XOMA LTD /DE/
Form 424B5
September 19, 2003
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Filed Pursuant to Rule 424(b)(5)
Registration No. 333-107929

PROSPECTUS SUPPLEMENT

(To Prospectus dated September 8, 2003)

# 9,000,000 Shares

# Common Shares

We are offering all 9,000,000 common shares offered by this prospectus supplement.

Our common shares are traded on the Nasdaq National Market under the symbol XOMA. On September 18, 2003, the last reported sale price of our common shares on the Nasdaq National Market was $8.60 per share.

**Investing in our common shares involves a high degree of risk. Before buying any shares, you should carefully read the discussion of material risks of investing in our common shares under the heading Risk factors beginning on page S-8 of this prospectus supplement and on page 3 of the accompanying prospectus.**

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

| | Per share | Total |
|---|---|---|
| Public offering price | $8.00 | $ 72,000,000 |
| Underwriting discounts and commissions | $0.48 | $ 4,320,000 |

| | | |
|---|---|---|
| Proceeds, before expenses, to us | $7.52 | $ 67,680,000 |

The underwriters may also purchase from us up to 1,350,000 additional common shares at the public offering price less the underwriting discounts and commissions, to cover over-allotments, if any, within 30 days of the date of this prospectus supplement.

The underwriters are offering our common shares as described in Underwriting. Delivery of the shares will be made on or about September 24, 2003.

*Sole Book-Running Manager*

**UBS Investment Bank**

**CIBC World Markets** **U.S. Bancorp Piper Jaffray**

**Adams, Harkness & Hill, Inc.** **Jefferies & Company, Inc.** **ThinkEquity Partners**

The date of this prospectus supplement is September 19, 2003.

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You should rely only on the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. We have not authorized anyone to provide information different from that contained or incorporated by reference in this prospectus supplement or the accompanying prospectus. Neither the delivery of this prospectus supplement nor the sale of common shares means that information contained or incorporated by reference in this prospectus supplement or the accompanying prospectus is correct after the date of this prospectus supplement. These documents do not constitute an offer to sell or solicitation of an offer to buy these common shares in any circumstance under which the offer or solicitation is unlawful.

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**Prospectus Supplement**



**Base Prospectus**

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

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# Prospectus supplement summary

This summary highlights information contained in this prospectus supplement and the accompanying prospectus. Because it is a summary, it does not contain all the information you should consider before investing in our common shares. You should read this entire prospectus supplement and the accompanying prospectus carefully, including the Risk factors sections and the information incorporated by reference, before making an investment decision.

## BUSINESS OVERVIEW

We are a biopharmaceutical company that develops and manufactures recombinant antibodies and other protein products to treat immunological and inflammatory disorders, cancer, and infectious diseases. Our most advanced therapeutic program is Raptiva (Efalizumab), a humanized anti-CD11a monoclonal antibody that we are developing with Genentech, Inc. (Genentech) to treat immune system disorders. Raptiva is being evaluated for approval by the U.S. Food and Drug Administration (FDA) to treat adult patients with moderate-to-severe plaque psoriasis. Psoriasis occurs when new skin cell growth rapidly accelerates, resulting in thick, red, scaly, inflamed patches on the skin surface. On September 9, 2003, the FDA s Dermatologic and Opthalmic Drug Advisory Committee (DODAC) voted unanimously (11-0) to recommend that Raptiva be approved for the treatment of moderate-to-severe plaque psoriasis in adults age 18 or older. Genentech has granted Serono S.A. (Serono) exclusive marketing rights to Raptiva outside the U.S. and Japan. In January of 2003, we announced initiation of a Phase II study to evaluate Raptiva as a possible treatment for patients with psoriatic arthritis.

In addition to Raptiva, we have the following product candidates: MLN2201 (formerly MLN01), which is in a Phase I clinical trial for inflammatory vascular indications; ING-1, which is in Phase I studies for advanced adenocarcinomas; and NEUPREX®, which has been tested in severe pediatric meningococcemia, Crohn s disease and other indications. We are also evaluating a number of other product candidates in a preclinical setting, including CAB-2 for inflammatory vascular indications, XMP.629 as a treatment for acne, and anti-angiogenic compounds with potential application for treating retinal disorders.

We leverage our preclinical, process development, manufacturing, quality and clinical development capabilities by developing our proprietary products and also by entering into agreements to collaborate on the development of other companies products. We also have proprietary technologies relating to recombinant antibodies and proteins, including bacterial cell expression systems and our Human Engineering method for creating human-like antibodies. These technologies are available for licensing and are also used in our own development programs.

## KEY PRODUCTS AND DEVELOPMENT PROGRAMS

### *Raptiva*

Our most advanced therapeutic program is Raptiva, which we are developing with Genentech. On September 9, 2003, an FDA advisory committee unanimously (11-0) recommended that Raptiva be approved for the treatment of moderate-to-severe plaque psoriasis in adults age 18 or older. The FDA advisory committee s recommendation was based on data from four randomized, placebo-controlled Phase III studies. The Biologics License Application (BLA) submitted to the FDA included data on more than 2,700 patients treated with Raptiva. The Phase III trials were designed to evaluate the safety and efficacy of Raptiva as a potential treatment for moderate-to-severe plaque psoriasis. The studies had a

primary efficacy endpoint of 75 on the Psoriasis Area and Severity Index (PASI), measuring the proportion of patients achieving a 75% or greater PASI score improvement. Data presented at the advisory committee hearing included efficacy data for 12 and 24 weeks of treatment.

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- At week 12 of the pivotal, randomized, double blind, placebo-controlled Phase III study, 27% (98/369) of the patients receiving Raptiva achieved PASI 75 and 59% (216/369) of patients achieved a 50% or greater PASI improvement (PASI 50).

- At 24 weeks of the open-label, extended treatment period following the first 12 weeks of treatment, 44% (161/369) of patients who had received at least one dose of Raptiva during the first 12 weeks achieved PASI 75 and 66% (245/369) of patients achieved PASI 50.

Although the FDA is not bound by the recommendations of its advisory committees, it generally follows their advice. We and Genentech will continue discussions with the FDA regarding product labeling and post-marketing commitments. An FDA response on the Raptiva BLA is expected by October 27, 2003.

Raptiva is a T-cell modulator designed to selectively and reversibly block the activation of T-cells that cause psoriasis. In clinical trials, Raptiva demonstrated rapid onset of action in the reduction of symptoms associated with psoriasis, including a reduction in the thickness, scaling and redness of skin lesions, or plaques. The therapy was administered once weekly via subcutaneous injection, and in several of the trials, was self-administered by patients at home.

In January of 2003, we and Genentech initiated a Phase II study to evaluate Raptiva in patients with psoriatic arthritis. Enrollment has been completed in this ongoing study. We and Genentech continue to assess additional indications for Raptiva**.**

Genentech has granted Serono exclusive marketing rights to Raptiva outside the U.S. and Japan. In February of 2003, Serono announced the filing of an application for European Union approval of Raptiva in moderate-to-severe plaque psoriasis.

In April of 1996, we and Genentech entered into an agreement for the development of Raptiva. In April of 2003, we announced that we had entered into amended and expanded agreements related to the collaboration, to reflect the current understandings between the companies. The agreements call for us to receive 25% of future U.S. operating profits from sales of Raptiva and to absorb 25% of any losses from such sales. We are also entitled to a royalty on Raptiva sales outside the U.S. The agreements also give us the option to co-promote this product in the United States. The agreements call for Genentech to finance our share of development costs up to a maximum of $80 million via a convertible subordinated loan (Development Loan), and our share of pre-launch marketing and sales costs up to a maximum of $15 million via an additional loan facility (Commercial Loan). The loans are repayable no later than 90 days after product approval. The Development Loan can be paid in cash or equity, at our option, based on a formula reflecting the then prevailing market price of our common shares. Payment of up to $40 million of the Development Loan may be deferred, at our option, and paid with our share of U.S. operating profits from Raptiva. As of June 30, 2003, the balance of the Development Loan was $69.6 million and the balance of the Commercial Loan was $5.3 million.

We are aware of a portfolio of patents held by Protein Design Laboratories, Inc. relating to the humanization of antibodies, which may or may not apply to Raptiva. We understand that Genentech has rights related to this portfolio. There have been press reports concerning discussions between Genentech and Protein Design Laboratories, Inc. regarding these rights, and we do not know how the outcome of these discussions will affect us.

We are aware of a patent owned by Columbia University relating to technology used to produce antibodies in mammalian cells, which may or may not apply to Raptiva. We understand that Genentech and others have filed lawsuits alleging invalidity of the patent. There have been press reports concerning these lawsuits, and we do not know how the outcome of these proceedings will affect us.

***MLN2201 and CAB-2***

We are developing MLN2201 and CAB-2 for certain vascular inflammation indications pursuant to a collaboration agreement with Millennium Pharmaceuticals, Inc. (Millennium) that was announced in

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November of 2001. MLN2201 is a humanized monoclonal antibody that inhibits inflammatory responses by blocking the attachment of Beta 2 integrins to their adhesion molecules and is being developed for conditions related to inflammation of the heart and blood vessels. In June of 2003, we announced initiation of a Phase I clinical trial of MLN2201. This open-label, dose-escalating study will evaluate the safety, tolerability, pharmacokinetics and pharmacodynamics of MLN2201 in healthy volunteers, who will each receive a single intravenous infusion, followed by monitoring and evaluation. CAB-2 is a recombinant fusion protein that inhibits complement activation. CAB-2 continues in preclinical testing, and if successful, we are targeting the initiation of clinical testing in late 2003.

***BPI-Based Products***

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

NEUPREX® is a fragment of rBPI. We completed a Phase III efficacy clinical trial in 1999, testing NEUPREX® in severe pediatric meningococcemia, but the data from the trial were determined not to be sufficient to file for regulatory approval. Further development of this product continued under a license agreement with a division of Baxter Healthcare Corporation (Baxter). In July of 2003, our licensing arrangement with Baxter for NEUPREX® was terminated, and the rights returned to us. Future development plans are under review.

We are also developing BPI-derived anti-angiogenic compounds with potential application for treating retinal disorders. Results of *in vitro* and *in vivo* studies conducted by Joslin Diabetes Center at Harvard University (Joslin), presented in April of 2001 and published in February of 2002, showed that compounds derived from BPI inhibit the function of multiple growth factors involved in blood vessel formation and angiogenesis in the retina while sparing key retinal cells (pericytes). These data suggest that these compounds may have potential for treating retinal disorders. We are conducting further research together with Joslin.

XMP.629 is a BPI-derived topical anti-infective compound that is in preclinical testing as a treatment for acne. Acne is triggered by common human pathogens, *Propionibacterium acnes* bacteria that are considered the primary cause of inflammatory lesions associated with acne and are often isolated from various topical infections. Subject to successful conclusion of this preclinical testing and agreement with the FDA, we intend to initiate Phase I clinical testing of the compound.

***ING-1***

ING-1 is a Human Engineered recombinant monoclonal antibody that binds with high affinity to an antigen expressed on epithelial cell cancers (breast, colorectal, prostate and others) that is designed to destroy cancer cells by recruiting the patient s own immune system. Enrollment has been completed in two Phase I studies testing intravenous administration in advanced adenocarcinoma patients, which showed safety and tolerability results that supported further clinical development. An additional Phase I study with subcutaneous administration is ongoing. Further product development efforts and planning for future collaborative arrangements will be determined based on the results of these studies. The ING-1 monoclonal antibody incorporates our patented Human Engineering technology, designed to reduce immunogenicity.

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## OUR PRODUCT PORTFOLIO

The following table summarizes products currently in development, highlighting indications, FDA regulatory status and names of collaborators, if any:

| Program | Description | Indication | Status | Collaborator |
|---|---|---|---|---|
| **Raptiva (Efalizumab)** | Humanized anti-CD11a monoclonal antibody | Moderate-to-severe plaque psoriasis | **BLA Submitted** | Genentech |
| | | Psoriatic arthritis | **Phase II** | Genentech |
| **NEUPREX® (Opebacan)** | IV formulation of $rBPI_{21}$, a fragment of rBPI | Various | **Phase II*** | None |
| **ING-1** | Human Engineered antibody to Ep-CAM | Adenocarcinomas | **Phase I** | None |
| **MLN2201** | Humanized monoclonal antibody | Vascular inflammation indications | **Phase I** | Millennium |
| **CAB-2** | Recombinant fusion protein complement inhibitor | Cardiopulmonary bypass surgeries | **Preclinical** | Millennium |
| **Other BPI-Derived Compounds** | XMP.629 topical antibacterial protein fragment | Acne | **Preclinical** | None |
| | Anti-angiogenic compounds | Retinal disorders | **Preclinical** | None |

* We have conducted several Phase II and Phase III trials and are reviewing future development plans.

## OUR STRATEGY

Our strategy is to develop and manufacture recombinant antibodies and other protein products to treat immunological and inflammatory disorders, cancer and infectious diseases while leveraging our development and manufacturing infrastructure through collaborations with other companies and research institutions. The principal elements of this strategy are to:

### Develop and successfully commercialize Raptiva

Along with our collaborator Genentech, we are seeking to develop Raptiva for the treatment of psoriasis, psoriatic arthritis and other indications. We believe that we will benefit from Genentech s marketing organization, which has extensive experience marketing drugs to well-defined patient populations with chronic and acute diseases.

### Continue to build a portfolio of medically-important product candidates

We are developing a pipeline of product candidates in various stages of clinical and preclinical development in a variety of therapeutic areas. We believe this strategy may increase the likelihood of successful product commercialization, while reducing our exposure to the risk inherent in the

development of any one drug or focusing on a single therapeutic area. We currently have one product under evaluation by the FDA for marketing approval, one product that has completed Phase II clinical trials in multiple indications, two products in Phase I clinical trials and additional products in preclinical development.

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### Seek to license or acquire complementary products and technologies

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

### Leverage our core competencies

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

## RECENT DEVELOPMENTS

On September 9, 2003, the DODAC voted unanimously (11-0) to recommend that Raptiva be approved for the treatment of moderate-to-severe plaque psoriasis in adults age 18 or older. Although the FDA is not bound by the recommendations of its advisory committees, it generally follows their advice. Genentech and we will continue discussions regarding product labeling and post-marketing commitments. An FDA response on the Raptiva BLA is expected by October 27, 2003.

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# The offering

| | |
|---|---|
| Common shares we are offering | 9,000,000 shares |
| Common shares to be outstanding after this offering | 81,672,131 shares |
| Nasdaq National Market symbol | XOMA |
| Use of proceeds | We expect to use the net proceeds from this offering for general corporate purposes, including current research and development projects, the development or acquisition of new products or technologies, equipment acquisitions, general working capital and operating expenses. We may use some of the net proceeds of this offering to repay a portion or all of our outstanding notes payable to Genentech and Millennium. See Use of proceeds. |

The number of shares that will be outstanding after this offering is based on the number of shares outstanding as of September 18, 2003, assumes no exercise of the underwriters over-allotment option to purchase an additional 1,350,000 common shares and excludes:

- our common shares issuable upon the exercise of share options outstanding, of which there were 5,718,950 outstanding as of June 30, 2003, with a weighted average exercise price of $5.35 per share;

- our common shares issuable upon the conversion of our outstanding convertible notes payable to Genentech and Millennium. As of June 30, 2003, approximately $5.2 million of debt payable to Millennium and approximately $69.6 million of notes payable to Genentech were convertible into our common shares at our option. To the extent we elect to repay this debt with our common shares, we would issue common shares at a conversion price to be calculated at the time of payment based on the fair market value of our common shares at the time of election; and

- 700,000 of our common shares issuable upon exercise of outstanding warrants, with a weighted average exercise price of $5.55 per share.

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# Summary consolidated financial data

We have derived our consolidated statement of operations data for the years ended December 31, 2000, 2001 and 2002 from our audited consolidated financial statements incorporated by reference in this prospectus supplement. We have derived our consolidated balance sheet data as of June 30, 2003 and consolidated statement of operations data for each of the six months ended June 30, 2002 and 2003 from our unaudited consolidated financial statements incorporated by reference in this prospectus supplement. The unaudited consolidated financial statement data includes, in our opinion, all adjustments (consisting only of normal recurring adjustments) that are necessary for a fair presentation of our financial position and results of operations for these periods. Operating results for the six months ended June 30, 2003 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2003. You should read the summary financial data set forth below in conjunction with Management s discussion and analysis of financial condition and results of operations and with our consolidated financial statements and related notes incorporated by reference in this prospectus supplement.

| | Year ended December 31, | | | Six months ended June 30, | |
|---|---|---|---|---|---|
| **Consolidated statement of operations data:** | **2000** | **2001** | **2002** | **2002** | **2003** |
| (In thousands, except per share amounts) | | | | | |
| Total revenues | $ 6,659 | $ 17,279 | $ 29,949 | $ 13,946 | $ 5,525 |
| Operating costs and expenses: | | | | | |
| Research and development | 30,006 | 35,929 | 42,621 | 20,694 | 25,484 |
| Marketing, general and administrative | 6,069 | 8,681 | 19,405 | 8,698 | 8,603 |
| Loss from operations | (29,416) | (27,331) | (32,077) | (15,446) | (28,562) |
| Other income (expense), net | 4 | (709) | (1,170) | (638) | (592) |
| Net loss[1] | $ (29,412) | $ (28,040) | $ (33,247) | $ (16,084) | $ (29,154) |
| Net loss per common share | $ (0.45) | $ (0.41) | $ (0.47) | $ (0.23) | $ (0.41) |

| | As of June 30, 2003 | |
|---|---|---|
| **Consolidated balance sheet data:** | **Actual** | **As adjusted[2]** |
| (In thousands) | | |
| Cash, cash equivalents and short-term investments | $ 29,538 | $ 96,718 |
| Working capital | 16,726 | 83,906 |
| Total assets | 55,438 | 122,618 |
| Notes payable, long-term portion | 74,877 | 74,877 |
| Accumulated deficit | (570,030) | (570,030) |
| Shareholders equity (net capital deficiency) | (35,712) | 31,468 |

*(1) In 2002 and 2001, net loss includes approximately $7.0 million and $1.9 million, respectively, in legal expenses related to our litigation with Biosite Incorporated and certain shareholder litigation. The litigation matters to which these expenses related were settled or otherwise resolved in 2002.*

*(2) As adjusted to reflect the receipt of the estimated net proceeds from the sale of common shares in this offering.*

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# Risk factors

*You should carefully consider the following factors and other information in this prospectus supplement and the accompanying prospectus before deciding to invest in our common shares. You should also consider carefully the other information contained, or incorporated by reference, in this prospectus supplement or the accompanying prospectus. The actual results of our business could differ materially from those described as a result of the risks and uncertainties described below and elsewhere. In such case, the trading price of our common shares could decline, and you may lose all or part of the money you paid to buy our common shares.*

**We May Not Obtain FDA Approval Of Raptiva. Even If We Obtain Approval, Additional Studies Or Other Work May Be Required.**

Even though an advisory committee has recommended that the FDA approve Raptiva for the treatment of moderate to severe plaque psoriasis in adults, the FDA is not required to follow the recommendations of its advisory committees, and the FDA may determine not to grant this approval. This recommendation was made on September 9, 2003. We do not know whether or when this approval will be granted.

Even if the FDA approves Raptiva, it may require post-approval studies or other post-marketing commitments. We do not know what these studies may involve, what form these commitments may take or how much these matters may cost.

**We Have Broad Discretion In Determining How To Use The Proceeds Of This Offering; To The Extent We Elect Not To Use These Proceeds To Repay Our Debt To Genentech, We May Issue Additional Common Shares And Dilute The Interests Of Our Existing Shareholders.**

We have not determined the amounts we plan to spend on any of the areas listed in Use of proceeds or the timing of such expenditures. As a result, our management will have broad discretion to allocate the net proceeds from this offering, and may spend the proceeds in ways with which our shareholders may not agree. Pending application of the net proceeds as described in Use of proceeds , we intend to invest the net proceeds of the offering in short-term, investment-grade, interest-bearing securities. These investments may not yield a favorable return to our shareholders.

In addition, we may elect to use some of the net proceeds from this offering to repay some or all of our outstanding notes payable to Genentech and Millennium. Approximately $74.9 million of notes payable to Genentech were outstanding as of June 30, 2003, which will mature on the earlier of April 2005 (except for advances made after April 2003, which mature on the second anniversary of the date(s) of the advances) or within 90 days after FDA approval of Raptiva, which may occur before the end of 2003. Approximately $5.2 million of debt payable to Millennium was outstanding as of June 30, 2003, which will mature in February 2004. However, we have the right to repay a significant portion (approximately $69.6 million of the notes payable to Genentech as of June 30, 2003 and all of the debt payable to Millennium) of such debt using our common shares. To the extent we elect to put the net proceeds of this offering to other uses and repay the Genentech or Millennium debt with our common shares, we would issue common shares at a conversion price to be calculated at the time of payment based on the fair market value of our common shares at the time of election.

**The Terms Of Our Financing Arrangements With Genentech and Millennium Could Result In The Issuance Of A Significant Number Of Common Shares Shortly After This Offering.**

Most of the debt we owe to Genentech is repayable in cash or, at our option, in equity securities convertible into our common shares. We have agreed with Genentech that if we issue securities to them in repayment of this debt we will file a registration statement with the Securities and Exchange

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Commission registering resales by Genentech. The debt we owe Genentech is due no later than 90 days after FDA approval of Raptiva, although repayment of $40 million of this debt may, at our option, be deferred. An FDA response on the Raptiva BLA is expected by October 27, 2003, and we estimate that at that time we would owe Genentech approximately $75 million in debt that can be repaid with our equity. If Raptiva is approved, we may elect at any time during the 90 days after approval to repay our debt to Genentech with our equity, and announce such election, although we have agreed with the underwriters in this offering not to complete the issuance of equity or file a registration statement covering its resale during the 90-day period following the date of this prospectus supplement without the prior written consent of UBS Securities LLC. Any such election could result in our issuance of a substantial number of common shares.

Pursuant to our financing arrangement with Millennium, we have the option to issue up to $38.5 million worth of common shares (including shares issuable upon conversion of $5.0 million of outstanding convertible debt) to Millennium through February 2005. The amount issuable in the remainder of 2003 could be $9.0 million. The number of shares to be issued will be based on a price to be calculated at the time of issuance.

Our election to issue these shares, or speculation that we may do so, could adversely affect the market price of our shares.

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# Special note regarding forward-looking statements

Some of the statements made in this prospectus supplement and the accompanying prospectus are forward-looking in nature, including those relating to the relative size of our net loss for 2003, the sufficiency of our cash resources, the FDA advisory committee recommendation and the BLA review time frame, as well as other statements related to current plans for product development (including the progress of clinical trials and the regulatory process and the timing of clinical trials and regulatory filings and approvals) and existing and potential collaborative and licensing relationships, or that otherwise relate to future periods and other statements that are not historical facts. The words believe, plan, intend, expect and similar expressions are intended to identify forward-looking statements. We caution you not to place undue reliance on these forward-looking statements. They apply only as of the date of this prospectus supplement except that statements incorporated by reference from previously filed reports apply as of the date made. The occurrence of the events described, and the achievement of the intended results, depend on many events, some or all of which are not predictable or not within our control. Actual results may differ materially from those anticipated in any forward-looking statements. Many risks and uncertainties are inherent in the biopharmaceutical industry. Others are more specific to our business. Many of the significant risks related to our business are described in this prospectus supplement. These include, among others, the actual loss for 2003 could be higher depending on revenues from licensees and collaborators, the size and timing of expenditures and whether there are unanticipated expenditures; the sufficiency of cash resources could be shortened if expenditures are made earlier or in larger amounts than anticipated or are unanticipated or if funds are not available on acceptable terms; and regulatory approvals could be delayed or denied as a result of safety or efficacy issues regarding the products being tested, action, inaction or delay by the FDA, European or other regulators, or their advisors, or issues relating to analysis or interpretation by, or submission to, these entities or others of scientific data. These and other risks, including those related to the results of pre-clinical testing, the design and progress of clinical trials, changes in the status of the existing collaborative relationships, availability of additional licensing or collaboration opportunities, the timing or results of pending and future clinical trials, the ability of collaborators and other partners to meet their obligations, market demand for products, actions by the FDA or the U.S. Patent and Trademark Office, scale-up and marketing capabilities, competition, international operations, share price volatility, our financing needs and opportunities, uncertainties regarding the status of biotechnology patents, uncertainties as to the costs of protecting intellectual property and risks associated with our status as a Bermuda company are described in more detail in Risk factors in this prospectus supplement and the accompanying prospectus. We undertake no obligation to publicly update any forward-looking statements, regardless of any new information, future events or other occurrences. We advise you, however, to consult any additional disclosures we make in our reports to the SEC on Forms 10-K, 10-Q and 8-K.

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# Use of proceeds

The net proceeds from our sale of the 9,000,000 common shares we are offering are estimated to be approximately $67.2 million ($77.3 million if the underwriters over-allotment option is exercised in full) after deducting the underwriting discounts and commissions and estimated offering expenses payable by us.

We intend to use the net proceeds from this offering for general corporate purposes, including current research and development projects, the development or acquisition of new products or technologies, equipment acquisitions, general working capital and operating expenses. We may use a portion of the net proceeds of this offering to repay some or all of our outstanding notes payable to Genentech and Millennium pursuant to our existing collaboration arrangements. As of June 30, 2003, there was approximately $74.9 million of debt payable to Genentech, bearing interest at that time at 2.38% per year. This debt matures on the earlier of April 2005 (except for advances made after April 2003, which mature on the second anniversary of the date(s) of the advances) or within 90 days after FDA approval of Raptiva, which may occur before the end of 2003. As of June 30, 2003, there was approximately $5.2 million of debt payable to Millennium, bearing interest at 2.62% per year, which matures in February 2004.

We have not determined the amounts we plan to spend on any of the areas listed above or the timing of these expenditures. As a result, our management will have broad discretion to allocate the net proceeds from this offering. Pending application of the net proceeds as described above, we intend to invest the net proceeds of the offering in short-term, investment-grade, interest-bearing securities.

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# Capitalization

The following table sets forth our unaudited cash, cash equivalents and short-term investments and capitalization as of June 30, 2003:

- on an actual basis; and
- on an as adjusted basis to reflect the receipt of the estimated net proceeds from the sale of common shares in this offering.

This table should be read in conjunction with Management s discussion and analysis of financial condition and results of operations and our consolidated financial statements and the related notes incorporated by reference in this prospectus supplement and the accompanying prospectus.

| | As of June 30, 2003 | |
|---|---|---|
| | Actual | As adjusted |
| (In thousands, except per share data) | | |
| Cash, cash equivalents and short-term investments | $ 29,538 | $ 96,718 |
| Total liabilities | $ 91,150 | $ |