XOMA Corp
Form PRE 14A
April 01, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

Filed by the Registrant x

Filed by a Party other than the Registrant ¨

Check the appropriate box:

x Preliminary Proxy Statement

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

¨ Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material under §240.14a-12

XOMA CORPORATION

(Name of Registrant as Specified in its Charter)

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

Payment of Filing Fee (Check the appropriate box):

x No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which the transaction applies:

(2) Aggregate number of securities to which the transaction applies:

(3) Per unit price or other underlying value of the transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of the transaction:

(5) Total fee paid:

¨ Fee paid previously with preliminary materials.

¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

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

(3) Filing Party:

(4) Date Filed:

XOMA CORPORATION

2910 Seventh Street

Berkeley, California 94710

(510) 204-7200

April , 2014

To Our Stockholders:

You are cordially invited to attend the annual meeting of stockholders of XOMA Corporation on May 22, 2014 at 9:00 a.m. local time, which will be held at our offices at 2910 Seventh Street, Berkeley, California.

Details of the business to be conducted at the annual meeting are provided in the Notice of Annual Meeting of Stockholders and Proxy Statement. Also, for your information, we are making available a copy of our annual report to stockholders for the fiscal year ended on December 31, 2013. This year, we are providing our stockholders access to all of these materials via the Internet. This reduces the amount of paper necessary to produce these materials, as well as costs associated with mailing all of these materials to all stockholders. Accordingly, on or about April , 2014, we will begin mailing a Notice Regarding Internet Availability of Proxy Materials, or the Notice, to all stockholders of record as of March 27, 2014 and will have posted our proxy materials on the website referenced in the Notice (http://wfss.mobular.net/wfss/xoma/). As more fully described in the Notice, all stockholders may choose to access our proxy materials on the website referred to in the Notice, and any stockholder not receiving a printed set of our proxy materials may request to receive a printed set of such materials.

We hope that you will attend the annual meeting. In any event, please promptly vote your proxy by accessing the Internet, via a toll-free telephone number as instructed in the Notice or, if you have elected to receive a paper copy of the proxy materials, by completing, signing and returning the proxy card that is provided.

Sincerely yours,

John Varian

Chief Executive Officer

PRELIMINARY COPIES   SUBJECT TO COMPLETION

XOMA CORPORATION

2910 Seventh Street

Berkeley, California 94710

(510) 204-7200

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD AT 9:00 A.M. ON MAY 22, 2014

To the Stockholders of XOMA Corporation:

Notice is hereby given that the annual meeting of stockholders of XOMA Corporation (the   Company) will be held at the Company s offices at 2910 Seventh Street, Berkeley, California, on May 22, 2014, at 9:00 a.m. local time, for the following purposes:

1. To elect directors;

2. To ratify the appointment of Ernst & Young LLP to act as the Company s independent registered public accounting firm for the 2014 fiscal year;

3. To approve an amendment to the Company s Certificate of Incorporation to increase the number of authorized shares of the Company s common stock, par value $0.0075 per share, by an additional 138,666,666 to 277,333,332 shares;

4. To approve an amendment to the Company s Amended and Restated 2010 Long Term Incentive and Stock Award Plan to (a) increase the number of shares of common stock issuable over the term of the plan by an additional 5,350,000 to 18,771,206 shares in the aggregate and (b) provide that, for each stock appreciation right, restricted share, restricted stock unit, performance share, performance unit, dividend equivalent or other stock-based award issued, the number of available shares under the plan will be reduced by 1.18 shares;

5. To approve, on a non-binding advisory basis, the compensation of the Company s named executive officers; and

6. To consider and transact such other business as may properly come before the meeting or any adjournment or postponement thereof.

These items of business are more fully described in the Proxy Statement accompanying this notice.

The Board of Directors has fixed the close of business March 27, 2014, as the record date for the determination of stockholders entitled to notice of, and to vote at, this meeting and at any adjournment or postponement thereof. On March 27, 2014, the Company had 106,877,559 shares of common stock issued and outstanding. The proxy materials prepared in connection with the annual meeting are being made available at http://wfss.mobular.net/wfss/xoma/. Directions to the annual meeting can be found at www.xoma.com.

By Order of the Board of Directors,
Fred Kurland

Vice President, Finance, Chief Financial Officer and Secretary

This proxy statement and the related proxy card are being sent or made available on or about April , 2014.

YOUR VOTE IS IMPORTANT

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE ANNUAL MEETING OF STOCKHOLDERS TO BE HELD MAY 22, 2014

Our proxy statement and our Annual Report on Form 10-K for the fiscal year ended December 31, 2013 are available at www.sec.gov and on our website, *www.xoma.com,* by clicking Investors and then SEC Filings. We will mail without charge, upon written request, a copy of the Annual Report on Form 10-K. Requests should be sent to: XOMA Corporation, Attention Corporate Secretary, 2910 Seventh Street, Berkeley, California 94710.

You are cordially invited to attend the meeting in person. Whether or not you expect to attend the meeting, please vote over the telephone or the Internet as instructed on the enclosed proxy card, or sign and return your proxy card prior to the meeting in order to ensure your representation at the meeting. Even if you have voted by proxy, you may still vote in person if you attend the meeting. Please note, however, that if your shares are held of record by a broker, bank or other nominee and you wish to vote at the meeting, you must obtain a proxy issued in your name from that record holder.

PRELIMINARY COPIES SUBJECT TO COMPLETION

XOMA CORPORATION

PROXY STATEMENT

TO THE STOCKHOLDERS:

The enclosed proxy is solicited on behalf of the Board of Directors (the Board) of XOMA Corporation, a Delaware corporation (XOMA or the Company), for use at the annual meeting of stockholders to be held at the Company s offices at 2910 Seventh Street, Berkeley, California, 94710 on May 22, 2014, at 9:00 a.m. local time, or any adjournment or postponement thereof, at which stockholders of record holding shares of Common Stock on March 27, 2014, will be entitled to vote. On March 27, 2014, the Company had issued and outstanding 106,877,559 shares of common stock, par value $0.0075 per share (Common Stock). Holders of Common Stock are entitled to one vote for each share held. All references to shares of Common Stock or stockholders of the Company in this proxy statement that relate to a date or period prior to the Company s change of jurisdiction of incorporation from Bermuda to Delaware that became effective on December 31, 2011 should be considered to be references to the Company s common shares or shareholders of the Company as it was incorporated in Bermuda.

Access via Internet

In accordance with the rules of the Securities and Exchange Commission (the SEC), instead of mailing a printed copy of our proxy materials, including our annual report, to each stockholder of record, we have decided to provide access to these materials via the Internet to all of our stockholders. This reduces the amount of paper necessary to produce these materials, as well as the costs associated with mailing these materials to all stockholders. Accordingly, on or about April , 2014, we will begin mailing a Notice Regarding Internet Availability of Proxy Materials, or the Notice, to stockholders of record as of March 27, 2014, and will have posted our proxy materials on the website referenced in the Notice (http://wfss.mobular.net/wfss/xoma/). As more fully described in the Notice, all stockholders may choose to access our proxy materials on the website referred to in the Notice, and any stockholder not receiving a printed set of our proxy materials may request to receive a printed set of such materials.

How to vote your shares

Your shares can be voted at the annual meeting only if you are present in person or represented by proxy. All registered stockholders can appoint a proxy by paper proxy, by telephone or via the Internet by following the instructions included with their proxy card. Stockholders whose shares of Common Stock are registered in the name of a bank or brokerage firm should follow the instructions provided by their bank or brokerage firm on voting their shares of Common Stock. Stockholders whose shares of Common Stock are registered in the name of a bank or brokerage firm participating in the Broadridge Financial Services, Inc. online program may appoint a proxy electronically through the Internet. Instruction forms will be provided to stockholders whose bank or brokerage firm is participating in Broadridge s program. Signing and returning the proxy card or submitting the proxy by telephone or through the Internet does not affect the right to vote in person at the annual meeting.

Voting of Proxy

All shares represented by a valid proxy to the annual meeting will be voted, and, if you provide specific instructions, your shares will be voted as you instruct. If you sign your proxy card with no further instruction and do not hold your shares beneficially thorough a broker, bank or other nominee, your shares will be voted:

FOR each of the nominees for the Board of Directors;

FOR the ratification of Ernst & Young LLP to act as the Company s independent registered public accounting firm for the 2014 fiscal year;

FOR the approval of an amendment to the Company s Certificate of Incorporation to increase the number of shares of the Company s Common Stock, par value $0.0075 per share, by an additional 138,666,666 to 277,333,332 shares;

FOR the approval of an amendment to the Company s Amended and Restated 2010 Long Term Incentive Stock Plan to (a) increase the number of shares of Common Stock issuable over the term of the plan by an additional 5,350,000 to 18,771,206 shares in the aggregate and (b) provide that, for each stock appreciation right, restricted share, restricted stock unit, performance share, performance unit, dividend equivalent or other stock-based award issued, the number of available shares under the plan will be reduced by 1.18 shares; and

FOR the advisory vote to approve the compensation of the Company s named executive officers.

Revocability of Proxies

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

Quorum

The presence, in person or by proxy, of at least a majority of the shares of Common Stock outstanding on the record date will constitute a quorum. Abstentions and broker non-votes are each included in the number of shares of Common Stock present and entitled to vote for purposes of establishing a quorum but are not counted in tabulations of the votes cast on proposals presented to stockholders.

The Company will bear the entire cost of solicitation, including preparation, assembly, printing, and delivery of this proxy statement, the proxy card, and any additional material furnished to stockholders. Copies of solicitation material will be furnished to brokerage houses, fiduciaries, and custodians holding in their names shares of Common Stock that are beneficially owned by others to forward to such beneficial owners. The solicitation of proxies may be supplemented by one or more of telephone, telegram, or personal solicitation by directors, officers, or employees of the Company for no additional compensation. Stockholders appointing a proxy through the Internet should understand that there may be costs associated with electronic access, such as usage charges from Internet access providers and telephone companies, which will be borne by the stockholders.

STOCK OWNERSHIP

The following table sets forth certain information regarding all stockholders known by the Company to be the beneficial owners of more than 5% of the Company s issued and outstanding shares of Common Stock and regarding each director, each of our named executive officers and all directors and executive officers as a group, together with the approximate percentages of issued and outstanding shares of Common Stock owned by each of them. Percentages are calculated based upon shares issued and outstanding plus shares that the holder has the right to acquire under stock options, warrants exercisable and restricted stock units releasable within 60 days from December 31, 2013. The percentages in the table below are based on an aggregate of 106,338,171 shares of

Common Stock issued and outstanding as of March 1, 2014. Unless otherwise indicated, amounts are as of March 1, 2014 and each of the stockholders has sole voting and investment power with respect to the shares of Common Stock beneficially owned, subject to community property laws where applicable. An individual s presence on this or any other table presented herein is not intended to be reflective of such person s status as a reporting person under Section 16(a) of the Securities Exchange Act of 1934, as amended (the Exchange Act). The address for each director and executive officer listed in the table below is c/o XOMA Corporation, 2910 Seventh Street, Berkeley, California 94710.

Name of Beneficial Owner	**Number of Shares of Common Stock Beneficially Owned**	**Percentage of Common Stock Beneficially Owned**
Felix J. Baker and Julian C. Baker(1)	30,608,131	29%
Eastern Capital Limited(2)	7,985,790	8%
Deerfield Mgmt, L.P.(3)	6,150,887	6%
FMR LLC(4)	12,241,794	12%
BlackRock Inc.(5)	6,334,976	6%
William K. Bowes, Jr.(6)	82,428	*
Peter Barton Hutt(7)	105,398	*
Thomas Klein (8)	0	*
Fred Kurland(9)	388,737	*
Joseph M. Limber(10)	17,722	*
Kelvin Neu(11)	29,344	*
Paul D. Rubin, M.D.(12)	213,074	*
Patrick J. Scannon, M.D., Ph.D.(13)	356,141	*
W. Denman Van Ness(14)	114,272	*
John Varian(15)	587,710	*
Timothy P. Walbert(16)	74,441	*
Jack L. Wyszomierski(17)	73,887	*
All directors and current executive officers as a group as of the record date (13 persons)(18)	2,203,446	2%

* Indicates less than 1%.

(1) Based on a Schedule 13D/A filed with the SEC on August 23, 2013. The shares are held by Baker Brothers Life Sciences, L.P. (26,350,795 shares, including warrants to purchase 6,608,225 shares), 667, L.P. (3,597,349 shares, including warrants to purchase 792,796 shares), and 14159, L.P. (659,987 shares, including warrants to purchase 174,738 shares). Felix J. Baker and Julian C. Baker are the controlling members of the sole general partners of the limited partnerships that are the sole general partners of these entities, may be deemed to be the indirect beneficial owners of such securities and have indicated shared voting and dispositive power with respect thereto. Kelvin Neu, a Managing Director of Baker Bros. Advisors, LLC, serves on the XOMA Corporation Board of Directors, and the shares held by Baker Bros. Advisors are not beneficially owned by Mr. Neu.

(2) Based on a Schedule 13G/A filed with the SEC on February 12, 2014. Eastern Capital Limited is wholly owned by Portfolio Services Ltd., which is wholly-owned by Kenneth B. Dart. Includes warrants to purchase 1,136,363 shares of Common Stock.

(3) Based on a Schedule 13G/A filed with the SEC on August 20, 2013.

(4) Based on a Schedule 13G filed with the SEC on February 13, 2014. The 12,241,794 shares are held by Fidelity Management & Research Company, a wholly-owned subsidiary of FML LLC.

(5) Based on a Schedule 13G filed with the SEC on February 6, 2014.

(6) Includes 68,560 shares of Common Stock issuable upon the exercise of options exercisable as of 60 days after December 31, 2013.

(7) Represents 105,398 shares of Common Stock issuable upon the exercise of options exercisable as of 60 days after December 31, 2013.

(8) Does not include 1,659 shares of Common Stock that have vested pursuant to the Company s Deferred Savings Plan.
(9) Includes 5,254 shares of Common Stock held by The Kurland Family Living Trust. Includes 361,647 shares of Common Stock issuable upon the exercise of options exercisable as of 60 days after December 31, 2013. Does not include 19,136 shares of Common Stock that have vested pursuant to the Company s Deferred Savings Plan.
(10) Includes 17,722 shares of Common Stock issuable upon the exercise of options exercisable as of 60 days after December 31, 2013.
(11) Includes 20,944 shares of Common Stock issuable upon the exercise of options exercisable as of 60 days after December 31, 2013.
(12) Includes 209,540 shares of Common Stock issuable upon the exercise of options exercisable as of 60 days after December 31, 2013. Does not include 5,310 shares of Common Stock that have been deposited to the Company s Deferred Savings Plan.
(13) Includes 4,053 shares of Common Stock held by The Patrick J. Scannon Separate Property Trust. Includes 309,321 shares of Common Stock issuable upon the exercise of options exercisable as of 60 days after December 31, 2013. Does not include 22,079 shares of Common Stock that have vested pursuant to the Company s Deferred Savings Plan.
(14) Includes 2,600 shares of Common Stock held by The Van Ness 1983 Revocable Trust, of which Mr. Van Ness is a trustee. Includes 94,740 shares of Common Stock issuable upon the exercise of options exercisable as of 60 days after December 31, 2013.
(15) Includes 438,971 shares of Common Stock issuable upon the exercise of options exercisable as of 60 days after December 31, 2013. Does not include 15,537 shares of Common Stock that have been deposited to the Company s Deferred Savings Plan.
(16) Represents 74,441 shares of Common Stock issuable upon the exercise of options exercisable as of 60 days after December 31, 2013.
(17) Represents 62,090 shares of Common Stock issuable upon the exercise of options exercisable as of 60 days after December 31, 2013.
(18) Does not include 79,662 shares of Common Stock that have vested pursuant to the Company s Deferred Savings Plan.

COMPENSATION OF EXECUTIVE OFFICERS

Compensation Discussion and Analysis

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

Benchmarking

The Compensation Committee is composed entirely of non-employee directors under Rule 16b-3 of the Securities Exchange Act of 1934 and outside directors under Section 162(m). The Compensation Committee has the authority under its charter to engage the services of outside advisors, experts and others to assist the Compensation Committee. In accordance with this authority, the Compensation Committee has retained the services of Compensia, an independent consulting firm that specializes in executive compensation consulting (the Consultant), to assist the Compensation Committee in evaluating the Company s executive compensation program against the relevant market and to review executive compensation changes. The Consultant looked at incentive compensation, long-term stock options, restricted stock units (RSUs), and benefits. No other services were provided by the Consultant.

At the direction of the Compensation Committee, in 2012 management created a survey (the Executive Compensation Survey) which compared the Company s executive pay levels to those of a peer group of 15 companies as reported in the Radford Global Life Sciences Survey from 2012. The peer group was developed by targeting primarily companies with products in Phase 2 and Phase 3 clinical trials with a range of market capitalizations. The companies that comprised the peer group were: Affymax, Alnylam Pharmaceuticals, ArQule, Array BioPharma, BioCryst Pharmaceuticals, Dyax, Immunomedics, Infinity Pharmaceuticals, Neurocrine Biosciences, Osiris Therapeutics, Repligen, Targacept, Trius Therapeutics, Vical and XenoPort.

As noted above, the Compensation Committee considers various benchmarks (i.e., the 25th percentile, the 50th percentile and the 75th percentile) based on the Executive Compensation Survey and chooses a benchmark for a particular year based on the level it deems most appropriate for the Company. For 2013, the Compensation Committee chose the 50th percentile as the benchmark. This process is performed to ensure that total compensation is competitive within the industry and appropriate when certain levels of performance are achieved. If, based on this evaluation, the Compensation Committee determines that the Company s current compensation levels are not appropriate or tailored to our compensation objectives, then the Compensation Committee may adjust the applicable compensation levels and targets accordingly.

As part of the benchmarking process, the Compensation Committee recognizes the practical reality that job responsibilities of persons with similar titles may vary significantly from company to company and that a person s title is not necessarily descriptive of a person s duties. The Compensation Committee considers the scope and complexity of executive positions within the Executive Compensation Survey and compares these positions to the scope and complexity of our executive positions. The result is an assessment of the compensation being paid to our executives in light of the compensation being paid to persons performing duties of similar scope and complexity at the companies participating in the Executive Compensation Survey. The Compensation Committee uses this assessment to assist it in making decisions regarding appropriate compensation levels for our executive positions. The underlying principle of the evaluation methodology is to focus on identifying those positions that have a scope and complexity of responsibilities that are comparable to those duties exercised by each of our particular executives.

Compensation Components

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

Long-Term Incentive Program. Long-term incentive compensation principally takes the form of incentive and non-qualified option grants and awards of RSUs pursuant to stockholder-approved equity-based compensation plans. These grants and awards are designed to promote the convergence of long-term interests between the Company s key employees and its stockholders; specifically, the value of options granted and RSUs awarded will increase or decrease with the value of the Company s Common Stock. In this manner, key individuals are rewarded commensurately with increases in stockholder value. Option grants also typically include a 4-year vesting period, and RSU awards typically include a 3-year vesting period, to encourage continued employment. The size of a particular option grant or RSU award is determined based on the individual s position and contribution to the Company.

For grants and awards during 2013, the number of options granted and RSUs awarded were determined based on employee performance and perceived potential, the numbers of options granted to such individuals in the previous fiscal year, the aggregate number of options and RSUs held by such individual, the number of options granted and RSUs awarded to similarly situated individuals in the pharmaceutical and biotechnology industries, the price of the Company s Common Stock relative to other companies in such industries and the resulting relative value of such options and RSUs. No specific measures of corporate performance were considered.

In February of 2013, the Company granted stock options and awarded RSUs to officers of the Company. Mr. Varian was granted options to purchase 152,900 shares of Common Stock and awarded 110,721 RSUs. Dr. Scannon was granted options to purchase 39,000 shares of Common Stock and awarded 28,500 RSUs. Dr. Rubin was granted options to purchase 50,299 shares of Common Stock and awarded 36,424 RSUs. Mr. Kurland was granted options to purchase 45,054 shares of Common Stock and awarded 32,625 RSUs. These awards were determined after consideration by the Compensation Committee of the executives ownership targets and the Company s progress toward its business objectives. In addition, Mr. Klein was granted options to purchase 335,000 shares of Common Stock and awarded 242,000 RSUs in connection with his beginning employment.

Historically, option grants intended as long-term incentive compensation have been made pursuant to the Company s 1981 Share Option Plan (the Option Plan) and Restricted Share Plan (the Restricted Plan). In May of 2010, the Compensation Committee and the full Board adopted, and in July of 2010 the Company s stockholders approved, a new equity-based compensation plan, the XOMA Corporation 2010 Long Term Incentive and Stock Award Plan, which was amended with stockholder approval in May of 2011 and amended and restated in December of 2011 to give effect to the Company s change of jurisdiction of incorporation from Bermuda to Delaware (the Long Term Incentive Plan). The Long Term Incentive Plan is intended to consolidate the Company s long-term incentive compensation under a single plan, by replacing the Option Plan, the Restricted Plan and the 1992 Directors Share Option Plan (the Directors Plan) going forward and to provide a more current set of terms pursuant to which to provide this type of compensation.

Cash Bonus Plans.

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

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

The incentive compensation under the CICP is weighted based 50% on meeting Company Objectives, 30% based on CEO evaluation form criteria (relating to leadership, strategic and succession planning, financial matters, human resources, communications and external and board relations) and 20% based on an evaluation of individual performance objectives by the Compensation Committee. The award opportunity range for the CEO expressed as a percentage of his or her base salary is as follows: minimum award opportunity 0%; target award opportunity 50%; and maximum award opportunity 150%, in each case, of base salary.

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

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

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

For officers, including the executive officers named in the Summary Compensation Table below, other than the CEO, the incentive compensation under the MICP is weighted as follows: 50% based on meeting Company Objectives described under Bonus Determinations for 2013 below, 30% based on individual objectives and 20% based on a discretionary evaluation by the CEO. The target awards for these officers as a percentage of base salary range from 30% to 40%, with an award opportunity range of 15% to 60% of base salary. For other MICP participants, the incentive compensation is weighted as follows: either 40% or 30% based on meeting Company Objectives, either 40% or 50% based on individual objectives and, in all cases, 20% based on a discretionary evaluation by the CEO. The award opportunities for these participants as a percentage of base salary range from a minimum of 0% to a maximum of 37.5% of base salary, depending on among other things the participants position within the Company.

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

As of December 31, 2013, 110 individuals within the guidelines approved by the Compensation Committee were determined to be eligible to participate in the MICP, including four of the executive officers named in the Summary Compensation Table below other than Mr. Varian.

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

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

As of December 31, 2013, 46 individuals were determined to be eligible to participate in the BCP none of which are executive officers of the Company.

Bonus Determinations for 2013. For 2013, the Compensation Committee recommended and the Board approved the following Company Objectives: (1) advance the antibody technology and preclinical pipeline, which was assigned a 15% Achievement Percentage; (2) advance the development of the Company s lead product candidate, gevokizumab, which was assigned a 35% Achievement Percentage; (3) complete the manufacturing technology transfer, which was assigned a 10% Achievement Percentage; (4) establish a Gevokizumab commercial launch plan for the Company in the U.S., which was assigned a 5% Achievement Percentage; (5) advance the Company s bio-defense product, XOMA 3AB, and the Company s related portfolio of anti-botulism product candidates, which was assigned a 5% Achievement Percentage; (6) partner the Company s portfolio of fixed-dose combination products, which was assigned a 5% Achievement Percentage; (7) manage the Company s financial resources in order to end the year with at least $30 million in cash and cash equivalents, which was assigned a 15% Achievement Percentage; (8) ensure the effective rollout of the Company s strategic plan, which was assigned a 5% Achievement Percentage; and (9) identify major areas requiring compliance by function and ensure policy ownership and creation, which was assigned a 5% Achievement Percentage. In February of 2014, the Board concluded that the sixth, seventh, eight, and ninth corporate objectives had been achieved, that the first, third, fourth, and fifth corporate objectives had been exceeded, and that the second corporate objective had been partially achieved.

After evaluating the relevant facts and circumstances, the Board concluded that the minimum percentage (70%) of the Company Objectives had been exceeded for the 2013 Plan Period and that as a result awards could be made under the MICP for that Plan Period.

Under the CICP, Mr. Varian s individual objectives for 2013 were identical to the Company Objective described above.

Individual objectives for 2013 under the MICP for Dr. Scannon were to: (1) create and lead the XOMA Target Committee, (2) carry out his role in connection with the first Corporate Objective described above, (3) lead the Company s government affairs program to seek additional funding for research and clinical activities, and (4) support Business Development and Commercial activities through partnering profile discussions and commercial assessments. In February of 2014, the CEO determined and the Compensation Committee concurred that Dr. Scannon had achieved the first such objective, exceeded the second and fourth such objectives, and partially achieved the third such objective.

Individual objectives for 2013 under the MICP for Dr. Rubin were to: (1) carry out his role in connection with the first Corporate Objective with respect to advancing the development of XMetD, (2) carry out his role in connection with the first Corporate Objective with respect to advancing the development of XMetA and XMetS, (3) carry out his role in connection with the first Corporate Objective with respect to advancing the development of initiating and advancing new research programs, (4) carry out his role in connection with the second Corporate Objective described above with respect to advancing Gevokizumab uveitis development, (5) carry out his role in connection with the second Corporate Objective described above with respect to advancing development of new Gevokizumab indications, (6) carry out his role in connection with the second Corporate Objective with respect to Gevokizumab ultra ophan indications, (7) carry out this role in connection with the third Corporate Objective described above, (8) carry out his role in connection with the fourth Corporate Objective described above, and (9) carry out his role in connection with the sixth Corporate Objective described above. In February of 2014, the CEO determined and the Compensation Committee concurred that Dr. Rubin had achieved the fifth, sixth, and ninth such objectives, exceeded the first, third, seventh, and eighth such objectives, partially achieved the second such objective and did not achieve the fourth such objective. In addition, the CEO and the Compensation Committee took into consideration Dr. Rubin s role in equity financings and leading the effort to design and implement a successful Phase 2 proof-of-concept trial in pyoderma gangrenosum.

Individual objectives for 2013 under the MICP for Mr. Kurland were to: (1) carry out his role in connection with the seventh Corporate Objective as described above, (2) carry out his role in connection with the seventh Corporate Objective with respect to increasing XOMA s visibility in the institutional investment community and maintaining institutional holdings (3), carry out his role in connection with the first, second, third, and fourth Corporate Objectives with respect to developing the service function within the Legal Finance, and Investor Relations departments to proactively engage with operating groups to support attainment of goals, (4) ensure appropriate financial and business controls are in place, and (5) maintain appropriate budget spending levels. In February of 2014, the CEO determined and the Compensation Committee concurred that Mr. Kurland had achieved the third and fifth such objectives, exceeded the second and fourth such objectives, and partially achieved the first such objective. In addition, the CEO and the Compensation Committee took into consideration additional financing support provided by Mr. Kurland.

Individual objectives for 2013 under the MICP for Mr. Klein were to: (1) carry out his role in connection with the fourth Corporate Objective with respect to completing market analysis and scenario planning to inform the Gevokizumab phase 3 development plan, (2) carry out his role in connection with the fourth Corporate Objective with respect to developing a Gevokizumab strategic launch plan, (3) carry out his role in connection with the fourth Corporate Objective with respect to developing a tactical launch plan, (4) carry out his role in connection with the fourth Corporate Objective with respect to building the commercial structure, (5) carry out his role in connection with the fourth Corporate Objective with respect to establishing the pricing range for Gevokizumab in lead indications, and (6) in establishing an internal and external leadership presence. In February of 2014, the CEO determined and the Compensation Committee concurred that Mr. Klein had achieved the second, fourth, fifth, and sixth such objectives, and exceeded the first such objective with the accomplishment of the third such objective moved to a later date.

The evaluation process and resulting determinations described above resulted in cash bonus payments under the CICP and the MICP to the executive officers named in the Summary Compensation Table below for 2013 as follows:

Name	**Base Salary**	**Target Bonus Percentage**	**Target Bonus Amount**	**Achievement of Objectives Percentage**	**Actual Bonus Amount**
John Varian	$ 489,250	50%	$ 244,625	57%	$ 281,319
Patrick J. Scannon, M.D., Ph.D.	$ 417,104	35%	$ 145,986	35%	$ 148,541
Paul D. Rubin, M.D.	$ 391,400	40%	$ 156,560	44%	$ 172,999
Fred Kurland	$ 347,194	40%	$ 138,878	42%	$ 147,558
Thomas Klein	$ 380,000	40%	$ 152,000	33%	$ 128,757

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

Tax Treatment. Section 162(m) of the Internal Revenue Code of 1986, as amended (the Code) generally limits the deductible amount of annual compensation paid to certain individual executive officers (i.e., the chief executive officer and the four other most highly compensated executive officers of the Company) to no more than $1 million. However, qualifying performance-based compensation will be excluded from the $1 million cap on deductibility. We consider tax deductibility under Section 162(m) as a factor in our compensation decisions. However, we retain the ability to authorize certain compensation payments that may not satisfy the tax deductibility requirements under Section 162(m) if it is determined that such payments are appropriate to attract and/or retain executive talent or otherwise promote our corporate objectives. The Company and the Compensation Committee will continue to review tax consequences as well as other relevant considerations in connection with compensation decisions.

Compensation Risk Assessment

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

Summary Compensation Table

The following table sets forth certain summary information for the prior three years concerning the compensation earned by the Company s Chief Executive Officer, Chief Financial Officer, and our three other most highly compensated officers who were named executive officers of the Company as of December 31, 2013.

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($)(1)	Option Awards ($)(2)	Non-Equity Incentive Plan Compensation ($)(3)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)	All other Compensation ($)(4)	Total ($)
John Varian	2013	$ 489,250	$ 0	$ 300,608	$ 301,274	$ 281,319	N/A	$ 12,880	$ 1,385,331
(Chief Executive Officer)	2012	$ 473,894	$ 0	$ 1,359,275	$ 1,344,286	$ 293,524	N/A	$ 13,033	$ 3,484,012
	2011	$ 134,872	$ 65,000	$ 22,807	$ 152,069	$ 0	N/A	$ 59,669	$ 434,417

Patrick J. Scannon, M.D., Ph.D.