

THERAVANCE INC
Form DEF 14A
April 15, 2014

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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.

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

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April 15, 2014

Dear Stockholder:

I am pleased to invite you to attend Theravance, Inc.'s 2014 Annual Meeting of Stockholders, to be held on Thursday, May 22, 2014 at the Presidio Room, Embassy Suites Hotel, 250 Gateway Boulevard, South San Francisco, California 94080. The meeting will begin promptly at 1:00 p.m., local time.

Enclosed are the following:

our Notice of Annual Meeting of Stockholders and Proxy Statement for 2014;

our Annual Report on Form 10-K for 2013; 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,

Rick E Winningham
Chief Executive Officer

901 Gateway Boulevard
South San Francisco, CA 94080

T 650.808.6000 F 650.827.8690
www.theravance.com

Theravance, Inc.

901 Gateway Boulevard
South San Francisco, California 94080

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To Be Held On May 22, 2014

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 Thursday, May 22, 2014, at 1:00 p.m. local time at the Presidio Room, Embassy Suites Hotel, 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, 2014.
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 April 10, 2014. Only stockholders of record at the close of business on that date may vote at the meeting or any adjournment thereof.

By Order of the Board of Directors

Bradford J. Shafer
Senior Vice President, General Counsel and Secretary

South San Francisco, California
April 15, 2014

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.

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Stockholders to be held on Thursday May 22, 2014:

The proxy statement is available at <http://investor.theravance.com/proxy.cfm>

Theravance, Inc.

901 Gateway Boulevard
South San Francisco, California 94080

**PROXY STATEMENT
FOR THE 2014 ANNUAL MEETING OF STOCKHOLDERS**

May 22, 2014

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. (sometimes referred to as the "Company" or "Theravance") is soliciting your proxy to vote at the 2014 Annual Meeting of Stockholders (the "Annual Meeting"). 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 April 22, 2014 to all stockholders of record entitled to vote at the Annual Meeting.

Who can vote at the Annual Meeting?

Only stockholders of record at the close of business on April 10, 2014 will be entitled to vote at the Annual Meeting. On this record date, there were 112,557,651 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.

Stockholder of Record: Shares Registered in Your Name

If on April 10, 2014 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 April 10, 2014 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 eight 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, 2014.

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 eight named nominees. For other matters to be voted on, you may vote "For" or "Against" or abstain from voting. 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 proxy 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 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 April 10, 2014.

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 eight 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.

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.

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.

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.

You may send a written notice that you are revoking your proxy to the Secretary of the Company at 901 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 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 of the New York Stock Exchange ("NYSE") 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 NYSE rules, any

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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.

How many votes are needed to approve each proposal?

For the election of directors, the eight 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, 2014 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 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 April 10, 2014, the record date, are represented at the meeting by stockholders present in person or by proxy. On the record date, there were 112,557,651 shares of Common Stock outstanding and entitled to vote. Thus 56,278,826 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.

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 within four business days after the end of the Annual Meeting.

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 Secretary of the Company on or before December 16, 2014. If you wish to submit a proposal to be presented at the 2014 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 Secretary of the Company at Theravance, Inc., 901 Gateway Boulevard, South San Francisco, CA 94080, Attn: Secretary, no earlier than February 6, 2015 and no later than March 8, 2015. 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.theravance.com.

PROPOSAL 1**ELECTION OF DIRECTORS**

Our Board of Directors currently consists of nine directors. Dr. Arnold J. Levine, one of our directors, has informed us that he will not stand for re-election at the Annual Meeting. The other eight current directors are nominees for election to the Board of Directors at the Annual Meeting, and their ages as of March 31, 2014, 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 and all were previously elected by the stockholders. 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. Last year, however, the Board of Directors was involved in a lengthy series of multi-day meetings related to the proposed spin-off of our drug discovery and development business into a separate publicly traded company (the "Spin-Off"), including meetings held on the same day as our Annual Meeting. Attendance at these meetings prevented all but three of the nominees for election as a director at the 2013 annual meeting of stockholders from attending the meeting.

Directors are elected by a plurality of the votes properly cast in person or by proxy. The eight 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 eight 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. We expect that Henrietta H. Fore, Robert V. Gunderson, Jr., Burton G. Malkiel, Ph.D., Peter S. Ringrose, Ph.D., George M. Whitesides, Ph.D., and William D. Young will resign from the Board of Directors in connection with the Spin-Off, and that three new directors will be appointed to the Board of Directors in connection with the Spin-Off. We currently expect to complete the Spin-Off during the second quarter of 2014.

NOMINEES

Name	Age	Positions and Offices Held With the Company
Rick E Winningham	54	Chief Executive Officer and Director
Henrietta H. Fore	65	Director
Robert V. Gunderson, Jr.	62	Director
Burton G. Malkiel, Ph.D.	81	Director
Peter S. Ringrose, Ph.D.	68	Director
William H. Waltrip	76	Director
George M. Whitesides, Ph.D.	74	Director
William D. Young	69	Director

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. Other specific experiences, qualifications, attributes or skills of nominees that contributed to our conclusion that the nominees should serve as directors are noted below.

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Rick E Wunningham joined Theravance as Chief Executive Officer and a member of our Board of Directors in October 2001. From 1997 to 2001 he served as President, Bristol-Myers Squibb Oncology/Immunology/Oncology Therapeutics Network (OTN) and also as President of Global Marketing from 2000 to 2001. In addition to operating responsibility for U.S. Oncology/Immunology/OTN at Bristol-Myers Squibb, Mr. Wunningham also had full responsibility for Global Marketing in the Cardiovascular, Infectious Disease, Immunology, Oncology/Metabolics and GU/GI/Neuroscience therapeutic areas. Mr. Wunningham held various management positions with Bristol-Myers Squibb and its predecessor, Bristol-Myers, since 1986. Mr. Wunningham is a member of the board of directors of Jazz Pharmaceuticals, Inc. and the California Healthcare Institute. Mr. Wunningham holds an M.B.A. from Texas Christian University and a B.S. degree from Southern Illinois University. We believe that it is appropriate and desirable for our Chief Executive Officer to serve on our Board. Mr. Wunningham's demonstrated leadership in his field, his prior senior management experience in our industry and his experience as our Chief Executive Officer contributed to our conclusion that he should serve as a director.

Henrietta H. Fore has served as a director of Theravance since October 2010. Ms. Fore has served as the Chairman of the Board and Chief Executive Officer of Holsman International, an investment and management company, since 2009. From 2007 to 2009, Ms. Fore served as the Administrator of the U.S. Agency for International Development (USAID), and Director of United States Foreign Assistance, holding the equivalent rank as Deputy Secretary of State. In this position she was responsible for managing U.S. foreign assistance to countries recovering from disaster, trying to escape poverty, and engaging in democratic reforms. She also served on the Boards of the Overseas Private Investment Corporation, and the Millennium Challenge Corporation during this period. From 2005 to 2007, Ms. Fore served as Under Secretary of State for Management, the Chief Operating Officer for the Department of State, where she was responsible for the people, resources, facilities, technology and security of the Department and was the Secretary's principal advisor on management issues. Ms. Fore is a Trustee of the Center for Strategic and International Studies, the Aspen Institute, the Center for Global Development, and the Center for Economic Development. She serves on the Boards of Exxon Mobil Corporation, Diagnostics for All, and the Committee Encouraging Corporate Philanthropy, the Initiative for Global Development, and the Middle East Investment Initiative. She is co-Chair of Asia Society and Women Corporate Directors. Ms. Fore has a Bachelor of Arts degree in History from Wellesley College and a Master of Science degree in Public Administration from the University of Northern Colorado. Ms. Fore's senior management experience at high levels within the U.S. government and her current experience as a chief executive officer and chairman of an investment and management company contributed to our conclusion that she should serve as a director.

Robert V. Gunderson, Jr. has served as a director of Theravance since September 1999. He is a founding partner of the law firm of Gunderson Dettmer Stough Villeneuve Franklin & Hachigian, LLP, where he has practiced since 1995. Mr. Gunderson currently serves as a director of a number of private companies. Mr. Gunderson holds a J.D. from the University of Chicago, where he was Executive Editor of The University of Chicago Law Review. Mr. Gunderson also received an M.B.A. in Finance from The Wharton School, University of Pennsylvania and an M.A. from Stanford University. Mr. Gunderson's demonstrated leadership in his field, his understanding of our industry and his knowledge of financial and financing matters contributed to our conclusion that he should serve as a director.

Burton G. Malkiel, Ph.D., has served as a director of Theravance since July 2007. Dr. Malkiel, the Chemical Bank Chairman's Professor of Economics at Princeton University, is the author of *A Random Walk Down Wall Street*. He is also the author of over 125 articles and is the author or co-author of nine other books. From 1981 to 1988 he was dean of the Yale University School of Management and also served as the William S. Beinecke Professor of Management Studies. He is a past appointee to the President's Council of Economic Advisors. In addition, Dr. Malkiel currently serves on the board of

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directors of several corporations including The Vanguard Group Ltd. and Genmab. He also serves on several investment management boards including the Investment Committees for the American Philosophical Association and Alpha Shares, LLC. He is a past president of the American Finance Association and the International Atlantic Economic Association. He holds a B.A. and MBA degree from Harvard University and a Ph.D. degree from Princeton University. Dr. Malkiel's demonstrated leadership in his field, his knowledge of financial and financing matters, and his ability to serve as a financial expert on our Audit Committee contributed to our conclusion that he should serve as a director.

Peter S. Ringrose, Ph.D., has served as a director of Theravance since April 2010. Dr. Ringrose was Chief Scientific Officer and President of Bristol Myers Squibb Pharmaceutical Research Institute from 1997-2002 and Senior Vice-President for Worldwide Drug Discovery at Pfizer Inc from 1982-1996. Since 2002 Dr. Ringrose has served as chair of the Biotechnology and Biological Sciences Research Council UK (2003-2009) and was a non-executive director of Cambridge Antibody Technology until its acquisition by Astra Zeneca in 2006, non-executive director of Astex Therapeutics Ltd. until its acquisition by SuperGen in 2011 and non-executive director of Biotica Technology Ltd. until December 2012. He is currently a non-executive director of Rigel Pharmaceuticals Inc. Dr. Ringrose is a council member of the UK Foundation for Science and Technology and was a member the UK Government's Technology Strategy Board until 2009. Dr. Ringrose received a BSc, MA and PhD from the University of Cambridge. His significant scientific leadership experience in the pharmaceutical industry contributed to our conclusion that Dr. Ringrose should serve as a director.

William H. Waltrip has served as a director of Theravance since April 2000. 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 is 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.

George M. Whitesides, Ph.D., co-founded Theravance in 1996 and has served as a member of our Board of Directors since inception. He has been Woodford L. and Ann A. Flowers University Professor at Harvard University since 2004. From 1986 until 2004, Dr. Whitesides was Mallinckrodt Professor of Chemistry at Harvard University. From 1982 until 1991 he was a member of the Department of Chemistry at Harvard University and Chairman of the Department of Chemistry from 1986 until 1989. He was a faculty member of the Massachusetts Institute of Technology from 1964 until 1982. Dr. Whitesides was a 1998 recipient of the National Medal of Science. He is a member of the editorial boards of 14 scientific journals. He is also a member of the board of directors of Surface Logix, Inc., Nano-Terra Inc., Arsenal Biomedical, Inc. and 480 Biomedical, Inc. In addition, in the past five years, Dr. Whiteside has served on the board of directors of Rohm and Haas Company. Dr. Whitesides holds a Ph.D. in Chemistry from the California Institute of Technology and a B.A. from Harvard University. Dr. Whiteside's demonstrated leadership in his field, his knowledge of scientific matters affecting our business and his understanding of our industry contributed to our conclusion that he should serve as a director.

William D. Young has served as a director of Theravance since April 2001. He is currently a Venture Partner at Clarus Ventures and Executive Chairman of NanoString Technologies, a Clarus

portfolio company. He was Chairman of TyRx, Inc., also a Clarus portfolio company, until its acquisition by Medtronic in 2013. Mr. Young served from 1999 until 2009 as Chairman of the board of directors and Chief Executive Officer of Monogram Biosciences, Inc. From 1980 to 1999 Mr. Young was employed at Genentech, Inc., most recently as Chief Operating Officer, where he was responsible for all Product Development, Manufacturing and Commercial functions. Prior to joining Genentech, Mr. Young worked at Eli Lilly and Company for fourteen years and held various positions in production and process engineering, antibiotic process development and production management. He is Chairman of the board of directors of Biogen Idec, Inc. and a member of the board of directors of BioMarin, Inc. Mr. Young received his M.B.A. from Indiana University and his B.S. in Chemical Engineering from Purdue University, and an honorary Doctorate of Engineering from Purdue University. Mr. Young was elected to The National Academy of Engineering in 1993 for his contributions to biotechnology. Mr. Young'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.

**THE BOARD OF DIRECTORS RECOMMENDS
A VOTE IN FAVOR OF EACH NAMED NOMINEE.**

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 determined that all of our directors are independent directors within the meaning of the applicable Nasdaq listing standards except for Rick E Winningham.

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, a Science and Technology Advisory Committee and a

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Stock Option Committee. The following table provides membership and meeting information for each of the Board committees during 2013:

Name	Audit	Compensation	Nominating/ Corporate Governance	Science and Technology Advisory	Stock Option
Rick E Winningham				X	X
Henrietta H. Fore	X				
Robert V. Gunderson, Jr.					
Arnold J. Levine, Ph.D.				X*	
Burton G. Malkiel, Ph.D.	X*		X	X	
Peter S. Ringrose, Ph.D.		X		X	
William H. Waltrip	X		X*		
George M. Whitesides, Ph.D.		X		X	
William D. Young		X*	X		
Total meetings in fiscal year 2013	6	7	5	2	0#

*
Committee Chairperson.

One-person committee did not meet in 2013, but acted by written consent during the year.

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.theravance.com. Each of Henrietta H. Fore, Burton G. Malkiel, Ph.D. and William H. Waltrip served on the Audit Committee during 2013. The Audit Committee met six times during 2013.

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 Burton G. Malkiel, Ph.D. is an audit committee financial expert as defined by Item 407(d) of Regulation S-K. The Board made a qualitative assessment of Dr. Malkiel's level of knowledge and experience based on a number of factors, including his post-graduate education in finance and his experience serving on the audit committees of the board of directors of several public companies.

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.theravance.com. Each of Peter S. Ringrose, Ph.D., George Whitesides, Ph.D. and William D. Young served on the committee during 2013. All 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 Nasdaq listing standards that took effect in 2013).

The Compensation Committee met seven times during 2013. Mr. Winningham, our principal 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. Mr. Shafer, our General Counsel, and Dennis Driver, our Vice President, Human Resources, also assist 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.theravance.com. Three directors comprised the Nominating/Corporate Governance Committee during 2013: Burton G. Malkiel, Ph.D., William H. Waltrip and William D. Young. All 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 five times during 2013.

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 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.theravance.com.

Science and Technology Advisory Committee

The Science and Technology Advisory Committee of the Board of Directors reviews and discusses scientific and technological matters affecting the Company. The Science and Technology Advisory Committee also identifies scientific and technological matters that may affect the Company in the future, and develops strategies to address these issues in our research plans. The Science and Technology Advisory Committee reports to the Board periodically. Five directors comprised the Science and Technology Advisory Committee during 2013: Arnold J. Levine, Ph.D., Burton G. Malkiel, Ph.D., Peter S. Ringrose, Ph.D., George M. Whitesides, Ph.D., and Rick E. Winningham. The Science and Technology Advisory Committee met two times during 2013.

Stock Option Committee

The Stock Option Committee, of which Rick E. Winningham 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. During 2013, the Stock Option Committee did not meet, but acted by written consent eleven times.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

Each of Peter S. Ringrose, Ph.D., George M. Whitesides, Ph.D. and William D. Young served on the Compensation Committee of the Board of Directors during 2013. None of the members of the Compensation Committee was at any time during the 2013 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

We currently have a single individual serving as our Chairman of the Board of Directors and our principal executive officer. Mr. Winningham has served as our Chief Executive Officer since October 2001 and as Chairman of the Board of Directors since April 2010. Mr. Waltrip has served as lead independent director since April 2005. In his role as lead independent director, Mr. Waltrip provides a source of Board of Directors leadership complementary to that of Mr. Winningham as Chairman of the Board of Directors. As the lead independent director, Mr. Waltrip coordinates the activities of the other independent directors, including coordinating with the Chairman an appropriate schedule of Board of Directors and committee meetings, suggesting to the Chairman agenda topics for meetings of the Board of Directors, coordinating with the Chairman 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, serving as the principal liaison between the independent directors and the Chairman, 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. Our Board believes that the combined role of Chairman and Chief Executive Officer, while balanced with our use of a lead independent director, facilitates centralized board leadership in one person, so there is no ambiguity about accountability. In addition, given the relatively small size of our company and the location of all of our operations in a single location, our Board of Directors believes that Mr. Winningham's leadership as both Chairman and Chief Executive Officer is appropriate.

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. In addition, during meetings of our Scientific and Technology Advisory Committee, the committee addresses scientific and technological risks facing our company. 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 sixteen times during 2013. Each Board member 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 901 Gateway Boulevard, South San Francisco, CA 94080, Attn: 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 Secretary has been instructed, in his discretion, to screen out communications from stockholders that are not related to the duties and responsibilities of the Board. If deemed an appropriate communication, the 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.theravance.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.

2013 DIRECTOR COMPENSATION

Non-employee directors of the Company are paid compensation for services provided as a director. Each member of our Board who is not an employee is paid a \$50,000 annual retainer as well as \$1,000 for each board and committee meeting attended (\$500 for scheduled in-person meetings that a board member attends by video or telephone conference). In addition, the chairperson of the Audit Committee is paid a \$20,000 annual retainer, the chairperson of the Compensation Committee is paid a \$13,000 annual retainer, and the chairpersons of the Nominating/Corporate Governance Committee and the Science and Technology Advisory Committee are each paid a \$10,000 annual retainer. The lead independent director also is paid a \$25,000 annual retainer. The members of our Board are eligible for reimbursement for their expenses incurred in attending Board meetings in accordance with Company policy.

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Each of our non-employee directors is compensated with equity as well, with periodic automatic grants of equity awards under a program implemented under our 2012 Incentive Plan. These grants are non-discretionary. Only non-employee directors of the Company are eligible to receive these automatic grants. Under the program, each individual who first becomes a non-employee director will, on the date such individual joins the Board, automatically be granted (i) a one-time grant of restricted stock unit awards ("RSUs") covering 6,000 shares of our Common Stock and (ii) a one-time nonstatutory stock option grant covering 6,000 shares of our Common Stock. These initial equity grants will vest monthly over the director's first two years of service. In addition, on the date of joining the Board, the new director will also receive the standard annual equity awards (if joining on the date of our annual meeting of stockholders) or pro-rated annual equity awards (if joining on any other date), as described below. The pro-ration will be based upon the number of months of service the new Board member will provide during the 12-month period ending on the one-year anniversary of the most recent annual meeting of stockholders. Annually, upon his or her re-election to the Board at the annual meeting of stockholders, each non-employee director automatically will be granted both an RSU covering 6,000 shares of our Common Stock and a nonstatutory stock option covering 6,000 shares of our Common Stock. These standard annual equity awards will vest monthly over the twelve month period of service following the date of grant. In addition, 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 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 will have 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 addition to the automatic RSUs and stock options described above, directors are also eligible to receive other equity awards under our 2012 Incentive Plan.

The following table sets forth all of the compensation awarded to, earned by, or paid to each person who served as a director during 2013, other than a director who also served as a named executive officer.

Name	Fees Earned or Paid in Cash	Stock Awards	Option Awards	Total
(a)	\$(1)	\$(2)(3)	\$(2)(4)	(h)
Henrietta H. Fore	66,500	183,240	94,267	344,007
Robert V. Gunderson, Jr.	66,000	183,240	94,267	343,507
Arnold J. Levine	75,500	183,240	94,267	353,007
Burton G. Malkiel	100,000	183,240	94,267	376,507
Peter S. Ringrose	74,000	183,240	94,267	351,507
William H. Waltrip	111,000	183,240	94,267	388,507
George M. Whitesides	72,000	183,240	94,267	349,507
William D. Young	88,000	183,240	94,267	365,507

(1) Includes the annual retainer paid to each director, the annual retainers paid to the chairperson of each committee and to the lead independent director, as well as fees for attendance at Board and committee meetings.

(2) The amounts in these columns represent the aggregate grant date fair value of stock awards and option awards granted to the director during 2013 computed in accordance with FASB ASC Topic 718. See Note 10 of the notes to our consolidated financial statements in our Annual Report on Form 10-K filed on March 3, 2014 for a discussion of all assumptions made by the Company in determining the grant date fair value of its equity awards.

- (3) As of December 31, 2013, the above-listed directors held outstanding RSUs under which the following number of shares of our Common Stock are issuable: Ms. Fore (27,000); Mr. Gunderson (24,000); Dr. Levine (24,000); Dr. Malkiel (24,000); Dr. Ringrose (30,000); Mr. Waltrip (24,000); Dr. Whitesides (24,000); and Mr. Young (24,000).
- (4) As of December 31, 2013, the above-listed directors held outstanding options to purchase the following number of shares of our Common Stock: Ms. Fore (27,000); Mr. Gunderson (96,612); Dr. Levine (96,612); Dr. Malkiel (60,000); Dr. Ringrose (18,000); Mr. Waltrip (96,612); Dr. Whitesides (96,612); and Mr. Young (96,612).

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 vested 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 25, including the "Compensation Discussion and Analysis" and the related tables and narrative, the primary goals of our compensation programs are 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. We believe our compensation programs reflect a pay-for-performance philosophy that links potential significant compensatory rewards to achievement of corporate operating goals and increase in long-term stockholder value.

At the beginning of 2013, we set out to achieve nine specific performance goals. These goals were developed in a manner consistent with our historic practice of setting annual performance goals which are sufficiently aggressive such that we are unlikely to achieve all of them. We made substantial progress in 2013 and accomplished five out of nine goals, including significant goals relating to our respiratory programs in partnership with GSK, the commercial re-introduction of VIBATIV® and strategic and tactical partnerships. We also partially achieved another two goals. In addition, many of our named executive officers made significant contributions in furtherance of the Spin-Off. Their efforts have been extremely important to the planning and eventual execution of the Spin-Off, which we believe provides several opportunities and benefits for stockholders, including better market recognition for both the Company and Theravance Biopharma, Inc., a Cayman Islands exempted company and currently a wholly-owned subsidiary of the Company ("Theravance Biopharma"), better business focus, facilitating the ability of the Company to return capital to its stockholders, improved capital flexibility for both companies, and better employee incentives.

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 2013 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, 2014 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, 2013 and December 31, 2012 by Ernst & Young LLP, our principal accountant.

	Fiscal Year Ended December 31,	
	2013	2012
	(in thousands)	
Audit Fees(1)(2)	\$ 2,306	\$ 927
Tax Fees(3)	1,254	129
All Other Fees		
Total Fees	\$ 3,560	\$ 1,056

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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, 2013 and 2012 and the audit of internal control over financial reporting as of December 31, 2013 and 2012. For the years ended December 31, 2013 and 2012, 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) For the year ended December 31, 2013, audit fees include audits in connection with the proposed separation of the Company's businesses into two independent publicly traded companies.
- (3) For the years ended December 31, 2012 and 2011, 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 Burton G. Malkiel, Ph.D. 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, 2013 ("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:

Burton G. Malkiel, Ph.D., Chairman
Henrietta H. Fore
William H. Waltrip

(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, 2014 are set forth below:

Michael W. Aguiar, age 47, 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 Strategic Business Unit. Mr. Aguiar earned a B.S. in Biology from UC Irvine and an M.B.A. in Finance from the University of Michigan.

Leonard M. Blum, age 53, joined Theravance as Senior Vice President and Chief Commercial Officer in July 2007. Prior to joining Theravance, Mr. Blum served as Senior Vice President of Sales and Marketing at ICOS Corporation. From 1987-2000, Mr. Blum held positions of increasing responsibility in marketing and sales management at Merck & Co. in both U.S. and international markets. Mr. Blum earned an M.B.A. from Stanford University, studied Finance as a Fulbright Fellow at the University of Zurich, and received an A.B. in Economics, magna cum laude, from Princeton University. Mr. Blum served as an officer in the U.S. Army Special Forces.

Jeffrey D. Jonker, age 41, joined Theravance as Senior Vice President, Corporate and Business Development, in October 2013. Prior to joining Theravance, Mr. Jonker served as Chief Business Officer of Satori Pharmaceuticals from April 2010 to April 2013. Previously, he held senior business development and corporate strategy positions with Gloucester Pharmaceuticals (November 2009 to March 2010) and Genentech, Inc. (March 2003 to November 2009). Prior to Genentech, Mr. Jonker was an attorney in the Technology Transactions Group of Wilson, Sonsini, Goodrich & Rosati, representing clients in the biotech, life sciences and high tech industries (November 1998 to March 2003). Mr. Jonker holds a J.D. from Columbia University School of Law, an M.Litt. from the University of St. Andrews and a B.A. from Claremont McKenna College.

Junning Lee, Ph.D., age 57, joined Theravance in 2001 and held various positions in the Technical Operations Department before being promoted to Senior Vice President, Technical Operations, in January 2014. Prior to joining Theravance, Dr. Lee had more than 11 years of increasing responsibility at Schering-Plough Research Institute (from 1990 to 2001). He was an NIH Postdoctoral Fellow at Oregon State University (from 1989 to 1990). He received his Ph.D. in Organic Chemistry from Boston University, and obtained a BS Pharmacy from China Pharmaceutical University, Nanjing, China, where he graduated with University Honors.

Mathai Mammen, M.D., Ph.D., age 46, co-founded Theravance in 1996. He was promoted to Senior Vice President, Research in January 2008, became Senior Vice President, Research and Early Clinical Development in February 2009 and became Senior Vice President, Research and Development in March 2014. He has served previously in various positions in both the Medicinal Chemistry Department and the Molecular and Cellular Biology Department, most recently as Vice President, Molecular and Cellular Biology. Dr. Mammen obtained his M.D. from Harvard Medical School/Massachusetts Institute of Technology, and his Ph.D. in Physical Organic Chemistry from Harvard University. Dr. Mammen obtained his Bachelor's Degree in Chemistry from Dalhousie University in Halifax, Nova Scotia.

Frank Pasqualone, age 58, joined Theravance as Senior Vice President, Operations in January 2014. From 1986 to 2012, Mr. Pasqualone was at Bristol-Myers Squibb, where he served as President of Intercontinental Region: Latin America, Middle East and Africa from 2010 to 2012, President of Southern Europe from 2009 to 2010, Senior Vice President and General Manager Iberia and Middle

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East and Africa from 2008 to 2009, and in various other senior management positions in the U.S. and globally. Since leaving Bristol-Myers Squibb and prior to joining Theravance, Mr. Pasqualone was self-employed as a part-time consultant. Mr. Pasqualone holds an M.B.A. from University of Dayton and a B.S. in Marketing from Bowling Green State University in Ohio.

Bradford J. Shafer, age 54, joined Theravance as Senior Vice President, General Counsel and Secretary in August 1999. From 1996 to 1999 he served as General Counsel of Heartport, Inc., a cardiovascular medical device company. From 1993 to 1996 Mr. Shafer was a partner in the Business and Technology Group at the law firm of Brobeck, Phleger & Harrison LLP. Mr. Shafer holds a J.D. from the University of California, Hastings College of the Law, where he was Editor-in-Chief of The Hastings Constitutional Law Quarterly, and a B.A. from the University of the Pacific, where he graduated magna cum laude.

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 March 31, 2014 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 112,519,345 shares of Common Stock outstanding as of March 31, 2014. Options to purchase shares of our Common Stock that are exercisable within 60 days of March 31, 2014 and restricted stock units ("RSUs") that may be exercised or settled on or within 60 days of March 31, 2014 are deemed to be beneficially owned by the persons

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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)	Number of Shares	Beneficial Ownership Percent of Total Outstanding Common Stock
5% Stockholders		
GlaxoSmithKline plc(2) 980 Great West Road Brentford Middlesex TW8 9GS United Kingdom	30,258,302	26.9%
Baupost Group, L.L.C.(3) 10 St. James Ave, Suite 1700 Boston, MA 02116	20,144,301	17.9%
FMR LLC(4) 82 Devonshire Street Boston, MA 02109	12,053,867	10.7%
Iridian Asset Management(5) 276 Post Road West Westport, CT 06880	8,981,727	8.0%
Named Executive Officers and Directors		
Rick E Winningham(6)	1,139,473	1.0%
Michael W. Aguiar(7)	399,725	*
Leonard M. Blum(8)	641,783	*
Mathai Mammen, M.D., Ph.D.(9)	534,769	*
Bradford J. Shafer(10)	543,868	*
Henrietta H. Fore(11)	27,000	*
Robert V. Gunderson, Jr.(12)	168,485	*
Arnold J. Levine, Ph.D.(13)	164,600	*
Burton G. Malkiel, Ph.D.(14)	76,000	*
Peter S. Ringrose, Ph.D.(15)	30,000	*
William H. Waltrip(16)	146,870	*
George M. Whitesides, Ph.D.(17)	823,501	*
William D. Young(18)	130,741	*
All executive officers and directors as a group (16 persons)(19)	5,194,282	4.6%

*
Less than one percent.

(1) Unless otherwise indicated, the address for each beneficial owner is c/o Theravance, Inc., 901 Gateway Boulevard, South San Francisco, California 94080.

- (2) Based on a Form 4 filed with the Securities and Exchange Commission on February 13, 2014. 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, 2014. 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.

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- (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 14, 2014 and on which the information reported herein is based.
- (5) Based on a Schedule 13G/A filed with the Securities and Exchange Commission on February 4, 2014. 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.
- (6) Includes: (i) 138,710 shares subject to options exercisable within 60 days of March 31, 2014 and (ii) 445,500 restricted shares subject to performance-based and time-based vesting.
- (7) Includes: (i) 120,250 shares subject to options exercisable within 60 days of March 31, 2014 and (ii) 202,500 restricted shares subject to performance-based and time-based vesting.
- (8) Includes: (i) 205,000 shares subject to options exercisable within 60 days of March 31, 2014, and (ii) 202,500 restricted shares subject to performance-based and time-based vesting.
- (9) Includes: (i) 161,500 shares subject to options exercisable within 60 days of March 31, 2014 and (ii) 202,500 restricted shares subject to performance-based and time-based vesting.
- (10) Includes: (i) 58,887 shares subject to options exercisable within 60 days of March 31, 2014 and (ii) 202,500 restricted shares subject to performance-based and time-based vesting.
- (11) Includes 27,000 shares subject to stock options exercisable within 60 days of March 31, 2014.
- (12) Includes 6,451 shares held by Marshall & Ilsley for the benefit of Mr. Gunderson and 5,709 shares held by Gunderson Dettmer Stough Villeneuve Franklin & Hachigian, LLP ("GD"). Mr. Gunderson disclaims beneficial ownership of the shares held by GD except to the extent of his pecuniary interest therein. Includes: (i) 96,612 shares subject to options exercisable within 60 days of March 31, 2014 and (ii) 6,000 shares subject to RSUs that will settle within 60 days of March 31, 2014.
- (13) Includes: (i) 70,806 shares subject to stock options exercisable within 60 days of March 31, 2014 and (ii) 6,000 shares subject to RSUs that will settle within 60 days of March 31, 2014.
- (14) Includes: (i) 60,000 shares subject to stock options exercisable within 60 days of March 31, 2014 and (ii) 6,000 shares subject to RSUs that will settle within 60 days of March 31, 2014.
- (15) Includes: (i) 18,000 shares subject to stock options exercisable within 60 days of March 31, 2014 and (ii) 12,000 shares subject to RSUs that will settle within 60 days of March 31, 2014.
- (16) Includes: (i) 70,806 shares subject to stock options exercisable within 60 days of March 31, 2014 and (ii) 6,000 shares subject to RSUs that will settle within 60 days of March 31, 2014.
- (17) Includes 170,318 shares held of record by the Deborah L. Anderson, Trustee, Whitesides Family 1998 Irrevocable Trust. Includes: (i) 70,806 shares subject to stock options exercisable within 60 days of March 31, 2014 and (ii) 6,000 shares subject to RSUs that will settle within 60 days of March 31, 2014.

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- (18) Includes: (i) 96,612 shares subject to stock options exercisable within 60 days of March 31, 2014 and (ii) 6,000 shares subject to RSUs that will settle within 60 days of March 31, 2014.
- (19) Includes an aggregate of 1,274,169 shares subject to options exercisable within 60 days of March 31, 2014, 48,000 shares subject to RSUs that will settle within 60 days of March 31, 2014 and 1,459,000 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, 2013, 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 OF NAMED EXECUTIVE OFFICERS

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.

Executive Summary

This CD&A discusses our 2013 compensation policies and decisions. In April 2013 we announced our intention to complete the Spin-Off, after which we will be a company focused on providing capital returns to stockholders. Our executive compensation policies and decisions taken in connection with the Spin-Off and for our new business following the Spin-Off will be fully addressed in next year's Proxy Statement and related Compensation Discussion and Analysis. The Company tries to ensure that its compensation program reflects its business, so it is possible that there will be changes in our 2014 compensation program as a result of the Spin-Off. Additionally, it is anticipated that following the Spin-Off no member of the Compensation Committee that served in 2013 (which made the decisions described in this proxy statement) will continue to serve on the Compensation Committee.

During 2013, we operated in an extremely competitive, rapidly changing and heavily regulated industry. We believe that the skill, talent, judgment and dedication of the executive officers and our other key employees were critical factors affecting our long-term stockholder value. Therefore, our goal was to maintain a compensation program that fairly compensated employees, allowed us to attract and retain highly qualified employees, motivated the performance of employees towards, and rewarded the achievement of, clearly defined corporate goals, and aligned employees' long-term interests with those of our stockholders. We also set a number of aggressive annual performance goals that, if all or substantially all were achieved, we believed would represent superior, above target performance. As a biopharmaceutical company historically, our research and development timelines were long and the development of new drugs was not an endeavor that lent itself to annual measurement. As a result, we tried to design officer compensation to reward annual performance achievement, while keeping focus on and greater potential financial reward for achievement of long-term multi-year goals that we believed would create significant long-term value for our stockholders. We believe it is important to note that the Company's five-year CAGR total stockholder return (TSR) for the period from December 31, 2008 through December 31, 2013 was 23.5%.

At the beginning of 2013, we set out to achieve nine specific performance goals. These goals were developed in a manner consistent with our historic practice of setting annual performance goals which are sufficiently aggressive such that we are unlikely to achieve all of them. We made substantial progress in 2013 and accomplished significant goals relating to our respiratory programs in partnership with GSK, the commercial re-introduction of VIBATIV® and strategic and tactical partnerships. In addition, many of our named executive officers made significant contributions in furtherance of the Spin-Off. Their efforts have been extremely important to the planning and eventual execution of the Spin-Off, which we believe provides several opportunities and benefits for stockholders, including better market recognition for both the Company and Theravance Biopharma, better business focus, facilitating the ability of the Company to return capital to its stockholders, improved capital flexibility for both companies, and better employee incentives.

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In 2013 our stock price rose from \$22.44 on January 1, 2013 to \$35.65 on December 31, 2013, which was a 60.3% return for stockholders during the year. We believe the focus and dedication of our named executive officers contributed to the achievements that drove our stock price during the year.

2013 Corporate Goals	Achieved
Approval and launch of RELVAR® ELLIPTA® or BREO® ELLIPTA® in a Major Market	X
Approval of ANORO ELLIPTA for chronic obstructive pulmonary disease ("COPD") in a Major Market	X
Initiate MABA / GSK'081 in a single agent Phase 3 COPD Study or have the combination MABA/ICS or UMEC/VI/FF ready to proceed to a Phase 3 Study	X
Successful Reintroduction of VIBATIV® in the United States	X
Fund and Initiate TD-1211 Phase 3 Program	X
Report Positive Results for at Least Two Phase 2 Studies in the MARIN and / or LAMA program	X(1)
Initiate at Least One Phase 1 Study with either TD-1607 or in the VIPER program	X
Nominate two development candidates in the PRIZM program	X(2)
Execute a significant business development transaction or research collaboration	X

(1) Goal partially achieved positive results reported in one Phase 2b study.

(2) Goal partially achieved one development candidate nominated.

Impact of Goal Achievement on Annual Incentive Compensation. The Compensation Committee determined that we accomplished five out of nine annual performance goals for 2013, including several significant goals, and partially achieved two other performance goals. Furthermore, the Compensation Committee determined that the Company's significant efforts in furtherance of the Spin-Off warranted recognition, even though it was not a specific 2013 corporate goal. In light of the foregoing and the additional considerations described below, the Compensation Committee determined that the Company's performance warranted a 2013 cash bonus pool at 120% of target.

Long-Term Retention and Performance Incentive Program. As described in detail in the Equity Incentive Compensation section of our 2012 and 2013 proxy statements, the Compensation Committee implemented a special long-term retention and performance incentive program in February 2011 (the "Long-Term Retention and Performance Incentive Program"), which is comprised of two elements: (1) 2011 replenishment restricted stock awards ("RSAs") twice the size of the guideline replenishment award for the named executive officers, coupled with substantially reduced replenishment RSAs in each of 2012 and 2013; and (2) long-term performance contingent RSAs offering the named executive officers the opportunity to earn higher value over the 2011-2016 timeframe depending on how many critical operating goals and objectives are achieved during that six-year period (the "Six-Year Performance RSAs"). The Six-Year Performance RSA goals were designed to be extremely challenging and require superior performance for any portion of the awards to be earned. As of December 31, 2013, which was nearly three years into the six year program, none of the Six-Year Performance RSAs had been earned despite significant stockholder value increases during the period since the awards were granted. The equity awards granted to our named executive officers in 2013 are described in greater detail in "Equity Incentive Compensation" below and were consistent with the Long-Term Retention and Performance Incentive Program.

Performance-Based Vesting in 2012 and 2013. The Long-Term Retention and Performance Incentive Program, as originally implemented in 2011, did not contemplate that the reduced 2012 and 2013 replenishment RSAs would have any performance-vesting component since the vesting of the Six-Year Performance RSAs comprising the majority of the Long-Term Retention and Performance Incentive Program are entirely performance-based. Nevertheless, to show a further commitment to performance-based compensation, the Company made 50% of the reduced replenishment awards granted to all executive officers in 2012 and 2013 subject to forfeiture unless one of three possible performance goals was achieved within two years of grant. For the reduced replenishment awards granted in 2013, the three goals were comprised of: (i) RELVAR® ELLIPTA®/BREO® ELLIPTA® or ANORO ELLIPTA (as described in the "LABA Collaboration" section beginning on page 53) being approved by a regulatory authority in the United States or European Union, (ii) obtaining U.S. Food and Drug Administration ("FDA") approval of VIBATIV® for the treatment of nosocomial pneumonia, or (iii) achieving positive results in our Phase 2 study with TD-4208 or TD-9855. In July 2013, the Compensation Committee deemed the 2013 performance goal achieved by virtue of both the FDA's approval of VIBATIV® for the treatment of nosocomial pneumonia and the FDA's approval of BREO® ELLIPTA® for the treatment of COPD.

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

We have tried to design officer compensation to reward annual milestone achievement, while keeping focus on and greater potential financial reward for achievement of long-term multi-year goals that we believe will create significant value for our stockholders.

Accordingly, our executive officer compensation philosophy is to (1) provide overall compensation, when targeted levels of performance are achieved, which is at the 75th percentile of pay practices within a peer group selected, among other criteria, for similarities in market capitalization size, business model 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. Importantly, the equity award benchmarks used by the Company measure the 75th percentile relative to capitalization size, rather than as a grant date fair value.

The Compensation Committee also believes, however, that superior performance above target may on occasion warrant compensation above this guideline. Our annual cash incentives, the long-term Six-Year Performance RSAs granted to named executive officers in 2011 and 50% of the replenishment RSAs granted to named executive officers in 2012 and 2013 were tied to our achievement of corporate operating and drug development goals. The strong performance orientation of our named executive officer compensation program stems from our belief that successful execution against goals is the best way to enhance long-term stockholder value.

In 2013, and historically as a biopharmaceutical company, the difficulty of achieving our goals in the time frames specified is a significant reason for our compensation philosophy. Our annual and longer-term operating goals, which generally relate to the successful discovery, development, and regulatory approval of our compounds, are aggressive. The business of discovering novel compounds and developing them as potential medicines is extremely risky and the current regulatory environment for new drug approvals is highly uncertain. In addition, the time frames within which our operating goals must be achieved in order to earn annual incentive compensation are short. Furthermore, while we have less control over the progress and timing of development programs that we have licensed to our collaborative partners, our officers spend a great deal of time and energy working with our partners to progress those programs, and to the extent practicable we hold those programs to goal expectations as rigorous as those for our own development programs that we are progressing internally.

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 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. In fulfilling this responsibility, the Compensation Committee reviews the performance of each named executive officer twice each year. 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 2013 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.

The Compensation Committee reviews all components of the named executive officers' compensation when we provide the Compensation Committee with compensation "tally sheets" for each executive officer toward the end of each year. The information in these tally sheets is used by the Compensation Committee to assist it in analyzing existing compensation and any proposed changes in compensation for each named executive officer. The tally sheets are also useful for considering the accumulated value of ownership, how much is unvested, and the amount of potential value earnable under various stock price and performance goal achievement scenarios. Further, the tally sheets present an estimate of the compensation that would be delivered should the executive's employment be terminated under various scenarios in connection with a change-in-control assuming a termination date of the last day of the current year. A dollar value is affixed to the compensation information in the tally sheets under the various payout scenarios.

The tally sheets help the Compensation Committee to track changes in an officer's total direct compensation from year to year and to remain aware of the compensation historically paid to each named executive officer. For the Six-Year Performance RSAs, the tally sheets reflect a variety of values assuming different share prices and numbers of performance goals achieved. They also provide insight into the aggregate values accumulated from historical equity awards and the potential costs of severance that result from the current severance program. In addition to the information and analyses supplied to the Compensation Committee as described above and in the peer group segment below, members of management support the Compensation Committee in its work from time to time and the Compensation Committee's independent executive compensation consultant provides compensation analyses, in each case, at the Compensation Committee's request.

At our 2013 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 Compensation Committee reviewed the results of the 2013 advisory vote and concluded that no revisions were necessary to our named executive officer compensation program. The 2013 named executive officer compensation program was therefore designed using the same principles and incentive guidelines as the 2012 program. In making this determination, the Compensation Committee was influenced by the extraordinarily high level of stockholder support (which it viewed as a confirmation of the Company's compensation philosophy), discussions with certain stockholders during the 2013 proxy season and its assessment (based on advice from the Compensation Committee's independent executive compensation consultant) that the Company's stockholders understood the Compensation Committee's rationale for the higher grant date fair values associated with 2011 replenishment equity awards reflected in the 2012 and 2013 proxy statements. As discussed in "Equity Incentive Compensation" below, these awards were part of a three-year program which includes reduced 2012 and 2013 replenishment equity awards and which the Compensation Committee believes have been, and continue to be, an important retention and incentive tool.

Assuming the Spin-Off occurs, it is anticipated that the composition of the Company's Compensation Committee will change. We do not expect that any member of the Compensation Committee that served in 2013 or that currently serves will remain a member of the Compensation Committee following the Spin-Off.

Compensation Consultant

The Compensation Committee has the authority under its charter to engage the services of outside advisors, experts and others to assist the Compensation Committee. In accordance with this authority and as described in the "Compensation Committee" section beginning on page 10, the Compensation Committee confers from time to time with its independent executive compensation consultant, Frederic W. Cook & Co. ("FW Cook"). FW Cook is retained by and reports directly to the Compensation Committee and its role is to assist and advise the Compensation Committee on matters related to compensation for executive officers, other key employees and non-employee directors. FW Cook does not work on projects for management except as an agent of the Compensation Committee and with the advance knowledge and approval of the Chairman of the Compensation Committee. The Compensation Committee has the sole authority to retain and dismiss its outside compensation consultants.

Peer Group

The Compensation Committee most recently revised our peer group in July 2012, taking into account the advice of FW Cook based on its review of biopharmaceutical companies that were similar to Theravance in development stage, commercialization stage, market capitalization and business model at that time. The objective was to find companies with FDA approved drugs (or compounds that were close to approval) that were at a similar stage of commercialization, while also having market capitalizations that were generally within one-third to one and one-third times that of Theravance at the time the peers were chosen, with Theravance's market capitalization set so that it was in the mid-range of the group. Importantly, the market data referenced was from a 2012 study of peer compensation in 2011. Some of the peer companies are considerably larger in market capitalization today than they were at the time of the market benchmark study and also at the time the compensation data captured in the 2012 study was paid, since the 2012 study analyzed 2011 compensation data. At the time the peer group was chosen, in July 2012 using valuation as of the end of May 2012, Theravance's market capitalization was about \$2.35 billion, which was higher than the peer median of \$2.03 billion and the largest peer company had market capitalization of \$3.05 billion at the time. The

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Company believes that this was not an outsized peer group and notes that any subsequent increases in valuation at the peer companies is not recognized in the market compensation data that was used as a reference by the Compensation Committee.

We believe market capitalization is the most meaningful measure of company size for our industry because it reflects stockholders' projected value of the product pipeline of research and development-stage drug companies. Our business model emphasizes future relative profitability over current revenue. By employing partnership agreements where the primary economic benefit accruing to our company is potential future royalty income, our current and near-term future revenues will be lower than if we utilized a business model that sought to maximize absolute revenues. We believe our investors value Theravance based on future potential royalty streams as opposed to absolute revenue. Therefore, given our business model, market capitalization is a much better metric than revenue for peer group selection.

Further, market capitalization was used to find peers for benchmarking because it correlates with stock price, which drives equity compensation grant values. To the extent that peer company market capitalizations were higher or lower than Theravance, the difference is considered in the grants provided.

Assuming the Spin-Off occurs, the Company will no longer be a biopharmaceutical research and development company, but rather a company focused on providing capital returns to stockholders. Accordingly, we anticipate that in 2014 the Compensation Committee will review and revise the Company's peer group and resulting benchmark data to ensure that it reflects companies of a similar size, business and stage of operations as Theravance. The table below reflects the 2012 peer group, which was referred to for compensation decisions in 2013.

2012 Peer Group

Alkermes
Arena Pharmaceuticals
ARIAD Pharmaceuticals
Dendreon
Human Genome Sciences*
Incyte Corporation
Intermune
ISIS Pharmaceuticals
Lexicon Pharmaceuticals
Medicines Company
Medicis Pharmaceuticals
Medivation
Nektar Therapeutics
Onyx Pharmaceuticals
Optimer Pharmaceuticals
Salix Pharmaceuticals
Seattle Genetics

*

Acquired following inclusion in the peer group and no longer publicly traded.

Principal Elements of Compensation

Base Salaries

Base salaries are set to reflect compensation commensurate with the individual's current position and work experience. Our goal in this regard is to attract and retain high caliber talent for the position

and to provide a base wage that is not subject to performance risk. Salary for the CEO and the other named executive officers is established based on the underlying scope of their respective responsibilities, taking into account competitive market compensation. The base salary for each named executive officer is generally targeted at the 75th percentile compared to similar positions in the peer companies due to the intensely competitive environment for highly qualified employees in this industry and the roles, competency and experience of the individual. However, the compensation market data provide only a reference point for the Compensation Committee.

We review base salaries for the named executive officers annually, generally in the first quarter of each year. In 2013 and in prior years, we determined a target percentage for annual merit increases based in part on data from companies with between 150 and 499 employees in the Radford Global Life Sciences Survey. The CEO proposes salary adjustments to the Compensation Committee (other than for himself) based on any changes in competitive market salaries, individual performance and/or changes in job duties and responsibilities. The Compensation Committee then determines any salary adjustment applicable to each of the named executive officers. For 2013, a Company-wide merit increase of 3.5% was budgeted and the Compensation Committee approved the following annual merit increases for each of our named executive officers: Mr. Winningham 3.0%; Mr. Aguiar 3.5%; Dr. Mammen 4.0%; Mr. Blum 3.0%; Mr. Shafer 3.25%). The size of each officer's merit increase reflects the CEO and Compensation Committee's subjective evaluation of each officer's individual performance and contributions, and, in the case of Mr. Winningham, his request that his merit increase be lower than the Company-wide target increase due to overall budget considerations.

Annual Cash Incentive Compensation

Our named executive officers are eligible for annual cash incentives under a company-wide bonus program. Annual cash incentives for our named executive officers are designed to reward the achievement of key corporate goals for the year, which we believe in turn should increase stockholder value over time. The annual cash incentive awards for our named executive officers are based on our achievement of specific performance goals that are established at the beginning of the fiscal year. Since 2011, we have not assigned weightings to the performance goals at the beginning of the year, which provides the Compensation Committee with greater flexibility in making year-end cash bonus decisions based on then-current priorities for the Company. We consider this flexibility desirable as the relative importance of a particular goal may rise or fall over the course of the year, depending on changes in strategic direction for the Company, the activities of our corporate partners, funding (via new strategic partnerships or otherwise) or lack thereof for certain development programs, regulatory developments affecting certain of our programs, or the effect of the goal's achievement on the Company's value. Also, if a goal is achieved within a short period of time into the following year, the Compensation Committee may nevertheless wish to recognize achievement of the goal for the prior year depending on a variety of factors such as the number of employees who were responsible for the goal's achievement or matters outside the reasonable control of the Company that may have delayed the official completion of the goal. Further, the Compensation Committee has the ability to recognize significant unplanned achievements if they occur during the year.

At the end of the year, our Compensation Committee reviewed the Company's performance against the goals and determined the overall level of achievement, which determined the size of the Company's bonus pool for all employees. Shortly thereafter, the Compensation Committee determined individual bonus amounts for the named executive officers. In making both of these determinations, the Compensation Committee considered a briefing from the Company's Chief Executive Officer and its Vice President, Human Resources on Company-wide performance against goals and the individual contributions of the named executive officers toward achievement of the goals. The target bonus for each executive is stated in terms of a percentage of the officer's annualized base salary for the year. The target bonus percentage is 50% for senior vice presidents and 60% for our CEO. No change was made to our named executive officers' target bonus percentages for 2013.

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The goals comprising our cash bonus program for 2013 are listed below and applied to the bonus program for all employees, including our named executive officers. These goals were approved by the Board of Directors early in 2013. Given the number of Theravance-discovered potential medicines in active research and/or development, our emphasis on research and discovery, the highly uncertain regulatory environment, and the efforts required to manage our collaborations with other companies, we established more goals for 2013 than we believed could reasonably be achieved. This has been our practice for many years. For this reason, achievement of all of the goals would constitute performance at 150% of target, increasing the bonus potential to 150% of target. However, the likelihood of achieving all of the goals and a payout based on 150% of target was considered extremely low given the challenging nature of the goals.

The table below sets forth our 2013 Corporate Goals and the determination of our Compensation Committee on whether or not the goals had been achieved for purposes of our annual, Company-wide cash bonus program:

2013 Goal	Achieved
Approval and launch of RELVAR® ELLIPTA® or BREO® ELLIPTA® in a Major Market	X
Approval of ANORO ELLIPTA for chronic obstructive pulmonary disease ("COPD") in a Major Market	X
Initiate MABA / GSK'081 in a single agent Phase 3 COPD Study or have the combination MABA/ICS or UMEC/VI/FF ready to proceed to a Phase 3 Study	
Successful Reintroduction of VIBATIV® in the United States	X
Fund and Initiate TD-1211 Phase 3 Program	
Report Positive Results for at Least Two Phase 2 Studies in the MARIN and / or LAMA program	X(1)
Initiate at Least One Phase 1 Study with either TD-1607 or in the VIPER program	X
Nominate two development candidates in the PRIZM program	X(2)
Execute a significant business development transaction or research collaboration	X

(1) Goal partially achieved positive results reported in one Phase 2b study.

(2) Goal partially achieved one development candidate nominated.

The Compensation Committee determined that we accomplished five out of nine annual performance goals for 2013 including several significant goals, and partially achieved two other performance goals. In addition, though not