

XOMA LTD /DE/
Form PRE 14A
April 08, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934

Filed by the Registrant ☒

Filed by a Party other than the Registrant ☐

Check the appropriate box:

- ☒ Preliminary Proxy Statement
- ☐ Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- ☐ Definitive Proxy Statement
- ☐ Definitive Additional Materials
- ☐ Soliciting Material Pursuant to §240.14a-12

XOMA LTD.
(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

- ☒ No fee required.
- ☐ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

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

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

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

(4) Proposed maximum aggregate value of transaction:

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(1) Amount Previously Paid:

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

(3) Filing Party:

(4) Date Filed:

XOMA LTD.
2910 Seventh Street
Berkeley, California 94710
(510) 204-7200

April 21, 2011

To Our Shareholders:

You are cordially invited to attend the annual general meeting of shareholders of XOMA Ltd. on May 26, 2011 at 9:00 a.m. local time, which will be held at our offices at 2910 Seventh Street, Berkeley, California.

Details of the business to be conducted at the annual general meeting are provided in the enclosed notice of annual general meeting of shareholders and proxy statement. Also enclosed for your information is a copy of our annual report to shareholders for 2010. Some of our shareholders will be accessing these materials and appointing a proxy through the Internet and may not be receiving a paper proxy card by mail.

We hope that you will attend the annual general meeting. In any event, please promptly sign, date and return the enclosed proxy in the accompanying reply envelope or appoint a proxy by telephone or through the Internet.

Sincerely
yours,

Steven B.
Engle
Chairman of
the Board,
Chief
Executive
Officer and
President

Enclosures

XOMA LTD.

NOTICE OF ANNUAL GENERAL MEETING OF SHAREHOLDERS
TO BE HELD AT 9:00 A.M. ON MAY 26, 2011

To the Shareholders of XOMA Ltd.:

Notice is hereby given that the annual general meeting of shareholders of XOMA Ltd. (the "Company") will be held at the Company's offices at 2910 Seventh Street, Berkeley, California, on May 26, 2011, at 9:00 a.m. local time, for the following purposes:

1. To elect directors;
2. To appoint Ernst & Young LLP to act as the Company's independent registered public accounting firm for the 2011 fiscal year and authorize the Board of Directors to agree to such firm's fees;
3. To approve the increase of the Company's authorized share capital by the creation of an additional 46,000,000 common shares, par value US\$.0075 per share;
4. To approve an amendment to the Company's 2010 Long Term Incentive and Share Award Plan to (a) increase the number of common shares issuable over the term of the plan by an additional 5,500,000 to 6,277,102 shares in the aggregate and (b) provide that, in the case of awards granted out of the additional 5,500,000 share allotment, for each share appreciation right, restricted share, restricted share unit, performance share, performance unit, dividend equivalent or other share-based award issued, the number of available shares under the plan will be reduced by 1.3 shares;
5. To approve an amendment to the Company's 1998 Employee Share Purchase Plan to increase the number of common shares issuable over the term of the plan by 100,000 to 233,333 shares in the aggregate;
6. To consider a non-binding advisory vote to approve the compensation of our named executive officers disclosed in this proxy statement;
7. To consider a non-binding advisory vote on the desired frequency of a non-binding advisory vote to approve our named executive officer compensation; and
8. To consider and transact such other business as may properly come before the meeting or any adjournment or postponement thereof.

In addition, in accordance with Bermuda law, the Company's audited financial statements for fiscal year 2010 will be laid before the annual general meeting.

The Board of Directors has fixed the close of business on April 8, 2011, as the record date for the determination of shareholders entitled to notice of, and to vote at, this meeting and at any adjournment or postponement thereof. On April 8, 2011, the Company had 29,773,456 common shares issued and outstanding.

By Order of
the Board of
Directors

Christopher J.
Margolin
Secretary

April 21, 2011
Berkeley, California

YOUR VOTE IS IMPORTANT

You are cordially invited to attend the meeting in person. Whether or not you plan to attend the meeting, please promptly mark, sign and date the enclosed proxy and mail it in the accompanying postage pre-paid envelope or appoint a proxy by telephone or through the Internet.

**IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE ANNUAL
GENERAL MEETING OF SHAREHOLDERS TO BE HELD MAY 26, 2011**

Our proxy statement and our Annual Report on Form 10-K for the fiscal year ended December 31, 2010 are available on our website, www.xoma.com, by clicking "Investors" and then "SEC Filings."

XOMA LTD.

PROXY STATEMENT

TO THE SHAREHOLDERS:

The enclosed proxy is solicited on behalf of the Board of Directors (the “Board”) of XOMA Ltd., a company organized under the laws of Bermuda (“XOMA” or the “Company”), for use at the annual general meeting of shareholders to be held at the Company’s offices at 2910 Seventh Street, Berkeley, California, on May 26, 2011, at 9:00 a.m. local time, or any adjournment or postponement thereof, at which shareholders of record holding Common Shares on April 8, 2011, will be entitled to vote. On April 8, 2011, the Company had issued and outstanding 29,773,456 common shares, par value US\$.0075 per share (“Common Shares”). Holders of Common Shares are entitled to one vote for each share held. All share and share-related numbers in this proxy statement that relate to a date or period prior to the Company’s 1-for-15 share consolidation, or reverse stock split, that became effective on August 18, 2010, have been adjusted to give effect to the reverse stock split.

All registered shareholders can appoint a proxy by paper proxy or by telephone by following the instructions included with their proxy card. Shareholders whose Common Shares are registered in the name of a bank or brokerage firm should follow the instructions provided by their bank or brokerage firm on voting their Common Shares. Shareholders whose Common Shares are registered in the name of a bank or brokerage firm participating in the Broadridge Financial Services, Inc. online program may appoint a proxy electronically through the Internet. Instruction forms will be provided to shareholders whose bank or brokerage firm is participating in Broadridge’s program. Signing and returning the proxy card or submitting the proxy by telephone or through the Internet does not affect the right to vote in person at the annual general meeting.

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

The Company will bear the entire cost of solicitation, including preparation, assembly, printing, and mailing of this proxy statement, the proxy card, and any additional material furnished to shareholders. Copies of solicitation material will be furnished to brokerage houses, fiduciaries, and custodians holding in their names Common Shares that are beneficially owned by others to forward to such beneficial owners. The solicitation of proxies may be supplemented by one or more of telephone, telegram, or personal solicitation by directors, officers, or employees of the Company for no additional compensation. We have also engaged Georgeson Inc. to assist in such solicitation at an estimated fee of \$7,500 plus disbursements. Shareholders appointing a proxy through the Internet should understand that there may be costs associated with electronic access, such as usage charges from Internet access providers and telephone companies, that will be borne by the shareholder.

The Company intends to mail this proxy statement and make it available on the Internet on or about April 21, 2011.

SHARE OWNERSHIP

The following table sets forth certain information regarding all shareholders known by the Company to be the beneficial owners of more than 5% of the Company's issued and outstanding Common Shares and regarding each director, each named executive officer and all directors and named executive officers as a group, together with the approximate percentages of issued and outstanding Common Shares owned by each of them. Percentages are calculated based upon shares issued and outstanding plus shares which the holder has the right to acquire under share

options exercisable within 60 days. Unless otherwise indicated, amounts are as of April 8, 2011 and each of the shareholders has sole voting and investment power with respect to the Common Shares beneficially owned, subject to community property laws where applicable. An individual's presence on this or any other table presented herein is not intended to be reflective of such person's status as a "reporting person" under Section 16(a) of the Securities Exchange Act of 1934, as amended.

Name of Beneficial Owner	Number of Common Shares Beneficially Owned	Percentage of Common Shares Beneficially Owned
Eastern Capital Limited(1)	2,577,861	8.66%
William K. Bowes, Jr.(2)	22,994	*
Steven B. Engle(3)	592,415	1.95%
Peter Barton Hutt(4)	23,508	*
Fred Kurland(5)	126,571	*
Christopher J. Margolin(6)	133,081	*
Patrick J. Scannon, M.D., Ph.D.(7)	140,086	*
W. Denman Van Ness(8)	34,464	*
John Varian(9)	14,159	*
Timothy P. Walbert(10)	5,900	*
Charles C. Wells(11)	85,160	*
Jack L. Wyszomierski(12)	6,707	*
All directors and named executive officers as a group as of the record date (11 persons)(13)	1,185,045	3.83%

*

Indicates less than 1%.

(1)Based on a Schedule 13G filed with the Securities and Exchange Commission ("SEC"). Eastern Capital Limited is wholly-owned by Portfolio Services Ltd., which is wholly-owned by Kenneth B. Dart. Information is as of February 4, 2011.

(2)Includes 20,923 Common Shares issuable upon the exercise of options exercisable as of 60 days after the record date. Assumes shareholder approval on May 26, 2011 of shares underlying options granted on January 7, 2011.

(3)Represents 592,415 Common Shares issuable upon the exercise of options exercisable as of 60 days after the record date. Assumes shareholder approval on May 26, 2011 of shares underlying options granted on January 7, 2011. Does not include 4,523 Common Shares that have vested pursuant to the Company's Deferred Savings Plan.

(4)Represents 23,508 Common Shares issuable upon the exercise of options exercisable as of 60 days after the record date. Assumes shareholder approval on May 26, 2011 of shares underlying options granted on January 7, 2011.

(5)Includes 5,000 Common Shares held by The Kurland Family Living Trust. Includes 121,571 Common Shares issuable upon the exercise of options exercisable as of 60 days after the record date. Assumes shareholder approval on May 26, 2011 of shares underlying options granted on January 7, 2011. Does not include 3,417 Common Shares that have vested pursuant to the Company's Deferred Savings Plan.

(6)

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Includes 128,033 Common Shares issuable upon the exercise of options exercisable as of 60 days after the record date. Assumes shareholder approval on May 26, 2011 of shares underlying options granted on January 7, 2011. Does not include 6,329 Common Shares that have vested pursuant to the Company's Deferred Savings Plan.

- (7) Includes 4,053 Common Shares held by The Patrick J. Scannon Separate Property Trust. Includes 131,715 Common Shares issuable upon the exercise of options exercisable as of 60 days after the record date. Assumes shareholder approval on May 26, 2011 of shares underlying options granted on January 7, 2011. Does not include 6,360 Common Shares that have vested pursuant to the Company's Deferred Savings Plan.
- (8) Includes 3,298 Common Shares held by The Van Ness 1983 Revocable Trust, of which Mr. Van Ness is a trustee. Includes 31,136 Common Shares issuable upon the exercise of options exercisable as of 60 days after the record date. Assumes shareholder approval on May 26, 2011 of shares underlying options granted on January 7, 2011.
- (9) Represents 14,159 Common Shares issuable upon the exercise of options exercisable as of 60 days after the record date. Assumes shareholder approval on May 26, 2011 of shares underlying options granted on January 7, 2011.
- (10) Represents 5,900 Common Shares issuable upon the exercise of options exercisable as of 60 days after the record date. Assumes shareholder approval on May 26, 2011 of shares underlying options granted on January 7, 2011.
- (11) Includes 82,448 Common Shares issuable upon the exercise of options exercisable as of 60 days after the record date. Assumes shareholder approval on May 26, 2011 of shares underlying options granted on January 7, 2011. Does not include 4,160 Common Shares that have vested pursuant to the Company's Deferred Savings Plan.
- (12) Represents 6,707 Common Shares issuable upon the exercise of options exercisable as of 60 days after the record date. Assumes shareholder approval on May 26, 2011 of shares underlying options granted on January 7, 2011.
- (13) Includes 1,158,515 Common Shares issuable upon exercise of options exercisable as of 60 days after the record date. Assumes shareholder approval on May 26, 2011 of shares underlying options granted on January 7, 2011. Does not include 24,789 Common Shares that have vested pursuant to the Company's Deferred Savings Plan.

COMPENSATION OF EXECUTIVE OFFICERS

Compensation Discussion and Analysis

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

Benchmarking

The Compensation Committee has the authority under its charter to engage the services of outside advisors, experts and others to assist the Compensation Committee. In accordance with this authority, the Compensation Committee has retained the services of Compensia, an independent consulting firm that specializes in executive compensation consulting (the “Consultant”), to assist the Compensation Committee in evaluating the Company’s executive compensation program against the relevant market and to review executive compensation changes. The Consultant looked at base salary, incentive compensation, long-term share options and benefits. No other services were provided by the Consultant.

The Consultant created a survey (the “Executive Compensation Survey”) which compared the Company’s executive pay levels to those of a peer group of 15 companies. The peer group was developed by targeting Phase 2 business and labor comparators with similar market capitalization. The companies that comprised the peer group are: Ardea Biosciences, ArQule, Array BioPharma, Curis, Cytokinetics, Idera Pharmaceuticals, Immunomedics, Infinity Pharmaceuticals, Lexicon Pharmaceuticals, Micromet, Neurocrine Biosciences, Peregrine Pharmaceuticals, Rigel Pharmaceuticals, Sangamo Biosciences and Trubion Pharmaceuticals. In preparing the Executive Compensation Survey, the Compensation Committee has relied on the Consultant to conduct its own research, compile its own survey data and provide a summary of such data relevant to the Compensation Committee’s decisions with respect to setting executive compensation levels.

As noted above, the Compensation Committee considers various benchmarks (i.e., the 25th percentile, the 50th percentile and the 75th percentile) based on the Executive Compensation Survey and chooses a benchmark for a particular year based on the level it deems most appropriate for the Company. For 2011, the Compensation Committee chose the 50th percentile as the benchmark. This process is performed to ensure that total compensation is competitive within the industry and appropriate when certain levels of performance are achieved. If, based on this evaluation, the Compensation Committee determines that the Company’s current compensation levels are not appropriate or tailored to our compensation objectives, then the Compensation Committee may adjust the applicable compensation levels and targets accordingly.

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

Compensation Components

Base Salary. The level of compensation paid to an officer is determined on the basis of the individual’s overall experience, responsibility, performance and compensation level in his or her prior position (for newly hired officers), the individual’s overall performance and compensation level at the Company during the prior year (for current

employees), the compensation levels of peer companies (including the biotechnology companies listed above) and other labor markets in which the Company competes for employees, the performance of the Company's Common Shares during the prior fiscal year and such other factors as may be appropriately considered by the Board, by the Compensation Committee and by management in making its proposals to the Compensation Committee.

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

For grants during 2010, the number of options granted were determined based on employee performance and perceived potential, the numbers of options granted to such individuals in the previous fiscal year, the aggregate number of options held by each such individual, the number of options granted to similarly situated individuals in the pharmaceutical and biotechnology industries, the price of the Company's Common Shares relative to other companies in such industries and the resulting relative value of such options. It was also noted that all outstanding options had exercise prices in excess of the current market price of the Common Shares. No specific measures of corporate performance were considered.

In March of 2010, Mr. Engle was granted options to purchase 226,665 common shares, Dr. Scannon was granted options to purchase 79,999 common shares, Mr. Kurland was granted options to purchase 73,332 common shares, Mr. Margolin was granted options to purchase 83,332 common shares, and Mr. Wells was granted options to purchase 16,665 common shares. These numbers were arrived at after consideration of the factors described in the foregoing paragraph, without any of such factors being assigned a specific weighting or measured against quantified criteria, except when considering the number of options granted to similarly situated individuals in the pharmaceutical and biotechnology industries. In considering that factor, the number of options granted was benchmarked against the 50th percentile of the peer group companies.

Historically, option grants intended as long-term incentive compensation have been made pursuant to the Company's 1981 Share Option Plan (the "Option Plan") and Restricted Share Plan (the "Restricted Plan"). In May of 2010, the Compensation Committee and the full Board adopted, and in July of 2010 the Company's shareholders approved, a new equity-based compensation plan, the 2010 Long Term Incentive and Share Award Plan (the "Long Term Incentive Plan"). The Long Term Incentive Plan is intended to consolidate the Company's long-term incentive compensation under a single plan, by replacing the Option Plan, the Restricted Plan and the 1992 Directors Share Option Plan (the "Directors Plan") going forward, and to provide a more current set of terms pursuant to which to provide this type of compensation. The Long Term Incentive Plan is described in greater detail below under Item 4 -- Amendment to Long Term Incentive Plan.

Cash Bonus Plans.

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

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

The incentive compensation under the CICP is weighted based 70% on meeting Company Objectives and 30% based on a discretionary evaluation by the Compensation Committee. The award opportunity range for the CEO expressed

as a percentage of his or her base salary is as follows: minimum award opportunity—25%; target award opportunity—50%; and maximum award opportunity—75%, in each case, of base salary.

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

MICP . Certain employees are also compensated through the Management Incentive Compensation Plan (the “MICP”), in which officers (other than the CEO) and employees who have the title of Senior Director, Director or Manager, as well as certain additional discretionary participants chosen by the CEO, are eligible to participate. Under the MICP, at the beginning of each Plan Period, the Board (with advice from the Compensation Committee)

establishes a target incentive compensation pool, which is then adjusted at year-end to reflect the Company's performance in achieving the Company Objectives.

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

For officers, including the executive officers named in the "Summary Compensation Table" below other than the CEO, the incentive compensation under the MICP is weighted based 50% on meeting Company Objectives, 30% based on individual objectives and 20% based on a discretionary evaluation by the CEO. The target awards for these officers as a percentage of base salary range from 30% to 40%, with an award opportunity range of 15% to 60% of base salary. For other MICP participants, the incentive compensation is weighted based either 40% or 30% on meeting Company Objectives, either 40% or 50% on individual objectives and, in all cases, 20% on a discretionary evaluation by the CEO. The award opportunities for these participants as a percentage of base salary range from a minimum of 5% to a maximum of 37.5% of base salary, depending on among other things the participants' position within the Company.

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

For 2010, 119 individuals were determined to be eligible to participate in the MICP, including all of the executive officers named in the "Summary Compensation Table" below other than Mr. Engle.

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

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

For 2010, 93 individuals were determined to be eligible to participate in the BCP.

Bonus Determinations for 2010. For 2010, the Compensation Committee recommended and the Board approved the following Company Objectives: (1) generate \$76 million in cash with an emphasis on sources that are non- or less dilutive to shareholders, which was assigned a 40% Achievement Percentage, (2) advance the clinical development of the Company's lead product candidate, XOMA 052, which was assigned a 30% Achievement Percentage, (3) accelerate the Company's capabilities in manufacturing XOMA 052, which was assigned a 20% Achievement

Percentage, and (4) advance the Company's pipeline of pre-clinical product candidates, which was assigned a 10% Achievement Percentage. In February of 2010, the Board determined that the first such Company Objective had been achieved and that the second, third and fourth such Company Objectives had been exceeded.

After evaluating the relevant facts and circumstances, the Board concluded that in excess of 100% of the Company Objectives had been achieved for the 2010 Plan Period. As a result, the CEO and each of the other named executive officers received in excess of the target amounts attributable to achievement of the Company Objectives under the CICP and the MICP, as applicable.

Under the CICP, Mr. Engle had no individual objectives for 2010 other than the Company Objectives. Individual objectives for 2010 under the MICP for Dr. Scannon were to: (1) carry out his role in connection with the first Company Objective described above, (2) carry out his role in connection with the second Company Objective described

above, (3) advance the Company's biodefense efforts, and (4) advance the development of the Company's antibody platform and manufacturing technologies. In February of 2011, the CEO determined and the Compensation Committee concurred that Dr. Scannon had exceeded the second such objective and achieved his remaining objectives, except for the third such objective. Individual objectives for 2010 under the MICP for Mr. Kurland were to: (1) carry out his role in connection with the first Company Objective described above, (2) implement the Company's financial strategy, (3) maintain budgeted levels of Company expenses, and (4) assure Company compliance with financial reporting and related requirements. In February of 2011, the CEO determined and the Compensation Committee concurred that Mr. Kurland had exceeded all of such objectives. Individual objectives for 2010 under the MICP for Mr. Margolin were to: (1) carry out his role in connection with the first Company Objective described above, (2) carry out his role in connection with the second Company Objective described above, (3) implement the Company's intellectual property strategy, and (4) assure Company compliance with legal-related requirements. In February of 2010, the CEO determined and the Compensation Committee concurred that Mr. Margolin had exceeded all of such objectives. Individual objectives for 2010 under the MICP for Mr. Wells were to: (1) strengthen the Company's organizational capabilities, corporate culture and internal communications, (2) implement a succession planning process, (3) assess and align the Company's information technology strategy to reflect changes within the Company, and (4) ensure adherence to information technology controls. In February of 2010, the CEO determined and the Compensation Committee concurred that Mr. Wells had achieved all of such objectives, except for certain aspects of the first such objective.

As to that portion of Mr. Engle's bonus based on a discretionary evaluation of the CEO's overall performance in 2010, the Compensation Committee determined to include no additional percentage of Mr. Engle's target bonus amount as a portion of his bonus. In addition, the CEO determined and the Compensation Committee concurred to include between 15% and 30% of each other named executive officer's target bonus amount as the portion of such officer's bonus based on a discretionary evaluation.

The evaluation process and resulting determinations described above resulted in cash bonus payments under the CICP and the MICP to the executive officers named in the "Summary Compensation Table" below for 2010 as follows:

	Base Salary	Target Bonus Percentage	Target Bonus Amount	Actual Bonus Percentage	Actual Bonus Amount
Steven B. Engle	\$551,550	50	% \$ 275,775	44.6	% \$ 246,130
Patrick J. Scannon M.D., Ph.D.	\$399,040	35	% \$ 139,664	45.0	% \$ 179,539
Fred Kurland	\$322,400	40	% \$ 128,960	51.7	% \$ 166,681
Christopher J. Margolin	\$347,020	35	% \$ 121,457	42.3	% \$ 146,660
Charles C. Wells	\$312,100	35	% \$ 109,235	42.5	% \$ 132,721

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

Tax Treatment. Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code") generally limits the deductible amount of annual compensation paid to certain individual executive officers (i.e., the chief executive officer and the four other most highly compensated executive officers of the Company) to no more than \$1 million.

However, qualifying performance-based compensation will be excluded from the \$1 million cap on deductibility, and the Compensation Committee believes, based on information currently available, that the Company's options issued to its executive officers qualify for this exclusion. Considering the current executive officer compensation and the availability of deferral opportunities, the Compensation Committee and the Company believe that the

Company will not be denied any significant tax deduction for 2010. The Company and the Compensation Committee will continue to review tax consequences as well as other relevant considerations in connection with compensation decisions.

Compensation Risk Assessment

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

Summary Compensation Table

The following table sets forth certain summary information for the prior three years concerning the compensation earned by the Company's Chief Executive Officer, Chief Financial Officer, our three other most highly compensated officers who were named executive officers of the Company as of December 31, 2010. Information for 2008 concerning Mr. Wells has been omitted in accordance with SEC rules because he was not a "named executive officer" during that year.

Name and Principal Position	Year	Salary (\$)(1)	Bonus (\$)(2)	Stock Awards (\$)	Option Awards (\$)(3)	Change in Pension Value and Non-Equity Nonqualified Incentive Plan Compensation			All Other Compensation (\$)(6)	Total (\$)
						(4)	(5)	(6)		
Steven B. Engle (Chairman of the Board, Chief Executive Officer and President)	2010	\$ 551,550	\$ 0	\$ 0	\$ 686,069	\$ 246,130	N/A	\$ 35,300	\$ 1,519,049	
	2009	\$ 540,750	\$ 0	\$ 0	\$ 212,280	\$ 262,267	N/A	\$ 38,725	\$ 1,054,022	
	2008	\$ 515,000	\$ 0	\$ 0	\$ 243,787	\$ 0	N/A	\$ 390,489	\$ 1,149,276	
Patrick J. Scannon, M.D., Ph.D.	2010	\$ 399,040	\$ 0	\$ 0	\$ 242,140	\$ 179,539	N/A	\$ 14,102	\$ 834,821	
	2009	\$ 389,340	\$ 0	\$ 0	\$ 70,760	\$ 123,811	N/A	\$ 13,136	\$ 597,047	
	2008	\$ 370,800	\$ 0	\$ 0	\$ 86,680	\$ 0	N/A	\$ 17,045	\$ 474,525	

(Executive
Vice
President
and Chief
Scientific
Officer)

Fred									
Kurland	2010	\$ 322,400	\$ 0	\$ 0	\$ 221,961	\$ 166,681	N/A	\$ 13,555	\$ 724,597
(Vice	2009	\$ 310,000	\$ 0	\$ 0	\$ 70,760	\$ 108,655	N/A	\$ 12,785	\$ 502,200
President,	2008	\$ 3, 577	N/A	N/A	\$ 305,680	\$ 0	N/A	\$ 0	\$ 309,257
Finance									
and Chief									
Financial									
Officer)									

Christopher J. Margolin (Vice President, General Counsel and Secretary)	2010	\$347,020	\$0	\$0	\$252,229	\$146,660	N/A	\$26,696	\$772,605
	2009	\$338,520	\$0	\$0	\$70,760	\$114,810	N/A	\$28,356	\$552,446
	2008	\$322,400	\$0	\$0	\$86,680	\$0	N/A	\$29,944	\$439,024
Charles C. Wells (Vice President, Human Resources and Information Technology)	2010	\$312,100	\$0	\$0	\$50,441	\$132,721	N/A	\$10,493	\$505,755
	2009	\$304,500	\$0	\$0	\$70,760	\$95,918	N/A	\$11,568	\$482,746

- (1) Mr. Kurland was appointed to the position of Vice President, Finance and Chief Financial Officer effective December 28, 2008. The amount in this column representing his 2008 salary was earned in 2008 but paid in 2009.
- (2) The bonus amounts paid to Mr. Engle under the Company's CICP and the amounts paid to Dr. Scannon and Messrs. Kurland, Margolin and Wells under the Company's MICP are represented in the amounts under Non-Equity Incentive Plan Compensation. CICP and MICP awards are reported on an earned basis.
- (3) The amounts in this column do not reflect compensation actually received by the named executive officers but represent the aggregate grant date fair value for option awards calculated in accordance with FASB ASC Topic 718. Amounts for 2008 have been recomputed under the same methodology in accordance with SEC rules. See Notes 2 and 9 of the consolidated financial statements in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2010 (the "2010 Form 10-K") regarding assumptions underlying valuation of equity awards.
- (4) The amounts in this column for 2010 for Dr. Scannon and Messrs. Kurland, Margolin and Wells represent awards under the Company's MICP paid in 2011 relating to performance in 2010. The amounts in this column for 2009 for Dr. Scannon and Messrs. Kurland, Margolin and Wells represent awards under the MICP paid in 2010 relating to performance in 2009. With respect to 2008, management had recommended, and the Board had determined, not to award bonuses under the MICP in light of economic conditions affecting the Company and in order to conserve its cash resources, notwithstanding that the Company had met a percentage of its objectives for 2008 in excess of the minimum required for bonuses to be awarded. Consequently, there were no payouts under the MICP in 2009 for performance in 2008.
- (5) The amount in this column for 2010 for Mr. Engle represents an award under the Company's CICP paid in 2011 relating to performance in 2010. The amount in this column for 2009 for Mr. Engle represents an award under the CICP paid in 2010 relating to performance in 2009. With respect to 2008, management had recommended, and the Board had determined, not to award a bonus under the CICP in light of economic conditions affecting the Company and in order to conserve its cash resources, notwithstanding that the Company had met a percentage of its objectives for 2008 in excess of the minimum required for a bonus to be awarded.. Consequently, there was no payout under the CICP in 2009 for performance in 2008.
- (6) Amounts in this column for 2010, 2009 and 2008 include:

Mr. Engle—(a) cash payments in lieu of earned vacation and/or personal holidays in the amount of \$21,212, \$24,758 and \$1,903, respectively; (b) relocation in the amount of \$241,954 in 2008; (c) taxes paid by the Company on Mr. Engle's behalf in the amount of \$135,002 in 2008; (d) Company Common Shares contributed to an account under the Company's Deferred Savings Plan in the amounts of 2,343, 1,074 and 1,013 Common

Shares, respectively; and (e) group term life insurance premiums in the amount of \$3,179, \$2,966 and \$1,380, respectively.

Dr. Scannon—(a) cash payments in lieu of earned vacation and/or personal holidays in the amounts of \$2,769 in 2008; (b) Company Common Shares contributed to an account under the Company's Deferred Savings Plan in the amounts of 2,343, 1,074 and 1,013 Common Shares, respectively; (c) group term life insurance premiums in the amount of \$2,301, \$2,136 and \$4,026, respectively; and (d) miscellaneous gifts in the amount of \$892 in 2010.

Mr. Kurland—(a) Company Common Shares contributed to an account under the Company's Deferred Savings Plan in the amounts of 2,343 and 1,074 Common Shares in 2010 and 2009, respectively; (b) group term life insurance premiums in the amounts of \$1,857 and \$1,785 in 2010 and 2009, respectively; and (c) miscellaneous gifts in the amount of \$789 in 2010.

Mr. Margolin—(a) cash payments in lieu of earned vacation and/or personal holidays in the amounts of \$13,346, \$15,499 and \$14,784, respectively; (b) Company Common Shares contributed to an account under the Company's Deferred Savings Plan in the amounts of 2,343, 1,074 and 1,013 Common Shares, respectively; (c) group term life insurance premiums in the amounts of \$1,952, \$1,857 and \$4,910, respectively; and (d) miscellaneous gifts in the amount of \$489 in 2010.

Mr. Wells—(a) cash payments in lieu of earned vacation and/or personal holidays in the amounts of \$2,230 in 2009; (b) Company Common Shares contributed to an account under the Company's Deferred Savings Plan in the amount of 1,662 and 749 in 2010 and 2009, respectively; (c) group term life insurance premiums in the amount of \$1,800 and \$1,670 in 2010 and 2009, respectively; and (d) miscellaneous gifts in the amount of \$892 in 2010.

Company Common Shares contributed under the Company's Deferred Savings Plan were valued in 2010, 2009 and 2008 at fiscal year-end formula prices of \$4.694, \$10.233 and \$10.113, respectively, per share.

Grants of Plan-Based Awards

The following table contains information concerning the grant of awards to our named executive officers under any plan during 2010.

Estimated Future Payouts Under Non-Equity Incentive Plan Awards	Estimated Future Payouts Under Equity Incentive Plan Awards	All Other Stock Awards: Number of Shares of Stock	All Other Option Awards: Number of Securities Underlying	Exercise or Base Price of Option	Grant Date Fair Value of Stock and Option

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Name	Grant Date	Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (\$)	Target (\$)	Maximum (#)	or Units (#)	Options (#)	Awards (\$/Sh)	Awards (1)
Steven B. Engle	03-01-2010	—	—	—	—	—	—	—	226,665	\$ 7.35	\$ 686,069
Patrick J. Scannon, M.D., Ph.D.	03-01-2010	—	—	—	—	—	—	—	79,999	\$ 7.35	\$ 242,140

Fred Kurland	03-01-2010	—	—	—	—	—	—	—	73,332	\$7.35	\$221,961
Christopher J. Margolin	03-01-2010	—	—	—	—	—	—	—	83,332	\$7.35	\$252,229
Charles C. Wells	03-01-2010	—	—	—	—	—	—	—	16,665	\$7.35	\$50,441

(1) The grant date fair values were calculated in accordance with FASB ASC 718. See Notes 2 and 9 of the consolidated financial statements in the 2010 Form 10-K regarding assumptions underlying valuation of equity awards.

Outstanding Equity Awards as of December 31, 2010

The following table provides information as of December 31, 2010 regarding unexercised options and restricted common share awards held by each of our named executive officers.

Name	Number of Securities Underlying Unexercised Options (#) Exercisable (1)	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Awards Equity Incentive Plan Awards:		
			Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date
Steven B. Engle	33,333	0	0	\$75.000	08-03-2017
	55,555	11,111	0	\$32.550	08-03-2017
	61,111	12,222	0	\$32.550	08-03-2017
	79,167	20,833	0	\$55.050	10-31-2017
	10,625	4,375	0	\$40.650	02-21-2018
	30,332	9,667	0	\$8.400	02-26-2019
	42,499	184,166	0	\$7.350	03-01-2020
Patrick J. Scannon, M.D., Ph.D.	1,665	0	0	\$129.375	02-21-2011
	1,665	0	0	\$152.400	02-20-2012
	1,999	0	0	\$49.950	02-26-2013
	1,999	0	0	\$86.550	02-25-2014
	1,999	0	0	\$21.000	02-23-2015
	2,000	0	0	\$25.200	02-28-2016
	2,555	111	0	\$50.850	02-21-2017
	21,112	5,554	0	\$55.050	10-31-2017
	3,778	1,555	0	\$40.650	02-21-2018
	10,109	3,223	0	\$8.400	02-26-2019
	14,999	65,000	0	\$7.350	03-01-2020

Fred Kurland	26,668	26,664	0	\$9.300	12-29-2018
	10,110	3,222	0	\$8.400	02-26-2019
	13,749	59,583	0	\$7.350	03-01-2020
Christopher J. Margolin	1,665	0	0	\$129.375	02-21-2011
	1,665	0	0	\$152.400	02-20-2012
	2,665	0	0	\$49.950	02-26-2013
	665	0	0	\$58.800	04-10-2013
	1,999	0	0	\$86.550	02-25-2014
	1,999	0	0	\$21.000	02-23-2015
	1,666	0	0	\$26.700	10-25-2015
	2,000	0	0	\$25.200	02-28-2016
	2,555	111	0	\$50.850	02-21-2017
	1,000	0	0	\$55.050	10-31-2017
	13,986	3,679	0	\$55.050	10-31-2017
	3,778	1,555	0	\$40.650	02-21-2018
	10,110	3,223	0	\$8.400	02-26-2019
	15,624	67,708	0	\$7.350	03-01-2020
	3,331	0	0	\$156.750	05-07-2011
Charles C. Wells	1,666	0	0	\$152.400	02-20-2012
	1,999	0	0	\$49.950	02-26-2013
	1,999	0	0	\$86.550	02-25-2014
	1,999	0	0	\$21.000	02-23-2015
	2,000	0	0	\$25.200	02-28-2016
	2,555	111	0	\$50.850	02-21-2017
	15,834	4,165	0	\$55.050	10-31-2017
	3,779	1,554	0	\$40.650	02-21-2018
	10,110	3,223	0	\$8.400	02-26-2019
	3,124	13,541	0	\$7.350	03-01-2020

Option Exercises and Shares Vested

The following table sets forth the number of Common Shares acquired upon exercise of options by each named executive officer during 2010 and the number of share awards held by each named executive officer that vested during 2010.

Name	Option Awards		Stock Awards	
	Number of Shares Acquired On Exercise (#)	Value Realized on Exercise (\$)	Number of Shares Acquired On Vesting (#)	Value Realized on Vesting (\$)
Steven B. Engle	0	\$ 0	0	\$ 0
Patrick J. Scannon M.D., Ph.D.	0	\$ 0	0	\$ 0
Fred Kurland	0	\$ 0	0	\$ 0

Christopher J. Margolin	0	\$0	0	\$0
Charles C. Wells	0	\$0	0	\$0

Pension Benefits

None of our named executive officers are covered by a pension plan or other similar benefit plan that provides for payments or other benefits at, following, or in connection with retirement.

Non-Qualified Deferred Compensation

None of our named executive officers are covered by a defined contribution or other plan that provides for the deferral of compensation on a basis that is not tax-qualified.

Employment Contracts and Termination of Employment and Change of Control Arrangements

The Company has entered into an employment agreement with Mr. Engle, dated as of December 30, 2008, that provides for Mr. Engle's employment as CEO and President at a salary of not less than \$515,000 per year. Under the employment agreement, Mr. Engle is entitled to participate in any benefit plan for which key executives of the Company are eligible, including the CICP. Upon termination of his employment for any reason other than cause or upon his resignation for good reason, Mr. Engle will be entitled to one and one-half times his then current base salary and target bonus for the then current fiscal year and benefits for eighteen (18) months, as well as a pro-rated portion of his then current target bonus and outplacement services for twelve (12) months not to exceed \$15,000 in value. The employment agreement will continue for one year and will be automatically extended (without further action by the parties) for one year thereafter and again on each subsequent anniversary thereof, unless notice of non-extension of the term is given by either party.

The Company has entered into an employment agreement with Dr. Scannon, dated as of December 30, 2008, that provides for his employment as Executive Vice President and Chief Scientific Officer at a salary of not less than \$360,000 per year. Under the agreement, Dr. Scannon is entitled to participate in any benefit plan for which key executives of the Company are eligible, including the MICP. Upon termination of his employment by the Company for any reason other than cause or upon his resignation from the Company for good reason, Dr. Scannon will be entitled to his then current base salary, target bonus and benefits for nine (9) months, as well as a pro-rated portion of his then current target bonus and outplacement services for six (6) months not to exceed \$8,000 in value. The agreement will continue for one year and will be automatically extended (without further action by the parties) for one year thereafter and again on each subsequent anniversary thereof, unless terminated by mutual written consent of the parties.

The Company has entered into an employment agreement with Mr. Kurland, dated as of December 28, 2008, that provides for his employment as Vice President, Finance and Chief Financial Officer at a salary of not less than \$310,000 per year. Under the agreement, Mr. Kurland will be entitled to participate in any benefit plan for which key executives of the Company are eligible, including the MICP. Upon termination of his employment by the Company for any reason other than cause or upon his resignation from the Company for good reason, Mr. Kurland will be entitled to his then current base salary, target bonus and benefits for nine (9) months, as well as a pro-rated portion of his then current target bonus and outplacement services for six (6) months not to exceed \$8,000 in value. The agreement will continue for one year and will be automatically extended (without further action by the parties) for one year thereafter and again on each subsequent anniversary thereof, unless terminated by mutual written consent of the parties.

The Company has entered into an employment agreement with Mr. Margolin, dated as of December 30, 2008, that provides for his employment as Vice President, General Counsel and Secretary at a salary of not less than \$310,000 per year. Under the agreement, Mr. Margolin will be entitled to participate in any benefit plan for which key executives of the Company are eligible, including the MICP. Upon termination of his employment by the Company for any reason other than cause or upon his resignation from the Company for good reason, Mr. Margolin will be entitled to his then current base salary, target bonus and benefits for nine (9) months, as well as a pro-rated portion of his then current target bonus and outplacement services for six (6) months not to exceed \$8,000 in value. The agreement will continue for one year and will be automatically extended (without further action by the parties) for one year thereafter and again on each subsequent anniversary thereof, unless terminated by mutual written consent of the parties.

The Company has entered into an employment agreement with Mr. Wells, effective as of December 30, 2008, that provides for his employment as Vice President, Human Resources and Information Technology at a salary of not less than \$280,000 per year. Under the agreement, Mr. Wells is entitled to participate in any benefit plan for which key executives of the Company are eligible, including the MICP. Upon termination of his employment by the Company for any reason other than cause or upon his resignation from the Company for good reason, Mr. Wells will be entitled to his then current base salary, target bonus and benefits for nine (9) months, as well as a pro-rated portion of his then current target bonus and outplacement services for six (6) months not to exceed \$8,000 in value. The agreement will continue for one year and will be automatically extended (without further action by the parties) for one year thereafter and again on each subsequent anniversary thereof, unless terminated by mutual written consent of the parties.

Certain Other Payments Upon a Change of Control

Named Executive Officers. Each of our named executive officers has entered into change of control severance agreements (the “Change of Control Agreements”) that may require us to make certain payments and/or provide certain benefits to certain executive officers in the event of a termination of employment or a change of control.

Change of Control. A “change of control” is defined in the Change of Control Agreements as the occurrence of any of the following events: (i) a merger, amalgamation or acquisition in which the Company is not the surviving or continuing entity, except for a transaction the principal purpose of which is to change the jurisdiction of the Company’s organization; (ii) the sale, transfer or other disposition of all or substantially all of the assets of the Company; (iii) any other reorganization or business combination in which fifty percent (50%) or more of the Company’s outstanding voting securities are transferred to different holders in a single transaction or series of related transactions; (iv) any approval by the shareholders of the Company of a plan of complete liquidation of the Company; (v) any “person” (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended) becoming the “beneficial owner” (as defined in Rule 13d-3 under said Act), directly or indirectly, of securities of the Company representing more than fifty percent (50%) of the total voting power represented by the Company’s then outstanding voting securities; or (vi) a change in the composition of the Board, as a result of which fewer than a majority of the directors are incumbent directors.

Vesting of Options. If a named executive officer’s employment is involuntarily terminated within eighteen (18) months of a change of control, the exercisability of all options granted to such named executive officer by the Company shall automatically be accelerated so that all the options may be exercised immediately upon such involuntary termination for any or all of the shares subject thereto and the post-termination exercise period shall be extended to sixty (60) months or the remainder of the maximum term of the options (or such shorter period of time to avoid the application of Section 409A of the Code). The options shall continue to be subject to all other terms and conditions of the Company’s share option plans and the applicable option agreements between the employee and the

Company.

Outplacement Program. If a named executive officer's employment is involuntarily terminated within eighteen (18) months of a change of control, the named executive officer will immediately become entitled to participate in a twelve (12) month executive outplacement program provided by an executive outplacement service, at the Company's expense not to exceed \$15,000.

Cash Severance. If a named executive officer's employment is involuntarily terminated within eighteen (18) months of a change of control, then the named executive officer shall be entitled to receive a severance payment equal to the sum of (A) an amount equal to 1.5 times (or, in the case of Mr. Engle, 2.0 times) the named executive officer's annual base salary as in effect immediately prior to the involuntary termination, plus (B) an amount equal to 1.5 times (or, in the case of Mr. Engle, 2.0 times) the named executive officer's target bonus as in effect for the fiscal year in which the involuntary termination occurs.

Health and Other Benefits. If a named executive officer's employment is involuntarily terminated within eighteen (18) months of a change of control, then for a period of eighteen (18) months (or, in the case of Mr. Engle, twenty-four (24) months) following such termination, (A) the Company shall make available and pay for the full cost of the coverage (plus an additional amount to pay for the taxes on such payments, if any, plus any taxes on such additional amount) of the named executive officer and his or her spouse and eligible dependents under any group health plans of the Company on the date of such termination of employment at the same level of health (i.e., medical, vision and dental) coverage and benefits as in effect for the named executive officer or such covered dependents on the date immediately preceding the date of his or her termination and (B) if the named executive officer is, at the time of such termination, an eligible participant in the Company's mortgage differential program, the Company shall continue to make mortgage assistance payments to such named executive officer pursuant to such program as in effect at the time of such termination.

Compensation Committee Report on Executive Compensation

The Company's compensation program for officers (including the named executive officers) is administered by the Compensation Committee, which is composed of four independent directors. Following review and approval by the Compensation Committee, all issues pertaining to officer compensation are submitted to the full Board for approval.

Based on the review and discussions referred to above, the Compensation Committee recommended to the Board that the Compensation Discussion and Analysis be included in the 2010 Form 10-K.

W. Denman Van Ness, Chairman
William K. Bowes, Jr.
Timothy P. Walbert
Jack L. Wyszomierski

Compensation of Directors

The primary objectives of the Company's director compensation program are to enable the Company to attract, motivate and retain outstanding individuals and align their success with that of the Company's shareholders through the creation of shareholder value. We attract and retain directors by benchmarking against companies in our industry of similar size to ensure that our director compensation packages remain competitive. The different elements of director compensation are considered in light of the compensation packages provided to similarly situated directors at peer companies.

The Compensation Committee has retained the services of the Consultant to assist in evaluating the Company's director compensation program against the relevant market. The Consultant created a survey (the "Director Compensation Survey") which compared the Company's director pay levels to those of the same peer group of companies used in the Executive Compensation Survey. In preparing the Director Compensation Survey, the

Compensation Committee has relied on the Consultant to conduct its own research, compile its own survey data and provide a summary of such data relevant to the Compensation Committee's decisions with respect to setting director compensation levels. The benchmarking process for director compensation used by the Compensation Committee based on the Director Compensation Survey is substantially similar to the process for evaluating executive compensation described above under "Compensation Discussion and Analysis." Following the benchmarking process for 2011, the only changes to directors compensation were an increase in the number of options to be granted to non-employee

directors upon initial election from 11,666 to 12,000 and an increase in the number of options to be granted annually to the Lead Independent Director from 6,333 to 6,500.

The table below sets forth the non-employee director compensation for 2010.

Name	Fees Earned or Paid in Cash (\$)	Stock Awards (\$)	Option Awards \$(1)
------	---	-------------------------	---------------------------