XOMA LTD /DE/
Form DEF 14A
April 13, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

Filed by the Registrant x

Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement

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

x 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):

x No fee required.

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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 13, 2007

To Our Shareholders:

You are cordially invited to attend the annual general meeting of shareholders of XOMA Ltd. on May 22, 2007 at 9:00 a.m. local time, which will be held at The Claremont Hotel, Ashby and Domingo Avenues, Berkeley, California.

Details of 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 2006. 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,

John L. Castello

Chairman of the Board,

President and Chief Executive Officer

Enclosures

XOMA LTD.

NOTICE OF ANNUAL GENERAL MEETING OF SHAREHOLDERS

TO BE HELD AT 9:00 A.M. ON MAY 22, 2007

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 Claremont Hotel, Ashby and Domingo Avenues, Berkeley, California, on May 22, 2007, 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 auditors for the 2007 fiscal year and authorize the Board to agree to such auditors fee;

3. To receive the Company s audited financial statements for the 2006 fiscal year;

4. To approve the adoption of the Company s Bonus Compensation Plan; and

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

The Board of Directors has fixed the close of business on March 30, 2007, 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.

By Order of the Board of Directors

Christopher J. Margolin
Secretary

April 13, 2007

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.

XOMA LTD.

PROXY STATEMENT

TO THE SHAREHOLDERS:

The enclosed proxy is solicited on behalf of the Board of Directors 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 Claremont Hotel, Ashby and Domingo Avenues, Berkeley, California, on May 22, 2007, at 9:00 a.m. local time, or any adjournment or postponement thereof, at which shareholders of record holding Common Shares on March 30, 2007, will be entitled to vote. On March 30, 2007, the Company had issued and outstanding 131,670,777 common shares, par value US$.0005 per share (Common Shares). Holders of Common Shares are entitled to one vote for each share held.

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 ADP Investor Communication Services 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 ADP 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 must be borne by the shareholder.

The Company intends to mail this proxy statement and make it available on the Internet on or about April 13, 2007.

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 outstanding Common Shares and regarding each director, each named executive officer and all directors and the named executive officers as a group, together with the approximate percentages of outstanding Common Shares owned by each of them. Unless otherwise indicated, amounts are as of March 30, 2007 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.

Name of Beneficial Owner	Number of Common Shares Beneficially Owned	Percentage of Common Shares Beneficially Owned
OrbiMed Group(1)	13,857,927	10.5%
Joseph L. Harrosh(2)	9,419,214	7.2%
Platinum Asset Management Limited(3)	7,938,313	6.0%
Wells Fargo & Company(4)	6,267,500	4.8%
QVT Financial LP(5)	6,566,253	5.0%
James G. Andress(6)	78,000	[*]
William K. Bowes, Jr.(7)	107,069	[*]
J. David Boyle II(8)	70,601	[*]
John L. Castello(9)	725,976	[*]
Peter Barton Hutt(10)	30,000	[*]
Arthur Kornberg, M.D.(11)	87,000	[*]
Christopher J. Margolin(12)	356,250	[*]
Patrick J. Scannon, M.D., Ph.D.(13)	329,957	[*]
Robert S. Tenerowicz(14)	88,087	[*]
W. Denman Van Ness(15)	111,611	[*]
Patrick J. Zenner(16)	52,500	[*]
All named executive officers and directors as a group as of the record date (11 persons)(17)	2,037,051	1.5%

* Indicates less than 1%.

(1) As reported by the group comprised of OrbiMed Capital LLC, OrbiMed Advisors LLC and Samuel D. Isaly (collectively, the OrbiMed Group) on Schedule 13G/A filed with the Securities and Exchange Commission on February 13, 2007. Members of the OrbiMed Group are investment advisors and hold the securities on behalf of other persons who have the right to receive or the power to direct the receipt of dividends from, or proceeds from sale of, such securities. None of such other persons have an interest in the securities whose ownership is reported on the Schedule 13G/A that relates to more than 5% of the class. Information is as of December 31, 2006.

(2) As reported by Joseph L. Harrosh on Schedule 13G/A filed with the Securities and Exchange Commission on January 22, 2007, consists of 906,278 Common Shares and maximum potential Common Shares issuable upon conversion of $13,000,000 aggregate principal amount of 6.50% Convertible Senior Notes due 2012 (Convertible Notes). Amount is as of December 31, 2006.

(3) As reported by Platinum Asset Management Limited on Schedule 13G/A filed with the Securities and Exchange Commission on February 13, 2007. Amount is as of December 31, 2006.

(4) As reported by Wells Fargo & Company on Schedule 13G filed with the Securities and Exchange Commission on January 31, 2007. Amount is as of December 31, 2006. Based on the number of Common Shares outstanding on December 31, 2006, Wells Fargo & Company was the beneficial owner of 5.94%.

(5) As reported by QVT Financial LP on Schedule 13G/A filed with the Securities and Exchange Commission on February 28, 2007. QVT Financial LP (QVT Financial) is the investment manager for QVT Fund LP (the Fund), which beneficially owns 5,551,939 Common Shares. QVT Financial is also the investment manager for a separate discretionary account managed for Deutsche Bank AG (the Separate Account), which holds 1,014,314 Common Shares. QVT Financial has the power to direct the vote and disposition of

the Common Shares held by the Fund and the Separate Account. Accordingly, QVT Financial may be deemed to be the beneficial owner of an aggregate amount of 6,566,253 Common Shares, consisting of the shares owned by the Fund and the shares held in the Separate Account. QVT Financial GP LLC, as General Partner of QVT Financial, may be deemed to beneficially own the same number of Common Shares reported by QVT Financial. QVT Associates GP LLC, as General Partner of the Fund, may be deemed to beneficially own the same number of Common Shares reported by the Fund. Information is as of February 23, 2007.

(6) Includes 76,000 Common Shares issuable upon the exercise of options exercisable as of 60 days after the record date.

(7) Includes 76,000 Common Shares issuable upon the exercise of options exercisable as of 60 days after the record date.

(8) Includes 51,667 Common Shares issuable upon the exercise of options exercisable as of 60 days after the record date.

(9) Includes 36,890 Common Shares held by The John L. and Katherine C. Castello Trust, of which Mr. Castello is a trustee. Includes 560,416 Common Shares issuable upon the exercise of options exercisable as of 60 days after the record date. Does not include 25,047 Common Shares that have vested pursuant to the Company s Deferred Savings Plan.

(10) Includes 30,000 Common Shares issuable upon the exercise of options exercisable as of 60 days after the record date.

(11) Includes 76,000 Common Shares issuable upon the exercise of options exercisable as of 60 days after the record date.

(12) Includes 280,521 Common Shares issuable upon the exercise of options exercisable as of 60 days after the record date. Does not include 25,454 Common Shares that have vested pursuant to the Company s Deferred Savings Plan.

(13) Includes 60,805 Common Shares held by The Patrick J. Scannon Separate Property Trust. Includes 215,625 Common Shares issuable upon the exercise of options exercisable as of 60 days after the record date. Does not include 25,917 Common Shares that have vested pursuant to the Company s Deferred Savings Plan.

(14) Includes 56,875 Common Shares issuable upon the exercise of options exercisable as of 60 days after the record date. Does not include 7,611 Common Shares that have vested pursuant to the Company s Deferred Savings Plan.

(15) Includes 49,481 Common Shares held by The Van Ness 1983 Revocable Trust, of which Mr. Van Ness is a trustee. Includes 61,000 Common Shares issuable upon the exercise of options exercisable as of 60 days after the record date.

(16) Represents 52,500 Common Shares issuable upon the exercise of options exercisable as of 60 days after the record date.

(17) Includes 1,536,604 Common Shares issuable upon exercise of options exercisable as of 60 days after the record date. Does not include 84,029 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 through the creation of shareholder value and achievement of strategic corporate objectives. We attract and retain executives by benchmarking against companies in our industry of similar size and organizational structure to ensure that our compensation packages remain competitive. When creating an executive s overall compensation package, the different elements of compensation are considered in light of the compensation packages provided to similarly situated executives at peer companies as well as the role the executive will play in our achieving near term and longer term goals. 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.

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 similarly situated individuals in the pharmaceutical and biotechnology industries (including, but not limited to, the biotechnology companies included in the AMEX Biotechnology Index) 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 of Directors, by the Compensation Committee and by management in making its initial proposals to the Compensation Committee.

Long-Term Incentive Program. The principal methods for long-term incentive compensation are the 1981 Share Option Plan (the Option Plan) and Restricted Share Plan (the Restricted Plan), and compensation thereunder principally takes the form of incentive and non-qualified option grants. 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 with and contribution to the Company. For grants during 2006, the number of options granted were determined based on 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; no specific measures of corporate performance were considered.

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

Only our chief executive officer (CEO) is eligible to participate in the CICP, and depending on his or her performance and that of the Company, earn incentive compensation. The determination of the incentive compensation awarded for each fiscal year is as follows: The target award opportunity for the CEO is set at 50% of his or her base salary. As soon as practicable after the end of each fiscal year (the Plan Period), the Compensation Committee will recommend to the Board and the Board will determine whether and to what extent certain Company objectives (Company Objectives) have been met. Company Objectives may be based on financial goals, scientific or commercial progress, profits, return on investments or any other criteria established by the Board. For each Plan Period, unless 70% of the Company Objectives have been met, no incentive compensation will be awarded.

The incentive compensation will be weighted based 70% on meeting Company Objectives and 30% based on discretionary objectives. 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%.

The performance of the CEO will be rated as soon as practicable following the conclusion of the Plan Period. Distribution of incentive compensation will be established by the Board, and will generally be in February or March of the succeeding year after the Plan Period. The incentive awards will be comprised 50% of cash and 50% of common shares (based on the average market value of the common shares for the 10 trading days prior to the date of the award). The number of Common Shares paid is calculated after tax and other withholdings. All share issuances under the CICP are made pursuant to the Restricted Plan.

For 2006, the Compensation Committee and the Board determined that Mr. Castello had met a percentage of the Company Objectives in excess of the 70% minimum required by the CICP in order to make an award thereunder.

MICP. Certain employees are also compensated through the Management Incentive Compensation Plan (the MICP), in which management employees (other than the Chief Executive Officer), as well as certain additional discretionary participants chosen by the Chief Executive Officer, are eligible to participate. Under the MICP, at the beginning of each fiscal year, the Board of Directors (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 its corporate objectives.

After each fiscal year, the Board of Directors and the Compensation Committee make a determination as to the performance of the Company and MICP participants in meeting corporate objectives and individual objectives, which are determined from time to time by the Board of Directors in its sole discretion and which included for 2006: a target level of cash at year end; generation of current income; progress toward collaborations, potential partnerships or financing arrangements; and various objectives tied to development of the Company. Awards to MICP participants vary depending upon the level of achievement of corporate objectives, the size of the incentive compensation pool and the MICP participants base salaries and performance during the fiscal year as well as their expected ongoing contribution to the Company. The Company must meet a minimum percentage of its corporate objectives (currently 70%) before any awards are made under the MICP.

Awards under the MICP granted on or prior to December 31, 2004 vest over a three-year period with 50% of each award payable during the first quarter of the following fiscal year, and 25% payable on each of the next two annual distribution dates, so long as the participant remains an employee of the Company. The 50% on each distribution date is payable half in cash and half in Common Shares. Awards under the MICP granted after December 31, 2004, including grants made in 2006 for performance in 2005, are made in one payment soon after the end of the relevant fiscal year, rather than three payments over three years, and are payable half in cash and half in Common Shares. The number of Common Shares paid is calculated after tax and other withholdings. All share issuances under the MICP are made pursuant to the Restricted Plan.

For 2006, the Compensation Committee and the Board of Directors determined that management had met a percentage of the corporate objectives summarized above in excess of the 70% minimum required by the MICP in order to make awards thereunder. For 2006, 96 individuals were determined to be eligible to participate in the MICP, including all of the executive officers named in the Summary Compensation Table above other than Mr. Castello.

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.

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 structure of 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 2006. The Company and the Compensation Committee will continue to review tax consequences as well as other relevant considerations in connection with compensation decisions.

SUMMARY COMPENSATION TABLE

The following table sets forth certain summary information for the prior three years concerning the compensation earned by the Company s Chief Executive Officer, Chief Financial Officer and our three other most highly compensated officers who earned in excess of $100,000 for services rendered in 2006.

Name and Principal Position	Year	Salary ($)	Bonus ($)(1)	Stock Awards (2)	Option Awards (3)	Non-Equity Incentive Plan Compensation (2)	Change in Pension Value and Non-Deferred Compensation Earnings	All Other Compensation (4)	Total
John L. Castello	2006	$ 500,000	$ 0	$ 68,505	$ 143,887	$ 144,745	N/A	$ 66,461	$ 923,598
(Chairman of the Board, President and	2005	$ 500,000	$ 0	$ 51,457	$ 413,353	$ 108,718	N/A	$ 41,036	$ 1,114,564
Chief Executive Officer)	2004	$ 500,000	N/A	53,842	$ 396,077	93,158	N/A	$ 31,648	$ 1,074,725
Patrick J. Scannon, M.D., Ph.D.	2006	$ 360,000	$ 0	$ 26,136	$ 43,166	$ 55,224	N/A	$ 14,055	$ 498,581
(Executive Vice President and Chief	2005	$ 350,000	$ 0	$ 19,986	$ 137,068	$ 63,998	N/A	$ 13,309	$ 584,361
Biotechnology Officer)	2004	$ 340,000	$ 79,127	$ 31,032	$ 139,199	$ 89,158	N/A	$ 14,453	$ 692,969
J. David Boyle II	2006	$ 260,000	$ 0	$ 16,572	$ 41,955	$ 40,238	N/A	$ 1,233	$ 359,998
(Vice President, Finance and Chief	2005	$ 223,519	$ 40,000	$ 14,804	$ 44,710	$ 36,556	N/A	$ 1,097	$ 360,686
Financial Officer)	2004	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Christopher J. Margolin	2006	$ 300,000	$ 0	$ 20,142	$ 57,021	$ 45,071	N/A	$ 27,881	$ 450,115
(Vice President, General Counsel and	2005	$ 290,000	$ 0	$ 23,255	$ 155,464	$ 68,830	N/A	$ 24,987	$ 562,536
Secretary)	2004	$ 280,000	$ 0	$ 23,142	$ 161,561	$ 75,217	N/A	$ 23,409	$ 563,329
Robert S. Tenerowicz	2006	$ 247,000	$ 0	$ 15,596	$ 35,642	$ 40,041	N/A	$ 100,736	$ 439,015
(Vice President, Operations)	2005	$ 227,604	$ 0	$ 15,998	$ 47,040	$ 37,935	N/A	$ 213,943	$ 542,520
	2004	$ 25,769	$ 35,000	N/A	$ 4,769	N/A	N/A	$ 36,539	$ 102,077

(1) The bonus amounts paid to Mr. Castello under the Company s CEO Incentive Compensation Plan (CICP) and the amounts paid to Dr. Scannon and Messrs. Boyle, Margolin and Tenerowicz under the Company s Management Incentive Compensation Plan (MICP) are represented in the amounts under Stock Awards for the portion paid in Company Common Shares and under Non-Equity Incentive Plan Compensation for the portion paid in cash. CICP and MICP awards have previously been reported on a cash basis. In this Proxy Statement, and going forward, the Company will report CICP and MICP awards on an earned basis. The amounts in this column paid to Mr. Boyle in 2005 and Mr. Tenerowicz in 2004 represent sign-on bonuses.

(2) The amounts in these columns for 2006, 2005 and 2004 for Mr. Castello represent awards under the Company s CICP reported on an earned basis in the following amounts: $144,745 and 21,475 Common Shares paid in 2007 (relating to performance in 2006), $108,718 and 30,376 Common Shares paid in 2006 (relating to performance in 2005) and $93,158 and 31,784 Common Shares paid in 2005 (relating to performance in 2004). The number of Common Shares issued is calculated based on the cash amount of the award net of taxes and other withholdings.

The amounts in these columns for 2006, 2005 and 2004 for Dr. Scannon and Messrs. Boyle, Margolin and Tenerowicz represent awards under the Company s MICP in the following amounts: Dr. Scannon $55,224 and 8,193 Common Shares paid in 2007 (relating to performance in 2006); $42,183 and 11,798 Common Shares paid in 2006 (relating to performance in 2005); $50,228 and 18,319 Common Shares paid in 2005 (relating to performance in 2004); $21,771 paid in each of 2006 and 2005 (relating to performance in 2003); and $17,160 paid in 2005 (relating to performance in 2002); Mr. Boyle $40,238 and 5,195 Common

Shares paid in 2007 (relating to performance in 2006); $36,556 and 8,739 Common Shares paid in 2006 (relating to performance in 2005); Mr. Margolin $45,071 and 6,314 Common Shares paid in 2007 (relating to performance in 2006); $49,100 and 13,728 Common Shares paid in 2006 (relating to performance in 2005); $41,363 and 13,661 Common Shares paid in 2005 (relating to performance in 2004); $19,693 paid in each of 2006 and 2005 (relating to performance in 2003); and $14,160 paid in 2005 (relating to performance in 2002); Mr. Tenerowicz $40,041 and 4,889 Common Shares paid in 2007 (relating to performance in 2006); $37,935 and 9,444 Common Shares paid in 2006 (relating to performance in 2005). The number of Common Shares issued in each case is calculated based on the cash amount of the award net of taxes and other withholdings.

(3) The option amounts were calculated using the provisions of Statement of Financial Accounting Standards (SFAS) No. 123(R), Share-based Payments. See Note 1 of the consolidated financial statements in the Company s Annual Report on Form 10-K for the year ended December 31, 2006 regarding assumptions underlying valuation of equity awards.

(4) Amounts in this column for 2006, 2005 and 2004 include:

Mr. Castello (a) financial services provided to Mr. Castello in the amount of $6,875, $4,176 and $400, respectively; (b) taxes paid by the Company on Mr. Castello s behalf in the amounts of $3,704, $2,755 and $556, respectively; (c) life insurance premiums paid in each year in the amount of $18,000; (d) cash payments in lieu of earned vacation and/or personal holidays in the amounts of $19,230 in 2006 and $1,923 in 2005; (e) Company Common Shares contributed to an account under the Company s Deferred Savings Plan in the amounts of 4,626, 5,326 and 2,876 Common Shares, respectively and (f) group term life insurance premiums in the amount of $8,652, $5,182 and $5,182, respectively.

Dr. Scannon (a) cash payments in lieu of earned vacation and/or personal holidays in the amounts of $1,346, $1,471 and $2,615, respectively; (b) Company Common Shares contributed to an account under the Company s Deferred Savings Plan in the amounts of 4,626, 5,326 and 3,064 Common Shares, respectively; (c) group term life insurance premiums in the amount of $2,709, $2,838 and $2,838, respectively and (d) a patent award in 2004 in the amount of $1,000.

Mr. Boyle group term life insurance premiums in 2006 and 2005 in the amounts of $1,233 and $1,097, respectively.

Mr. Margolin (a) cash payments in lieu of earned vacation and/or personal holidays in the amounts of $13,769, $13,308 and $12,846, respectively; (b) Company Common Shares contributed to an account under the Company s Deferred Savings Plan in the amounts of 4,626, 5,326 and 3,064 Common Shares, respectively and (c) group term life insurance premiums in the amounts of $4,112, $2,679 and $2,563, respectively.

Mr. Tenerowicz (a) forgiveness of loan in the amounts of $40,166 in 2006 and $41,055 in 2005; (b) relocation in the amounts of $19,056, $89,620 and $21,568, respectively; (c) taxes paid by the Company on Mr. Tenerowicz s behalf in the amounts of $32,369, $75,810 and $14,918, respectively; (d) cash payments in lieu of earned vacation and/or personal holidays in the amount of $1,130 in 2006; (e) Company Common Shares contributed to an account under the Company s Deferred Savings Plan in the amounts of 3,469 Common Shares in 2006 and 4,142 Common Shares in 2005 and (f) group term life insurance premiums in the amounts of $515, $458 and $53, respectively.

Company Common Shares contributed under the Company s Deferred Savings Plan were valued in 2006, 2005 and 2004 at fiscal year-end formula prices of $2.1620, $1.6900 and $2.611, respectively, per share.

PLAN-BASED AWARDS

The following table contains information concerning the grant of awards to our named executive officers under any plan during or with respect to 2006.

Name(a)	Grant Date (b)(1)	Estimated Future Payouts Under Non-Equity Incentive Plan Awards: Thres-hold ($) or (#)(c)	Target ($) or (#)(d)	Maximum ($) or (#)(e)	Estimated Future Payouts Under Equity Incentive Plan Awards: Thres-hold ($) or (#)(f)	Target ($) or (#)(g)	Maximum ($) or (#)(h)	All Other Stock Awards: Number of Shares of Stock or Units (#)(i)(2)	All Other Option Awards: Number of Securities Underlying Options (#)(j)	Exercise or Base Price of Option Awards ($/Sh)(k)	Grant Date Fair Value of Stock and Option Awards ($/Sh) (3)(4)
John L. Castello	02/28/2006								100,000	$ 1.68	$ 115,720
	03/15/2006							30,376			$ 51,457
	02/21/2007								150,000	$ 3.39	$ 0
	03/15/2007							21,475			$ 68,505
Patrick J. Scannon, M.D., Ph.D.	02/28/2006								30,000	$ 1.68	$ 34,716
	03/15/2006							11,798			$ 19,986
	02/21/2007								40,000	$ 3.39	$ 0
	03/15/2007							8,193			$ 26,136
J. David Boyle II	02/28/2006										
	03/15/2006										
	02/21/2007										
	03/15/2007										