XOMA Corp
Form 10-Q
August 03, 2016
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2016

or

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

Commission File No. 0-14710

XOMA Corporation

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

Class	Outstanding at August 1, 2016
Common Stock, $0.0075 par value	120,583,797

XOMA CORPORATION

FORM 10-Q

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PART I - FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

XOMA CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share amounts)

	June 30, 2016 (unaudited)	December 31, 2015 (Note 1)
ASSETS		
Current assets:		
Cash and cash equivalents	$33,854	$65,767
Marketable securities	442	496
Trade and other receivables, net	959	4,069
Prepaid expenses and other current assets	1,070	1,887
Total current assets	36,325	72,219
Property and equipment, net	1,577	1,997
Other assets	664	664
Total assets	$38,566	$74,880
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	$5,046	$6,831
Accrued and other liabilities	5,737	7,025
Deferred revenue	1,024	3,198
Interest bearing obligations – current	12,138	5,910
Accrued interest on interest bearing obligations – current	288	331
Total current liabilities	24,233	23,295
Interest bearing obligations – non-current	34,386	42,757
Contingent warrant liabilities	269	10,464
Other liabilities – non-current	123	673
Total liabilities	59,011	77,189
Commitments and Contingencies (Note 10)		
Stockholders' deficit:		
Preferred stock, $0.05 par value, 1,000,000 shares authorized, 0 issued and outstanding at June 30, 2016 and December 31, 2015	—	—
Common stock, $0.0075 par value, 277,333,332 shares authorized, 120,583,797 and 119,045,592 shares issued and outstanding at June 30, 2016 and December 31,	904	893

2015, respectively		
Additional paid-in capital	1,142,313	1,136,881
Accumulated comprehensive loss	(54)	—
Accumulated deficit	(1,163,608)	(1,140,083)
Total stockholders' deficit	(20,445)	(2,309)
Total liabilities and stockholders' deficit	$38,566	$74,880

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

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

XOMA CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(unaudited)

(in thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenues:				
License and collaborative fees	$275	$945	$2,766	$1,207
Contract and other	168	1,594	1,639	3,983
Total revenues	443	2,539	4,405	5,190
Operating expenses:				
Research and development	13,703	19,692	27,313	39,696
Selling, general and administrative	4,779	5,060	9,084	10,280
Restructuring	(21)	—	15	—
Total operating expenses	18,461	24,752	36,412	49,976
Loss from operations	(18,018)	(22,213)	(32,007)	(44,786)
Other income (expense):				
Interest expense	(1,007)	(1,007)	(2,009)	(2,123)
Other income (expense), net	602	(363)	296	1,648
Revaluation of contingent warrant liabilities	3,263	(176)	10,195	(216)
Net loss	$(15,160)	$(23,759)	$(23,525)	$(45,477)
Basic and diluted net loss per share of common stock	$(0.13)	$(0.20)	$(0.20)	$(0.39)
Shares used in computing basic and diluted net loss per share of common stock	120,448	117,540	120,008	116,870
Other comprehensive loss:				
Net loss	$(15,160)	$(23,759)	$(23,525)	$(45,477)
Net unrealized loss on marketable securities	(12)	—	(54)	—
Comprehensive loss	$(15,172)	$(23,759)	$(23,579)	$(45,477)

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

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XOMA CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

(in thousands)

	Six Months Ended June 30,	
	2016	2015
Cash flows used in operating activities:		
Net loss	$(23,525)	$(45,477)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	418	902
Common stock contribution to 401(k)	785	986
Stock-based compensation expense	4,471	6,354
Revaluation of contingent warrant liabilities	(10,195)	216
Amortization of debt issuance costs, debt discount and final payment fee on debt	716	656
Loss on loan extinguishment	—	429
Unrealized loss (gain) on foreign currency exchange	249	(1,571)
Other	46	6
Changes in assets and liabilities:		
Trade and other receivables, net	3,110	660
Prepaid expenses and other current assets	881	(258)
Accounts payable and accrued liabilities	(3,070)	(3,954)
Accrued interest on interest bearing obligations	153	210
Deferred revenue	(2,181)	(342)
Other liabilities	(500)	556
Net cash used in operating activities	(28,642)	(40,627)
Cash flows from investing activities:		
Proceeds from sale of property and equipment	45	—
Purchase of property and equipment	(31)	(406)
Net cash provided by (used in) investing activities	14	(406)
Cash flows from financing activities:		
Proceeds from issuance of common stock, net of issuance costs	45	211
Proceeds from exercise of warrants	—	1
Proceeds from issuance of long term debt	—	20,000
Debt issuance costs and loan fees	—	(512)
Principal payments debt	(3,271)	(6,128)
Principal payments capital lease	(57)	—
Net cash (used in) provided by financing activities	(3,283)	13,572
Effect of exchange rate changes on cash	(2)	(27)

Net decrease in cash and cash equivalents	(31,913)	(27,488)
Cash and cash equivalents at the beginning of the period	65,767	78,445
Cash and cash equivalents at the end of the period	$33,854	$50,957
Supplemental Cash Flow Information:		
Cash paid for interest	$1,127	$792
Non-cash financing activities:		
Reclassification of contingent warrant liability to equity upon exercise of warrants	$—	$(3,088)
Interest added to principal balance on long-term debt	$194	$159
Issuance of common stock warrants in connection with Hercules Term Loan	$—	$450

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

XOMA CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. Description of Business

XOMA Corporation ("XOMA" or the "Company"), a Delaware corporation, combines a portfolio of five product candidates to treat diseases within the endocrine therapeutic area. The Company's clinical development portfolio includes candidates from the XMet platform, which consists of several Selective Insulin Receptor Modulator ("SIRM") antibodies that could offer new approaches in the treatment of metabolic diseases.

The lead compound from the XMet platform, XOMA 358, is a fully human monoclonal negative allosteric modulating antibody that binds to insulin receptors and attenuates insulin action. XOMA is investigating this compound as a novel treatment for non-drug-induced, endogenous hyperinsulinemic hypoglycemia (low blood glucose caused by excessive insulin produced by the body). XOMA 358 is currently in Phase 2 proof-of-concept ("POC") studies for congenital hyperinsulinism and patients who experience hyperinsulinism following bariatric surgery. The second compound from the XMet platform is XOMA 129, a fragment derived from the XOMA 358 antibody, which could be a treatment to reverse severe acute hypoglycemia, a severe condition experienced by the insulin-dependent diabetic population. XOMA's endocrine portfolio also includes XOMA 213, a Phase 2 product candidate targeting the prolactin receptor, as well as other preclinical or research stage programs. The Company's products are presently in various stages of development and are subject to regulatory approval before they can be commercially launched. XOMA intends to commercialize its endocrine antibodies itself or through collaboration agreements.

The Company announced the closure of its gevokizumab Phase 3 study in pyoderma gangrenosum in March 2016, and on March 25, 2016, the termination of XOMA's collaboration agreement with Les Laboratories Servier ("Servier") became effective (see Note 4).

Liquidity and Management Plans

The Company has incurred operating losses since its inception and had an accumulated deficit of $1.2 billion at June 30, 2016. Management expects operating losses and negative cash flows to continue for the foreseeable future. As of June 30, 2016, the Company had $34.3 million in cash, cash equivalents and marketable securities, which is available to fund future operations. Taking into account the repayment of its outstanding debt classified within current liabilities on the Company's condensed consolidated balance sheet as of June 30, 2016, the Company anticipates that it will be required to obtain funds from license and collaboration agreements or seek additional equity or debt financing to fund its operations through the next 12 months. It is unclear if any such transactions will occur, and if they will be on satisfactory terms. If the Company is unable to achieve the level of funds from licensing and collaboration agreements or obtain external financing in the second half of 2016, as contemplated in its operating plan, the Company has plans to implement certain cost cutting actions to reduce its working capital requirements commencing in the fourth quarter of 2016. Consistent with the actions the Company has taken in the past, it will take the necessary and appropriate steps to enable the continued operation of the business and preservation of the value of its assets for the next 12 months, including taking actions such as the out-licensing or sale of non-strategic assets, reducing personnel-related costs, curtailing the Company's development activities and reducing other expenditures that are within the Company's control. These reductions in expenditures, if implemented, may have an adverse impact on the Company's ability to achieve certain of its planned objectives.

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

2. Basis of Presentation and Significant Accounting Policies

Basis of Presentation

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

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

Use of Estimates

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

Revenue Recognition

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

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

License and Collaborative Fees

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

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

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

Contract and Other Revenues

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

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

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

Research and Development Expenses

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

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

Stock-Based Compensation

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

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

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

Warrants

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

Net Loss per Share of Common Stock

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

Concentration of Risk

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

The Company has not experienced any significant credit losses and does not generally require collateral on receivables. For the three months ended June 30, 2016, two customers represented 56% and 15% of total revenues. For the six months ended June 30, 2016, three customers represented 34%, 25% and 21% of total revenues. For the three and six months ended June 30, 2015, two customers represented 48% and 21%, and 60% and 23% of total revenues, respectively. As of June 30, 2016, three customers represented 62%, 12% and 11% of the accounts receivable balance. As of December 31, 2015, four customers represented 39%, 25%, 18% and 10% of the trade and other receivables balance.

Recent Accounting Pronouncements

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

In June 2016, the FASB issued ASU 2016-13, Financial Instruments – Credit Losses (Topic 326), which is intended to provide financial statement users with more useful information about expected credit losses on financial assets held by a reporting entity at each reporting date. The new standard replaces the existing incurred loss impairment methodology with a methodology that requires consideration of a broader range of reasonable and supportable forward-looking information to estimate all expected credit losses. This ASU is effective for fiscal years and interim periods within those years beginning after December 15, 2019 and early adoption is permitted for fiscal years and interim periods within those years beginning after December 15, 2018. The Company is currently evaluating the impact that the adoption of ASU 2016-13 will have on its consolidated financial statements and related disclosures.

3. Condensed Consolidated Financial Statements Detail

Cash and Cash Equivalents

As of June 30, 2016, cash and cash equivalents consisted of demand deposits of $5.8 million and money market funds of $28.1 million with maturities of less than 90 days at the date of purchase. As of December 31, 2015, cash and cash equivalents consisted of demand deposits of $23.2 million and money market funds of $42.6 million with maturities of less than 90 days at the date of purchase.

Marketable Securities

At June 30, 2016 and December 31, 2015, marketable securities consisted of an investment in the common stock of a public entity of $0.4 million and $0.5 million, respectively. The Company had an unrealized loss of $0.1 million associated with its marketable securities as of June 30, 2016. At each reporting date, the Company performs an evaluation of its equity securities to determine if unrealized losses are other-than-temporary. In performing this assessment, the Company determines whether it expects the security to recover in the near term and considers its ability and intent to hold the security until anticipated recovery. This determination considers the duration and severity of the impairment and the financial condition of the investment as well as the Company's ability to hold the investment until a recovery of fair value. As of June 30, 2016, the Company determined that the unrealized loss for its marketable securities is not an other-than-temporary impairment.

Accrued and Other Liabilities

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

	June 30, 2016	December 31, 2015
Accrued payroll and other benefits	$ 1,627	$ 2,156
Accrued clinical trial costs	1,451	406
Accrued incentive compensation	915	2,609
Deferred rent	757	608
Accrued legal and accounting fees	299	517
Other	688	729
Total	$ 5,737	$ 7,025

Net Loss Per Share of Common Stock

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Common stock options and RSUs	9,345	8,362	9,476	7,850
Warrants for common stock	18,331	19,087	18,280	19,087
Total	27,676	27,449	27,756	26,937

4. Collaborative and Other Agreements

Servier

In December 2010, the Company entered into a license and collaboration agreement ("Collaboration Agreement") with Servier, to jointly develop and commercialize gevokizumab in multiple indications. Under the terms of the agreement, Servier had worldwide rights to cardiovascular disease and diabetes indications and had rights outside the United States and Japan to all other indications, including non-infectious intermediate, posterior or pan-uveitis ("NIU"), Behçet's disease uveitis, pyoderma gangrenosum, and other inflammatory and oncology indications. Under the Collaboration Agreement, Servier funded all activities to advance the global clinical development and future commercialization of gevokizumab in cardiovascular-related diseases and diabetes. Also, Servier funded the first $50.0 million of gevokizumab global clinical development and chemistry, manufacturing and controls expenses related to the three pivotal clinical trials under the EYEGUARD program. All remaining expenses related to these three pivotal clinical trials were shared equally between Servier and the Company. For the three months ended June 30, 2016 and 2015, the Company recorded revenue of zero and $0.3 million, respectively, from this Collaboration Agreement. For the six months ended June 30, 2016 and 2015, the Company recorded $0.3 million and $0.9 million, respectively, from this Collaboration Agreement.

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

notification to March 25, 2016. The final reconciliation of cost sharing under the collaboration is pending and may result in additional revenues or expenses to XOMA that may have a significant impact on the Company's financial results.

NIAID

In October 2011, the Company announced that NIAID had awarded the Company a new contract under Contract No. HHSN272201100031C (the "NIAID Contract") for up to $28.0 million over five years to develop broad-spectrum antitoxins for the treatment of human botulism poisoning. The contract work was being performed on a cost-plus-fixed-fee basis over the life of the contract and the Company was recognizing revenue under the arrangement as the services were performed on a proportional- performance basis. The Company recognized revenue of $25,000 and $1.2 million under this contract for the three months ended June 30, 2016 and 2015, respectively. The Company recognized revenue of $1.1 million and $2.9 million under this contract, for the six months ended June 30, 2016 and 2015, respectively.

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

5. Fair Value Measurements

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

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

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

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

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

	Fair Value Measurements at June 30, 2016 Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
Money market funds [1]	$28,132	$ —	$ —	$28,132
Marketable securities	442	—	—	442
	$28,574	$ —	$ —	$28,574
Liabilities:				
Contingent warrant liabilities	$—	$ —	$ 269	$269

	Fair Value Measurements at December 31, 2015 Using		
	Quoted Prices in	Significant Other	Significant Unobservable

	Active Markets for Identical Assets (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
Assets:				
Money market funds [1]	$42,590	$ —	$ —	$42,590
Marketable securities	496	—	—	496
Total	$43,086	$ —	$ —	$43,086
Liabilities:				
Contingent warrant liabilities	$—	$ —	$ 10,464	$10,464

(1) Included in cash and cash equivalents

During the six month period ended June 30, 2016, there were no transfers between Level 1, Level 2, or Level 3 assets or liabilities reported at fair value on a recurring basis and the valuation techniques used did not change compared to the Company's established practice.

The estimated fair value of the contingent warrant liabilities at June 30, 2016 and December 31, 2015, was determined using the Black-Scholes Model, which requires inputs such as the expected term of the warrants, volatility and risk-free interest rate. These inputs are subjective and generally require significant analysis and judgment to develop. The Company's common stock price represents a significant input that affects the valuation of the warrants. The change in the estimated fair value is recorded as a gain or loss in the revaluation of contingent warrant liabilities line of the condensed consolidated statements of comprehensive loss.

The estimated fair value of the contingent warrant liabilities was calculated using the following range of assumptions at June 30, 2016, and December 31, 2015:

	June 30, 2016	December 31, 2015
Expected volatility	78% - 100%	166% - 183%
Risk-free interest rate	0.28% - 0.41%	0.64% - 0.74%
Expected term	0.44 - 0.69	0.94 - 1.19

The following table provides a summary of changes in the estimated fair value of the Company's Level 3 financial liabilities for the six months ended June 30, 2016 (in thousands):

Balance at December 31, 2015	$10,464
Decrease in estimated fair value of contingent warrant liabilities upon revaluation	(10,195)
Balance at June 30, 2016	$269

The estimated fair value of the Company's outstanding interest-bearing obligations is estimated using the net present value of the payments, discounted at an interest rate that is consistent with market interest rates, which is a Level 2 input. The carrying amount and the estimated fair value of the Company's outstanding interest-bearing obligations at June 30, 2016, and December 31, 2015, are as follows (in thousands):

	June 30, 2016		December 31, 2015	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Hercules term loan	$20,052	$ 21,225	$19,653	$ 21,231
Novartis note	13,879	13,641	13,683	13,394
Servier loan	12,593	12,556	15,331	15,185
Total	$46,524	$ 47,422	$48,667	$ 49,810

6. Disposition

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

On March 17, 2016, the Company effected a novation of the NIAID Contract to Nanotherapeutics. On March 23, 2016, the Company completed the transfer of the NIAID Contract and certain related third-party service contracts and materials, and the grant of exclusive and non-exclusive licenses for certain of its patents and general know-how to Nanotherapeutics. The Company believes that the NIAID Contract and certain related third-party service contracts and materials related to the biodefense program transferred to Nanotherapeutics include a sufficient number of key inputs and processes necessary to generate output from a market participant's perspective. Accordingly, the Company has determined that such assets qualify as a business. The Transaction had no impact on the Company's consolidated financial statements as of, and for the six-month period ended, June 30, 2016. Any contingent consideration or royalties will be recognized in the condensed consolidated statements of comprehensive loss when received.

7. Restructuring Charges

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

During the three and six months ended June 30, 2016, the Company recorded a credit of $21,000 and a charge of $15,000, respectively, related to severance costs and contract termination costs resulting from the 2015 Restructuring.

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

	Employee Severance and Other Benefits	Contract Termination Costs	Total
Balance at December 31, 2015	$ 343	$ 116	$459
Restructuring charges	(14)	29	15
Cash payments	(311)	(145)	(456)
Balance at June 30, 2016	$ 18	$ —	$18

8. Long-Term Debt

Novartis Note

In May 2005, the Company executed a secured note agreement (the "Note Agreement") with Novartis AG ("Novartis"), which was due and payable in full in June 2015. Under the Note Agreement, the Company borrowed semi-annually to fund up to 75% of the Company's research and development and commercialization costs under its collaboration arrangement with Novartis, not to exceed $50.0 million in aggregate principal amount. Interest on the principal amount of the loan accrued at six-month LIBOR plus 2%, which was equal to 2.93% at June 30, 2016 and is payable semi-annually in June and December of each year. Additionally, the interest rate resets in June and December of each year. At the Company's election, the semi-annual interest payments could be added to the outstanding principal amount, in lieu of a cash payment, as long as the aggregate principal amount did not exceed $50.0 million. The Company made this election for all interest payments. Loans under the Note Agreement were secured by the

Company's interest in its collaboration with Novartis, including any payments owed to it thereunder. Pursuant to the terms of the arrangement as restructured in November 2008, the Company did not make any additional borrowings under the Novartis note.

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

As of June 30, 2016 and December 31, 2015, the outstanding principal balance under this Secured Note Amendment was $13.9 million and $13.7 million, respectively, and was included in interest bearing obligations – long term in the accompanying consolidated balance sheets.

Servier Loan Agreement

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

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

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

The loan discount is amortized to interest expense under the effective interest method over the remaining life of the loan. The loan discount balance at the time of the Loan Amendment was $1.9 million, which is being amortized over the remaining term of the Loan Amendment. The Company recorded non-cash interest expense resulting from the amortization of the loan discount of $0.2 million and $0.2 million, for the three months ended June 30, 2016 and 2015, respectively. The Company recorded non-cash interest expense resulting from the amortization of the loan discount of $0.3 million and $0.3 million, for the six months ended June 30, 2016 and 2015, respectively. At June 30, 2016 and December 31, 2015, the net carrying value of the loan was $12.6 million and $15.3 million, respectively. For the three and six months ended June 30, 2016, the Company recorded an unrealized foreign exchange loss of $17,000 and an unrealized foreign exchange gain of $20,000, respectively, related to the re-measurement of the loan discount. For the three and six months ended June 30, 2015, the Company recorded an unrealized foreign exchange gain of $35,000 and an unrealized foreign exchange loss of $0.2 million, respectively, related to the re-measurement of the loan discount.

On September 28, 2015, Servier terminated the Collaboration Agreement with the required 180-day notice and none of the acceleration clauses were triggered; therefore, the termination of the Collaboration Agreement had no impact on the loan balance. The outstanding principal balance under this loan was $13.3 million and $16.4 million, using a euro to US dollar exchange rate of 1.110 and 1.091, as of June 30, 2016 and December 31, 2015, respectively. The Company recorded an unrealized foreign exchange gain of $0.3 million and an unrealized foreign exchange loss of $0.2 million for the three and six months ended June 30, 2016, respectively, related to the re-measurement of the loan. The Company recorded an unrealized foreign exchange loss of $0.4 million and an unrealized foreign exchange gain of $1.6 million for the three and six months ended June 30, 2015, respectively, related to the re-measurement of the

loan.

Hercules Term Loan

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

If the Company prepays the loan prior to the loan maturity date, it will pay Hercules a prepayment charge, based on a prepayment fee equal to 3.00% of the amount prepaid, if the prepayment occurs in any of the first 12 months following the Closing Date, 2.00% of the amount prepaid, if the prepayment occurs after 12 months from the Closing Date but prior to 24 months from the Closing Date, and 1.00%

of the amount prepaid if the prepayment occurs after 24 months from the Closing Date. The Hercules Term Loan includes customary affirmative and restrictive covenants, but does not include any financial maintenance covenants, and also includes standard events of default, including payment defaults. Upon the occurrence of an event of default, a default interest rate of an additional 5% may be applied to the outstanding loan balances, and Hercules may declare all outstanding obligations immediately due and payable and take such other actions as set forth in the Hercules Term Loan.

The Company incurred debt issuance costs of $0.5 million in connection with the Hercules Term Loan. The Company will be required to pay a final payment fee equal to $1.2 million on the maturity date, or such earlier date as the term loan is paid in full. The debt issuance costs and final payment fee are being amortized and accreted, respectively, to interest expense over the term of the loan using the effective interest method. The Company recorded non-cash interest expense resulting from the amortization of the debt issuance costs and accretion of the final payment of $0.2 million and $0.3 million for the three and six months ended June 30, 2016, respectively. The Company recorded non-cash interest expense resulting from the amortization of the debt issuance costs and accretion of the final payment of $0.1 million and $0.2 million for the three and six months ended June 30, 2015, respectively.

In connection with the Hercules Term Loan, the Company issued unregistered warrants that entitle Hercules to purchase up to an aggregate of 181,268 unregistered shares of XOMA common stock at an exercise price equal to $3.31 per share. These warrants were exercisable immediately and have a five-year term expiring in February 2020. The Company allocated the aggregate proceeds of the Hercules Term Loan between the warrants and the debt obligation. The estimated fair value of the warrants issued to Hercules of $0.5 million was determined using the Black-Scholes Model and was recorded as a discount to the debt obligation. The debt discount is being amortized over the term of the loan using the effective interest method. The warrants are classified in stockholders' deficit on the condensed consolidated balance sheets. As of June 30, 2016, all of these warrants were outstanding.

The Company evaluated the Hercules Term Loan in accordance with accounting guidance for derivatives and determined there was de minimis value to the identified derivative features of the loan at inception and June 30, 2016.

As of June 30, 2016 and December 31, 2015, the outstanding principal balance of the Hercules Term Loan was $20.0 million. At June 30, 2016 and December 31, 2015, the net carrying value of the Hercules Term Loan was $20.0 million and $19.7 million, respectively.

Aggregate future principal, final payment fees and discounts of the Company's total interest bearing obligations as of June 30, 2016, are as follows (in thousands):

Six months ending December 31, 2016	$4,635
Year ended 2017	14,768
Year ended 2018	18,014
Year ended 2019	—
Year ended 2020	15,748
	53,165
Less: interest, final payment fee, discount and issuance cost	(6,641)
	46,524
Less: interest bearing obligations – current	(12,138)
Interest bearing obligations – non-current	$34,386

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Interest Expense

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Hercules term loan	$679	$652	$1,351	$886
Servier loan	225	272	451	527
GECC term loan	—	—	—	548
Novartis note	98	80	195	159
Other	5	3	12	3
Total interest expense	$1,007	$1,007	$2,009	$2,123

9. Common Stock Warrants

As of June 30, 2016 and December 31, 2015, the following common stock warrants were outstanding (in thousands, except for per share amounts):

Issuance Date	Expiration Date	Balance Sheet Classification	Exercise Price per Share	June 30, 2016	December 31, 2015
December 2011	December 2016	Stockholders' deficit	$ 1.14	263	263
March 2012	March 2017	Contingent warrant liabilities	$ 1.76	9,585	9,585
September 2012	September 2017	Stockholders' deficit	$ 3.54	39	39
December 2014	December 2016	Contingent warrant liabilities	$ 7.90	8,097	8,097
February 2015	February 2020	Stockholders' deficit	$ 3.31	181	181
February 2016	February 2021	Stockholders' deficit	$ 0.77	165	—
				18,330	18,165

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

The Company revalued the December 2014 warrants at June 30, 2016 using the Black-Scholes Model and recorded a $44,000 and $3.0 million decrease in the estimated fair value as a gain in the revaluation of contingent warrant liabilities line of the Company’s condensed consolidated statements of comprehensive loss for the three and six months ended June 30, 2016, respectively. The Company revalued the March 2012 warrants at June 30, 2016 using the Black-Scholes Model and recorded a $3.2 million and $7.2 million decrease in the estimated fair value as a gain in the revaluation of contingent warrant liabilities line of the Company’s condensed consolidated statements of

comprehensive loss for the three and six months ended June 30, 2016, respectively. The decrease in these liabilities is primarily due to the decrease in the market price of XOMA's common stock at June 30, 2016 as compared to December 31, 2015.

As of June 30, 2016 and December 31, 2015, the December 2014 warrants had an estimated fair value of zero and $3.0 million, respectively. As of June 30, 2016 and December 31, 2015, the March 2012 warrants had an estimated fair value of $0.3 million and $7.5 million, respectively.

10. Legal Proceedings, Commitments and Contingencies

Collaborative Agreements, Royalties and Milestone Payments

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

Legal Proceedings

On July 24, 2015, a purported securities class action lawsuit was filed in the United States District Court for the Northern District of California, captioned Markette v. XOMA Corp., et al. (Case No. 3:15-cv-3425) against the Company, its Chief Executive Officer and its Chief Medical Officer. The complaint asserts that all defendants violated Section 10(b) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and SEC Rule 10b-5, by making materially false or misleading statements regarding the Company’s EYEGUARD-B study between November 6, 2014 and July 21, 2015. The plaintiffs also allege that Messrs. Varian and Rubin violated Section 20(a) of the Exchange Act. The plaintiffs seek class certification, an award of unspecified compensatory damages, an award of reasonable costs and expenses, including attorneys’ fees, and other further relief as the Court may deem just and proper. On May 13, 2016, the Court appointed a lead plaintiff and lead counsel. The lead plaintiff filed an amended complaint on July 8, 2016 asserting the same claims and adding a former director as a defendant. Based on a review of the allegations, the Company believes that the plaintiffs’ allegations are without merit, and intends to vigorously defend against the claims. Currently, the Company does not believe that the outcome of this matter will have a material adverse effect on its business or financial condition, although an unfavorable outcome could have a material adverse effect on its results of operations for the period in which such a loss is recognized. The Company cannot reasonably estimate the possible loss or range of loss that may arise from this lawsuit.

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

On November 16 and November 25, 2015, two derivative lawsuits were filed purportedly on the Company's behalf in the United States District Court for the Northern District of California, captioned Fieser v. Van Ness, et al. (Case No. 4:15-CV-05236-HSG) and Csoka v. Varian, et al. (Case No. 3:15-cv-05429-SI), against certain of the Company's officers and the members of its board of directors. The lawsuits assert claims for breach of fiduciary duty and other violations of law based on the dissemination of allegedly false and misleading statements related to the Company's EYEGUARD-B study. Plaintiffs seek unspecified monetary damages and other relief including reforms and improvements to the Company's corporate governance and internal procedures. Both actions are currently stayed pending further developments in the securities class action. Management believes the allegations have no merit and intends to vigorously defend against the claims. Currently, the Company does not believe that the outcome of this matter will have a material adverse effect on its business or financial condition, although an unfavorable outcome could have a material adverse effect on its results of operations for the period in which such a loss is recognized. The Company cannot reasonably estimate the possible loss or range of loss that may arise from this lawsuit.

11. Stock-based Compensation

In February 2016, the Company's Board of Directors approved an amendment to the 2010 Long Term Incentive and Stock Award Plan ("2010 Plan") to, among other things, allow for an increase in the number of shares of common stock reserved for issuance and recommended that the amendment be submitted to the Company's shareholders for approval at the 2016 annual meeting. At the May 2016 annual meeting, the shareholders approved an amendment to the 2010 Plan to, among other things, increase the aggregate number of shares authorized for issuance by 3,400,000 shares to an aggregate of 22,171,206 shares.

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

Stock Options

The stock options generally vest monthly over four years for employees and one year for directors. Stock options held by employees who qualify for retirement age (defined as employees that are a minimum of 55 years of age and the sum of their age plus years of full-time employment with the Company exceeds 70 years) vest on the earlier of scheduled vest date or the date of retirement. The fair value of the stock options granted during the three and six months ended June 30, 2016 and 2015, was estimated based on the following weighted average assumptions:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Dividend yield	0 %	0 %	0 %	0 %
Expected volatility	107 %	81 %	107 %	82 %
Risk-free interest rate	1.01 %	1.65 %	1.18 %	1.40 %
Expected term	5.6 years	5.6 years	5.6 years	5.6 years

Stock option activity for the six months ended June 30, 2016, was as follows:

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

				Life (in years)		
Outstanding at January 1, 2016	7,690,297	$	6.33			
Granted	99,300		0.93			
Forfeited, expired or cancelled	(628,182)		6.48			
Outstanding at June 30, 2016	7,161,415	$	6.24	6.17	$	—
Vested and expected to vest at June 30, 2016	7,026,845	$	6.28	6.11	$	—
Exercisable at June 30, 2016	5,775,398	$	6.59	5.65	$	—

Restricted Stock Units

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

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

Unvested RSU activity for the six months ended June 30, 2016, is summarized below:

	Number of Shares	Weighted-Average Grant-Date Fair Value
Unvested balance at January 1, 2016	2,125,761	$ 4.07
Granted	2,302,944	0.76
Vested	(1,132,525)	3.27
Forfeited	(298,228)	2.87
Unvested balance at June 30, 2016	2,997,952	$ 1.95

Stock-based Compensation Expense

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Research and development	$857	$1,399	$1,994	$3,595
Selling, general and administrative	1,308	1,290	2,477	2,759
Total stock-based compensation expense	$2,165	$2,689	$4,471	$6,354

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

Forward Looking Statements

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

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

Overview

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

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

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

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

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

Recent Business Developments

In July 2016, we received Orphan Drug Designation in the European Union for XOMA 358 for the treatment of congenital hyperinsulinism.

In June 2016, we initiated a Phase 2 proof-of-concept study to evaluate two dose levels of XOMA 213 in up to 35 subjects and confirm its ability to curtail prolactin signaling.

In April 2016, we initiated a Phase 2 proof-of-concept study to evaluate the safety and clinical pharmacology of a single dose of XOMA 358 in patients who experience dangerously low blood glucose levels (hypoglycemia) after undergoing gastric bypass surgery.

In March 2016, in connection with the November 4, 2015 asset purchase agreement with Nanotherapeutics, Inc. ("Nanotherapeutics"), we effected the novation of our contract with the National Institute of Allergy and Infectious Diseases ("NIAID"), and completed the transfer of certain related third-party service contracts and materials, and the grant of exclusive and non-exclusive licenses for certain of our patents and general know-how to Nanotherapeutics. We are eligible to receive contingent consideration up to a maximum of $4.5 million in cash and 23,008 shares of common stock of Nanotherapeutics, based upon Nanotherapeutics achieving certain specified future operating objectives. In addition, we are eligible to receive 15% royalties on net sales of any future Nanotherapeutics products covered by or involving the related patents or know-how.

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

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

Critical Accounting Policies

Critical accounting policies are those that require significant judgment and/or estimates by management at the time that the financial statements are prepared such that materially different results might have been reported if other assumptions had been made. We consider certain accounting policies including, but not limited to, those related to revenue recognition, research and development expense, contingent warrant liabilities, and stock-based compensation

to be critical policies. There have been no significant changes in our critical accounting policies during the six months ended June 30, 2016, as compared with those previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2015, filed with the SEC on March 9, 2016.

Results of Operations

Revenues

Total revenues for the three and six months ended June 30, 2016 and 2015, were as follows (in thousands):

	Three Months Ended June 30,		Increase (Decrease)	Six Months Ended June 30,		Increase (Decrease)
	2016	2015		2016	2015	
License and collaborative fees	$275	$945	$ (670)	$2,766	$1,207	$ 1,559
Contract and other	168	1,594	(1,426)	1,639	3,983	(2,344)
Total revenues	$443	$2,539	$ (2,096)	$4,405	$5,190	$ (785)

License and Collaborative Fees

License and collaborative fees include fees and milestone payments related to the out-licensing of our products and technologies. The decrease in license and collaborative fee revenue for the three months ended June 30, 2016, as compared to the same period of 2015, was due to a $0.5 million decrease in annual fees related to out-licensing arrangements and a $0.2 million decrease in revenue recognized related to the loan agreement with Servier. The increase in license and collaborative fee revenue for the six months ended June 30, 2016, as compared to the same period of 2015, was primarily due to a $1.5 million fee for a phage display library license during the first quarter of 2016. The generation of future revenues related to license and other collaborative fees is dependent on our ability to attract new licensees and new collaboration partners to our antibody technologies, or the achievement of milestones by our existing licensees.

Contract and Other Revenues

Contract and other revenues include agreements where we provided contracted research and development services to our contract and collaboration partners, including Servier and NIAID. Contract and other revenues also include royalties. The following table shows the activity in contract and other revenues for the three and six months ended June 30, 2016 and 2015 (in thousands):

	Three Months Ended June 30,		Increase (Decrease)	Six Months Ended June 30,		Increase (Decrease)
	2016	2015		2016	2015	
NIAID	$25	$1,229	$ (1,204)	$1,082	$3,131	$ (2,049)
Servier	—	346	(346)	307	870	(563)
Other	143	19	124	250	(18)	268
Total contract and other revenues	$168	$1,594	$ (1,426)	$1,639	$3,983	$ (2,344)

Our revenue from NIAID decreased for the three and six months ended June 30, 2016 due primarily to the novation of our NIAID contract to Nanotherapeutics in March 2016. The decrease in revenue from Servier for the three and six months ended June 30, 2016 was due primarily to the discontinuation of the gevokizumab studies under our collaboration agreement with Servier in the third quarter of 2015 and the termination of the collaboration agreement with Servier in March 2016.

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

Research and Development Expenses

Research and development expenses were $13.7 million and $27.3 million for the three and six months ended June 30, 2016, respectively, compared with $19.7 million and $39.7 million for the same periods in 2015. The decrease of $6.0 million for the three months ended June 30, 2016, as compared to the same period of 2015, was primarily due to a decrease of $3.9 million in salaries and related expenses, a decrease of $1.2 million in clinical trial costs, a decrease of $0.9 million in outside consulting services due to the termination of the EYEGUARD global Phase 3 program in the third quarter of 2015, a decrease of $0.8 million in license fees and a decrease of $0.4 million in depreciation and facility expenses due to the sale of our manufacturing facility to Agenus West LLC (“Agenus”) in December 2015. These decreases were partially offset by a $2.1 million increase in manufacturing costs related to XOMA 358.

The decrease of $12.4 million for the six months ended June 30, 2016, as compared to the same period of 2015 was primarily due to a decrease of $8.9 million in salaries and related expenses, a decrease of $1.0 million in clinical trial costs, a decrease of $1.5 million in outside consulting services due to the termination of the EYEGUARD global Phase 3 program in the third quarter of 2015, a decrease of $1.0 million in depreciation and facility expenses due to the sale of our manufacturing facility to Agenus in December 2015 and a decrease of $0.8 million in license fees, partially offset by a $2.5 million increase in manufacturing costs related to XOMA 358.

Salaries and related personnel costs are a significant component of research and development expenses. We recorded $4.3 million and $8.7 million in research and development salaries and employee-related expenses for the three and six months ended June 30, 2016, respectively, as compared with $8.2 million and $17.6 million for the same periods in 2015. The decrease of $3.9 million for the three months ended June 30, 2016 was primarily due to a $3.4 million decrease in salaries and related personnel costs, primarily due to the restructuring activities initiated in the third quarter of 2015 and the resulting decrease in headcount, and a $0.5 million decrease in stock-based compensation, which is a non-cash expense. The decrease of $8.9 million for the six months ended June 30, 2016 was due to a $7.3 million decrease in salaries and related personnel costs, primarily due to the restructuring activities initiated in the third quarter of 2015 and the resulting decrease in headcount and a $1.6 million decrease in stock-based compensation, which is a non-cash expense.

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

	Three Months Ended June 30,			Six Months Ended June 30,		
	2016	2015	Increase (Decrease)	2016	2015	Increase (Decrease)
Earlier stage programs	$3,173	$4,479	$ (1,306)	$8,334	$10,252	$ (1,918)
Later stage programs	10,530	15,213	(4,683)	18,979	29,444	(10,465)
Total	$13,703	$19,692	$ (5,989)	$27,313	$39,696	$ (12,383)

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

	Three Months Ended June 30,			Six Months Ended June 30,		
	2016	2015	Increase (Decrease)	2016	2015	Increase (Decrease)
Internal projects	$12,441	$13,906	$ (1,465)	$21,102	$27,570	$ (6,468)
Collaborative and contract arrangements	1,262	5,786	(4,524)	6,211	12,126	(5,915)
Total	$13,703	$19,692	$ (5,989)	$27,313	$39,696	$ (12,383)

For the three and six months ended June 30, 2016, XOMA 358, for which we incurred the largest amount of expenses, accounted for between 40% and 50% of our total research and development expenses. The gevokizumab program and

our endocrine research-stage programs each accounted for between 10% and 20% of our total research and development expenses. Each of our remaining development programs accounted for less than 10% of our total research and development expenses for the three and six months ended June 30, 2016. For the three and six months ended June 30, 2015, the gevokizumab program, for which we incurred the largest amount of expense, accounted for more than 40% but less than 50% of our total research and development expenses. A second development program, XMet, accounted for more than 20% but less than 30% of our total research and development expenses and a third development program, NIAID, accounted for less than 10% of our total research and development expenses. Each of our remaining development programs accounted for less than 10% of our total research and development expenses for the three and six months ended June 30, 2015.

We expect our research and development spending during the remainder of 2016 will decline as compared with the second half of 2015 due to our 2015 restructuring efforts, our reduced facility costs as a result of the sale of our manufacturing facility to Agenus, the transfer of our biodefense assets to Nanotherapeutics, and our reduced spending on gevokizumab resulting from the termination of the EYEGUARD program and our collaboration with Servier.

Selling, General and Administrative Expenses

Selling, general and administrative expenses include salaries and related personnel costs, facilities costs and professional fees. Selling, general and administrative expenses were $4.8 million and $9.1 million for the three and six months ended June 30, 2016, respectively, compared with $5.1 million and $10.3 million for the same periods in 2015. The decrease of $0.3 million for the three months ended June 30, 2016 was due primarily to a $0.5 million decrease in salaries and related personnel costs related to the reduction in headcount from our restructuring activities initiated in the third quarter of 2015. The decrease of $1.2 million for the six months ended June 30, 2016 was due primarily to a $1.8 million decrease in salaries and related personnel costs related to the reduction in headcount from our restructuring activities initiated in the third quarter of 2015, partially offset by a $0.2 million increase in consulting services.

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

Restructuring Charges

On July 22, 2015, we announced the Phase 3 EYEGUARD-B study of gevokizumab in patients with Behçet's disease uveitis, run by Servier, did not meet the primary endpoint of time to first acute ocular exacerbation. In August 2015, we announced our intention to end the EYEGUARD global Phase 3 program. On August 21, 2015, in connection with our efforts to lower operating expenses and preserve capital while continuing to focus on our endocrine product pipeline, we implemented a restructuring plan that included a workforce reduction resulting in the termination of 52 employees in the second half of 2015.

During the three and six months ended June 30, 2016, we recorded a credit of $21,000 and a charge of $15,000, respectively, related to severance costs and contract termination costs resulting from the restructuring. There were no such costs incurred in the same periods in 2015.

Other Income (Expense), Net

Interest Expense

Amortization of debt issuance costs and discounts are included in interest expense. Interest expense is shown below for the three and six months ended June 30, 2016 and 2015 (in thousands):

	Three Months Ended June 30,			Six Months Ended June 30,		
	2016	2015	Increase (Decrease)	2016	2015	Increase (Decrease)
Hercules term loan	$679	$652	$ 27	$1,351	$886	$ 465
Servier loan	225	272	(47)	451	527	(76)
GECC term loan	—	—	—	—	548	(548)
Novartis note	98	80	18	195	159	36
Other	5	3	2	12	3	9
Total interest expense	$1,007	$1,007	$ —	$2,009	$2,123	$ (114)

Interest expense related to the term loan with General Electric Capital Corporation ("GECC") decreased by $0.5 million during the six months ended June 30, 2016, compared to the same period in 2015. The decrease was due to the extinguishment of the GECC term loan in February 2015. Interest expense related to the Servier loan decreased by $0.1 million during the six months ended June 30, 2016, compared to the same period in 2015 due to the payment of €3.0 million in principal in January 2016. These decreases were partially offset by an increase of $0.5 million during the six months ended June 30, 2016, in interest expense due to our $20.0 million term loan with Hercules Technology Growth Capital, Inc. ("Hercules Term Loan") that was entered into in February 2015. A portion of the proceeds from the Hercules Term Loan was used to repay our outstanding loan with GECC.

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

Other Income (Expense), Net

Other income (expense), net primarily consisted of unrealized (losses) gains. The following table shows the activity in other income (expense), net for the three and six months ended June 30, 2016 and 2015 (in thousands):

	Three Months Ended June 30,			Six Months Ended June 30,		
	2016	2015	Increase (Decrease)	2016	2015	Increase (Decrease)
Other income (expense), net						
Unrealized foreign exchange gain (loss)[1]	$ 310	$ (378)	$ 688	$(249)	$1,571	$ (1,820)
Sublease income	237	—	237	463	—	463
Other	55	15	40	82	77	5
Total other income (expense), net	$ 602	$ (363)	$ 965	$296	$1,648	$ (1,352)

(1) Unrealized foreign exchange gain (loss) for the three and six months ended June 30, 2016 and 2015 primarily relates to the re-measurement of the Servier loan.

Revaluation of Contingent Warrant Liabilities

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

We revalued the March 2012 warrants at June 30, 2016 using the Black-Scholes Model and recorded a $3.2 million and $7.2 million decrease in the estimated fair value as a gain in the revaluation of contingent warrant liabilities line of our condensed consolidated statement of comprehensive loss for the three and six months ended June 30, 2016, respectively. This decrease in the estimated fair value of the warrants is primarily due to the decrease in the market price of our common stock at June 30, 2016 as compared to December 31, 2015. We revalued the warrants at June 30, 2015 and recorded a $1.0 million and $1.4 million increase in the estimated fair value as a loss on the revaluation of contingent warrant liabilities line of our condensed consolidated statement of comprehensive loss for the three and six months ended June 30, 2015, respectively.

We revalued the December 2014 warrants at June 30, 2016 using the Black-Scholes Model and recorded a $44,000 and $3.0 million decrease in the estimated fair value as a gain in the revaluation of contingent warrant liabilities line of our condensed consolidated statements of comprehensive loss for the three and six months ended June 30, 2016, respectively. The decrease in the estimated fair value of the warrants is due primarily to the decrease in the market price of our common stock at June 30, 2016 as compared to December 31, 2015. We revalued the warrants at June 30, 2015 and recorded a $0.9 million and a $1.2 million decrease in the estimated fair value as a gain on the revaluation of contingent warrant liabilities line of our condensed consolidated statement of comprehensive loss for the three and six months ended June 30, 2015, respectively.

Liquidity and Capital Resources

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

	June 30, 2016	December 31, 2015	Change
Cash and cash equivalents	$33,854	$ 65,767	$(31,913)
Marketable securities	$442	$ 496	$(54)
Working capital	$12,092	$ 48,924	$(36,832)

	Six Months Ended June 30,		
	2016	2015	Change
Net cash used in operating activities	$(28,642)	$(40,627)	$11,985
Net cash provided by (used in) investing activities	14	(406)	420
Net cash (used in) provided by financing activities	(3,283)	13,572	(16,855)
Effect of exchange rate changes on cash	(2)	(27)	25
Net decrease in cash and cash equivalents	$(31,913)	$(27,488)	$(4,425)

Cash Used In Operating Activities

The decrease in net cash used in operating activities for the six months ended June 30, 2016, as compared with the same period in 2015, was primarily due to lower salaries and related costs resulting from our 2015 restructuring efforts combined with decreased research and development spending related to manufacturing costs and clinical trial costs during the six months ended June 30, 2016 primarily due to the discontinuation of the gevokizumab studies under our collaboration agreement with Servier in the third quarter of 2015 and the termination of the collaboration agreement with Servier in March 2016.

Cash Provided by (Used In) Investing Activities

Net cash used in investing activities for the six months ended June 30, 2015 of $0.4 million was related to the purchase of equipment.

Cash (Used in) Provided by Financing Activities

Net cash used in financing activities for the six months ended June 30, 2016 of $3.3 million was primarily related to the principal payment on our Servier loan.

Net cash provided by financing activities for the six months ended June 30, 2015 of $13.6 million was primarily related to proceeds received from the Hercules Term Loan of $20.0 million and proceeds from the issuance of common stock of $0.2 million. These cash inflows were partially offset by $6.1 million in principal payments on the GECC term loan, and debt issuance costs of $0.5 million on the Hercules Term Loan.

Interest Bearing Obligations

Aggregate future principal, final payment fees and discounts of our total interest bearing obligations as of June 30, 2016 are as follows (in thousands):

Six months ending December 31, 2016	$4,635
Year ended 2017	14,768
Year ended 2018	18,014
Year ended 2019	—
Year ended 2020	15,748
	53,165
Less: interest, final payment fee, discount and issuance cost	(6,641)