

THERAVANCE INC  
Form DEF 14A  
March 24, 2015

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 (Amendment No. )

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 under §240.14a-12

**THERAVANCE, INC.**

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(Name of Registrant as Specified In Its Charter)

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

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March 24, 2015

Dear Stockholder:

I am pleased to invite you to attend Theravance, Inc.'s 2015 Annual Meeting of Stockholders, to be held on Friday, April 24, 2015 at the Presidio Room, Embassy Suites Hotel, San Francisco Airport South San Francisco, 250 Gateway Boulevard, South San Francisco, California 94080. The meeting will begin promptly at 2:00 p.m., local time.

Enclosed are the following:

our Notice of Annual Meeting of Stockholders and Proxy Statement for 2015;

our Annual Report on Form 10-K for 2014; and

a proxy card with a return envelope to record your vote.

Details regarding the business to be conducted at the Annual Meeting are more fully described in the accompanying Notice of Annual Meeting of Stockholders and Proxy Statement.

Your vote is important. Whether or not you expect to attend, please date, sign, and return your proxy card in the enclosed envelope, or vote via telephone or the Internet according to the instructions in the Proxy Statement, as soon as possible to assure that your shares will be represented and voted at the Annual Meeting. If you attend the Annual Meeting, you may vote your shares in person even though you have previously voted by proxy if you follow the instructions in the Proxy Statement.

On behalf of your Board of Directors, thank you for your continued support and interest.

Sincerely,

Michael W. Aguiar  
*President and Chief Executive Officer*

951 Gateway Boulevard  
South San Francisco, CA 94080

T 650.238.9600 F 650.827.5083  
[www.thrxinc.com](http://www.thrxinc.com)

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**Theravance, Inc.**  
**951 Gateway Boulevard**  
**South San Francisco, California 94080**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

**To Be Held On April 24, 2015**

Dear Stockholder:

You are cordially invited to attend the Annual Meeting of Stockholders of Theravance, Inc., a Delaware corporation (the "Company"). The meeting will be held on Friday, April 24, 2015 at 2:00 p.m., local time, at the Presidio Room, Embassy Suites Hotel, San Francisco Airport South San Francisco, 250 Gateway Boulevard, South San Francisco, California 94080 for the following purposes:

1. To elect directors to serve for the ensuing year.
2. To approve a non-binding advisory resolution regarding executive compensation.
3. To ratify the selection by the Audit Committee of the Board of Directors of Ernst & Young LLP as the independent registered public accounting firm of the Company for its fiscal year ending December 31, 2015.
4. To conduct any other business properly brought before the meeting.

These items of business are more fully described in the Proxy Statement accompanying this Notice.

The record date for the Annual Meeting is February 27, 2015. Only stockholders of record at the close of business on that date may vote at the meeting or any adjournment thereof.

**You are cordially invited to attend the meeting in person. Whether or not you expect to attend the meeting, please complete, date, sign and return the enclosed proxy card, or vote via telephone or the Internet as instructed in these materials, as promptly as possible in order to ensure your representation at the meeting. A return envelope (which is postage prepaid if mailed in the United States) is enclosed for your convenience. Even if you have voted by proxy, you may still vote in person if you attend the meeting. Please note, however, that if your shares are held of record by a broker, bank or other agent and you wish to vote at the meeting, you must provide a valid proxy issued in your name from that record holder.**

If you have any questions regarding this information or the proxy materials, please visit our website at [www.thrxinc.com](http://www.thrxinc.com) or contact our investor relations department at [investor.relations@thrxinc.com](mailto:investor.relations@thrxinc.com).

By Order of the Board of Directors

Michael W. Aguiar  
*President and Chief Executive Officer*

South San Francisco, California  
March 24, 2015

**Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Stockholders to be held on Friday, April 24, 2015:**



**Theravance, Inc.**  
**951 Gateway Boulevard**  
**South San Francisco, California 94080**

**PROXY STATEMENT  
FOR THE 2015 ANNUAL MEETING OF STOCKHOLDERS**

This proxy statement is furnished in connection with solicitation of proxies by our Board of Directors for use at the 2015 Annual Meeting of Stockholders (the "Annual Meeting") to be held on Friday, April 24, 2015 at 2:00 p.m., local time, and any postponements or adjournments thereof. The Annual Meeting will be held at the Presidio Room, Embassy Suites Hotel, San Francisco Airport South San Francisco, 250 Gateway Boulevard, South San Francisco, California 94080. As used in this proxy statement, the terms "Theravance," "we," "us," and "our" mean Theravance, Inc. and its subsidiaries unless the context indicates otherwise.

**QUESTIONS AND ANSWERS ABOUT THIS PROXY MATERIAL AND VOTING**

**Why am I receiving these materials?**

We sent you this Proxy Statement and the enclosed Proxy Card because the Board of Directors of Theravance, Inc. is soliciting your proxy to vote at the Annual Meeting to be held on Friday, April 24, 2015 at 2:00 p.m., local time, and any postponements or adjournments thereof. You are invited to attend the Annual Meeting to vote on the proposals described in this Proxy Statement. However, you do not need to attend the meeting to vote your shares. Instead, you may simply complete, sign and return the enclosed proxy card, or follow the instructions on the enclosed proxy card to submit your proxy via telephone or on the Internet.

We intend to mail this Proxy Statement and accompanying proxy card on or about March 24, 2015 to all stockholders of record entitled to vote at the Annual Meeting.

**What is included in the proxy materials?**

The proxy materials include:

This Proxy Statement for the Annual Meeting;

Our 2014 Annual Report to Stockholders, which consists of our Annual Report on Form 10-K for the year ended December 31, 2014; and

The proxy card.

**Can I attend the Annual Meeting?**

You are invited to attend the Annual Meeting if you were a stockholder of record or a beneficial owner as of February 27, 2015. Admission will begin at 1:30 p.m. local time on the date of the Annual Meeting, and you must present valid picture identification such as a driver's license or passport and, if asked, provide proof of stock ownership as of February 27, 2015. The use of mobile phones, pagers, recording or photographic equipment, tablets and/or computers is not permitted at the Annual Meeting. The meeting will begin promptly at 2:00 p.m. local time.

**Who can vote at the Annual Meeting?**

Only stockholders of record at the close of business on February 27, 2015 will be entitled to vote at the Annual Meeting. On this record date, there were 116,677,469 shares of Company common stock ("Common Stock") outstanding. The holders of Common Stock have the right to one vote for each share they held as of the record date.

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In accordance with Delaware law, a list of stockholders entitled to vote at the meeting will be available at the place of the Annual Meeting on April 24, 2015 and will be accessible for ten days prior to the meeting at our principal place of business, 951 Gateway Boulevard, South San Francisco, California 94080, between the hours of 9:00 a.m. and 5:00 p.m. local time.

### *Stockholder of Record: Shares Registered in Your Name*

If on February 27, 2015 your shares were registered directly in your name with our transfer agent, Computershare, then you are a stockholder of record. As a stockholder of record, you may vote in person at the meeting or vote by proxy. Whether or not you plan to attend the meeting, we urge you to fill out and return the enclosed proxy card or vote by proxy via telephone or the Internet as instructed on your proxy card to ensure your vote is counted.

### *Beneficial Owner: Shares Registered in the Name of a Broker or Bank*

If on February 27, 2015 your shares were held in an account at a brokerage firm, bank, dealer, or other similar organization, then you are the beneficial owner of shares held in "street name" and these proxy materials are being forwarded to you by that organization. The organization holding your account is considered the stockholder of record for purposes of voting at the Annual Meeting. As a beneficial owner, you have the right to direct your broker or other agent on how to vote the shares in your account. If you do not provide instructions for voting the shares that you beneficially own, the organization holding your shares cannot vote them for you for the election of directors, nor can they vote them for you on Proposal 2. We encourage you to provide voting instructions to the brokerage firm, bank, dealer, or other similar organization that is the record holder of your shares. A number of brokers and banks enable beneficial holders to give voting instructions via telephone or the Internet. Please refer to the voting instructions provided by your bank or broker. You are also invited to attend the Annual Meeting. However, since you are not the stockholder of record, you may not vote your shares in person at the meeting unless you provide a valid proxy from your broker, bank or other custodian.

### **What am I voting on?**

There are three matters scheduled for a vote:

Election of six directors;

Approval of a non-binding advisory resolution regarding executive compensation; and

Ratification of Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2015.

### **How do I vote?**

With regard to the election of directors, you may either vote "For" all the nominees to the Board of Directors or you may withhold your vote from any nominee you specify. You may not vote your proxy "For" the election of any persons in addition to the six named nominees. For other matters to be voted on, you may vote "For" or "Against" or abstain from voting. We do not have cumulative voting rights for the election of directors. The procedures for voting are explained below.

### *Stockholder of Record: Shares Registered in Your Name*

If you are a stockholder of record, you may vote by using the enclosed proxy card, vote by proxy on the Internet or by telephone, or vote in person at the Annual Meeting. Whether or not you plan to

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attend the meeting, we urge you to vote by proxy to ensure your vote is counted. You may still attend the meeting and vote in person if you have already voted by proxy.

To vote using the proxy card, simply complete, sign and date the enclosed proxy card and return it promptly in the envelope provided. If you return your signed proxy card to us before the Annual Meeting, we will vote your shares as you direct.

To vote on the Internet, please follow the instructions provided on your proxy card.

To vote by telephone, please follow the instructions provided on your proxy card.

To vote in person, come to the Annual Meeting and we will give you a ballot when you arrive.

**We provide Internet proxy voting to allow you to vote your shares online, with procedures designed to ensure the authenticity and correctness of your proxy vote instructions. However, please be aware that you must bear any costs associated with your Internet access, such as usage charges from Internet access providers.**

### *Beneficial Owner: Shares Registered in the Name of Broker or Bank*

If you are a beneficial owner of shares registered in the name of your broker, bank or other agent, you should have received instructions for granting proxies with these proxy materials from that organization rather than from us. A number of brokers and banks enable beneficial holders to give voting instructions via telephone or the Internet. Please refer to the voting instructions provided by your bank or broker. To vote in person at the Annual Meeting, you must provide a valid proxy from your broker, bank or other agent. Follow the instructions from your broker, bank or other agent included with these proxy materials, or contact your broker, bank or other agent to request a proxy form.

### **How many votes do I have?**

On each matter to be voted upon, you have one vote for each share of Common Stock you owned as of February 27, 2015.

### **What if I return a proxy card but do not make specific choices?**

If you return a signed and dated proxy card without marking any voting selections, your shares will be voted (i) "**For**" the election of all six nominees for director, (ii) "**For**" approval of the advisory resolution regarding executive compensation and (iii) "**For**" ratification of Ernst & Young LLP as our independent registered public accounting firm. However, with respect to (i) and (ii) of the preceding sentence, if you are not a record holder, such as where your shares are held through a broker, bank or other agent, you must provide voting instructions to the record holder of the shares in accordance with the record holder's requirements in order for your shares to be properly voted. If any other matter is properly presented at the meeting, your proxy (one of the individuals named on your proxy card) will vote your shares using his best judgment.

### **How does the Board of Directors recommend that I vote?**

Our Board of Directors unanimously recommends that you vote your shares:

"**FOR**" the six nominees for election as director listed in Proposal 1;

"**FOR**" the approval of a non-binding advisory resolution regarding executive compensation; and

"**FOR**" the ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm for the year ending December 31, 2015.



**How many votes are needed to approve each proposal?**

For the election of directors, the six nominees receiving the most "For" votes (among votes properly cast in person or by proxy) will be elected. Broker non-votes will have no effect.

To be approved, Proposal 2 to approve an advisory resolution regarding executive compensation must receive a "For" vote from the holders of a majority of issued and outstanding shares present in person or represented by proxy at the meeting and entitled to vote thereon. If you "Abstain" from voting, it will have the same effect as an "Against" vote. Broker non-votes will have no effect.

To be approved, Proposal 3 to ratify the selection by the Audit Committee of the Board of Directors of Ernst & Young LLP as the independent registered public accounting firm of the Company for its fiscal year ending December 31, 2015 must receive a "For" vote from the majority of all outstanding shares present in person or represented by proxy at the Annual Meeting and entitled to vote thereon either in person or by proxy. If you "Abstain" from voting, it will have the same effect as an "Against" vote. Broker non-votes will have no effect.

**What happens if additional matters are presented at the Annual Meeting?**

If any other matters are properly presented for consideration at the Annual Meeting, including, among other things, consideration of a motion to adjourn the Annual Meeting to another time or place (including, without limitation, for the purpose of soliciting additional proxies), the persons named in the proxy card and acting thereunder will have discretion to vote on those matters in accordance with their best judgment. We do not currently anticipate that any other matters will be raised at the Annual Meeting.

**How are votes counted?**

Votes will be counted by the inspector of election appointed for the meeting, who will separately count "For" and (with respect to proposals other than the election of directors) "Against" votes, abstentions and broker non-votes. Abstentions will be counted towards the vote total for each proposal, and will have the same effect as "Against" votes. Broker non-votes, as described in the next paragraph, have no effect and will not be counted towards the vote total for any proposal.

If your shares are held by your broker as your nominee (that is, in "street name"), you will need to obtain a proxy form from the institution that holds your shares and follow the instructions included on that form regarding how to instruct your broker to vote your shares. If you do not give instructions to your broker, your broker can vote your shares with respect to "discretionary" items, but not with respect to "non-discretionary" items. Discretionary items are proposals considered routine under the rules on which your broker may vote shares held in street name without your voting instructions. On non-discretionary items for which you do not give your broker instructions, the shares will be treated as broker non-votes. Under current broker voting rules, any election of a member of the Board of Directors, whether contested or uncontested, is considered "non-discretionary" and therefore brokers are not permitted to vote your shares held in street name for the election of directors in the absence of instructions from you. All of our proposals, except for Proposal 3, are "non-discretionary" and therefore if you hold your shares through a broker, bank or other agent, your shares will not be voted on Proposals 1 and 2 unless you provide voting instructions to the record holder.

**Can I change my vote after submitting my proxy?**

Yes. You can revoke your proxy at any time before the final vote at the meeting. You may revoke your proxy in any one of three ways:

You may submit another properly completed proxy card with a later date.

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You may send a written notice that you are revoking your proxy to the Corporate Secretary of the Company at 951 Gateway Boulevard, South San Francisco, California 94080.

You may attend the Annual Meeting and vote in person. Simply attending the meeting will not, by itself, revoke your proxy.

### **How may my brokerage firm or other intermediary vote my shares if I fail to provide timely directions?**

Brokerage firms and other intermediaries holding shares of common stock in street name for customers are generally required to vote such shares in the manner directed by their customers. In the absence of timely directions, your broker will have discretion to vote your shares on our sole routine matter the proposal to ratify the appointment of Ernst & Young LLP. Your broker will not have discretion to vote on the following "non-routine" matters absent direction from you: the election of directors and the advisory resolution regarding executive compensation. **Please note that brokers may not vote your shares on the election of directors in the absence of your specific instructions as to how to vote, so we encourage you to provide instructions to your broker regarding the voting of your shares.**

### **What is the quorum requirement?**

A quorum of stockholders is necessary to hold a valid meeting. A quorum will be present if a majority of all shares outstanding on February 27, 2015, the record date, are represented at the meeting by stockholders present in person or by proxy. On the record date, there were 116,677,469 shares of Common Stock outstanding and entitled to vote. Thus 58,338,735 shares must be represented by stockholders present at the meeting or by proxy to have a quorum.

Your shares will be counted towards the quorum only if you submit a valid proxy vote or vote at the meeting. Abstentions and broker non-votes will be counted towards the quorum requirement.

### **Is my vote confidential?**

Proxy instructions, ballots, and voting tabulations that identify individual stockholders are handled in a manner that protects your voting privacy. Your vote will not be disclosed either within Theravance or to third parties, except as necessary to meet applicable legal requirements, to allow for the tabulation of votes and certification of the vote, or to facilitate a successful proxy solicitation.

### **How can I find out the results of the voting at the Annual Meeting?**

Preliminary voting results will be announced at the Annual Meeting. Final voting results will be available on a Current Report on Form 8-K we file with the Securities and Exchange Commission ("SEC") within four business days after the end of the Annual Meeting.

### **Who is paying for this proxy solicitation?**

We will pay for the entire cost of soliciting proxies. In addition to these mailed proxy materials, our directors and employees may also solicit proxies in person, by telephone, or by other means of communication. Directors and employees will not be paid any additional compensation for soliciting proxies. We may reimburse brokerage firms, banks and other agents for the cost of forwarding proxy materials to beneficial owners. We may engage the services of a professional proxy solicitation firm to aid in the solicitation of proxies from certain brokers, bank nominees and other institutional owners. Our costs for such services, if retained, will not be significant. If you choose to access the proxy materials and/or vote through the Internet, you are responsible for any Internet access charges you may incur.

**What does it mean if I receive more than one proxy card?**

If you receive more than one proxy card, your shares are registered in more than one name or are registered in different accounts. Please complete, sign and return **each** proxy card to ensure that all of your shares are voted.

**When are stockholder proposals due for next year's Annual Meeting?**

If you wish to submit a proposal to be considered for inclusion in next year's proxy materials or nominate a director, your proposal must be in proper form according to SEC Regulation 14A, Rule 14a-8 and received by the Corporate Secretary of the Company on or before November 25, 2015. If you wish to submit a proposal to be presented at the 2016 Annual Meeting of Stockholders but which will not be included in the Company's proxy materials, your Solicitation Notice, as defined in our bylaws, must be received by the Corporate Secretary of the Company at Theravance, Inc., 951 Gateway Boulevard, South San Francisco, CA 94080, Attn: Secretary, no earlier than January 9, 2016 and no later than February 8, 2016. You are advised to review our Bylaws, which contain additional requirements about advance notice of stockholder proposals and director nominations. Theravance's current Bylaws may be found on the corporate governance subsection of the investor relations section of our corporate website at [www.thrxinc.com](http://www.thrxinc.com).

**PROPOSAL 1**  
**ELECTION OF DIRECTORS**

Our Board of Directors currently consists of six directors. All six current directors are nominees for election to the Board of Directors at the Annual Meeting, and their ages as of March 31, 2015, their positions and offices held with the Company and certain biographical information are set forth below. Each director to be elected will hold office until the next annual meeting of stockholders, or until the director's death, resignation or removal. All of the nominees listed below are currently directors of the Company. It is our policy to encourage nominees for director to attend the Annual Meeting. Generally we schedule our annual meeting of stockholders on the same day as a meeting of our Board of Directors to facilitate attendance by the director nominees. Two of our directors serving as of our last annual meeting attended the meeting in person.

Directors are elected by a plurality of the votes properly cast in person or by proxy. The six nominees receiving the highest number of affirmative votes will be elected. Shares represented by executed proxies will be voted, if authority to do so is not withheld, for the election of the six nominees named below. However, if you are the beneficial owner of the shares, which means that your shares are held by a brokerage firm, bank, dealer, or other similar organization as your nominee, your shares will not be voted for the election of directors unless you have provided voting instructions to your nominee. If any director nominee becomes unavailable for election as a result of an unexpected occurrence, your shares will be voted for the election of a substitute director nominee proposed by our current Board of Directors, if any. Each person nominated for election has agreed to serve if elected.

**NOMINEES**

Name	Age	Positions and Offices Held With the Company
Michael W. Aguiar	48	Chief Executive Officer, President and Director
Catherine J. Friedman	54	Director
Terrence Kearney	60	Director
Paul Pepe	56	Director
James L. Tyree	62	Director
William H. Waltrip	77	Chairman

We have determined that each of these director nominees possesses the requisite communication skills, personal integrity, business judgment, ability to make independent analytical inquiries, and willingness to devote adequate time and effort necessary to serve as an effective member of the Board of Directors. Other specific experiences, qualifications, attributes or skills of nominees that contributed to our conclusion that the nominees should serve as directors are noted below.

*Michael W. Aguiar* was appointed President and Chief Executive Officer of Theravance, Inc. and became a member of our Board of Directors in August 2014. He joined Theravance as Senior Vice President and Chief Financial Officer in March 2005. Prior to joining Theravance, Mr. Aguiar served as Vice President of Finance at Gilead Sciences, Inc., a biopharmaceutical company, since 2002. Prior to Gilead Sciences, Inc., Mr. Aguiar served as Vice President of Finance at Immunex Corporation, a biopharmaceutical company, from 2001 to 2002. From 1995 to 2001, he was with Honeywell International in a variety of positions, including, most recently CFO and Vice President Finance for Honeywell Electronic Materials SBU. Mr. Aguiar earned a B.S. in biology from the University of California, Irvine and an M.B.A. in finance from the University of Michigan. Mr. Aguiar's demonstrated leadership in his field, his prior senior management experience in our industry and his experience as our Chief Executive Officer and as our former Chief Financial Officer contributed to our conclusion that he should serve as a director.

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*Catherine J. Friedman* has served as a member of our Board of Directors since June 2014. Ms. Friedman has served as an independent consultant serving public and private growth companies since 2006. Prior to that, Ms. Friedman held the position of Managing Director at Morgan Stanley from 1997 to 2006 and Head of West Coast Healthcare and Co-Head of the Biotechnology Practice at Morgan Stanley from 1993 to 2006. Ms. Friedman has served on the Board of Directors of GSV Capital Corp. since 2013. She is also on the Board of Directors of XenoPort Inc., a publicly traded biopharmaceutical company, and Enteromedics, a publicly traded medical device company, since 2007. Ms. Friedman is a member of the Board of Trustees for Sacred Heart Schools in Atherton, California and she serves as a Trustee for the Darden School Foundation at the University of Virginia. She has a B.A. from Harvard University and received an M.B.A. from the University of Virginia Darden Graduate School of Business. Ms. Friedman's demonstrated leadership in her field, her knowledge of financial and financing matters and her prior board service contributed to our conclusion that she should serve as a director.

*Terrence Kearney* has served as a member of our Board of Directors since October 2014. Mr. Kearney served on the Executive Management Team for Hospira, Inc., a specialty pharmaceutical and medication delivery company, from April 2004 to January 2011. Mr. Kearney served as Chief Operating Officer of Hospira from 2006 through 2010, and also Chief Financial Officer from 2004 to 2006. Mr. Kearney served as Vice President and Treasurer of Abbott Laboratories, a pharmaceuticals and health care products company, from 2001 through April 2004. From 1996 to 2001, Mr. Kearney was Divisional Vice President and Controller for Abbott's International Division. Mr. Kearney also serves on the Board of Directors of Acceleron Pharma, Inc., a biopharmaceutical company, since July 2014 and has been an Independent Director of Vertex Pharmaceutical Incorporated since May 17, 2011. Mr. Kearney earned a B.A. in biology from the University of Illinois and an M.B.A. from the University of Denver. Mr. Kearney's demonstrated leadership in his field, his understanding of our industry and his senior management experience in several companies in our industry contributed to our conclusion that he should serve as a director.

*Paul Pepe* has served as a member of our Board of Directors since June 2014. He has been a Managing Director in Corporate Finance Advisory at Wells Fargo Securities since 2011. From 2009 to 2011, Mr. Pepe was a Managing Director at Citadel LLC responsible for Equity Capital Markets. Prior to joining Citadel, Mr. Pepe spent nearly 22 years with Bank of America Corporation and Merrill Lynch & Co., most recently as Head of the Americas Corporate Finance Group from 2003 to 2009. During his tenure at Merrill Lynch & Co., he also co-headed the Equity Linked Capital Markets Group (which comprises convertible bond origination and corporate equity derivative coverage) and headed the corporate equity derivative effort at the firm. He began his career at Manufacturers Hanover Trust Company (now part of J.P. Morgan). Mr. Pepe holds a B.S. from Adelphi University and an M.B.A. from the Wharton School of Business at the University of Pennsylvania. Mr. Pepe's demonstrated leadership in his field and his knowledge of financial and financing matters contributed to our conclusion that he should serve as a director.

*James L. Tyree* has served a member of our Board of Directors since June 2014. He is the co-founder and managing partner at Tyree and D'Angelo Partners. Since 2000, he held numerous executive positions at Abbott including Corporate Vice President Pharmaceutical and Nutritional Products Group Business Development, Senior Vice President Global Nutrition, and Executive Vice President Global Pharmaceuticals. He retired as President of Abbott Biotechnology Ventures in March, 2012. Prior to joining Abbott, Mr. Tyree was the President of Sugent Inc. Earlier in his career, Mr. Tyree held management positions in Bristol-Myers Squibb, Pfizer, and Abbott. Mr. Tyree is a member of the Advisory Board of the University Of Chicago Graduate School Of Business (Booth). He is past chairman of the Board of Directors of the Illinois Biotechnology Industry Organization. Mr. Tyree is an Independent Director for SonarMed, a privately held developer and manufacturer of critical care respiratory monitoring technologies. Mr. Tyree also serves on the Board of Directors of

Genelux and ChemCentryx. Mr. Tyree holds a B.A., a B.S. and an M.B.A. from Indiana University. Mr. Tyree's demonstrated leadership in his field, his understanding of our industry and his senior management experience in several companies in our industry contributed to our conclusion that he should serve as a director.

*William H. Waltrip* has served as a member of our Board of Directors since April 2000, and as Chairman of the Board of Directors since October 2014. Mr. Waltrip served from 1993 until 2003 as Chairman of the board of directors of Technology Solutions Company, a systems integration company, and from 1993 until 1995 he was Chief Executive Officer of that company. From 1995 to 1998 he also served as Chairman of Bausch & Lomb Inc., and during 1996 and 2002 was the company's Chief Executive Officer. From 1991 to 1993 he was Chairman and Chief Executive Officer of Biggers Brothers, Inc., a food service distribution company, and was a consultant to private industry from 1988 to 1991. From 1985 to 1988 he served as President and Chief Operating Officer of IU International Corporation, a transportation, environmental and distribution company. Earlier, he had been President, Chief Executive Officer and a director of Purolator Courier Corporation. He was previously a member of the board of directors of Charles River Laboratories Corporation and Thomas & Betts Corporation. Mr. Waltrip's demonstrated leadership in his field, his understanding of our industry and his experience as a chief executive officer and chairman of several companies contributed to our conclusion that he should serve as a director.

**THE BOARD OF DIRECTORS RECOMMENDS  
A VOTE "FOR" EACH NAMED NOMINEE.**

**SPIN-OFF OF THERAVANCE BIOPHARMA**

On June 1, 2014, we separated our biopharmaceutical research and drug development operations from our late-stage partnered respiratory assets by transferring our research and drug development operations into our then wholly-owned subsidiary, Theravance Biopharma, Inc. ("Theravance Biopharma"). All outstanding shares of Theravance Biopharma were then distributed to Theravance stockholders as a pro-rata dividend distribution on June 2, 2014 by issuing one ordinary share of Theravance Biopharma for every 3.5 shares held of our common stock to stockholders of record on May 15, 2014 (the "Spin-Off"). The Spin-Off resulted in Theravance Biopharma operating as an independent publicly-traded company.

On June 2, 2014, immediately after the Spin-Off, Catherine J. Friedman, Paul Pepe and James L. Tyree became members of our Board of Directors and immediately after the effectiveness of the appointment of these new directors, Henrietta H. Fore, Robert V. Gunderson, Jr., Esq., Burton G. Malkiel, Ph.D., Peter S. Ringrose, Ph.D., George M. Whitesides, Ph.D. and William D. Young resigned as directors.

**INDEPENDENCE OF THE BOARD OF DIRECTORS**

As required under the listing standards of The Nasdaq Global Market ("Nasdaq"), a majority of the members of a Nasdaq-listed company's board of directors must qualify as "independent," as affirmatively determined by its board of directors. Our Board of Directors consults with counsel to ensure that the Board of Directors' determinations are consistent with all relevant laws and regulations regarding the definition of "independent," including those set forth in pertinent listing standards of Nasdaq, as in effect from time to time.

Management has reviewed the directors' responses to a questionnaire asking about their transactions, relationships and arrangements with the Company (and those of their immediate family members) and other potential conflicts of interest. Other than as set forth in this Proxy Statement, these questionnaires did not disclose any transactions, relationships, or arrangements that question the independence of our directors. After reviewing this information, our Board of Directors affirmatively

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determined that all of our directors are independent directors within the meaning of the applicable Nasdaq listing standards except for Michael W. Aguiar, our Chief Executive Officer.

### INFORMATION REGARDING THE BOARD OF DIRECTORS AND ITS COMMITTEES

As required under Nasdaq listing standards, our independent directors meet in regularly scheduled executive sessions at which only independent directors are present. William H. Waltrip presides over these executive sessions. The Board has an Audit Committee, a Compensation Committee, a Nominating/Corporate Governance Committee and a Stock Option Committee. The following table provides membership and meeting information for each of the Board committees during 2014:

Director	Audit	Compensation	Nominating/ Corporate Governance	Stock Option
Michael W. Aguiar(1)				X(2)
Catherine J. Friedman(3)	X(3)	X(3)		
Terrence Kearney(4)		X(5)		
Paul Pepe(3)	X*(3)		X(3)	
James L. Tyree(3)	X(3)	X*(3)	X(3)	
William H. Waltrip	X(9)	X(6)	X*	
Rick E Winningham(7)				X(8)
Henrietta H. Fore(9)	X(9)			
Robert V. Gunderson, Jr.(9)				
Arnold J. Levine, Ph.D.(10)				
Burton G. Malkiel, Ph.D.(9)	X(9)		X(9)	
Peter S. Ringrose, Ph.D.(9)		X(9)		
George M. Whitesides, Ph.D.(9)		X(9)		
William D. Young(9)		X(9)	X(9)	
Total meetings in fiscal year 2014	9	11	1	0#

\*  
Current Committee Chairperson.

#  
One person committee did not meet in 2014, but acted by written consent during the year.

(1)  
Appointed on August 5, 2014.

(2)  
Appointed as of August 15, 2014.

(3)  
Appointed as of June 2, 2014.

(4)  
Appointed as of October 30, 2014.

(5)  
Appointed as of December 16, 2014.

(6)  
Appointed as of June 19, 2014 and resigned as of December 16, 2014.

(7)  
Resigned as of October 30, 2014.

(8)  
Resigned as of August 15, 2014.

(9)

Resigned as of June 2, 2014.

(10)

Resigned as of May 22, 2014.

Below is a description of each committee of the Board of Directors. The Board of Directors has determined that each member of the Audit, Compensation and Nominating/Corporate Governance Committees meets the applicable rules and regulations regarding "independence" and that each such



member is free of any relationship that would interfere with his individual exercise of independent judgment with regard to the Company.

*Audit Committee*

The Audit Committee of the Board of Directors oversees our accounting practices, systems of internal controls and financial reporting processes. For this purpose, the Audit Committee performs several functions. The Audit Committee determines and approves the engagement of the independent auditors; determines whether to retain or terminate the existing independent auditors or to appoint and engage new independent auditors; reviews and approves all audit and permissible non-audit services provided by the independent auditors to the Company; confers with management and the independent auditors regarding the effectiveness of internal controls, financial reporting processes and disclosure controls; consults with management and the independent auditors regarding Company policies governing financial risk management; reviews and discusses reports from the independent auditors on critical accounting policies used by the Company; establishes procedures, as required under applicable law, for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters and the confidential and anonymous submission by employees of concerns regarding questionable accounting or auditing matters; reviews and approves related-person transactions in accordance with the Company's Policies and Procedures with respect to Related-Person Transactions and applicable Nasdaq rules; reviews the financial statements to be included in our Annual Report on Form 10-K; and discusses with management and the independent auditors the results of the annual audit and the results of quarterly reviews and any significant changes in our accounting principles. Our Audit Committee charter can be found on the corporate governance section of our corporate website at [www.thrxinc.com](http://www.thrxinc.com). The current members of the Audit Committee are Catherine J. Friedman, Paul Pepe (Chairman) and James L. Tyree. Henrietta H. Fore, Burton G. Malkiel, Ph.D. and William H. Waltrip served on the Audit Committee in 2014 prior to the Spin-Off. The Audit Committee met 9 times during 2014.

The Board of Directors annually reviews the Nasdaq listing standards definition of independence for Audit Committee members and has determined that all members of our Audit Committee are independent (as independence is currently defined in the Nasdaq listing standards). The Board of Directors has determined that Paul Pepe is an audit committee financial expert as defined by Item 407(d) of Regulation S-K. The Board made a qualitative assessment of Mr. Pepe's level of knowledge and experience based on a number of factors, including his post-graduate education in finance and his more than twenty-five years of employment in financial services.

*Compensation Committee*

The Compensation Committee of the Board of Directors reviews and approves the overall compensation strategy and policies for the Company. Specifically, the committee reviews and approves corporate performance goals and objectives relevant to the compensation of our executive officers and other senior management; reviews and approves the compensation and other terms of employment of our principal executive officer and other executive officers; approves the individual bonus programs in effect for the principal executive officer, other executive officers and key employees for each fiscal year; recommends to the Board of Directors the compensation of the directors; recommends to the Board of Directors the adoption or amendment of equity and cash incentive plans and approves the adoption of and amendments to these plans; grants stock options and other equity awards; administers our equity incentive plans and similar programs; monitors application of stock ownership guidelines; and administers, concurrently with the Board of Directors, the executive officer recoupment policy. A more detailed description of the committee's functions can be found in our Compensation Committee Charter. The charter is published in the corporate governance section of our website at [www.thrxinc.com](http://www.thrxinc.com). The current members of the Compensation Committee are Catherine J. Friedman,

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Terrence Kearney and James L. Tyree (Chairman). William H. Waltrip served on the committee prior to his resignation in December 16, 2014 and Peter S. Ringrose, Ph.D., George M. Whitesides, Ph.D. and William D. Young served on the committee in 2014 prior to the Spin-Off. All current members of the committee are independent (as independence is defined for board members in the Nasdaq listing standards and as independence is defined for compensation committee members in the Nasdaq listing standards).

The Compensation Committee met 11 times during 2014. Mr. Aguiar, our Chief Executive Officer, does not participate in the determination of his own compensation or the compensation of directors. However, he makes recommendations to the committee regarding the amount and form of the compensation of the other executive officers and key employees, and he often participates in the committee's deliberations about their compensation. Prior to their resignations following the Spin-Off, Mr. Winningham, our former Chief Executive Officer, made recommendations to the committee regarding the amount and form of the compensation of the executive officers (other than himself) and key employees, and he often participated in the committee's deliberations about their compensation. In addition, Mr. Shafer, our former General Counsel, and Dennis Driver, our former Vice President, Human Resources, also assisted the committee in its executive officer, director and employee compensation deliberations. No other executive officers participate in the determination of the amount or form of the compensation of executive officers or directors.

The Compensation Committee has retained Frederic W. Cook & Co. ("FW Cook") as its independent compensation consultant. FW Cook serves at the pleasure of the committee rather than our management and its fees are approved by the committee. FW Cook provides the committee with data about the compensation paid by our peer group and other employers who compete with the Company for executives, updates the committee on new developments in areas that fall within the committee's jurisdiction and is available to advise the committee regarding all of its responsibilities. FW Cook also provides data and recommendations concerning the compensation of directors. The committee has assessed the independence of FW Cook pursuant to SEC rules and concluded that no conflict of interest exists that would prevent FW Cook from independently representing the committee.

The Compensation Committee, in consultation with FW Cook, reviews and approves the overall strategy for compensating members of the Board of Directors. Specifically, the committee reviews the compensation of the directors and recommends to the Board any changes to the compensation of the directors.

### *Nominating/Corporate Governance Committee*

The Nominating/Corporate Governance Committee of the Board of Directors is responsible for identifying, reviewing and evaluating candidates to serve as directors of the Company (consistent with criteria approved by the Board), reviewing and evaluating incumbent directors, recommending to the Board for selection candidates for election to the Board, making recommendations to the Board regarding the membership of the committees of the Board, assessing the performance of the Board and advising the Board on corporate governance principles for the Company. Our Nominating/Corporate Governance Committee charter can be found on the corporate governance section of our corporate website at [www.thrxinc.com](http://www.thrxinc.com). The current members of the Nominating/Corporate Governance Committee are Paul Pepe, James L. Tyree and William H. Waltrip (Chairman). Burton G. Malkiel, Ph.D. and William D. Young served on the Nominating/Corporate Governance Committee in 2014 prior to the Spin-Off. All current members of the Nominating/Corporate Governance Committee are independent (as independence is currently defined in the Nasdaq listing standards). The Nominating/Corporate Governance Committee met one time during 2014.

Our Nominating/Corporate Governance Committee believes that candidates for director should have certain minimum qualifications, including being able to read and understand basic financial

statements and having the highest personal integrity and ethics. The committee also considers such factors as having relevant expertise upon which to be able to offer advice and guidance to management, sufficient time to devote to our affairs, demonstrated excellence in his or her field, the ability to exercise sound business judgment and the commitment to rigorously represent the long-term interests of our stockholders. However, the Nominating/Corporate Governance Committee retains the right to modify these qualifications from time to time. Candidates for director nominees are reviewed in the context of the current composition of our Board, our operating requirements and the long-term interests of our stockholders. While we do not have a formal policy on diversity, our Nominating/Corporate Governance Committee considers diversity of experience as one of the factors it considers in conducting its assessment of director nominees, along with such other factors as it deems appropriate given the then current needs of the Board and the Company, to maintain a balance of knowledge, experience and capability. In the case of incumbent directors, our Nominating/Corporate Governance Committee reviews such directors' overall service to the Company during their term, including the number of meetings attended, level of participation, quality of performance, and any other relationships and transactions that might impair such directors' independence. In the case of new director candidates, the committee also determines whether the nominee must be independent for Nasdaq purposes, which determination is based upon applicable Nasdaq listing standards, applicable SEC rules and regulations and the advice of counsel, if necessary. The committee uses its network of contacts to compile a list of potential candidates, but may also engage, if it deems appropriate, a professional search firm. The committee conducts any appropriate and necessary inquiries into the backgrounds and qualifications of possible candidates after considering the function and needs of the Board. The committee meets to discuss and consider such candidates' qualifications and then selects a nominee for recommendation to the Board by majority vote.

The Nominating/Corporate Governance Committee will consider director candidates recommended by stockholders and evaluate them using the same criteria as candidates identified by the Board or the Nominating/Corporate Governance Committee for consideration. If a stockholder of the Company wishes to recommend a director candidate for consideration by the Nominating/Corporate Governance Committee, the stockholder recommendation should be delivered to the Corporate Secretary of the Company at the principal executive offices of the Company, and must include information regarding the candidate and the stockholder making the recommendation as required by the Stockholder-Director Communications Policy. Our Stockholder-Director Communications Policy can be found on the corporate governance section of our website at [www.thrxinc.com](http://www.thrxinc.com).

#### *Stock Option Committee*

The Stock Option Committee, of which Michael W. Aguiar is the sole member, may grant equity awards under the 2012 Equity Incentive Plan (the "2012 Incentive Plan") to employees who are not executive officers. Mr. Winningham was the sole member of the Stock Option Committee until his resignation on August 15, 2014. During 2014, the Stock Option Committee did not meet, but acted by written consent five times.

#### **COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION**

Each of Peter S. Ringrose, Ph.D., George M. Whitesides, Ph.D., William D. Young, Catherine J. Friedman, Terrence Kearney, James L. Tyree and William H. Waltrip served on the Compensation Committee of the Board of Directors during 2014. None of the members of the Compensation Committee was at any time during the 2014 fiscal year (or at any other time) an officer or employee of the Company. None of our executive officers serves as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving as a member of our Board of Directors or Compensation Committee.

## **BOARD LEADERSHIP STRUCTURE**

Mr. Waltrip has served as lead independent director since April 2005 and as Chairman of the Board of Directors since October 2014. As the lead independent director and as Chairman, Mr. Waltrip coordinates the activities of the other independent directors, including coordinating an appropriate schedule of Board of Directors and committee meetings, suggesting agenda topics for meetings of the Board of Directors, coordinating on the quality, quantity and timeliness of information submitted by management to independent directors, developing agendas for and serving as chairman of the executive sessions of the Board of Directors' independent directors, discussing the results of the Chief Executive Officer's performance evaluation with the Chairman of the Compensation Committee and, together with the Compensation Committee Chairman, delivering the results of the evaluation to the Chief Executive Officer, and coordinating with the General Counsel and Corporate Secretary responses to questions and/or concerns from stockholders, employees, or other interested parties.

Following Mr. Winningham's resignation as Chief Executive Officer subsequent to the Spin-Off, our Board of Directors determined to separate the roles of Chairman and Chief Executive Officer. Separating these positions allows our Chief Executive Officer to focus on our day-to-day business, while further enabling the Chairman of the Board to lead the Board of Directors in its fundamental role of providing advice to and independent oversight of management. Our Board of Directors recognizes the time, effort and energy that our Chief Executive Officer is required to devote to his position in the current business environment, as well as the commitment required to serve as our Chairman of the Board of Directors, particularly as the Board of Directors' oversight responsibilities continue to grow. We believe that having separate positions and having an independent outside director serve as Chairman of the Board of Directors is the appropriate leadership structure for our Company at this time and demonstrates our commitment to good corporate governance.

## **RISK OVERSIGHT MANAGEMENT**

Our Board of Directors provides risk oversight for our entire company by receiving management presentations, including risk assessments, from all functional areas of our company, and discussing these assessments with management. The Board's overall risk oversight is supplemented by the various committees. The Audit Committee discusses with management and our independent auditors our risk management guidelines and policies, our major financial risk exposures and the steps taken to monitor and control such exposures. Our Compensation Committee oversees risks related to our compensation programs and discusses with management its annual assessment of our employee compensation policies and programs.

## **MEETINGS OF THE BOARD OF DIRECTORS**

The Board of Directors met 22 times during 2014. Each Board member, except for Arnold Levine, attended 75% or more of the aggregate of the meetings of the Board and of the committees on which he or she served, held during the period for which such member was a director or committee member.

## **STOCKHOLDER COMMUNICATIONS WITH THE BOARD OF DIRECTORS**

Stockholders interested in communicating with the Board of Directors or a particular director should send correspondence to Theravance, Inc. at 951 Gateway Boulevard, South San Francisco, CA 94080, Attn: Corporate Secretary. Each communication should set forth (i) the name and address of the stockholder as it appears on the Company's books and, if the stock is held by a nominee, the name and address of the beneficial owner of the stock, and (ii) the number of shares of the Company's common stock that are owned of record by the record holder and beneficially by the beneficial owner. Pursuant to our Stockholder-Director Communications Policy, the Corporate Secretary has been instructed, in his discretion, to screen out communications from stockholders that are not related to the

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duties and responsibilities of the Board. If deemed an appropriate communication, the Corporate Secretary will forward it, depending on the subject matter, to the chairperson of a committee of the Board or a particular director, as appropriate.

### CODE OF BUSINESS CONDUCT

The Company has adopted the Theravance, Inc. Code of Business Conduct that applies to all directors, officers and employees. The Code of Business Conduct, as amended and restated on December 15, 2010, is available on the corporate governance section of our website at [www.thrxinc.com](http://www.thrxinc.com). If the Company makes any substantive amendments to the Code of Business Conduct or grants any waiver from a provision of the Code to any executive officer or director, the Company will promptly disclose the nature of the amendment or waiver on its website.

### 2014 DIRECTOR COMPENSATION

Our non-employee directors receive both cash and equity compensation for services provided as a director. Equity compensation is structured as periodic automatic grants under a program implemented under our 2012 Equity Incentive Plan, which are non-discretionary. Following the Spin-Off, both components of our compensation program for our non-employee directors were amended, as described below.

#### *Prior Compensation Program*

**Cash Compensation.** Prior to the amendment of the non-employee director compensation program, each member of our Board who was not an employee was paid the following retainers and meeting fees for Board and committee service:

\$50,000 annual retainer for service as a member of our Board;

An additional \$25,000 annual retainer for service as the lead independent director of our Board;

\$20,000 annual retainer for service as the chairperson of the Audit Committee;

\$13,000 annual retainer for service as the chairperson of the Compensation Committee;

\$10,000 annual retainer for service as the chairperson of the Nominating/Corporate Governance Committee and/or the Science and Technology Advisory Committee; and

\$1,000 for each Board and committee meeting attended in person (\$500 for scheduled in-person meetings that a Board member attended by video or telephone conference).

The members of our Board were also eligible for reimbursement for their expenses incurred in attending Board meetings in accordance with Company policy.

**Equity Compensation.** Under the equity component of our director compensation program, our non-employee directors receive initial equity awards upon joining our Board, as well as annual equity awards in connection with each annual meeting of stockholders. Prior to the program's amendment, these awards were structured as follows:

**Annual Equity Awards** Upon conclusion of each regular annual meeting of stockholders, each non-employee director who would continue to serve as a member of the Board was automatically granted restricted stock units ("RSUs") covering 6,000 shares of our Common Stock and a nonstatutory stock option covering 6,000 shares of our Common Stock. These awards vested monthly over the twelve month period of service following the date of grant.

**Initial Equity Awards** On the date of joining our Board, each new non-employee director was automatically granted (i) a one-time grant of RSUs covering 6,000 shares of our Common Stock



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and (ii) a one-time nonstatutory stock option grant covering 6,000 shares of our Common Stock. These initial equity grants vested monthly over the director's first two years of service. In addition, the new director also received the standard annual equity awards described above (if joining on the date of our annual meeting of stockholders) or pro-rated annual equity awards (if joining on any other date). The pro-ration was based upon the number of months of service the new director would provide during the 12-month period ending on the one-year anniversary of the most recent annual meeting of stockholders.

All automatic equity awards vest in full if the Company is subject to a change in control or the Board member dies while in service. Each RSU granted pursuant to the automatic grant program prior to its amendment will be settled and shares issued thereunder on the earliest to occur of (A) the four-year anniversary of the grant date, (B) 60 days after the director's service terminates or the director's death or (C) the occurrence of a change in control. Each stock option granted pursuant to the automatic grant program had an exercise price equal to the fair market value of our Common Stock on the date of grant, a term of up to ten years and will remain exercisable for three years following termination of a director's service other than for cause

In accordance with our 2012 Equity Incentive Plan and automatic grant program, the equity awards granted to our non-employee directors in 2014 were adjusted in connection with the Spin-Off using a formula designed to preserve the intrinsic value of the equity awards prior to the Spin-Off. As a result, the options and RSUs granted to our non-employee directors in connection with our 2014 annual meeting and to our new non-employee directors on June 2, 2014 each covered 7,585 shares of our Common Stock. In addition, in connection with the Spin-Off, vested stock options held by our non-employee directors who transferred to the board of directors of Theravance Biopharma were amended to provide that they will remain outstanding and exercisable based on service to the board of directors of Theravance Biopharma following the Spin-Off.

### *Amended Compensation Program*

Cash Compensation. As amended, and effective as of June 2, 2014, each member of our Board who is not an employee is paid the following retainers for Board and committee service and we no longer pay fees for attendance at Board and committee meetings:

\$50,000 annual retainer for service as a member of our Board;

An additional \$25,000 annual retainer for service as the lead independent director of our Board;

An additional \$50,000 annual retainer for service as the chairman of our Board;

\$10,000 annual retainer for service as a member of our Audit Committee;

An additional \$15,000 annual retainer for service as the chairperson of our Audit Committee;

\$10,000 annual retainer for service as a member of our Compensation Committee;

An additional \$12,500 annual retainer for service as the chairperson of our Compensation Committee;

\$5,000 annual retainer for service as a member of our Nominating/Corporate Governance Committee; and

An additional \$7,500 annual retainer for service as the chairperson of our Nominating/Corporate Governance Committee.

The members of our Board are also eligible for reimbursement for their expenses incurred in attending Board meetings in accordance with Company policy.

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Equity Compensation. As amended in September 2014, our non-employee directors receive the following initial equity awards upon joining our Board and annual equity awards in connection with each annual meeting of stockholders:

**Annual Equity Awards** Upon the conclusion of each regular annual meeting of stockholders, each non-employee director who will continue to serve as a member of the Board is automatically granted an RSU award covering a number of shares of our Common Stock equal to \$250,000 divided by the closing price of a share of our Common Stock on the date of grant, rounded down to the nearest whole share. Each annual RSU award vests on the sooner of the next annual stockholder meeting or the one year anniversary of the date of grant, subject to the director's continuous service through such date.

**Initial Equity Awards** On the date of joining our board, each new non-employee director is automatically granted a one-time initial RSU award covering a number of shares of our Common Stock equal to \$250,000 divided by the closing price of a share of our common stock on the date of grant, rounded down to the nearest whole share. This initial RSU award vests in two equal annual installments over the director's first two years of service. In addition, the new non-employee director also receives the annual equity award described above (if joining on the date of our annual meeting of stockholders) or a pro-rated annual equity award (if joining on any other date) that vests on the sooner of the next annual stockholder meeting or the one-year anniversary of the date of grant. The size of each pro-rated annual equity award is based on the number of whole months remaining until the anniversary of the prior year's stockholders' meeting.

All RSU awards granted to our non-employee directors pursuant to the automatic grant program will vest in full if the Company is subject to a change in control or the Board member dies while in service and will be settled in shares of our Common Stock on the vesting date. Additionally, all RSU awards granted to our non-employee directors pursuant to the automatic grant program carry dividend equivalent rights to be credited with an amount equal to all cash dividends paid on the underlying shares of our Common Stock while unvested, which are paid in cash upon vesting.

In addition to the automatic RSUs described above, directors are also eligible to receive other equity awards under our 2012 Equity Incentive Plan.

In order to align the equity compensation granted to the non-employee directors who joined our Board of Directors at the time of the Spin-Off with the amended program, Messrs. Pepe and Tyree and Ms. Friedman were each granted an additional 6,500 RSUs in December 2014. 75% of these RSUs vest on the date of our 2015 annual meeting of stockholders and the remaining 25% of the RSUs vest on the date of our 2016 annual meeting of stockholders. Mr. Waltrip received 3,250 RSUs in December 2014 in order to align his 2014 annual equity award with the amended program. These RSUs vest in full on the date of our 2015 annual meeting of stockholders. Like awards granted under the automatic director grant program, these RSU awards will vest in full if the Company is subject to a change in control or the Board member dies while in service and carry dividend equivalent rights.

### *Consulting Agreement with Dr. Levine*

In connection with his retirement from our Board in May 2014, we entered into a consulting agreement with Dr. Levine pursuant to which he would consult with and advise Theravance for up to one year. Pursuant to that agreement, Dr. Levine receives a consulting fee of \$450 per hour and his outstanding stock options, which were fully vested at the time of his retirement, remain outstanding based on Dr. Levine's consulting services to Theravance and/or Theravance Biopharma, Inc. or any of their subsidiaries. In connection with the Spin-Off Dr. Levine's consulting agreement was assigned to Theravance Biopharma on June 2, 2014. As a result, Dr. Levine no longer provides consulting services to us.



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2014 Director Compensation Table

The following table sets forth all of the compensation awarded to, earned by, or paid to each person who served as a director during 2014, other than a director who also served as a named executive officer.

Name	Fees Earned or Paid in Cash (\$)(1)	Stock Awards (\$)(2)(3)	Option Awards (\$)(2)(4)	Total (\$)
(a)	(b)	(c)	(d)	(h)
Catherine J. Friedman(5)	60,984(6)	447,797	170,928	679,709
Terrence Kearney(7)	9,068	374,986		384,054
Paul Pepe(5)	66,577(6)	447,797	170,928	685,302
James L. Tyree(5)	70,769(6)	447,797	170,928	689,494
William H. Waltrip	114,226	220,117	81,766	416,109
Henrietta H. Fore(8)	37,016	171,240	81,737	289,993
Robert V. Gunderson, Jr.(8)	31,516	171,240	81,737	284,493
Arnold J. Levine(9)	29,407			29,407
Burton G. Malkiel(8)	47,423	171,240	81,737	300,400
Peter S. Ringrose(8)	39,016	171,240	81,737	291,993
George M. Whitesides(8)	39,016	171,240	81,737	291,993
William D. Young(8)	42,481	171,240	81,737	295,458

- (1) Includes the annual retainers paid to each director, as well as fees for attendance at Board and committee meetings prior to June 2, 2014.
- (2) The amounts in these columns represent the aggregate grant date fair value of stock awards and option awards granted to the director during 2014 computed in accordance with FASB ASC Topic 718. See Note 6 of the notes to our consolidated financial statements in our Annual Report on Form 10-K filed on February 27, 2015 for a discussion of all assumptions made by the Company in determining the grant date fair value of its equity awards. In the case of Ms. Fore, Messrs. Gunderson and Young and Drs. Malkiel, Ringrose and Whitesides, the amounts in the "Stock Awards" and "Option Awards" columns reflect grants of automatic RSUs and options made to the directors in connection with our 2014 annual meeting, which were forfeited in their entirety when the directors resigned in connection with the spin-off of Theravance Biopharma.
- (3) As of December 31, 2014, the above-listed current and former directors held outstanding RSUs under which the following number of shares of our Common Stock are issuable: Ms. Fore (22,755); Ms. Friedman (21,670); Mr. Gunderson (22,755); Mr. Kearney (23,133); Dr. Levine (22,755); Dr. Malkiel (22,755); Mr. Pepe (21,670); Dr. Ringrose (22,755); Mr. Tyree (21,670); Mr. Waltrip (33,590); Dr. Whitesides (22,755); and Mr. Young (22,755).
- (4) As of December 31, 2014, the above-listed current and former directors held outstanding options to purchase the following number of shares of our Common Stock: Ms. Fore (34,132); Ms. Friedman (15,170); Mr. Gunderson (89,515); Dr. Levine (89,515); Dr. Malkiel (75,854); Mr. Pepe (15,170); Dr. Ringrose (22,755); Mr. Tyree (15,170); Mr. Waltrip (97,100); Dr. Whitesides (89,515); and Mr. Young (89,515).
- (5) Ms. Friedman and Messrs. Pepe and Tyree joined our Board effective June 2, 2014, in connection with the Spin-Off.
- (6) Includes a special one-time payment of \$20,000 paid to each of Ms. Friedman and Messrs. Pepe and Tyree in light of their enhanced responsibilities and commitment of significant time as new non-employee directors as a result of the Spin-Off.

- (7) Mr. Kearney joined our Board effective October 30, 2014.
- (8) Ms. Fore, Messrs. Gunderson and Young and Drs. Malkiel, Ringrose and Whitesides resigned from our Board in connection with the Spin-Off, effective June 2, 2014.
- (9) Dr. Levine resigned from our Board effective May 22, 2014.

**NON-EMPLOYEE DIRECTOR STOCK OWNERSHIP GUIDELINES**

In July 2010 the Board adopted stock ownership guidelines for non-employee directors. Pursuant to these guidelines, beginning on the later of July 20, 2015 or after five years of service, non-employee directors are expected to hold shares of our Common Stock (including RSUs, and whether or not vested) with a value equal to at least three times their annual base cash retainer. We anticipate that all non-employee directors with at least one year of service on our Board will own sufficient shares of our Common Stock or unvested RSUs to satisfy the stock ownership guidelines when they become effective.

**PROPOSAL 2**

**ADVISORY VOTE ON EXECUTIVE COMPENSATION**

In accordance with SEC rules, stockholders are being asked to approve, on a non-binding advisory basis, the compensation of our named executive officers as disclosed in this proxy statement. This is commonly referred to as a "Say On Pay" proposal.

This vote is not intended to address any specific item of compensation, but rather the overall compensation of our named executive officers and the philosophy, policies and practices described in this proxy statement. As described further in the "Compensation of Named Executive Officers" section of this Proxy Statement, beginning on page 28, including the "Compensation Discussion and Analysis" and the related tables and narrative, 2014 was a year of transition for Theravance. As a result of the spin-off of our drug discovery and development business into a separate publicly-traded company in June 2014, our business fundamentally changed from that of a biopharmaceutical development company to that of a biopharmaceutical royalty management company with a goal of providing capital returns to stockholders and there was significant turnover in our management team and board of directors. While there are ongoing discussions regarding the transformation of our compensation philosophy and incentive designs in light of these changes, the primary goals of our compensation programs have been and continue to be to fairly compensate employees, attract and retain highly qualified employees, motivate the performance of our employees towards, and reward the achievement of, clearly defined corporate goals, and align our employees' long-term interests with those of our stockholders.

In accordance with Section 14A of the Securities Exchange Act of 1934, we are asking stockholders to vote on the following resolution:

**RESOLVED**, that the Company's stockholders approve the compensation of the Company's named executive officers as disclosed in the 2014 Summary Compensation Table and the accompanying tables and narrative, including "Compensation Discussion and Analysis."

This Say On Pay vote is advisory, and therefore not binding on our Compensation Committee or Board of Directors. Our Board of Directors and our Compensation Committee value the opinions of our stockholders, however, and will carefully review and consider the voting results when evaluating our executive compensation programs.

**THE BOARD OF DIRECTORS RECOMMENDS  
A VOTE IN FAVOR OF PROPOSAL 2.**

**PROPOSAL 3****RATIFICATION OF SELECTION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Audit Committee of the Board of Directors has selected Ernst & Young LLP, independent registered public accounting firm, as our independent auditors for the fiscal year ending December 31, 2015 and has further directed that management submit the selection of independent auditors for ratification by the stockholders at the Annual Meeting. Ernst & Young LLP has audited our financial statements since 1996. Representatives of Ernst & Young LLP are expected to be present at the Annual Meeting. They will have an opportunity to make a statement if they so desire and will be available to respond to appropriate questions.

Neither our bylaws nor other governing documents or law require stockholder ratification of the selection of Ernst & Young LLP as our independent registered public accounting firm. However, the Board is submitting the selection of Ernst & Young LLP to the stockholders for ratification as a matter of good corporate practice. If the stockholders fail to ratify the selection, the Audit Committee of the Board will reconsider whether or not to retain that firm. Even if the selection is ratified, the Audit Committee of the Board in its discretion may direct the appointment of different independent auditors at any time during the year if it determines that such a change would be in the best interests of the Company and its stockholders.

The affirmative vote of the holders of a majority of the shares present in person or represented by proxy and entitled to vote at the Annual Meeting will be required to ratify the selection of Ernst & Young LLP. Abstentions will be counted toward the tabulation of votes cast on proposals presented to the stockholders and will have the same effect as negative votes. Broker non-votes are counted towards a quorum, but are not counted for any purpose in determining whether this matter has been approved.

The following table represents aggregate fees billed or to be billed to the Company for the fiscal years ended December 31, 2014 and December 31, 2013 by Ernst & Young LLP, our principal accountant.

	<b>Fiscal Year Ended December 31,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(in thousands)</b>	
Audit Fees(1)(2)	\$ 899	\$ 2,306
Tax Fees(3)	376	1,254
All Other Fees		
<b>Total Fees</b>	<b>\$ 1,275</b>	<b>\$ 3,560</b>

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- (1) For professional services rendered for the integrated audits of annual financial statements, including the audit of annual financial statements for the years ended December 31, 2014 and 2013 and the audit of internal control over financial reporting as of December 31, 2014 and 2013. For the years ended December 31, 2014 and 2013, the audit fees also include the review of quarterly financial statements included in our quarterly reports on Form 10-Q, fees for services associated with our registration statements, and accounting consultations.
- (2) Audit fees include audits in connection with the Spin-Off.
- (3) Tax fees include tax advisory and tax planning services.

All fees described above were pre-approved by the Audit Committee.

**PRE-APPROVAL POLICIES AND PROCEDURES**

The Audit Committee's policy is to pre-approve all audit and permissible non-audit services rendered by Ernst & Young LLP, our independent registered public accounting firm. The Audit Committee pre-approves specified services in defined categories of audit services, audit-related services and tax services up to specified amounts, as part of the Audit Committee's approval of the scope of the engagement of Ernst & Young LLP or on an individual case-by-case basis before Ernst & Young LLP is engaged to provide a service. The Audit Committee has determined that the rendering of the services other than audit services by Ernst & Young LLP is compatible with maintaining the principal accountant's independence.

**THE BOARD OF DIRECTORS RECOMMENDS  
A VOTE IN FAVOR OF PROPOSAL 3.**

**REPORT OF THE AUDIT COMMITTEE(1)**

The Audit Committee of the Board of Directors consists of the three non-employee directors named below. The Board annually reviews the Nasdaq listing standards' definition of independence for audit committee members and has determined that each member of the Audit Committee meets that standard. The Board of Directors has also determined that Paul Pepe is an audit committee financial expert as described in applicable rules and regulations of the Securities and Exchange Commission.

The principal purpose of the Audit Committee is to assist the Board of Directors in its general oversight of our accounting and financial reporting processes and audits of our financial statements. The Audit Committee is responsible for selecting and engaging our independent auditor and approving the audit and non-audit services to be provided by the independent auditor. The Audit Committee's function is more fully described in its Charter, which the Board adopted and which the Audit Committee reviews on an annual basis.

Our management is responsible for preparing our financial statements and our financial reporting process. Ernst & Young LLP, our independent registered public accounting firm, is responsible for performing an independent audit of our consolidated financial statements and expressing an opinion on the conformity of those financial statements with U.S. generally accepted accounting principles as well as performing an audit of our internal control over financial reporting as of the end of the fiscal year.

The Audit Committee has reviewed and discussed with our management the audited financial statements of the Company included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014 ("10-K").

The Audit Committee has also reviewed and discussed with Ernst & Young LLP the audited financial statements in the 10-K. In addition, the Audit Committee discussed with Ernst & Young LLP those matters required to be discussed by the auditors with the Audit Committee under the rules adopted by the Public Company Accounting Oversight Board (the "PCAOB"). Additionally, Ernst & Young LLP provided to the Audit Committee the written disclosures and the letter required by the applicable requirements of the PCAOB regarding the independent accountant's communications with the Audit Committee concerning independence. The Audit Committee also discussed with Ernst & Young LLP its independence from the Company.

Based upon the review and discussions described above, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in the Company's 10-K for filing with the Securities and Exchange Commission.

Submitted by the following members of the Audit Committee:

Paul Pepe, Chairman  
Catherine J. Friedman  
James L. Tyree

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(1) The material in this report is not "soliciting material," is not deemed "filed" with the SEC and is not to be incorporated by reference in any filing of Theravance under the Securities Act or the Exchange Act, whether made before or after the date hereof and irrespective of any general incorporation language in any such filing.

## EXECUTIVE OFFICERS

The names of the executive officers of Theravance who are not also directors of Theravance and certain information about each of them as of March 31, 2015 are set forth below:

*Eric d'Esparbes* joined Theravance, Inc. as Senior Vice President and Chief Financial Officer in October 2014. From 2010 to 2014, Mr. d'Esparbes served as the Chief Financial Officer of Joule Unlimited, a biotechnology company, where he was responsible for overseeing all of the company's financial, tax, treasury and accounting activities. Prior to Joule Unlimited, he was the Vice President, Finance of AEI Energy ("AEI"), a global emerging markets energy company, where he was responsible for optimizing the capital structure of AEI's international portfolio of energy assets, and from 2007 to 2010 served as Senior Vice President and Chief Financial Officer at AEI Asia. Mr. d'Esparbes has also served as Chief Financial Officer and other senior financial roles at Meiya Power Company Limited from 1999 to 2007 and senior financial roles at Hydro-Québec International from 1993 to 1999. Mr. d'Esparbes earned a Bachelor's degree in International Finance from the University of Montreal's Hautes Etudes Commerciales in Montreal, Canada.

*George B. Abercrombie, RPh, MBA* joined Theravance, Inc. as Senior Vice President, Corporate Partnerships, Commercial in June 2014. Mr. Abercrombie served as President and Chief Executive Officer at Hoffmann-La Roche Incorporated from 2001-2009 where he was responsible for leading Roche's North American Pharmaceuticals Operations. Before joining Roche, Mr. Abercrombie held a variety of Executive-level positions at Glaxo Wellcome and Merck. Since retiring from Hoffman-La Roche in 2009 Mr. Abercrombie has served on Boards of Directors of public and private companies and has advised early stage BioPharma companies as President of Abercrombie Advisors LLC. He currently serves as a Director on the Boards of Biocryst Pharmaceuticals, Brickell Biotech, Physicians Interactive Holdings, Project HOPE, the North Carolina GlaxoSmithKline Foundation, and he is a member of the Duke University Department of Psychiatry and Behavioral Sciences Advisory Board. Additionally, Mr. Abercrombie is an Adjunct Professor at Duke University's Fuqua School of Business where he teaches second year MBA candidates in Fuqua's Health Sector Curriculum. Mr. Abercrombie holds a bachelor's degree in pharmacy from the University of North Carolina at Chapel Hill and an MBA from Harvard University.

*Theodore J. Witek, Jr., Dr.P.H.* joined Theravance, Inc. as Senior Vice President, Corporate Partnerships, Clinical and Medical Affairs in July 2014. Directly prior to joining Theravance, Dr. Witek served as President and Chief Executive Officer of Boehringer Ingelheim Canada Ltd. Joining Boehringer in 1992, Dr. Witek held a number of positions of increasing responsibility, during which time he led the global clinical development and launch of several respiratory products, most notably Spiriva®. He also led the Respiratory and Immunology clinical research groups in the United States. In 2001, he moved to Germany to lead the operating team for Spiriva® where he also served as the Boehringer Ingelheim Co-Chair of the Joint Operating Committee with Pfizer in their global alliance. During his tenure in Canada, Dr. Witek served on the Board of Directors at Rx&D, Canada's National Association for Research-Based Pharmaceutical Companies, chairing its Health Technology Assessment Committee and Public Affairs Committee. He also served over ten years on the Drug/Device Discovery and Development Committee of the American Thoracic Society, serving as Chairman from 2010 to 2012. He is currently appointed to the Ontario Health Innovation Council. Dr. Witek holds a Doctor of Public Health degree from Columbia University, a Master of Public Health from Yale University, and a Master of Business Administration from Henley Management College.

**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following table sets forth certain information known to us regarding beneficial ownership of our voting securities as of February 28, 2015 by:

each person known by us to be the beneficial owner of more than 5% of any class of our voting securities;

our named executive officers;

each of our directors; and

all executive officers and directors as a group.

Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission (the "SEC") and generally includes voting or investment power with respect to securities. Except as noted by footnote, and subject to community property laws where applicable, the persons named in the table below have sole voting and investment power with respect to all shares of Common Stock shown as beneficially owned by them. The table below is based upon information supplied by officers, directors and principal stockholders and Schedules 13G filed with the SEC.

This table lists applicable percentage ownership based on 116,677,469 shares of Common Stock outstanding as of February 28, 2015. Options to purchase shares of our Common Stock that are exercisable within 60 days of February 28, 2015 and restricted stock units ("RSUs") that may be settled on or within 60 days of February 28, 2015 are deemed to be beneficially owned by the persons holding these options for the purpose of computing percentage ownership of that person, but are not treated as outstanding for the purpose of computing any other person's ownership percentage.

Name and Address of Beneficial Owner(1)	Beneficial Ownership	
	Number of Shares	Percent of Total Outstanding Common Stock
<b>5% Stockholders</b>		
GlaxoSmithKline plc(2) 980 Great West Road Brentford Middlesex TW8 9GS United Kingdom	31,581,179	27.1%
Baupost Group, L.L.C.(3) 10 St. James Ave, Suite 1700 Boston, MA 02116	21,753,460	18.6%
FMR LLC(4) 245 Summer Street Boston, MA 02210	17,144,923	14.7%
Iridian Asset Management(5) 276 Post Road West Westport, CT 06880	12,397,565	10.6%
BlackRock, Inc.(6) 55 East 52 <sup>nd</sup> Street New York, NY 10022	6,815,020	5.8%



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Name and Address of Beneficial Owner(1)	Number of Shares	Beneficial Ownership Percent of Total Outstanding Common Stock
<b>Named Executive Officers and Directors</b>		
William Waltrip(7)	183,367	*
Michael W. Aguiar(8)	673,275	*
Cathy Friedman(9)	14,356	*
Terrence Kearney(10)	7,711	*
Paul Pepe(11)	14,356	*
James L. Tyree(12)	14,356	*
Eric d'Esparbes(13)	139,443	*
George Abercrombie(14)	81,429	*
Theodore Witek		*
Mathai Mammen, M.D., Ph.D.(15)	522,748	*
Rick E Winningham(16)	1,301,011	1.0%
Leonard M. Blum(17)	675,444	*
All current executive officers and directors as a group (9 persons)(18)	1,128,293	1.0%

\*

Less than one percent.

(1) Unless otherwise indicated, the address for each beneficial owner is c/o Theravance, Inc., 951 Gateway Boulevard, South San Francisco, California 94080.

(2) Does not include the additional purchase of 92,674 shares reported on a Form 4 filed with the Securities and Exchange Commission on March 2, 2015. Shares are held of record by Glaxo Group Limited ("GGL"), a limited liability company organized under the laws of England and Wales and a wholly-owned subsidiary of GlaxoSmithKline plc ("GSK"), an English public limited company.

(3) Based on a Schedule 13G/A filed with the Securities and Exchange Commission on February 13, 2015. The Baupost Group, L.L.C. ("Baupost") is a registered investment adviser. SAK Corporation is the Manager of Baupost. Seth A. Klarman, as the sole director and sole officer of SAK Corporation and a controlling person of Baupost, may be deemed to have beneficial ownership under Section 13(d) of the securities beneficially owned by Baupost.

(4) The various individuals, funds and entities that are deemed to be the beneficial owners of these shares, and the individuals, funds and entities having sole and shared voting power over these shares, are set forth in the Schedule 13G/A filed on February 13, 2015 and on which the information reported herein is based.

(5) Based on a Schedule 13G/A filed with the Securities and Exchange Commission on March 4, 2015. Iridian Asset Management ("Iridian") has direct beneficial ownership of the shares of Common Stock in the accounts for which it serves as the investment adviser under its investment management agreements. Various individuals may be deemed to possess beneficial ownership of the shares of Common Stock beneficially owned by Iridian by virtue of their indirect controlling ownership of Iridian, and having the power to vote and direct the disposition of shares of Common Stock and disclaim beneficial ownership of such shares.

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- (6) Based on a Schedule 13G filed with the Securities and Exchange Commission on February 2, 2015.
- (7) Includes: (i) 96,468 shares subject to stock options exercisable within 60 days of February 28, 2015 and (ii) 10,835 shares subject to RSUs that will settle within 60 days of February 28, 2015.
- (8) Includes: (i) 152,033 shares subject to options exercisable within 60 days of February 28, 2015 and (ii) 397,461 restricted shares subject to performance-based and time-based vesting.
- (9) Includes: (i) 9,481 shares subject to stock options exercisable within 60 days of February 28, 2015 and (ii) 4,875 shares subject to RSUs that will settle within 60 days of February 28, 2015.
- (10) Includes: 7,711 shares subject to RSUs that will settle within 60 days of February 28, 2015.
- (11) Includes: (i) 9,481 shares subject to stock options exercisable within 60 days of February 28, 2015 and (ii) 4,875 shares subject to RSUs that will settle within 60 days of February 28, 2015.
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- (12) Includes: (i) 9,481 shares subject to stock options exercisable within 60 days of February 28, 2015 and (ii) 4,875 shares subject to RSUs that will settle within 60 days of February 28, 2015.
- (13) Includes: 139,443 restricted shares subject to time-based vesting.
- (14) Includes: 18,429 restricted shares subject to time-based vesting.
- (15) Includes: (i) 176,496 shares subject to stock options exercisable within 60 days of February 28, 2015 and (ii) 140,000 restricted shares subject to performance-based and time-based vesting.
- (16) Includes: (i) 175,372 shares subject to stock options exercisable within 60 days of February 28, 2015 and (ii) 308,000 restricted shares subject to performance-based and time-based vesting.
- (17) Includes: (i) 259,184 shares subject to stock options exercisable within 60 days of February 28, 2015 and (ii) 140,000 restricted shares subject to performance-based and time-based vesting.
- (18) Includes an aggregate of 276,944 shares subject to options exercisable within 60 days of February 28, 2015, 33,171 shares subject to RSUs that will settle within 60 days of February 28, 2015 and 618,333 restricted shares subject to performance-based and time-based vesting.

### **SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16(a) of the Exchange Act requires our directors, executive officers, and holders of more than 10% of our Common Stock to file reports regarding their ownership and changes in ownership of our securities with the SEC, and to furnish us with copies of all Section 16(a) reports that they file.

We believe that during the fiscal year ended December 31, 2014, our directors, executive officers, and greater than 10% stockholders complied with all applicable Section 16(a) filing requirements. In making these statements, we have relied upon a review of the copies of Section 16(a) reports furnished to us and written representations from certain parties that no other reports were required.

**COMPENSATION DISCUSSION AND ANALYSIS**

This section discusses our executive compensation policies and decisions and the most important factors relevant to an analysis of these policies and decisions. It provides qualitative information regarding the manner and context in which compensation is awarded to and earned by our named executive officers and offers perspective on the data presented in the tables and narrative that follow.

Important to an understanding of this Compensation Discussion and Analysis is the fact that we successfully separated our drug discovery and development business into a separate publicly traded company in June 2014 through a spin-off of Theravance Biopharma (the "Spin-Off"). The resulting transformation in our business, senior management team and board of directors are recurring themes in this Compensation Discussion and Analysis. The disclosure of compensation decisions made by our pre-Spin-Off Compensation Committee in connection with the Spin-Off creates the appearance of a more complicated and higher magnitude 2014 compensation program than was the case as Spin-Off related modifications to equity awards granted in 2011 resulted in the re-valuation and re-disclosure of these earlier awards as though they were new 2014 compensation. In many cases, these decisions by the pre-Spin-Off Compensation Committee impacted named executive officers now employed by Theravance Biopharma, rather than by us. None of the pre-Spin-Off Compensation Committee members that made these decisions are currently serving on the Compensation Committee.

For 2014, our ongoing "named executive officers" include:

Michael W. Aguiar, our President and Chief Executive Officer (and, prior to August 2014, our Chief Financial Officer),

Eric d'Esparbes, our Senior Vice President and Chief Financial Officer,

George B. Abercrombie, our Senior Vice President, Corporate Partnerships, Commercial, and

Theodore J. Witek, Jr., Senior Vice President, Corporate Partnerships, Clinical and Medical Affairs.

Our 2014 named executive officers also include the following former executive officers, all of whom are now employees of Theravance Biopharma following the Spin-Off:

Rick E Winningham, our former Chief Executive Officer,

Leonard M. Blum, our former Senior Vice President and Chief Commercial Officer, and

Mathai Mammen, our former Senior Vice President, Research & Development.

**Executive Summary**

*2014 Performance Highlights*

2014 was a year of significant accomplishment for Theravance, including:

The successful execution of the Spin-Off. From the time we announced our intention to effect the Spin-Off until the date of the Spin-Off, approximately \$700 million in value was created for Theravance shareholders based on a comparison of the market capitalization of Theravance on April 23, 2013 and the combined market capitalizations of Theravance and Theravance Biopharma on June 2, 2014,

The completion of a \$450,000,000 royalty monetization transaction,

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Numerous global product launches for BREO™ and ANORO™ (our respiratory programs partnered with GSK),

Initiation of DIAMOND phase 3 clinical exacerbation study,

A more collaborative GSK relationship, and

A successful transition to the new Theravance management team, board of directors (and Compensation Committee) and infrastructure.

Our 2014 goals primarily included metrics over which we have direct control or significant influence and, therefore, did not include sales targets or stock price metrics since these metrics are not controlled directly by Theravance. Our partner GSK is responsible for conducting all global sales and marketing activities for both BREO™ and ANORO™ from which we receive royalties. We were disappointed with 2014 sales performance for both BREO™ and ANORO™ by our partner GSK, which were below our expectations and which we associate with the decline in our stock price in the second half of the year. However, we believe we have made significant progress working with GSK to improve U.S. marketing efforts as evidenced by better sales performance during the fourth quarter of 2014.

#### *2014 Spin-Off*

As a result of the Spin-Off:

Our business fundamentally changed from that of a biopharmaceutical development company to that of a biopharmaceutical royalty management company with a goal of providing capital returns to stockholders,

The majority of our employees went to work for Theravance Biopharma our headcount declined from 241 employees on December 31, 2013 to 10 employees on December 31, 2014 and there was significant transition and turnover within our management team,

Immediately after the Spin-Off, our former Chief Executive Officer was serving both as our Chief Executive Officer and as part-time Chief Executive Officer of Theravance Biopharma while we searched for his successor. In August, our Board of Directors promoted our then-Chief Financial Officer, Michael Aguiar, to President and Chief Executive Officer and Mr. Winningham resigned to work full-time for Theravance Biopharma. No severance was paid to Mr. Winningham upon his resignation,

In connection with the Spin-Off, the composition of the Company's Compensation Committee changed, such that no member of the Compensation Committee that served in 2013 or prior to the Spin-Off on June 2, 2014 is currently a member of the Compensation Committee or a member of the post-Spin-Off Board of Directors,

Our current Compensation Committee was not involved in any of the pre-Spin-Off compensation decisions,

The decisions made by our pre-Spin-Off Compensation Committee related to the Six-Year Performance RSAs described in "Amendments to Equity Awards in Connection with the Spin-Off" below, were designed to continue an important multi-year performance-based equity program in a manner that was relevant in light of the business transformation resulting from the Spin-Off, while at the same time treating participants fairly, promoting retention and rewarding participants for the stockholder value created immediately after the Spin-Off. These actions had accounting consequences because they required modifications to the original terms of the Six-Year Performance RSAs. In accordance with SEC rules, these accounting modifications are disclosed as 2014 compensation in the Summary Compensation Table, rather than part of a long-term continuing program that was begun in 2011. This new Summary Compensation Table disclosure inflates the appearance of the affected named executive officers' 2014 compensation. Our former Compensation Committee viewed these changes as ensuring that a 2011 performance stock program remained fair, relevant and performance-based following a total

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business transformation that was not contemplated when the awards were granted in February 2011. The modifications were not viewed by the Company as new 2014 compensation, and

There are ongoing internal discussions and decision-making regarding transformation of the compensation philosophy and future incentive designs to support the business' transformation from a research and development focused organization with 241 employees to a biopharmaceutical royalty management organization with approximately 10 employees. The compensation programs developed prior to the Spin-Off and which, for the most part, were carried forward through 2014 for continuity, may not continue to be the compensation structure for 2015 and future years.

### *2014 Executive Compensation Overview*

Prior to the Spin-Off, the compensation of our then-executive officers (of which Mr. Aguiar is the only remaining officer), was established based on our usual pre-Spin-Off practice by our former Compensation Committee. At that time, Mr. Aguiar was our Chief Financial Officer, rather than our Chief Executive Officer.

We hired three new executive officers and promoted Mr. Aguiar to President and Chief Executive Officer following the Spin-Off of Theravance Biopharma into a separate public company. Each officer's initial compensation was negotiated at the time of the officer's hire or promotion and reflects an assessment of the officer's duties and responsibilities, as well as peer data provided for context by the Compensation Committee's compensation consultant.

Mr. Aguiar's 2014 base salary, target bonus opportunity and equity grant value were below the median of other CEOs in the Company's primary peer group discussed below,

The annual bonuses for our named executive officers were approximately 125% of target, pro-rated as applicable to reflect partial year employment, and reflect the Company's strong performance against its operating goals as well as the Compensation Committee's assessment of each officer's individual performance.

Following the Spin-Off, our new Compensation Committee began a process of evaluating our executive compensation programs and practices and may make changes to reflect the new business and staffing model, including reconsidering future peer group companies, pay guidelines and incentive compensation designs.

### **Corporate Governance Policies**

We have the following corporate governance policies that complement our executive compensation program:

Our Stock Ownership Guidelines require each of our executive officers to own shares and share equivalents equal in value to a multiple of base salary, specifically six times salary for the CEO and two times salary for the other executive officers. Officers have until 2017 (five years from the adoption of the guidelines) or, if later, five years from commencement of service as an executive officer, to achieve compliance with the guidelines. Thereafter, compliance will be measured annually.

Our Recoupment Policy permits the Company to recoup a portion of executive officers' cash bonuses in the event the Company is required to prepare an accounting restatement due to material noncompliance with financial reporting requirements, to the extent that the bonus is earned based on financial metrics that are the subject of the restatement.

## Compensation Philosophy and Objectives

The primary goal of our executive compensation program has and continues to be to maintain a compensation program that fairly compensates employees, allows us to attract and retain highly qualified employees, motivates the performance of employees towards clearly defined corporate goals, rewards goal achievement and aligns employees' long-term interests with those of our stockholders.

*Prior to the Spin-Off:* Prior to June 2014, our pay philosophy and incentive plans were designed to reward annual milestone goal achievement, mostly related to research and development activities, while keeping focus on and greater potential financial reward for achievement of long-term multi-year goals that we believed would create significant value for our stockholders. Accordingly, our executive officer compensation philosophy prior to the Spin-Off was to (1) provide overall compensation, when targeted levels of performance were achieved, which was at the 75<sup>th</sup> percentile of pay practices within a peer group selected, among other criteria, for similarities in market capitalization size, business model, research and development focus, and stage of development, and (2) emphasize an equity compensation stake over annual cash compensation to attract and retain officers and align the majority of their compensation with long-term stockholders' interests. These pre-Spin-Off principles are subject to re-evaluation and may change in the future.

The Compensation Committee believed that superior performance could warrant compensation above the target guidelines. Our annual cash incentives, the long-term Six-Year Performance RSAs granted to named executive officers in 2011 and 50% of the replenishment restricted stock awards ("RSAs") granted to named executive officers in 2012 and 2013 were tied to our achievement of corporate operating and drug development goals. The performance orientation of our named executive officer compensation program stemmed from our belief that successful execution against goals was the best way to enhance long-term stockholder value.

As a biopharmaceutical company prior to the Spin-Off, we focused on discovering novel compounds and developing them as potential medicines, which business model was subject to significant scientific and regulatory risks. As a result, our pre-Spin-Off compensation philosophy focused on annual and multi-year development milestones related to the successful discovery, development, and regulatory approval of our compounds.

As a result of the Spin-Off, most of our employees and our previous drug development programs were transferred to Theravance Biopharma. As a result, many of the Company's past compensation practices did not apply by the end of 2014.

*Following the Spin-Off:* Following the Spin-Off and the resulting transformation in our business, our philosophy is likely to transition from a pay model established for a research and development driven company to one better suited for a biopharmaceutical royalty management company which may be significantly different than our previous model. We believe the skills and experience required to be successful include not only those of a biopharmaceutical company but also significant experience maximizing the value of long-lived financial assets. Our Compensation Committee continues to evaluate our executive compensation practices in light of our new business model and the needs of our business. As part of this transition, the Compensation Committee reassessed the Company's peer group and added a number of companies with a royalty management business model. When making post-Spin-Off compensation decisions in 2014, our Compensation Committee reviewed peer group data, but did not target any particular level of compensation. Instead our Compensation Committee applied its discretion and business judgment in making individual compensation decisions.

## Compensation Committee

The Compensation Committee of our board of directors is comprised of three non-employee members of the board of directors. The Compensation Committee's basic responsibility is to review the



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performance of our management in achieving corporate objectives and to assure that the named executive officers as well as other members of senior management are compensated effectively in a manner consistent with our compensation philosophy and competitive practice. The CEO, as the manager of the executive team, assesses the executives' contributions to the corporate goals and makes a recommendation to the Compensation Committee with respect to any merit increase in salary, cash bonus (based on the 2014 cash bonus pool for all employees determined by the Compensation Committee) and annual replenishment equity award for each member of the executive team, other than himself. The Compensation Committee meets with the CEO to evaluate, discuss and modify or approve these recommendations. The Compensation Committee also conducts a similar evaluation of the CEO's contributions when the CEO is not present, and determines any increase in salary, cash bonus and annual replenishment equity award for him. This was the practice before the Spin-Off and was also the practice after the Spin-Off and in early 2015.

### **2014 Vote on Executive Compensation**

At our 2014 annual stockholders' meeting, over 99% of our stockholders voted "for" a non-binding advisory resolution approving the compensation of our named executive officers, as disclosed in the proxy statement for that meeting. Our pre-Spin-Off Compen