XOMA LTD /DE/
Form S-3/A
January 11, 2006
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As filed with the Securities and Exchange Commission on January 10, 2006

(S-4) Registration No. 333-130441 / (S-3) Registration No. 333-130442

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

AMENDMENT NO. 1 TO

FORM S-4

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

(with respect to 6.50% Convertible SNAPs$_{SM}$ due 2012 being offered in the exchange offer)

AMENDMENT NO. 1 TO

FORM S-3

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

(with respect to the 6.50% Convertible SNAPs$_{SM}$ due 2012 being offered for cash)

XOMA Ltd.

(Exact name of registrant as specified in its charter)

Bermuda	**52-2154066**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

2910 Seventh Street

Berkeley, California 94710

(510) 204-7200

(Address, including ZIP code, and telephone number, including area code, of registrant s principal executive offices)

Christopher J. Margolin, Esq.

XOMA Ltd.

2910 Seventh Street

Berkeley, California 94710

(510) 204-7292

(Name, address, including ZIP code, and telephone number, including area code, of agent for service)

Copies to:

James B. Bucher, Esq.	**Geoffrey E. Liebmann, Esq.**	**Abigail Arms, Esq.**
Shearman & Sterling LLP	**Cahill Gordon & Reindel LLP**	**Shearman & Sterling LLP**
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Menlo Park, CA 94025	**New York, New York 10005**	**Washington, D.C. 20004**
(650) 838-3600	**(212) 701-3000**	**(202) 508-8000**

Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this Registration Statement.

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. ¨

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act of 1933, as amended (Securities Act), please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. ¨

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. ¨

If this Form is a registration statement pursuant to General Instruction I.D. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(c) under the Securities Act, check the following box. ¨

If this Form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.D. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, check the following box. ¨

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the Registration Statement shall become effective on such date as the SEC acting pursuant to Section 8(a) may determine.

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The information in this prospectus may change. We may not complete the exchange offer and issue these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities, and it is not soliciting an offer to buy these securities, in any state where the offer or sale is not permitted.

Subject to Completion, dated January 10, 2006

Exchange Offer

6.50% Convertible SNAPs$_{SM}$ due February 1, 2012 for its

6.50% Convertible Senior Notes due February 1, 2012

and the Sale of up to $10,000,000

6.50% Convertible SNAPs$_{SM}$ due February 1, 2012

If you elect to participate in the exchange offer, for each $1,000 principal amount of our 6.50% Convertible Senior Notes due 2012, or existing notes, you tender, you will receive from us $1,000 principal amount of our 6.50% Convertible SNAPs$_{SM}$ due 2012, or new notes. The new notes will be issued in denominations of $1,000 and any integral multiples of $1,000.

You may also give an indication of your interest in participating in the new money offering in which we are offering up to $10,000,000 of additional 6.50% Convertible SNAPs$_{SM}$ due 2012. The public offering price for the new notes issued in the new money offering will be determined by indication of interest. The new notes will be issued in denominations of $1,000 and any integral multiples of $1,000.

The exchange offer is open to all holders of our 6.50% Convertible Senior Notes due 2012.

The exchange offer will expire at 12:00 midnight, New York City time, on February 8, 2006.

Our common shares are traded on The Nasdaq National Market under the symbol XOMA. On January 9, 2006, the last reported sale price of our common shares on The Nasdaq National Market was $1.78 per share. The new notes will not be listed on The Nasdaq National Market or any national securities exchange.

We are mailing a preliminary prospectus and the letter of transmittal on January 11, 2006.

See Risk Factors beginning on page 18 for a discussion of factors you should consider before deciding to participate in the exchange offer or purchase additional 6.50% Convertible SNAPs$_{SM}$ due 2012 in the new money offering.

We have retained Georgeson Shareholder Communications Inc. as our information agent to assist you in connection with the exchange offer. You may call Georgeson Shareholder Communications Inc. at (888) 867-6963, to receive additional documents and to ask questions.

New Money Offering

	Per Note	Total
Public Offering Price[(1)]	%	$

Underwriter s Discounts and Commissions[2]	3.5%	$
Proceeds to the Company[3]	%	$

(1) Plus interest, if any, accrued from the closing date of the exchange offer.
(2) Assumes all of the new notes offered in the new money offering are sold. See Plan of Distribution.
(3) Before deducting offering expenses payable by us in connection with the exchange offer and new money offering and estimated to be $1.3 million.

The new money offering is being offered to the public on a best efforts basis. There is no minimum purchase requirement and no arrangement to place the proceeds in an escrow, trust or similar account.

Consent under the Exchange Control Act 1972 (and its related regulations) has been obtained from the Bermuda Monetary Authority for the issue and transfer of our notes to and between non-residents of Bermuda for exchange control purposes provided our shares remain listed on an appointed stock exchange, which includes The Nasdaq National Market. This prospectus will be filed with the Registrar of Companies in Bermuda in accordance with Bermuda law. In granting such consent and in accepting this prospectus for filing, neither the Bermuda Monetary Authority nor the Registrar of Companies in Bermuda accepts any responsibility for our financial soundness or the correctness of any of the statements made or opinions expressed in this prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The dealer managers for the exchange offer and the placement agents for the new money offering:

Piper Jaffray **Canaccord Adams**

This prospectus is dated , 2005.

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You should rely only on the information contained or incorporated by reference in this prospectus. We have not, and the dealer managers and placement agents have not, authorized any other person to provide you with different information. This prospectus is not an offer to sell, nor is it seeking an offer to buy, these securities in any state where the offer or sale is not permitted. The information in this prospectus is complete and accurate as of the date on the front cover, but the information may have changed since that date.

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission (SEC). You may read and copy any document we file at the SEC s public reference room located at: 100 F Street, N.E., Washington, DC 20549. You can request copies of these documents by writing to the Public Reference Section of the SEC, 100 F Street, N.E., Washington, DC 20549 or by calling the SEC at 1-800-SEC-0330. Our SEC filings are also available at the SEC s website at *http://www.sec.gov*. This website address is included in this document as an inactive textual reference only.

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You may also obtain information about us including copies of our SEC reports, through our website at *http://www.xoma.com*. This website address is included in this document as an inactive textual reference only. Any documents, references, links or other materials of any kind contained or referred to on such website are not part of this prospectus or the registration statement of which this prospectus is a part.

This prospectus incorporates important business and financial information about us that is not included in or delivered with this prospectus. The SEC allows us to incorporate by reference the information we file with them, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference, although not included in or delivered with this prospectus, is considered to be part of this prospectus, and information that we file later with the SEC will automatically update and supersede this information and be deemed to be incorporated by reference into this prospectus. We incorporate by reference the documents listed below and any future filings we will make with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended, or the Exchange Act (File No. 0-21699):

Annual report on Form 10-K for the year ended December 31, 2004, as filed on March 15, 2005;

Quarterly report on Form 10-Q for the quarter ended March 31, 2005, filed with the SEC on May 9, 2005;

Quarterly report on Form 10-Q for the quarter ended June 30, 2005, filed with the SEC on August 8, 2005;

Quarterly report on Form 10-Q for the quarter ended September 30, 2005, filed with the SEC on November 2, 2005;

Current report on Form 8-K, filed with the SEC on March 30, 2005;

Current report on Form 8-K, filed with the SEC on May 20, 2005;

Current report on Form 8-K, filed with the SEC on June 17, 2005;

Current report on Form 8-K, filed with the SEC on July 21, 2005;

Current report on Form 8-K, filed with the SEC on September 20, 2005; and

Proxy Statement for the 2005 Annual Meeting, filed with the SEC on April 13, 2005.

You may request a copy of these filings, at no cost, by writing or telephoning us at the following address:

XOMA Ltd.

2910 Seventh Street

Berkeley, California 94710

(510) 204-7200

To obtain timely delivery, you must request this information no later than five business days before February 8, 2006.

The information contained or incorporated by reference in this prospectus is part of a registration statement we filed with the SEC. You should rely only on the information and representations provided in this prospectus. We have authorized no one to provide you with different information. We are not making an offer of these securities in any state where the offer is not permitted. You should not assume that the information in this prospectus is accurate as of any date other than the date on the front of the document.

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SUMMARY

This summary does not contain all of the information you should consider before exchanging your existing notes for the new notes or investing in new notes offered in the new money offering. For a more complete understanding of XOMA and this exchange offer and new money offering, we encourage you to read carefully this entire prospectus and the documents incorporated by reference herein. The term new notes refers to the 6.50% Convertible SNAPs$_{SM}$ due 2012 offered by this prospectus. The term existing notes refers to our existing 6.50% Convertible Senior Notes due 2012 to be exchanged for the new notes in the exchange offer. Unless otherwise indicated, we, us, our, XOMA and similar terms refer to XOMA Ltd. and its subsidiaries.

Our Company

Overview

We are a biopharmaceutical company that discovers and develops antibody and other protein-based biopharmaceuticals, with a therapeutic focus on cancer, immune disorders and infectious diseases. Our products are presently in various stages of development and are subject to regulatory approval before they can be introduced commercially. We have a royalty interest in an approved product, RAPTIVA®, which is marketed in the United States, Europe and elsewhere, for the treatment of moderate-to-severe plaque psoriasis under an agreement with Genentech, Inc.

Our other proprietary and collaborative product development programs include:

- CHIR-12.12, an anti-CD40 antibody for treating B-cell tumors (Phase I), and additional product candidates in connection with an antibody oncology collaboration with Chiron Corporation (preclinical);
- a collaboration with Lexicon Genetics Incorporated to jointly develop and commercialize novel antibodies for certain targets discovered by Lexicon (preclinical);
- anti-gastrin antibody product candidates in conjunction with an antibody collaboration for the treatment of gastrointestinal cancers with Aphton Corporation (preclinical);
- bactericidal/permeability-increasing protein (BPI), including NEUPREX®, which targets a variety of infectious diseases and inflammatory disorders (investigator-sponsored probe studies); and
- XMA005.2, a Human Engineered antibody with high affinity that we are currently evaluating in multiple indications, including osteoarthritis and rheumatoid arthritis (preclinical).

In addition, our fully integrated infrastructure allows us to offer technical development and manufacturing services on a fee-for-service basis. In particular,

we have established a strategic antibody manufacturing relationship with Cubist Pharmaceuticals, Inc. under which we will develop new processes to manufacture HepeX-B, a novel two-antibody biologic, in quantities sufficient to conduct Phase III clinical trials; and

we were awarded an 18-month contract worth approximately $15 million from the National Institute of Allergy and Infectious Diseases (NIAID) in March of 2005 to develop three antibody therapeutics.

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We leverage our preclinical, process development, manufacturing, quality and clinical development capabilities in the development of our proprietary products and also in the development of products in collaboration with other companies. We have access to multiple phage display libraries for the discovery of antibodies. We also have proprietary technologies relating to recombinant antibodies and proteins, including bacterial cell expression (BCE) systems and our Human Engineering method for creating human-like antibodies. Both these technologies are available for licensing and are also used in our own development programs.

We have licensed our BCE technology, an enabling technology used to discover and screen, as well as develop and manufacture, recombinant antibodies and other proteins for commercial purposes, to approximately 40 companies. As of September 30, 2005, we were aware of two antibody products in late-stage clinical testing which are manufactured using our BCE technology: Celltech Group plc s CIMZIA(CDP870) antibody fragment to tumor necrosis factor (TNF) for rheumatoid arthritis and Crohn s disease and Genentech s Lucentis(ranibizumab) antibody fragment to vascular endothelial growth factor (VEGF) for wet age-related macular degeneration.

Key Products and Development Programs

RAPTIVA®

RAPTIVA® is the first biologic therapy designed to provide continuous control of chronic moderate-to-severe plaque psoriasis in adults age 18 or older who are candidates for systemic therapy or phototherapy approved by the United States Food and Drug Administration (FDA). Although psoriasis appears on the skin, the condition is actually caused by overactive immune cells, called T-cells. This activity sets off a series of events, causing cells to multiply so fast that they begin to pile up on the surface of the skin. In plaque psoriasis, the accumulation of skin cells forms red, scaly patches on the surface of the skin that begin to shed as the build-up of cells continues. These patches of skin, which are often itchy and painful, are known as plaques or lesions. Plaque psoriasis is the most common form of psoriasis, accounting for approximately 80% of all cases of psoriasis. Patients can self-administer RAPTIVA® as a single, once-weekly subcutaneous injection after training by a healthcare professional. RAPTIVA® was developed in the United States through a collaboration between Genentech and us and received FDA approval in October of 2003. Genentech has reported sales of RAPTIVA® in the United States for the nine months ended September 30, 2005 of $58.8 million.

In April of 1996, we entered into an agreement with Genentech for the development of RAPTIVA®. In March of 2003, we entered into amended and expanded agreements related to all aspects of the collaboration to reflect the current understanding between the companies at the time. The agreements called for us to share the development costs and receive a 25% share of future United States operating profits and losses and a royalty on sales outside the United States The agreements also called for Genentech to finance our share of development costs up until first FDA marketing approval via a convertible subordinated loan, and our share of pre-launch marketing and sales costs via an additional commercial loan facility. In November of 2003, we announced our election to pay $29.6 million of the development loan in convertible preference shares and to defer repayment of the remaining $40.0 million. The preference shares are convertible into 3.8 million common shares at a price of approximately $7.75 per common share. The $13.4 million of outstanding principal and interest on the commercial loan was payable only in cash and was paid in January and May of 2004.

RAPTIVA® is licensed by Genentech outside of the United States and Japan through an agreement made with Serono in August of 2002. Serono announced in September of 2004 that it had received European Commission Marketing Authorisation for RAPTIVA® to treat people with moderate-to-severe chronic plaque psoriasis for whom other systemic treatments or phototherapy have been inadequate or

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inappropriate. RAPTIVA® has been approved in 44 countries and has been launched in Germany, UK, Denmark, Sweden, Switzerland, Australia, Argentina, Brazil, Mexico and other countries. Serono has reported sales of RAPTIVA® outside the United States for the nine months ended September 30, 2005 of $21.9 million.

In January of 2005, we entered into a restructuring of our collaboration agreement with Genentech. Key elements of the new, restructured relationship include:

- The previous cost and profit sharing arrangement in the United States was modified. We earn a mid-single digit royalty on worldwide sales of RAPTIVA® with an additional royalty rate on sales in the United States in excess of a specified level. The original agreement provided us with the option of electing a royalty-only participation in RAPTIVA® results, with a higher worldwide royalty rate structure, but required immediate repayment of the development loan.

- Genentech agreed to discharge our obligation to pay the $40 million development loan and accrued interest. We recognized the release of this obligation as income in our first quarter 2005 financial statements.

- By selecting the royalty option, we will no longer be responsible for funding any development or sales and marketing activities or have the right to co-promote RAPTIVA®.

This revised agreement became effective as of January 1, 2005, and as a result, RAPTIVA® became immediately profitable for us, beginning in the first quarter of 2005.

Oncology Therapeutic Antibodies Program

In February of 2004, we entered into an exclusive, worldwide, multi-product collaboration with Chiron to develop and commercialize antibody products for the treatment of cancer. Under the terms of the agreement, we will jointly research, develop and commercialize multiple antibody product candidates. We will share expenses and revenues, generally on a 70/30 basis, with our share being 30%. Financial terms include initial payments to us in 2004 totaling $10.0 million and a loan facility, secured by our interest in the collaboration, of up to $50.0 million to fund up to 75% of our share of expenses beginning in 2005. As of September 30, 2005, the outstanding principal balance under this loan facility totaled $8.8 million.

In December of 2004, several abstracts on the novel oncology compound CHIR-12.12, an antagonist antibody targeting CD40, the most advanced product candidate under this collaboration, were presented at the 46th American Society of Hematology (ASH) Annual Meeting and Exposition in San Diego, California. In vitro, CHIR-12.12 has demonstrated dual mechanisms of B cell tumor killing: antibody-dependent cellular cytotoxicity (ADCC) of CD40-expressing tumors by immune effector cells and inhibition of CD40-ligand mediated growth and survival.

In October of 2005, we and Chiron initiated our second clinical trial of CHIR-12.12. This single agent, open-label Phase I study will evaluate the drug s safety, dose tolerability and pharmacokinetic profile in up to 40 subjects with multiple myeloma, using translational medicine to monitor biomarkers and correlate them with responses to therapy, guiding the dose regimen and selection of subjects. A similar Phase I study is on-going at three leading cancer centers in the United States in up to 40 subjects with advanced chronic lymphocytic leukemia, or CLL. We and Chiron

are also evaluating clinical testing of CHIR-12.12 in patients with other B-cell cancers.

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Collaboration with Lexicon Genetics

In June of 2005, we announced the formation of a collaboration with Lexicon to jointly develop and commercialize novel antibodies for certain targets discovered by Lexicon and will share the responsibility and costs for research, preclinical, clinical, and commercialization activities, which along with any profits, will be allocated 65% to Lexicon and 35% to us. We will have principal responsibility for manufacturing antibodies for use in clinical trials and commercial sales. This three-year collaboration combines Lexicon s biotherapeutics target discovery capabilities with our antibody generation platform to speed the development of novel therapeutic antibodies. As an initial target, we and Lexicon have selected a secreted protein involved in metabolic functions such as insulin sensitivity and weight gain in response to diet. Antibodies to this target may be developed to treat obesity, type 2 diabetes and other metabolic diseases.

Anti-gastrin Antibody Collaboration

In September of 2004, we entered into a worldwide collaboration with Aphton to develop treatments for gastrointestinal (GI) and other gastrin-sensitive cancers using anti-gastrin monoclonal antibodies. Under the terms of the agreement, the companies will share all development expenses and all commercialization profits and losses for all product candidates on a 70/30 basis, with our share being 30%. We will have worldwide manufacturing rights for these products and the ability to share up to 30% in the commercialization efforts in the United States. Aphton will share United States commercialization rights and will have exclusive rights to commercialize all products outside the United States. Antibodies to be developed under the collaboration are intended to bind and neutralize the hormone gastrin 17 that is believed to be involved in tumor progression in GI cancers. Gastrin expression and the appearance of gastrin receptors have been associated with increasing malignant characteristics of GI tumors and with poorer prognostic outcomes. Specifically, gastrin has been shown to be involved in the progression of colorectal, stomach, liver and pancreatic cancers and inhibiting gastrin may inhibit such progression.

BPI-based Products

We are developing novel therapeutic products derived from a recombinant bactericidal/permeability-increasing protein (rBPI). rBPI is a genetically engineered version of a human host-defense protein (BPI) found in white blood cells. rBPI kills bacteria and enhances the activity of antibiotics, in many cases reversing bacterial resistance to the antibiotic. rBPI also has anti-inflammatory properties. Furthermore, rBPI inhibits the function of multiple growth factors involved in blood vessel formation and angiogenesis (growth of new blood vessels). Angiogenesis is an essential component of inflammation and solid tumor growth as well as diseases such as retinopathies.

We remain committed to the future development of drugs from our BPI platform, including NEUPREX®. We believe the safety profile of NEUPREX® continues to be an attractive clinical feature evidenced by ongoing investigator-sponsored probe studies evaluating NEUPREX® in pediatric and adult indications. Several clinical investigators are conducting or plan to conduct studies in target indications including pediatric open-heart surgery, burns and bone marrow transplant (BMT). The BMT studies may provide proofs of concept for acute radiation syndrome and allow for possible biodefense application. We have decided to cease investigating at this time the use of NEUPREX® as a possible treatment for plague.

Antibody Process Development and Manufacturing Contracts

In September of 2005, we announced that we had signed a letter agreement with Cubist to develop production processes and to manufacture HepeX-B, a novel two-antibody biologic, in quantities sufficient to conduct Phase III clinical trials. HepeX-B is a combination of two fully human monoclonal antibodies that target the hepatitis B virus (HBV) surface. The product, which has been granted Orphan

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Drug Status in both the United States and the European Union, is currently being evaluated in Phase III trials for the prevention of HBV re-infection in liver transplant patients. If these trials are successful, the companies may extend the relationship to a commercial supply agreement for product launch.

In March of 2005, we were awarded a $15.0 million contract from NIAID, a division of the National Institutes of Health (NIH), to develop three anti-botulinum neurotoxin monoclonal antibody therapeutics. The contract work will be performed over an 18-month period and will be 100% funded with Federal funds from NIAID under Contract No. HHSN266200500004C. We recognize revenue over the life of the contract as the services are performed and, as per the terms of the contract, a 10% retention on all revenue is deferred and classified as a receivable until completion of the contract. For the nine months ended September 30, 2005, we recorded revenues of $2.8 million from this contract.

Our Business Strategy

Our strategy is to develop and manufacture antibodies and other recombinant protein products to treat cancer, immunological and inflammatory disorders, and infectious diseases. In addition to our own proprietary products, we broaden our pipeline by leveraging our development and manufacturing infrastructure through collaborations with other companies and research institutions. Our goal is to become profitable in the next three years while continuing to strengthen our product pipeline. We recognize the challenging nature of this goal, and the principal elements of our strategy are to:

Continue to build a diverse portfolio of product candidates. We are developing a pipeline of product candidates in a variety of therapeutic areas at various stages of clinical and preclinical development. We believe this strategy may increase the likelihood of successful product approval and commercialization, while reducing our exposure to the risk inherent in developing any one drug or focusing on a single therapeutic area.

Seek to license or acquire complementary products and technologies. We intend to supplement our internal drug discovery efforts through the acquisition of products and technologies that complement our internal product development strategy. We intend to continue to identify, evaluate and pursue the licensing or acquisition of other strategically valuable products and technologies.

Leverage our core competencies. We believe that we have significant expertise in recombinant protein development and production, which we have used to establish a strong platform for the development of antibody and other protein-related pharmaceutical products. We intend to leverage these competencies to develop valuable products addressing markets with important unmet medical needs. When strategically advantageous, we may seek marketing arrangements with other pharmaceutical companies for the further advancement of our product candidates.

Outlicense select product candidates. We have additional internally developed product candidates, which we will consider outlicensing in the future, if we believe that it will bring us additional financial resources and increase the likelihood of regulatory approval and successful commercialization of such products within or outside the United States.

Utilize excess manufacturing capacity. We currently have manufacturing capacity beyond that required for the production of our own proprietary and collaborative products. We are actively seeking additional relationships that would utilize this excess capacity and bring us additional financial resources.

NEUPREX® and Human Engineering are trademarks of XOMA Ltd. and/or our licensees. SNAPs$_{SM}$ is a service mark of Piper Jaffray & Co. All other brand names or trademarks appearing in this prospectus are the property of others.

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The Exchange Offer

We have summarized the terms of the exchange offer in this section. Before you decide whether to tender your existing notes in this offer, you should read the detailed description of the offer under The Exchange Offer and of the new notes under Description of New Notes for further information.

Terms of the exchange offer	We are offering to exchange up to $60,000,000 aggregate principal amount of new notes for up to an aggregate principal amount of $60,000,000 of the existing notes. We are offering to exchange $1,000 principal amount of new notes for each $1,000 principal amount of the existing notes. New notes will be issued in denominations of $1,000 and any integral multiple of $1,000. You may tender all, some or none of your existing notes.
Deciding whether to participate in the exchange offer	Neither we nor our officers or directors make any recommendation as to whether you should tender or refrain from tendering all or any portion of your existing notes in the exchange offer. Further, we have not authorized anyone to make any such recommendation. You must make your own decision whether to tender your existing notes in the exchange offer and, if so, the aggregate amount of existing notes to tender. You should read this prospectus and the letter of transmittal and consult with your advisers, if any, to make that decision based on your own financial position and requirements. In particular, you should know that there are certain significant adverse tax consequences that could result from the exchange of existing notes or the holding, conversion or other disposition of the new notes. Investors considering the exchange of existing notes for new notes should discuss the tax consequences with their own tax advisors. See The Exchange Offer Terms of the Exchange Offer Tax consequences in this Summary, Risk Factors Risks Related to This Offering You may experience significant adverse tax consequences by participating in the exchange offer or the new money offering and United States Federal Income Tax Considerations. The exchange offer is separate and distinct from the new money offering and whether or not you indicate an interest to participate in the new money offering will have no effect on your ability to participate in the exchange offer.
Expiration date; extension; termination	The exchange offer and withdrawal rights will expire at 12:00 midnight, New York City time, on February 8, 2006, or any subsequent time or date to which the exchange offer is extended. We may extend the expiration date or amend any of the terms or conditions of the exchange offer for any reason. In the case of an extension, we will issue a press release or other public announcement no later than 9:00 a.m., New York City time, on the next business day after the previously

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scheduled expiration date. If we extend the expiration date, you must tender your existing notes prior to the date identified in the press release or public announcement if you wish to participate in the exchange offer. In the case of an amendment, we will issue a press release or other public announcement. We have the right to:

- extend the expiration date of the exchange offer and retain all tendered existing notes, subject to your right to withdraw your tendered existing notes; and
- waive any condition or otherwise amend any of the terms or conditions of the exchange offer in any respect, other than the condition that the registration statement be declared effective.

Conditions to the exchange offer

The exchange offer is subject to the registration statement, and any post-effective amendment to the registration statement covering the new notes, being effective under the Securities Act of 1933, as amended, or the Securities Act. The exchange offer is also subject to customary conditions, which we may waive. The satisfaction or waiver of the conditions, other than those that relate to governmental or regulatory conditions necessary to the consummation of the exchange offer, will be determined as of February 8, 2006, the expiration date of the exchange offer.

Withdrawal rights

You may withdraw a tender of your existing notes at any time before the exchange offer expires by delivering a written notice of withdrawal to Wells Fargo Bank, National Association, the exchange agent, before the expiration date. If you change your mind, you may retender your existing notes by again following the exchange offer procedures before the exchange offer expires. In addition, if we have not accepted your tendered existing notes for exchange, you may withdraw your existing notes at any time after March 10, 2006.

Procedures for tendering outstanding existing notes

If you hold existing notes through a broker, dealer, commercial bank, trust company or other nominee, you should contact that person promptly if you wish to tender your existing notes. Tenders of your existing notes will be effected by book-entry transfers through The Depository Trust Company.

If you hold existing notes through a broker, dealer, commercial bank, trust company or other nominee, you may also comply with the procedures for guaranteed delivery.

Please do not send letters of transmittal to us. You should send letters of transmittal to Wells Fargo Bank, National Association, the exchange agent, at one of its offices as indicated under The Exchange Offer at the end of this

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	prospectus or in the letter of transmittal. The exchange agent can answer your questions regarding how to tender your existing notes.
Accrued interest on existing notes	Existing note holders will receive accrued and unpaid interest on any existing notes accepted in the exchange offer. The amount of accrued interest will be calculated from the last interest payment date up to, but excluding, the closing date of the exchange offer.
Interest on new notes	Interest on the new notes will be payable at a rate of 6.50% per year, payable semiannually on February 1 and August 1 of each year, commencing August 1, 2006. See Comparison of New Notes and Existing Notes. Interest on the new notes will begin to accrue as of the closing date of the exchange offer. Accrued and unpaid interest on any tendered existing notes will be paid on the closing date of the exchange offer, the same date the new notes to be offered in the exchange offer will be issued. Accordingly, there will not be a gap in the interest accrual on existing notes tendered in the exchange offer.
Trading	Our common shares are traded on The Nasdaq National Market under the symbol XOMA.
Information agent	Georgeson Shareholder Communications Inc.
Exchange agent	Wells Fargo Bank, National Association
Dealer managers	Piper Jaffray & Co. and Canaccord Adams Inc.
Risk factors	You should carefully consider the matters described under Risk Factors, as well as other information set forth in this prospectus and in the letter of transmittal.
Consequences of not exchanging existing notes	The liquidity and trading market for existing notes not tendered in the exchange offer could be adversely affected to the extent a significant number of the existing notes are tendered and accepted in the exchange offer.
Tax consequences	See United States Federal Income Tax Considerations for a description of certain material U.S. federal income tax consequences associated with the exchange offer and the new money offering.
Ratio (deficiency) of earnings to fixed charges	Our ratio of earnings to fixed charges for the nine months ended September 30, 2005 was 4.20 to 1.0. Earnings were insufficient to cover fixed charges by $78.9 million, $58.7 million, $33.2 million, $28.0 million and $29.4 million for the years ended December 31, 2004, 2003, 2002, 2001 and 2000, respectively.

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The New Money Offering

We have summarized the terms of the new money offer in this section. The new money offering is separate and distinct from the exchange offer. Before you decide to invest in additional new notes in the new money offering, you should read the detailed description of the offer under The New Money Offering and of the new notes under Description of New Notes for further information.

Terms of the new money offering	We are offering to the public up to $10,000,000 aggregate principal amount of new notes for cash.
Offering price	The public offering price for the new notes issued in the new money offering will be determined by indication of interest.
Use of proceeds	We expect to use the net proceeds from the new money offering for general corporate purposes, including current research and development projects, the development or acquisition of new products or technologies, equipment acquisitions, general working capital and operating expenses.
Placement agents	Piper Jaffray & Co. and Canaccord Adams Inc.
Indications of interest	If you would be interested in participating in the new money offering of new notes, you should give your indication of interest directly to the placement agents at (415) 984-5141, attention Simon Manning or Brian Sullivan. All sales of the new notes will be made at the sole discretion of the placement agents in consultation with us. You need not participate in the exchange offer in order to deliver an indication of interest to participate in the new money offering.
Allocation of new notes in the new money offering	Neither we nor our placement agents may confirm an allocation on any indication of interest or offer to buy new notes until the registration statement relating to the new money offering, of which this prospectus is a part, has become effective. You may withdraw or change your indication of interest or offer to buy new notes, without obligation or commitment of any kind, at any time prior to being contacted by the placement agents, informed of your allocation and asked to confirm your allocation or withdraw your indication of interest after the effective date of the registration statement of which this prospectus is a part. You will not be obligated to buy new notes by indicating an interest or offering to buy new notes. Even if you indicate your interest in buying new notes, you may not receive any allocation of new notes or your allocation may be for an amount substantially less than the amount of your indication of interest. Allocations of new notes may not be proportional to the total indications of interest that are made in the new money offering. Allocation decisions will be at the discretion of the placement agents who will consider various factors such as, but not limited to, investment interest in us, investment objectives, and investor

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	diversification. Neither we nor our placement agents will consider whether or not you are a holder of the existing notes or participate in the exchange offer as a relevant factor when determining the allocation of the new notes in the new money offering.
Deciding whether to participate in the new money offering	Neither we nor our officers or directors make any recommendation as to whether you should or should not indicate your interest in participating in the new money offering. Further, we have not authorized anyone to make any such recommendation. You must make your own decision whether to indicate your interest in purchasing new notes, and if so, whether to purchase the total amount of new notes that may be allocated to you. You should read this prospectus and consult with your advisers, if any, to make that decision based on your own financial position and requirements. In particular, you should know that there are certain significant adverse tax consequences that could result from the holding, conversion or other disposition of the new notes. Investors considering the purchase of new notes in the new money offering should discuss the tax consequences with their own tax advisors. See Risk Factors Risks Related to This Offering You may experience significant adverse tax consequences by participating in the exchange offer or the new money offering and United States Federal Income Tax Considerations.

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Comparison of New Notes and Existing Notes

The following is a brief summary of the terms of the new notes and the existing notes. For a more detailed description of the new notes and existing notes, see Description of New Notes and Description of Existing Notes, respectively.

	New Notes	Existing Notes
Securities	Up to $70,000,000 in principal amount of our 6.50% Convertible SNAPs$_{SM}$ due February 1, 2012, $60,000,000 of which are being offered in the exchange offer and up to $10,000,000 of which are being separately offered in the new money offering.	As of the date of this prospectus, there is $60,000,000 in principal amount of our existing 6.50% Convertible Senior Notes due February 1, 2012 outstanding.
Issuer	XOMA Ltd., a Bermuda company.	XOMA Ltd., a Bermuda company.
Maturity	February 1, 2012.	February 1, 2012.
Interest	Interest on the new notes will be payable at a rate of 6.50% per year, payable semiannually on February 1 and August 1 of each year, commencing August 1, 2006.	Interest on the existing notes is payable at a rate of 6.50% per year, payable semiannually on February 1 and August 1 of each year.
	We will pay interest only in cash except as described below under Additional interest upon voluntary and auto-conversion prior to February 10, 2010. The interest rate and payment dates on the new notes are the same as the existing notes; however, because we may redeem some or all of the new notes after February 10, 2010, without regard to the closing price of our common shares, you may receive only four years of total interest payments compared to a total of 6.3 years of interest payments if we elect to redeem the new notes and the price of our common shares would not have satisfied the call provisions under the existing notes.	We will pay interest only in cash.
Conversion rights	The new notes will be convertible, at the option of the holder, at any	The existing notes are convertible, at the option of the holder, at any

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New Notes	Existing Notes
time on or prior to maturity, into our common shares at an initial conversion rate of 533.4756 shares per $1,000 principal amount of notes (equal to a conversion price of approximately $1.87 per share). The conversion rate will be subject to adjustment.	time on or prior to maturity, into our common shares at an initial conversion rate of 533.4756 shares per $1,000 principal amount of notes (equal to a conversion price of approximately $1.87 per share). The conversion rate is subject to adjustment.