. The plaintiff seeks class certification, an award of unspecified compensatory damages, an award of reasonable costs and expenses, including attorneys' fees, and other further relief as the Court may deem just and proper. On May 13, 2016, the Court appointed a lead plaintiff and lead counsel. The lead plaintiff filed an amended complaint on July 8, 2016 asserting the same claims and adding a former director as a defendant. On September 2, 2016, the defendants filed a motion to dismiss with prejudice the amended complaint. The plaintiff filed his opposition to the motion to dismiss on October 7, 2016. The defendants filed a reply in support of their motion to dismiss on October 21, 2016. The judge in the case has advised that he will rule on the motion based on those pleadings, but has not yet issued a ruling. On May 26, 2017, the judge ordered supplemental briefing on the motion to dismiss based on a recent decision issued in the United States Court of Appeals for the Ninth Circuit, City of Dearborn Heights Act 345 Police & Retirement Sys. v. Align Tech., Inc., 2017 WL 1753276 (9th Cir. May 5, 2017). The parties filed supplemental briefs on June 9, 2017. On September 28, 2017, the Court granted defendants' motion to dismiss with leave to amend. On October 24, 2017, the parties filed a Joint Stipulation, agreeing to dismiss the action. On October 25, 2017, the Court granted the Stipulation, issuing an Order of Dismissal. The Order dismisses the action with prejudice with respect to the named Plaintiff's individual claims and without prejudice with respect to unnamed class members.

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

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

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ITEM 1A. RISK FACTORS

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

We have marked with an asterisk (*) those risks described below that reflect substantive changes from, or additions to, the risks described in our Annual Report on Form 10-K for the year ended December 31, 2016.

Risks Related to our Financial Results and Capital Requirements

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

We have a long history of product development, and as a result have experienced significant losses. As of September 30, 2017, we had an accumulated deficit of $1.2 billion.

For the three and nine months ended September 30, 2017, we had net income of $26.3 million and $15.9 million, respectively. For the three and nine months ended September 30, 2016, we had net losses of $12.5 million and $36.1 million, respectively.

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

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

We will require substantial funds to continue our business; we cannot be certain that funds will be available, and if they are not available, we may be forced to take actions that could adversely affect an investment in our common stock and we may not be able to continue operations.*

We may need to commit substantial funds to continue our business, 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:

- reduce or eliminate certain product development efforts; or
- further reduce our capital or operating expenditures; or
- curtail our spending on protecting our intellectual property.

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

Based on our cash and cash equivalents of $47.7 million at September 30, 2017, and taking into consideration our anticipated spending levels and scheduled debt payments, we anticipate that we will have adequate capital to fund operations through the next 12 months from the date the condensed consolidated financial statements are issued. We may not be able to obtain sufficient additional funding through monetizing certain of our existing assets, entering into new license agreements, issuing additional equity or debt instruments or any other means, and if we are able to do so, they may not be on satisfactory terms. Consistent with the actions we have taken in the past, we will take steps intended to enable the continued operation of the business which may include out-licensing or sale of assets and reducing other expenditures that are within our control. These reductions in expenditures may have a material adverse impact on our ability to achieve certain of our planned objectives. Progress or setbacks by potentially competing products also may affect our ability to raise new funding on acceptable terms.

We do not know when or whether:

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

If adequate funds are not available, we will be required to further reduce costs. Even if we are able to source additional funding, we may be forced to reduce our operations if our business prospects do not improve. If we are unable to source additional funding, we may be forced to shut down operations altogether.

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

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

During the nine months ended September 30, 2017, we recorded an aggregate restructuring charge of approximately $2.0 million related to severance, other termination benefits and outplacement services in connection with the workforce reduction for the 2016 Restructuring and $1.5 million for the 2017 Restructuring. During the year ended December 31, 2016, we recorded charges of $4.6 million related to severance, other termination benefits and outplacement services in connection with the workforce reduction resulting from the 2016 Restructuring.

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

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

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

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

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

In addition, acquisitions create other uncertainties and risks, particularly when the acquisition takes the form of a merger or other business consolidation. We may encounter unexpected difficulties, or incur unexpected costs, in connection with transition activities and integration efforts, which include:

•high acquisition costs;

•the need to incur substantial debt or engage in dilutive issuances of equity securities to pay for acquisitions;

•the strain on, and need to expand, our existing operational, technical, financial and administrative infrastructure;

•the difficulties in assimilating employees and corporate cultures;

•the failure to retain key management and other personnel;

•the challenges in controlling additional costs and expenses in connection with and as a result of the acquisition;

•the need to write down assets or recognize impairment charges;

•the diversion of our management's attention to integration of operations and corporate and administrative infrastructures; and

•any unanticipated liabilities for activities of or related to the acquired business or its operations, products or product candidates.

If we fail to integrate or otherwise manage an acquired business successfully and in a timely manner, resulting operating inefficiencies could increase our costs more than we planned, could negatively impact the market price of our common stock and could otherwise distract us from execution of our strategy. Failure to maintain effective financial controls and reporting systems and procedures could also impact our ability to produce timely and accurate financial statements.

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

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

- research and spending priorities of potential licensing partners;
- willingness of, and the resources available to, pharmaceutical and biotechnology companies to in-license drug candidates to fill their clinical pipelines; or
- our inability to generate proof-of-concept data and to agree with a potential partner on the value of our product candidates, or on the related terms.

If we are unable to enter into out-licensing agreements for our product candidates and realize license, milestone and royalty fees when anticipated, it may adversely affect our liquidity and we may be forced to curtail or delay development of our product candidates, which in turn may harm our business.

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

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

- clinical development and testing;
- manufacturing;
- labeling;
- storage;
- record keeping;
- promotion and marketing; and
- importing and exporting.

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

Initiation of clinical trials requires approval by health authorities. Clinical trials involve the administration of the investigational new drug to healthy volunteers or to patients under the supervision of a qualified principal investigator. Clinical trials must be conducted in accordance with FDA and International Conference on Harmonization Good Clinical Practices and the European Clinical Trials Directive, as applicable, under protocols that detail the objectives of the study, the parameters to be used to monitor safety and the efficacy criteria to be evaluated. Other national, foreign and local regulations also may apply. The developer of the drug must provide information relating to the characterization and controls of the product before administration to the patients participating in the clinical trials. This requires developing approved assays of the product to test before administration to the patient and during the conduct of the trial. In addition, developers of pharmaceutical products must provide periodic data regarding clinical trials to the FDA and other health authorities, and these health authorities may issue a clinical hold upon a trial if they do not believe, or cannot confirm, that the trial can be conducted without unreasonable risk to the trial participants.

Based on regulatory restrictions, X358 clinical testing is currently limited to studies in adults in the United States. We submitted a protocol and supportive documents to initiate a multi-dose Phase 2 clinical study of X358 in children two

years and older diagnosed with congenital hyperinsulinism (“CHI”) in the UK and Germany. All local and regulatory approvals have been met and first dosing may be initiated by a potential licensee as desired and with appropriate notifications. We cannot assure you that we find a partner or licensee to conduct such trial, or that U.S. and foreign health authorities will not issue a clinical hold with respect to these or any of our other clinical trials in the future.

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

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

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

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

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

Our licensees' product candidates require significant additional research and development, extensive preclinical studies and clinical trials and regulatory approval prior to any commercial sales. This process is lengthy and expensive, often

taking a number of years. As clinical results frequently are susceptible to varying interpretations that may delay, limit or prevent regulatory approvals, the length of time necessary to complete clinical trials and to submit an application for marketing approval for a final decision by a regulatory authority varies significantly. As a result, it is uncertain whether:

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

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

In addition, we and our licensees conduct clinical trials in foreign countries, which may subject us to further delays and expenses as a result of increased drug shipment costs, additional regulatory requirements and the engagement of foreign clinical research organizations, and may expose us to risks associated with foreign currency transactions to make contract payments denominated in the foreign currency where the trial is being conducted.

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

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

Administering any of our product candidates may produce undesirable side effects, also known as adverse effects. Toxicities and adverse effects that we have observed in preclinical studies for some compounds in a particular research and development program may occur in preclinical studies or clinical trials of other compounds from the same program. Such toxicities or adverse effects could delay or prevent the filing of an IND (or a foreign equivalent) with respect to such product candidates or cause us to cease clinical trials with respect to any drug candidate. In clinical trials, administering any of our product candidates to humans may produce adverse effects. These adverse effects could interrupt, delay or halt clinical trials of our product candidates and could result in the FDA or other regulatory authorities denying approval of our product candidates for any or all targeted indications. The FDA, other regulatory authorities, our development partners or we may suspend or terminate clinical trials at any time. Even if one or more of our product candidates were approved for sale, the occurrence of even a limited number of toxicities or adverse effects when used in large populations may cause the FDA or other regulatory authorities to impose restrictions on, or stop, the further marketing of such drugs. Indications of potential adverse effects or toxicities that

may occur in clinical trials and that we believe are not significant during the course of such clinical trials may actually turn out later to constitute serious adverse effects or toxicities when a drug has been used in large populations or for extended periods of time. Any failure or significant delay in completing preclinical studies or clinical trials for our product candidates, or in receiving and maintaining regulatory approval for the sale of any drugs resulting from our product candidates, may severely harm our reputation and business.

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

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

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

These factors may enable others to develop products and processes competitive with or superior to our own or those of our licensees. In addition, a significant amount of research in biotechnology is being carried out in universities and other non-profit research organizations. These entities are becoming increasingly interested in the commercial value of their work and may become more aggressive in seeking patent protection and licensing arrangements. Furthermore, many companies and universities tend not to announce or disclose important discoveries or development programs until their patent position is secure or, for other reasons, later. As a result, we may not be able to track development of competitive products, particularly at the early stages.

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

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

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

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

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

Even if product candidates in which we have an interest receive approval in the future, they may not be accepted in the marketplace. In addition, we or our licensees may experience difficulties in launching new products, many of which are novel and based on technologies that are unfamiliar to the healthcare community. We have no assurance healthcare

providers and patients will accept such products, if developed. Similarly, physicians may not accept a product if they believe other products to be more effective or more cost effective or are more comfortable prescribing other products.

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

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

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

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

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

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

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

Because of the length of time and the expense associated with bringing new products to the marketplace, we and our collaboration and development partners hold and are in the process of applying for a number of patents in the United States and abroad to protect our product candidates and important processes and also have obtained or have the right to obtain exclusive licenses to certain patents and applications filed by others. However, the mere issuance of a patent is not conclusive as to its validity or its enforceability.

The U.S. Federal Courts, the U.S. Patent & Trademark Office or equivalent national courts or patent offices elsewhere may invalidate our patents or find them unenforceable. The America Invents Act introduced post-grant review procedures subjecting U.S. patents to post-grant review procedures similar to European oppositions. U.S. patents owned or licensed by us may therefore be subject to post-grant review procedures, as well as other forms of review and re-examination. A decision in such proceedings adverse to our interests could result in the loss of valuable patent rights, which would have a material adverse effect on our business. In addition, the laws of foreign countries may not protect our intellectual property rights effectively or to the same extent as the laws of the United States.

If our intellectual property rights are not protected adequately, our licensees may not be able to commercialize our technologies, products, or services, and our competitors could commercialize our technologies, which could result in a decrease in our sales and market share that would harm our business and operating results. Specifically, the patent

position of biotechnology companies generally is highly uncertain and involves complex legal and factual questions. The legal standards governing the validity of biotechnology patents are in transition, and current defenses as to issued biotechnology patents may not be adequate in the future. Accordingly, there is uncertainty as to:

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

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

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

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

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

In addition, we may be subject to claims that we are infringing other parties' patents. If such claims are resolved against us, we or our licensees may be enjoined from developing, manufacturing, selling or importing products, processes or services unless we obtain a license from the other party. Such license may not be available on reasonable terms, thus preventing us from using these products, processes or services and adversely affecting our revenue.

Risks Related to Government Regulation

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

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

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

approval process.

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

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

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

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

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

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

An expansion in the government's role in the U.S. healthcare industry may cause general downward pressure on the prices of prescription drug products, lower reimbursements for providers, reduced product utilization and adversely affect our business and results of operations. Moreover, certain politicians have announced plans to regulate the prices of pharmaceutical products. We cannot know what form any such legislation may take or the market's perception of how such legislation would affect us. Any reduction in reimbursement from government programs may result in a similar reduction in payments from private payors. The implementation of cost containment measures or other healthcare reforms may prevent us from being able to generate revenue, attain profitability, or commercialize our current product candidates and those for which we may receive regulatory approval in the future. In addition, given the uncertainties related to the Trump Administration's stated goal of letting the Affordable Care Act (the "ACA") fail, we cannot be certain that current provisions of the ACA will continue to cover prescription drug products.

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

Our operations may be directly or indirectly subject to various state and federal healthcare laws, including the federal Anti-Kickback Statute, the federal False Claims Act and state and federal privacy and security laws. These laws may impact, among other things, the commercial operations for any of our product candidates that may be approved for commercial sale.

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

The federal False Claims Act prohibits persons from knowingly filing, or causing to be filed, a false claim to, or the knowing use of false statements to obtain payment from the federal government. Suits filed under the False Claims Act, known as "qui tam" actions, can be brought by any individual on behalf of the government and such individuals, commonly known as "whistleblowers," may share in any amounts paid by the entity to the government in fines or settlement. The filing of qui tam actions has caused a number of pharmaceutical, medical device and other healthcare companies to have to defend a False Claims Act action. When an entity is determined to have violated the False

Claims Act, it may be required to pay up to three times the actual damages sustained by the government, plus civil penalties for each separate false claim. Various states also have enacted laws modeled after the federal False Claims Act.

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

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

Because of the breadth of these laws, it is possible that some of our or our licensees' business activities could be subject to challenge under one or more of such laws.

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

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

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

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

Risks Related to Our Reliance on Third Parties

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

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

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

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

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

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

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

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

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

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

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

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

We license technologies from third parties. These technologies include phage display technologies licensed to us in connection with our bacterial cell expression technology licensing program and antibody products. However, our and our licensees' use of these technologies is limited by certain contractual provisions in the licenses relating to them, and although we have obtained numerous licenses, intellectual property rights in the area of phage display are particularly complex. If the owners of the patent rights underlying the technologies that we license do not properly maintain or enforce those patents, our competitive position and business prospects could be harmed. They may determine not to pursue litigation against other companies that are infringing these patents, or they may pursue such litigation less

aggressively than we would. If we are unable to maintain our licenses, patents or other intellectual property, we could lose important protections that are material to continuing our operations and for future prospects. Our licensors also may seek to terminate our license, which could cause us and our licensees to lose the right to use the licensed intellectual property and adversely affect our ability to commercialize our technologies, products or services.

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

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

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

Risks Related to an Investment in Our Common Stock

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

There can be no assurance the market price of our common stock will not decline below its present market price or there will be an active trading market for our common stock. The market prices of biotechnology companies have been and are likely to continue to be highly volatile. Fluctuations in our operating results and general market conditions for biotechnology stocks could have a significant impact on the volatility of our common stock price. We have experienced significant volatility in the price of our common stock. From January 1, 2017, through November 1, 2017, the share price of our common stock has ranged from a high of $24.92 to a low of $3.96. Factors contributing to such volatility include:

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

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

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

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

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

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

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

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

We expect that significant additional capital will be needed in the future to continue our planned operations. To the extent we raise additional capital by issuing equity securities, including under our At Market Issuance Sales Agreement ("ATM") with Cowen and Company, LLC ("Cowen"), our stockholders may experience substantial dilution. We may sell common stock, convertible securities or other equity securities in one or more transactions at prices and in a manner we determine from time to time. If we sell common stock, convertible securities or other equity securities in more than one transaction, investors may be materially diluted by subsequent sales. These sales may also result in material dilution to our existing stockholders, and new investors could gain rights superior to our existing stockholders.

We are authorized to issue, without stockholder approval, 1,000,000 shares of preferred stock, of which 5,003 shares of Series X preferred stock were issued and outstanding as of November 1, 2017. Each share of Series X is convertible into 1,000 shares of registered common stock based on a conversion price of $4.03 per share of common stock. The total number of shares of common stock issued upon conversion of all issued Series X convertible preferred stock will be 5,003,000 shares. Each share is convertible at the option of the holder at any time, provided that the holder will be prohibited from converting into common stock if, as a result of such conversion, the holder, together with its affiliates, would beneficially own a number of shares above a conversion blocker, which is initially set at 19.99% of our total common stock then issued and outstanding immediately following the conversion of such shares. In addition, we are authorized to issue, generally without stockholder approval, up to 277,333,332 shares of common stock, of which 8,144,077 were issued and outstanding as of November 1, 2017. If we issue additional equity securities, the price of our common stock may be materially and adversely affected.

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

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

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

In order to raise additional funds to support our operations, we may sell additional equity or debt securities, including under our ATM with Cowen, which would result in dilution to our stockholders and may impose restrictive covenants that would adversely impact our business. The sale of additional equity or convertible debt securities could result in the issuance of additional shares of our capital stock and dilution to all of our stockholders. The incurrence of indebtedness would result in increased fixed payment obligations and could also result in certain restrictive covenants, such as limitations on our ability to incur additional debt, limitations on our ability to acquire, sell or license intellectual property rights and other operating restrictions that could adversely impact our ability to conduct our business. If we are unable to expand our operations or otherwise capitalize on our business opportunities, our business, financial condition and results of operations could be materially adversely affected and we may not be able to meet our debt service obligations.

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

Our charter and by-laws:

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

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

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

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

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

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

As a public company, we incur significant accounting, legal and other expenses, including costs associated with our public company reporting requirements. We also anticipate that we will continue to incur costs associated with corporate governance requirements, including requirements and rules under SOX and the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank") among other rules and regulations implemented by the SEC, as well as listing requirements of NASDAQ. Furthermore, these laws and regulations could make it difficult or costly for

us to obtain certain types of insurance, including director and officer liability insurance, and we may be forced to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. The impact of these requirements could also make it difficult for us to attract and retain qualified persons to serve on our Board of Directors, our Board Committees or as executive officers.

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

We are subject to foreign currency exchange rate risks.

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

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

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

Based on an analysis under Section 382 of the Internal Revenue Code (which subjects the amount of pre-change NOLs and certain other pre-change tax attributes that can be utilized to an annual limitation), we experienced ownership changes in 2009 and 2012, which substantially limit the future use of our pre-change NOLs and certain other pre-change tax attributes per year. As of December 31, 2016, we have excluded the NOLs and research and development credits that will expire as a result of the annual limitations. To the extent that we do not utilize our carry-forwards within the applicable statutory carry-forward periods, either because of Section 382 limitations or the lack of sufficient taxable income, the carry-forwards will also expire unused.

In February 16, 2017, we completed an equity financing for net proceeds of $24.9 million which triggered an additional ownership change under Section 382 that significantly impacted the availability of our tax attributes against future income. Further, due to the existence of a net unrealized built-in loss at the ownership change date, Section 382 further limits our ability to fully utilize the tax deductions associated with certain of our assets, including depreciation and amortization deductions recognized during the 60-month period following the ownership change ending in 2022. Although these deductions will occur in the post-change period, Section 382 treats the deductions as pre-change losses subject to the annual 382 limitation..

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

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

Our product development and business efforts could be affected adversely by the loss of one or more key members of our staff, particularly our executive officers: James R. Neal, our Chief Executive Officer; and Thomas Burns, our Senior Vice President, Finance and Chief Financial Officer. We currently do not have key person insurance on any of

our employees.

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

After a series of restructuring activities during 2016 and 2017, we had 12 employees as of November 1, 2017. 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 business 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 could disrupt our business and adversely affect our operations.

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

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

Despite the implementation of security measures, our internal computer systems and those of our current and any future licensees, suppliers, contractors and consultants are vulnerable to damage from cyber−attacks, computer viruses, unauthorized access, natural disasters, terrorism, war and telecommunication and electrical failures. We could experience failures in our information systems and computer servers, which could be the result of a cyber−attack and could result in an interruption of our normal business operations and require substantial expenditure of financial and administrative resources to remedy. System failures, accidents or security breaches can cause interruptions in our operations and can result in a material disruption of our development programs and other business operations. The loss of clinical trial data from completed or future clinical trials could result in delays in regulatory approval efforts and significantly increase our costs to recover or reproduce the data. Similarly, we rely on third parties to manufacture our product candidates, and conduct clinical trials of our product candidates, and similar events relating to their computer systems could also have a material adverse effect on our business. To the extent that any disruption or security breach were to result in a loss of, or damage to, our data or applications, or inappropriate disclosure of confidential or proprietary information, we could incur liability and the development of any of our product candidates could be delayed or otherwise adversely affected.

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

In the ordinary course of our business, we maintain sensitive data on our networks, including our intellectual property and proprietary or confidential business information relating to our business and that of our customers and business partners. The secure maintenance of this information is critical to our business and reputation. We believe companies have been increasingly subject to a wide variety of security incidents, cyber-attacks and other attempts to gain unauthorized access. These threats can come from a variety of sources, all ranging in sophistication from an individual hacker to a state-sponsored attack. Cyber threats may be generic, or they may be custom-crafted against our information systems. Cyber-attacks have become more prevalent and much harder to detect and defend against. Our network and storage applications may be subject to unauthorized access by hackers or breached due to operator error, malfeasance or other system disruptions. It is often difficult to anticipate or immediately detect such incidents and the damage caused by such incidents. These data breaches and any unauthorized access or disclosure of our information

or intellectual property could compromise our intellectual property and expose sensitive business information. A data security breach could also lead to public exposure of personal information of our clinical trial patients, customers and others. Cyber-attacks could cause us to incur significant remediation costs, result in product development delays, disrupt key business operations and divert attention of management and key information technology resources. These incidents could also subject us to liability, expose us to significant expense and cause significant harm to our reputation and business.

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

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

On July 24, 2015, a purported securities class action lawsuit was filed in the United States District Court for the Northern District of California, captioned Markette v. XOMA Corp., et al. (Case No. 3:15-cv-3425) naming as defendants us and certain of our officers. The complaint asserts that all defendants violated Section 10(b) of the Exchange Act and SEC Rule 10b-5, by making materially false or misleading statements regarding our EYEGUARD-B study between November 6, 2014 and July 21, 2015. The plaintiff also alleges that Messrs. Varian and Rubin violated Section 20(a) of the Exchange Act. The plaintiff seeks class certification, an award of unspecified compensatory damages, an award of reasonable costs and expenses, including attorneys' fees, and other further relief as the Court may deem just and proper. On May 13, 2016, the Court appointed a lead plaintiff and lead counsel. The lead plaintiff filed an amended complaint on July 8, 2016 asserting the same claims and adding a former director as a defendant. On September 2, 2016, the defendants filed a motion to dismiss with prejudice the amended complaint. The plaintiff filed his opposition to the motion to dismiss on October 7, 2016. The defendants filed a reply in support of their motion to dismiss on October 21, 2016. The judge in the case has advised that he will rule on the motion based on those pleadings, but has not yet issued a ruling. On May 26, 2017, the judge ordered supplemental briefing on the motion to dismiss based on a recent decision issued in the United States Court of Appeals for the Ninth Circuit, City of Dearborn Heights Act 345 Police & Retirement Sys. v. Align Tech., Inc., 2017 WL 1753276 (9th Cir. May 5, 2017). The parties filed supplemental briefs on June 9, 2017. On September 28, 2017, the Court granted defendants' motion to dismiss with leave to amend. On October 24, 2017, the parties filed a Joint Stipulation, agreeing to dismiss the action. On October 25, 2017, the Court granted the Stipulation, issuing an Order of Dismissal. The Order dismisses the action with prejudice with respect to the named Plaintiff's individual claims and without prejudice with respect to unnamed class members.

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

It is possible that additional suits will be filed, or allegations received from stockholders, with respect to these same or other matters and also naming us and/or our officers and directors as defendants. These and any other related lawsuits are subject to inherent uncertainties, and the actual defense and disposition costs will depend upon many unknown factors. The outcome of these lawsuits are uncertain. We could be forced to expend significant resources in the defense of these suits and we may not prevail. In addition, we may incur substantial legal fees and costs in connection with these lawsuits. We currently are not able to estimate the possible cost to us from these lawsuits, as they are currently at an early stage, and we cannot be certain how long it may take to resolve these matters or the possible amount of any damages that we may be required to pay. We have not established any reserve for any potential liability relating to these lawsuits. It is possible that we could, in the future, incur judgments or enter into settlements of claims for monetary damages. A decision adverse to our interests on these actions could result in the payment of substantial damages, or possibly fines, and could have a material adverse effect on our cash flow, results of operations and financial position.

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

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit Number	Exhibit Description	Incorporation By Reference Form	SEC File No.	Exhibit	Filing Date
3.1	Certificate of Incorporation of XOMA Corporation	8-K	000-14710	3.1	01/03/2012
3.2	Certificate of Amendment of Certificate of Incorporation of XOMA Corporation	8-K	000-14710	3.1	05/31/2012
3.3	Certificate of Amendment of Amended Certificate of Incorporation of XOMA Corporation	8-K	000-14710	3.1	05/28/2014
3.4	Certificate of Amendment to the Amended Certificate of Incorporation of XOMA Corporation	8-K	000-14710	3.1	10/18/2016
3.5	Certificate of Designation of Preferences, Rights and Limitations of Series X Convertible Preferred Stock	8-K	000-14710	3.1	02/16/2017
3.6	By-laws of XOMA Corporation	8-K	000-14710	3.2	01/03/2012
4.1	Reference is made to Exhibits 3.1, 3.2, 3.3, 3.4, 3.5 and 3.6				
4.2	Specimen of Common Stock Certificate	8-K	000-14710	4.1	01/03/2012
4.3	Form of Series X Preferred Stock Certificate	8-K	000-14710	4.1	02/16/2017
4.4	Form of Warrant (February 2015 Warrants)	10-Q	000-14710	4.10	05/07/2015
4.5	Form of Warrant (February 2016 Warrant)	10-Q	000-14710	4.9	05/04/2016
10.1+	Common Stock Purchase Agreement, dated August 24, 2017, by and between XOMA Corporation and Novartis Pharma AG				
10.2+#	IL-1b Target License Agreement, dated August 24, 2017, by and between XOMA Corporation and Novartis Pharma AG				
10.3+#	License Agreement, dated August 24, 2017, by and between XOMA Corporation and Novartis Pharma AG				
10.4+	Asset Purchase Agreement, dated November 4, 2015, between XOMA Corporation and Nanotherapeutics, Inc.				
10.5+#	License Agreement, dated March 23, 2016, between XOMA Corporation and Nanotherapeutics, Inc.				

10.6+#	Amendment and Restatement, dated February 2, 2017, to the Asset Purchase Agreement, dated November 4, 2015, and License Agreement, dated March 23, 2016, between XOMA Corporation and Nanotherapeutics, Inc.
10.7+*	Officer Employment Agreement, dated August 7, 2017, between XOMA Corporation and James R. Neal
10.8+*	Officer Employment Agreement, dated August 7, 2017, between XOMA Corporation and Thomas Burns

10.9+*	Amended and Restated Change of Control Severance Agreement, dated August 7, 2017, to the Change of Control Severance Agreement, dated January 3, 2011, between XOMA Corporation and James R. Neal
10.10+*	Amended and Restated Change of Control Severance Agreement, dated August 7, 2017, to the Change of Control Severance Agreement, dated October 28, 2015, between XOMA Corporation and Thomas Burns
31.1+	Certification of Chief Executive Officer, as required by Rule 13a-14(a) or Rule 15d-14(a)
31.2+	Certification of Chief Financial Officer, as required by Rule 13a-14(a) or Rule 15d-14(a)
32.1+	Certification of Chief Executive Officer and Chief Financial Officer, as required by Rule 13a-14(b) or Rule 15d-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. §1350)(1)
101.INS+	XBRL Instance Document
101.SCH+	XBRL Taxonomy Extension Schema Document
101.CAL+	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF+	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB+	XBRL Taxonomy Extension Labels Linkbase Document
101.PRE+	XBRL Taxonomy Extension Presentation Linkbase Document

+Filed herewith
*Indicates a management contract or compensation plan or arrangement.
Confidential treatment has been requested for certain provisions omitted from this Exhibit pursuant to Rule 406 promulgated under the Securities Act. The omitted information has been filed separately with the SEC.

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

SIGNATURES

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

XOMA Corporation

Date: November 6, 2017 By: /s/ JAMES R. NEAL
James R. Neal

Chief Executive Officer (principal executive officer) and Director

Date: November 6, 2017 By: /s/ THOMAS BURNS
Thomas Burns

Senior Vice President, Finance and Chief Financial Officer

(principal financial and principal accounting officer)