Table of Contents

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

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2010

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File Number: 0-30319

THERAVANCE, INC.
(Exact Name of Registrant as Specified in its Charter)

Delaware	**94-3265960**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

901 Gateway Boulevard
South San Francisco, CA 94080
(Address of Principal Executive Offices including Zip Code)

(650) 808-6000
(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer x
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

The number of shares of registrant's common stock outstanding on July 30, 2010 was 64,258,295

The number of shares of registrant's Class A common stock outstanding on July 30, 2010 was 9,401,499.

Table of Contents

TABLE OF CONTENTS

Table of Contents

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

THERAVANCE, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except per share data)

	June 30, 2010 (Unaudited)	December 31, 2009 *
Assets		
Current assets:		
Cash and cash equivalents	$ 69,721	$ 47,544
Marketable securities	140,972	107,846
Receivable from related party	33	274
Notes receivable	434	144
Prepaid and other current assets	5,063	6,234
Total current assets	216,223	162,042
Restricted cash	893	1,310
Property and equipment, net	11,049	12,927
Notes receivable	530	947
Other long-term assets	3,754	4,167
Total assets	$ 232,449	$ 181,393
Liabilities and stockholders' net capital deficiency		
Current liabilities:		
Accounts payable	$ 1,749	$ 1,792
Accrued personnel-related expenses	4,692	6,314
Accrued clinical and development expenses	2,231	1,805
Other accrued liabilities	4,335	5,129
Current portion of note payable and capital lease	195	184
Current portion of deferred revenue	22,802	23,722
Total current liabilities	36,004	38,946
Convertible subordinated notes	172,500	172,500
Deferred rent	1,782	851
Notes payable and capital lease	175	275
Deferred revenue	147,946	157,426
Other long-term liabilities	—	389
Commitments and contingencies		
Stockholders' net capital deficiency:		
Common stock, $0.01 par value; 200,000 shares authorized; 64,242 and 54,830 shares issued and outstanding at June 30, 2010 and December 31, 2009, respectively	642	549
Class A Common Stock, $0.01 par value, 30,000 shares authorized, 9,402 issued and outstanding at June 30,	94	94

2010 and December 31, 2009		
Additional paid-in capital	1,033,427	927,082
Accumulated other comprehensive (loss) income	(26)	35
Accumulated deficit	(1,160,095)	(1,116,754)
Total stockholders' net capital deficiency	(125,958)	(188,994)
Total liabilities and stockholders' net capital deficiency	$ 232,449	$ 181,393

* Condensed consolidated balance sheet at December 31, 2009 has been derived from audited consolidated financial statements.

See accompanying notes to condensed consolidated financial statements.

Table of Contents

THERAVANCE, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Revenue (1)	$ 6,264	$ 5,493	$ 11,979	$ 15,037
Operating expenses:				
Research and development	18,705	20,020	39,057	39,577
General and administrative	6,991	6,796	13,467	13,848
Restructuring charges	—	30	—	1,313
Total operating expenses	25,696	26,846	52,524	54,738
Loss from operations	(19,432)	(21,353)	(40,545)	(39,701)
Interest and other income	134	1,172	229	1,819
Interest expense	(1,508)	(1,511)	(3,025)	(3,027)
Net loss	$ (20,806)	$ (21,692)	$ (43,341)	$ (40,909)
Basic and diluted net loss per share	$ (0.28)	$ (0.35)	$ (0.63)	$ (0.65)
Shares used in computing net loss per share	73,282	62,842	69,124	62,567

(1) Revenue includes amounts from GSK, a related party, of $2,457 and $2,708 for the three months ended June 30, 2010 and 2009, respectively, and $4,913 and $9,656 for the six months ended June 30, 2010 and 2009, respectively.

See accompanying notes to condensed consolidated financial statements.

Table of Contents

THERAVANCE, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Six Months Ended June 30,	
	2010	2009
Cash flows from operating activities		
Net loss	$ (43,341)	$ (40,909)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	3,137	2,529
Stock-based compensation	9,820	10,387
Notes receivable	4	(23)
Changes in operating assets and liabilities:		
Receivables, prepaid and other current assets	1,205	545
Accounts payable and accrued liabilities	(232)	(1,092)
Accrued personnel-related expenses	(1,622)	(974)
Deferred rent	931	(280)
Deferred revenue	(10,400)	(4,038)
Other long-term liabilities	(389)	543
Net cash used in operating activities	(40,887)	(33,312)

Cash flows from investing activities		
Purchases of property and equipment	(133)	(359)
Purchases of marketable securities	(103,861)	(54,570)
Maturities of marketable securities	70,000	48,065
Release of restricted cash	417	2,500
Payments received on notes receivable	110	238
Net cash used in investing activities	(33,467)	(4,126)
Cash flows from financing activities		
Payments on notes payable and capital lease	(89)	(57)
Proceeds from issuances of common stock	96,620	6,313
Net cash provided by financing activities	96,531	6,256
Net increase (decrease) in cash and cash equivalents	22,177	(31,182)
Cash and cash equivalents at beginning of period	47,544	92,280
Cash and cash equivalents at end of period	$ 69,721	$ 61,098

See accompanying notes to condensed consolidated financial statements.

Table of Contents

Theravance, Inc.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

1. Basis of Presentation and Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of Theravance, Inc. (the Company) have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of the Company's management, the unaudited condensed consolidated financial statements have been prepared on the same basis as audited consolidated financial statements and include all adjustments, consisting of only normal recurring adjustments, necessary for the fair presentation of the Company's financial position, results of operations and cash flows. The interim results are not necessarily indicative of the results of operations to be expected for the year ending December 31, 2010 or any other period.

The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2009 filed with the Securities and Exchange Commission (SEC) on February 26, 2010.

Use of Management's Estimates

The preparation of condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. Actual results could differ materially from those estimates.

Inventory

Inventory is stated at the lower of cost or market and is included in prepaid and other current assets in the accompanying condensed consolidated balance sheets. Inventory consisted of $2.5 million and $3.4 million of VIBATIV™ finished goods, active pharmaceutical ingredient, or other commercial launch supplies as of June 30, 2010 and December 31, 2009, respectively. If Astellas Pharma Inc. (Astellas) decides not to purchase some or any of the remaining VIBATIV™ inventory, the Company will be required to expense a portion of or the entire remaining capitalized inventory.

Other-than-Temporary Impairment Assessment

The Company reviews its investment portfolio to identify and evaluate investments that have indications of possible impairment. Factors considered in determining whether a loss is other-than-temporary include the length of time and extent to which fair value has been less than the cost basis, the financial condition and near-term prospects of the investee, credit quality and the Company's conclusion that it does not intend to sell an impaired investment and is not more likely than not to be required to sell the security before it recovers its amortized cost basis. If the Company determines that the impairment of an investment is other-than-temporary, the investment is written down with a charge recorded in interest and other income.

Research and Development Costs

Research and development costs are expensed in the period that services are rendered or goods are received. Research and development costs consist of salaries and benefits, laboratory supplies and facility costs, as well as fees paid to third parties that conduct certain research and development activities on behalf of the Company, net of certain external development costs reimbursed by GlaxoSmithKline plc (GSK) and Astellas.

Fair Value of Stock-based Compensation Awards

The Company uses the fair value method of accounting for stock-based compensation arrangements. Stock-based compensation arrangements currently include stock options granted, restricted shares issued, restricted stock unit awards (RSUs) granted and performance-contingent RSUs granted under

the 2004 Equity Incentive Plan and the 2008 New Employee Equity Incentive Plan and purchases of common stock by the Company's employees at a discount to the market price during offering periods under the Company's Employee Stock Purchase Plan (ESPP). The estimated fair value of stock options, restricted shares and RSUs is expensed on a straight-line basis over the expected term of the grant and the fair value of performance-contingent RSUs is expensed during the term of the award when the Company determines that it is probable that certain performance milestones will be met. Compensation expense for purchases under the ESPP is recognized based on the estimated fair value of the common stock during each offering period and the percentage of the purchase discount.

Table of Contents

Stock-based compensation expense for stock options and RSUs has been reduced for estimated forfeitures so that compensation expense is based on options and RSUs ultimately expected to vest. The Company's estimated annual forfeiture rates for stock options and RSUs are based on its historical forfeiture experience.

Recent Accounting Pronouncements

In January 2010, the Financial Accounting Standards Board issued guidance to amend the disclosure requirements related to recurring and nonrecurring fair value measurements. The guidance requires new disclosures on the transfers of assets and liabilities between Level 1 (quoted prices in active market for identical instruments) and Level 2 (significant other observable inputs) of the fair value measurement hierarchy, including the reasons and the timing of the transfers. Additionally, the guidance requires a roll forward of activities on purchases, sales, issuance, and settlements of the assets and liabilities measured using significant unobservable inputs (Level 3 fair value measurements). The guidance became effective for the Company with the reporting period beginning January 1, 2010, except for the disclosure on the roll forward activities for Level 3 fair value measurements, which will become effective for the Company with the reporting period beginning July 1, 2011. Adoption of this new guidance did not have a material impact on the Company's condensed consolidated financial statements.

2. Net Loss per Share

Basic net loss per share (basic EPS) is computed by dividing net loss by the weighted-average number of common shares outstanding during the period, less shares subject to repurchase. Diluted net loss per share (diluted EPS) is computed by dividing net loss by the weighted-average number of common shares outstanding during the period, less shares subject to repurchase, plus any dilutive potential common shares. Diluted EPS is identical to basic EPS for all periods presented since potential common shares are excluded from the calculation, as their effect is anti-dilutive.

Using the treasury stock method, potential common shares that were excluded from the calculation of net loss per share are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	2010	2009	2010	2009
Shares issuable upon the exercise of stock options	1,716	2,112	1,558	2,157
Shares issuable under restricted stock unit awards	466	305	324	291
Shares issuable upon the conversion of convertible debt	6,668	6,668	6,668	6,668

The calculation of basic and diluted EPS is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands, except for per share amounts)	2010	2009	2010	2009
Basic and diluted:				
Net loss	$ (20,806)	$ (21,692)	$ (43,341)	$ (40,909)
Weighted average shares of common stock outstanding	73,339	62,919	69,181	62,644
Less: unvested restricted shares	(57)	(77)	(57)	(77)
Weighted average shares used in computing basic and diluted net loss per common share	73,282	62,842	69,124	62,567
Basic and diluted net loss per share	$ (0.28)	$ (0.35)	$ (0.63)	$ (0.65)

Table of Contents

3. Comprehensive Loss

Comprehensive loss is comprised of net loss and changes in other comprehensive (loss) income, which consists of unrealized gains and losses on the Company's marketable securities. Comprehensive loss is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	2010	2009	2010	2009
Net loss	$ (20,806)	$ (21,692)	$ (43,341)	$ (40,909)
Other comprehensive loss:				
Net unrealized loss on available-for-sale securities	(8)	(129)	(61)	(303)
Comprehensive loss	$ (20,814)	$ (21,821)	$ (42,402)	$ (41,212)

4. Restructuring Charges

In April 2008, in response to the completion of its Phase 3 telavancin development activities and to reduce its overall cash burn rate, the Company announced a plan to reduce its workforce by approximately 40% through layoffs from all departments throughout the organization. The Company incurred adjusted restructuring charges totaling $5.4 million through 2008 and 2009 related to this reduction in force.

In February 2009, the Company entered into a sublease agreement with a third party to sublease excess space in a portion of one of its South San Francisco, CA buildings. The sublease has a 37 month term that began March 2009. For the six months ended June 30, 2009, the Company recorded a restructuring charge of $1.3 million of which $1.1 million represents the fair value of the Company's lease payments and expenses less sublease income through March 2012. As further described in Note 9, the Company entered into amendments to its South San Francisco, CA facility leases in June 2010. The amendments enabled the Company to reduce the accrual related to the sublet facilities by $0.5 million for the three months ended June 30, 2010. The restructuring accrual related to excess facilities is recorded within other accrued liabilities on the Company's condensed consolidated balance sheets.

The following table summarizes the accrual balance and utilization by cost type for the restructuring for the six months ended June 30, 2010:

(in thousands)	Employee Severance and Benefits	Excess Facilities
Balance as of December 31, 2009	$ 116	$ 694
Cash payments	(116)	(136)*
Adjustment	—	(504)
Balance as of June 30, 2010	$ —	$ 54

* Includes cash payments less sublease payments received

To date, the Company has incurred cumulative adjusted restructuring charges of $6.7 million relating to the actions taken in April 2008 and February 2009. The Company does not anticipate incurring additional restructuring charges from these actions.

5. Collaboration and Licensing Agreements

2005 License, Development and Commercialization Agreement with Astellas

In November 2005, the Company entered into a collaboration arrangement with Astellas for the development and commercialization of telavancin. In July 2006, Japan was added to the collaboration, thereby giving Astellas worldwide rights to this medicine. Through June 30, 2010, the Company has received $191.0 million in upfront, milestone and other fees from Astellas. The Company is eligible to receive up to an additional $30.0 million in remaining milestone payments related to regulatory approvals in various regions of the world. The Company records these payments as deferred revenue and is amortizing them ratably over its estimated period of performance (development and commercialization period).

Table of Contents

Under this arrangement, the Company is responsible for substantially all costs to develop and obtain U.S. regulatory approval for telavancin for complicated skin and skin structure infections (cSSSI) and nosocomial pneumonia (NP) and Astellas is responsible for substantially all other costs associated with commercialization and further development of telavancin. The Company is entitled to receive royalties on global net sales of VIBATIV™ by Astellas that, on a percentage basis, range from the high teens to the upper twenties depending on sales volume. The following table discloses net revenue under this collaboration agreement:

(in thousands)	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Amortization of deferred revenue	$ 3,244	$ 2,785	$ 6,487	$ 5,380
Royalties from net sales of VIBATIV™	114	—	124	—
Proceeds from VIBATIV™ delivered to Astellas	1,393	—	1,393	—
Cost of VIBATIV™ delivered to Astellas	(943)	—	(943)	—
Net Astellas collaboration revenue	$ 3,808	$ 2,785	$ 7,061	$ 5,380

RELOVAIR™ Program with GSK

In November 2002, the Company entered into its long-acting beta$_2$ agonist (LABA) collaboration with GSK (the RELOVAIR™ program) to develop and commercialize a LABA product candidate both as a single-agent new medicine for the treatment of chronic obstructive pulmonary disease (COPD) and as part of a new combination medicine with an inhaled corticosteroid (ICS) for the treatment of asthma and/or a long-acting muscarinic antagonist (LAMA) for COPD.

In connection with the RELOVAIR™ program, in 2002 the Company received from GSK an upfront payment of $10.0 million and sold to an affiliate of GSK shares of the Company's Series E Preferred Stock for an aggregate purchase price of $40.0 million. In addition, the Company was eligible to receive up to $495.0 million in development, approval, launch and sales milestones and royalties on the sales of any product resulting from this program. Through June 30, 2010, the Company has received a total of $60.0 million in upfront and development milestone payments. GSK has determined to focus the collaboration's resources on the development of the lead LABA, GW642444, a GSK-discovered compound, together with GSK's ICS, fluticasone furoate. Accordingly, the Company does not expect to receive any further milestone payments from the RELOVAIR™ program. In the event that a LABA product candidate discovered by GSK is successfully developed and commercialized, the Company would be obligated to make milestone payments to GSK which could total as much as $220.0 million if both a single-agent and a combination product were launched in multiple regions of the world. Based on available information, the Company does not estimate that a significant portion of these potential milestone payments to GSK are likely to be made in the next two years. Moreover, the Company is entitled to receive the same royalties on sales of medicines from the RELOVAIR™ program, regardless of whether the product candidate originated with Theravance or with GSK. The Company is entitled to receive royalties of 15% on the first $3.0 billion of annual global net sales, and 5% on annual global net sales above $3.0 billion, for approved single-agent LABA and combination LABA-ICS medicines. Sales of single-agent LABA medicines and combination medicines would be combined for the purposes of this royalty calculation. For other products combined with a LABA from the RELOVAIR™ program, such as a combination LABA/LAMA medicine, which are launched after a LABA/ICS combination medicine, royalties are

upward tiering and range from the mid-single digits to 10%. However, if GSK is not selling a LABA/ICS combination product at the time that the first other LABA combination is launched, then the royalties described above for the LABA/ICS combination medicine are applicable.

The Company recorded the initial cash payment and subsequent milestone payments as deferred revenue and is amortizing them ratably over its estimated period of performance (the product development period). Collaboration revenue from GSK under this agreement was $1.3 million in each of the three months ended June 30, 2010 and 2009 and $2.5 million in each of the six months ended June 30, 2010 and 2009, respectively.

2004 Strategic Alliance with GSK

In March 2004, the Company entered into its strategic alliance with GSK. Under this alliance, GSK received an option to license exclusive development and commercialization rights to product candidates from all of the Company's full drug discovery programs initiated prior to September 1, 2007, on pre-determined terms and on an exclusive, worldwide basis. Under the terms of the strategic alliance, GSK has only one opportunity to license each of the Company's programs. Upon GSK's decision to license a program, GSK is responsible for funding all future development, manufacturing and commercialization activities for product candidates in that program. In addition, GSK is obligated to use diligent efforts to develop and commercialize product candidates from any program that it licenses. Consistent with the Company's strategy, it is obligated at its sole cost to discover two structurally different product candidates for any programs that are licensed by GSK under the alliance. If these programs are successfully advanced through development by GSK, the Company is entitled to receive clinical, regulatory and commercial milestone payments and royalties on any sales of medicines developed from these programs. For product candidates licensed to date under this agreement, the royalty structure for a product containing one of its compounds as a single active ingredient would result in an average percentage royalty rate in the low double digits. If a product is successfully commercialized, in addition to any royalty revenue that the Company receives, the total upfront and milestone payments that it could receive in any given program that GSK licenses range from $130.0 million to $162.0 million for programs with single-agent medicines and up to $252.0 million for programs with both a single-agent and a combination medicine. If GSK chooses not to license a program, the Company retains all rights to the program and may

continue the program alone or with a third party. To date, GSK has licensed the Company's two COPD programs: long-acting muscarinic antagonist (LAMA) and bifunctional muscarinic antagonist-beta$_2$ agonist (MABA). The Company received $5.0 million payments from GSK in connection with its license of each of the Company's LAMA and MABA programs in August 2004 and March 2005, respectively. GSK has chosen not to license the Company's bacterial infections program, anesthesia program or 5-HT$_4$ program.

In connection with the strategic alliance with GSK, the Company received from GSK a payment of $20.0 million. This payment is being amortized over the initial performance period during which GSK may exercise its right to license certain of the Company's programs under the agreement. In connection with the strategic alliance, the Company recognized $0.7 million in revenue for each of the three months ended June 30, 2010 and 2009 and $1.4 million for each of the six months ended June 30, 2010 and 2009. In addition, in May 2004, GSK purchased through an affiliate 6,387,096 shares of the Company's Class A common stock for an aggregate purchase price of $108.9 million.

Through June 30, 2010, the Company has received $46.0 million in upfront and milestone payments from GSK relating to the strategic alliance agreement. In addition, pursuant to a partial exercise of its rights under the governance agreement, upon the closing of the Company's initial public offering on October 8, 2004, GSK purchased through an affiliate an additional 433,757 shares of Class A common stock for $6.9 million.

In August 2004, GSK exercised its right to license the Company's LAMA program pursuant to the terms of the strategic alliance. The Company received a $5.0 million payment from GSK in connection with its licensing of the Company's LAMA program. In June 2005, the Company received a milestone payment from GSK of $3.0 million related to clinical progress of the Company's product candidate. These payments were amortized ratably over the estimated period of performance (the product development period) until March 2009, when the Company recognized the remaining $4.2 million of deferred revenue related to the LAMA program as a result of the program being returned to the Company from GSK.

In March 2005, GSK exercised its right to license the Company's MABA program pursuant to the terms of the strategic alliance. The Company received a $5.0 million payment from GSK in connection with the license of the Company's MABA program. Through June 30, 2010, the Company received milestone payments from GSK of $13.0 million related to clinical progress of the Company's product candidate. These payments are being amortized ratably over the estimated period of performance (the product development period). The Company recognized $0.5 million and $0.8 million in revenue related to the MABA program for the three months ended June 30, 2010 and 2009, respectively, and $1.0 million and $1.5 million for the six months ended June 30, 2010 and 2009, respectively.

6. Marketable Securities

The Company manages, monitors and measures its investments in highly liquid investment-grade securities by major security type. The following is a summary of the Company's cash equivalents, marketable securities and restricted cash by major security type at June 30, 2010 and December 31, 2009:

	June 30, 2010			
(in thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**
U.S. government securities	$ 39,986	$ 29	$ —	$ 40,015
U.S. government agency securities	49,832	22	(1)	49,853
U.S. corporate notes	28,701	2	(78)	28,625
U.S. commercial paper	39,813	—	—	39,813
Money market funds	49,664	—	—	49,664
Total	207,996	53	(79)	207,970
Less amounts classified as cash equivalents	(66,105)	—	—	(66,105)
Less amounts classified as restricted cash	(893)	—	—	(893)
Amounts classified as marketable securities	$ 140,998	$ 53	$ (79)	$ 140,972

(in thousands)	December 31, 2009 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. government securities	$ 45,123	$ 27	$ (5)	$ 45,145
U.S. government agency securities	18,032	10	—	18,042
U.S. corporate notes	11,181	8	(5)	11,184
U.S. commercial paper	43,473	1	—	43,474
Money market funds	35,425	—	—	35,425
Total	153,234	46	(10)	153,270
Less amounts classified as cash equivalents	(44,114)	—	—	(44,114)
Less amounts classified as restricted cash	(1,310)	—	—	(1,310)
Amounts classified as marketable securities	$ 107,810	$ 46	$ (10)	$ 107,846

The estimated fair value amounts were determined using available market information. At June 30, 2010, 100% of marketable securities have contractual maturities within twelve months and the average duration of marketable securities was approximately six months. The Company does not intend to sell the investments which are in an unrealized loss position and it is unlikely that the Company will be required to sell the investments before recovery of their amortized cost basis, which may be maturity. The Company has determined that the gross unrealized losses on its marketable securities at June 30, 2010 were temporary in nature. All marketable securities with unrealized losses have been in a loss position for less than twelve months.

7. Fair Value Measurements

The Company defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

The Company's valuation techniques are based on observable and unobservable inputs. Observable inputs reflect readily obtainable data from independent sources, while unobservable inputs reflect the Company's market assumptions.

The Company classifies these inputs into the following hierarchy:

Level 1 Inputs — Quoted prices for identical instruments in active markets

Level 2 Inputs — Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable

Level 3 Inputs — Unobservable inputs and little, if any, market activity for the assets

The Company's assets and liabilities that are measured at fair value are based on one or more of the three following valuation techniques:

Market approach — Prices and other relevant information generated by market transactions involving identical or comparable assets

Cost approach — Amount that would be required to replace the service capacity of an asset

Income approach — Techniques to convert future amounts to a single present amount based on expectations

The fair values of the Company's financial assets were as follows at June 30, 2010 and December 31, 2009:

(in thousands)	Fair Value Measurements at Reporting Date Using: Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total
U.S. government securities	$ 35,015	$ 5,000	$ —	$ 40,015
U.S. government agency securities	41,241	8,612	—	49,853
U.S. corporate notes	24,869	3,756	—	28,625
U.S. commercial paper	—	39,813	—	39,813
Money market funds	49,664	—	—	49,664
Total	$ 150,789	$ 57,181	$ —	$ 207,970

(in thousands)	December 31, 2009 Fair Value Measurements at Reporting Date Using: Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total
U.S. government securities	$ 45,145	$ —	$ —	$ 45,145
U.S. government agency securities	18,042	—	—	18,042

U.S. corporate notes	1,020	10,164	—	11,184
U.S. commercial paper	—	43,474	—	43,474
Money market funds	35,425	—	—	35,425
Total	$ 99,632	$ 53,638	$ —	$ 153,270

8. Convertible Subordinated Notes

On January 23, 2008, the Company closed an underwritten public offering of $172.5 million aggregate principal amount of unsecured convertible subordinated notes that will mature on January 15, 2015. The financing raised proceeds, net of issuance costs, of $166.7 million. The notes bear interest at the rate of 3.0% per year, which is payable semi-annually in arrears in cash on January 15 and July 15 of each year, beginning on July 15, 2008. The notes are convertible, at the option of the holder, into shares of the Company's common stock at an initial conversion rate of 38.6548 shares per $1,000 principal amount of the notes, subject to adjustment in certain circumstances, which represents an initial conversion price of approximately $25.87 per share. The debt issuance costs, which are included in other long-term assets, are being amortized on a straight-line basis over the life of the notes.

Holders of the notes will be able to require the Company to repurchase some or all of their notes upon the occurrence of a fundamental change (as defined) at 100% of the principal amount of the notes being repurchased plus accrued and unpaid interest. The Company may not redeem the notes prior to January 15, 2012. On or after January 15, 2012 and prior to the maturity date, the Company, upon notice of redemption, may redeem for cash all or part of the notes if the last reported sale price of its common stock has been greater than or equal to 130% of the conversion price then in effect for at least 20 trading days during any 30 consecutive trading day period prior to the date on which it provides notice of redemption. The redemption price will equal 100% of the principal amount of the notes to be redeemed, plus accrued and unpaid interest up to but excluding the redemption date.

The following table presents the carrying values and estimated fair values for the notes as of June 30, 2010 and December 31, 2009. The estimated fair value amounts were determined using available market information.

	June 30, 2010		December 31, 2009	
(in thousands)	Carrying value	Estimated fair value	Carrying value	Estimated fair value
Convertible subordinated notes	$ 172,500	$ 147,327	$ 172,500	$ 137,784

9. Operating Lease and Sublease

The Company entered into amendments to its South San Francisco, CA facility leases in June 2010. These amendments extend the lease terms through May 2020 and the Company may extend the terms for two additional five-year periods. The leases are for two buildings of approximately 110,000 and 60,000 square feet.

Table of Contents

Under the amendments, unused portions of a tenant improvement allowance can be used to reduce base rent up to a limit. Without considering such reductions, at June 30, 2010, future commitments under the amended noncancelable operating leases are as follows:

(in thousands)	
Years ending December 31:	
Remainder of 2010	$ 2,312
2011	4,466
2012	5,429
2013	5,029
2014	4,860
Thereafter	28,966
Total	$ 51,062

10. Stock-Based Compensation

2008 New Employee Equity Incentive Plan

For the six months ended June 30, 2010, the Company granted stock options to purchase 110,000 shares at a weighted average exercise price of $10.95 per share under the 2008 Plan. For the six months ended June 30, 2009, the Company granted stock options to purchase 133,000 shares at a weighted average exercise price of $14.83 per share and granted 10,000 RSUs with a weighted-average fair value of $14.31 per share under the 2008 Plan. With stockholders' approval of the amendment and restatement of the 2004 Plan in April 2010, no further equity awards will be issued under the 2008 Plan.

2004 Equity Incentive Plan

For the six months ended June 30, 2010, the Company granted stock options to purchase 143,750 shares at a weighted average exercise price of $16.37 per share and granted 940,042 RSUs and 210,000 performance RSUs with a weighted-average fair value of $10.47 per share and $10.12 per share, respectively, under the 2004 Plan. For the six months ended June 30, 2009, the Company granted 928,911 RSUs with a weighted-average fair value of $14.66 per share and 42,000 stock options with a weighted-average exercise price of $14.98 per share under the 2004 Plan. As of June 30, 2010, there were 6,667,142 shares remaining available for issuance under the 2004 Plan. On April 27, 2010, an amendment and restatement of the 2004 Plan was approved by the Company's stockholders to, among other things, reserve additional shares of common stock for issuance thereunder.

The following table summarizes equity award activity under the 2008 Plan and the 2004 Plan and related information:

(in thousands, except per share data)	Number of Shares Subject to Outstanding Options	Weighted-Average Exercise Price per Share	Number of Shares Subject to Outstanding RSUs	Weighted-Average Fair Value per Share

Balance at December 31, 2009	8,414	$ 16.63	2,042	$ 14.15
Granted	110	10.95	1,087	10.15
Exercised	(86)	7.68	—	—
Released	—	—	(122)	14.37
Forfeited	(72)	29.39	(7)	14.24
Balance at March 31, 2010	8,366	16.54	3,000	15.72
Granted	144	16.37	63	14.79
Exercised	(225)	7.23	—	—
Released	—	—	(174)	13.04
Forfeited	(82)	21.35	(569)	28.40
Balance at June 30, 2010	8,203	$ 16.75	2,320	$ 12.46

Table of Contents

Valuation Assumptions

The assumptions used to value employee stock-based compensation expense for stock options granted were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Employee stock options				
Risk-free interest rate	2.42%-2.82%	1.65%-2.92%	2.42%-2.82%	1.55%-3.07%
Expected life (in years)	5-6	5-6	5-6	6
Volatility	0.52	0.51	0.48-0.52	0.49-0.57
Dividend yield	—%	—%	—%	—%
Weighted average estimated fair value of stock options granted	$ 8.41	$ 7.58	$ 7.07	$ 7.79
Employee stock purchase plan issuances				
Risk-free interest rate	0.22%-0.79%	0.29%-0.88%	0.22%-0.79%	0.29%-0.88%
Expected life (in years)	0.5-2.0	0.5-2.0	0.5-2.0	0.5-2.0
Volatility	0.50-0.69	0.71-0.84	0.50-0.69	0.71-0.84
Dividend yield	—%	—%	—%	—%
Weighted average estimated fair value of ESPP issuances	$ 5.86	$ 6.46	$ 5.86	$ 6.46

Stock-based compensation expense consists of the compensation cost for employee share-based awards, including employee stock options, the employee stock purchase plan, RSUs and restricted stock, and the value of options and RSUs issued to non-employees for services rendered. In connection with the retirement of the Company's former chairman of the Board of Directors in April 2010, the Company entered into a consulting agreement that provided for, among other things, the acceleration of an RSU that was scheduled to vest through April 2012 and an extension of the period of time in which vested stock options may be exercised until to the stated expiration date of the stock options. As a result of the stock option modification, the Company recorded an expense of $0.9 million during the three months ended June 30, 2010. The following table discloses the allocation of stock-based compensation expense included in the unaudited condensed consolidated statements of operations:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	2010	2009	2010	2009
Research and development	$ 2,618	$ 3,055	$ 5,145	$ 6,062
General and administrative	2,704	2,219	4,675	4,325
Total	$ 5,322	$ 5,274	$ 9,820	$ 10,387

As of June 30, 2010, there was $8.0 million, $22.5 million and $0.6 million of total unrecognized compensation cost related to unvested stock options, RSUs and restricted stock awards, respectively. The Company has not recognized, and does not expect to recognize in the near future, any tax benefit related to employee stock-based compensation costs as a result of the full valuation allowance on the Company's net deferred tax assets including deferred tax assets related to its net operating loss carryforwards.

11. Stockholders' Net Capital Deficiency

In March 2010, the Company completed a public offering of approximately 8.6 million shares of common stock, at a price of $11.50 per share. The Company received net proceeds of approximately $93.5 million, after deducting underwriting fees and other related expenses of $5.7 million.

12. Guarantees and Indemnifications

The Company indemnifies its officers and directors for certain events or occurrences, subject to certain limits. The Company believes the fair value of these indemnification agreements is minimal. Accordingly, the Company has not recognized any liabilities relating to these agreements as of June 30, 2010.

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

The information in this discussion contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended. Such forward-looking statements involve substantial risks, uncertainties and assumptions. All statements contained herein that are not of historical fact, including, without limitation, statements regarding our strategy, future operations, future financial position, future revenues, projected costs, prospects, plans, intentions, expectations, goals and objectives, may be forward-looking statements. The words "anticipates," "believes," "designed," "estimates," "expects," "intends," "may," "objective," "plans," "projects," "pursue," "will," "would" and similar expressions (including the negatives thereof) are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. We may not actually achieve the plans, intentions, expectations or objectives disclosed in our forward-looking statements and the assumptions underlying our forward-looking statements may prove incorrect. Therefore, you should not place undue reliance on our forward-looking statements. Actual results or events could materially differ from the plans, intentions, expectations and objectives disclosed in the forward-looking statements that we make. Factors that we believe could cause actual results or events to differ materially from our forward-looking statements include, but are not limited to those discussed below in "Risk Factors" in Item 1A of Part II and in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Item 2 of Part I. All forward-looking statements in this document are based on information available to us as of the date hereof and we assume no obligation to update any such forward-looking statements.

Executive Summary

Theravance is a biopharmaceutical company with a pipeline of internally discovered product candidates. Theravance is focused on the discovery, development and commercialization of small molecule medicines across a number of therapeutic areas including respiratory disease, bacterial infections and gastrointestinal motility dysfunction. Our key programs include: VIBATIV™ (telavancin) with Astellas Pharma Inc. (Astellas) and the RELOVAIR™ program and the bifunctional muscarinic antagonist-beta$_2$ agonist (MABA) program with GlaxoSmithKline plc (GSK). By leveraging our proprietary insight of multivalency to drug discovery focused primarily on validated targets, we are pursuing a best-in-class strategy designed to discover superior medicines in areas of significant unmet medical need.

Our net loss was $20.8 million and $21.7 million for the three months ended June 30, 2010 and 2009, respectively, and $43.3 million and $40.9 million for the six months ended June 30, 2010 and 2009, respectively. Total operating expenses were $25.7 million and $26.8 million for the three months ended June 30, 2010 and 2009, respectively, and $52.5 million and $54.7 million for the six months ended June 30, 2010 and 2009, respectively. Cash, cash equivalents and marketable securities totaled $210.7 million at June 30, 2010, an increase of $55.3 million since December 31, 2009. The increase was primarily due to net proceeds of $93.5 million received from our public offering of common stock in March 2010, partially offset by cash used in operations.

Following are updates on the progress of our programs:

RELOVAIR™ (previously Horizon) — Asthma

Enrollment is progressing in the Phase 3 asthma program. In March 2010, GSK and Theravance announced that the first asthma patient commenced treatment with RELOVAIR™ (fluticasone furoate/vilanterol trifenatate) in an asthma exacerbation study, marking the start of the Phase 3 asthma clinical development program with this once-daily therapy.

The Phase 3 asthma program consists of eight studies, five of which are underway, to determine the safety and efficacy of RELOVAIR™ in asthma patients who remain uncontrolled on current treatment. These studies include an exacerbation study, a 12-month safety study (which also supports the chronic obstructive pulmonary disease (COPD) program), a 12-week low-dose combination and a 24-week high-dose combination efficacy study, a 24-week head-to-head study of RELOVAIR™ versus Advair/Seretide, a 24-week study of fluticasone furoate versus fluticasone propionate, a 12-week study of vilanterol trifenatate versus salmeterol, and a hypothalamic-pituitary-adrenal (HPA) axis study.

In the Phase 3 asthma program, four studies are currently recruiting patients:

- Exacerbation Study — ~2,000 patients
- 24-Week High Dose Combination Efficacy Study — ~1,000 patients
- 24-Week Head-to-Head Study of RELOVAIR™ versus Advair®/Seretide — ~100 patients
- Hypothalamic-Pituitary-Adrenal (HPA) Axis Study — ~200 patients

Table of Contents

Enrollment of approximately 500 patients in the 12-month safety study has been completed and treatments are currently ongoing.

RELOVAIR™ (previously Horizon) — Chronic Obstructive Pulmonary Disease (COPD)

The Phase 3 program in COPD was initiated in October 2009 and enrollment is progressing. The overall program, which is comprised of five studies encompassing more than 6,000 patients, includes two 12-month exacerbation studies, two 6-month efficacy and safety studies, a detailed lung function profile study, and studies to assess the potential for superiority of the fixed combination of vilanterol trifenatate and fluticasone furoate versus other treatments for COPD.

All five Phase 3 studies in COPD are underway. Four of the five studies are currently recruiting patients; one has fully enrolled and is ongoing.

Patients across all of the RELOVAIR™ programs will be dosed using a unique single-step activation inhaler. This novel delivery device was developed utilizing GSK's expertise in device development and valuable patient input.

VIBATIV™ (telavancin)

VIBATIV™ was launched in the United States (U.S.) in the fourth quarter of 2009 for the treatment of adult patients with complicated skin and skin structure infections (cSSSI) caused by susceptible Gram-positive bacteria, including *Staphylococcus aureus*, both methicillin-resistant (MRSA) and methicillin-susceptible (MSSA) strains. The VIBATIV™ launch is progressing in the U.S. and VIBATIV™ is under review by the European Medicines Agency (EMEA) for the treatment of nosocomial pneumonia (NP) and complicated skin and soft tissue infections in adults.

Peripheral Mu Opioid Receptor Antagonist (PUMA) — TD-1211

Enrollment is progressing in the Phase 2 clinical study with TD-1211, an orally-administered peripherally selective mu opioid receptor antagonist (PUMA), for the treatment of opioid-induced constipation (OIC). TD-1211 is a potent, multivalent inhibitor of the mu opioid receptor designed to alleviate gastrointestinal side effects of opioid analgesic therapy without affecting analgesia. This "proof of concept" study is designed to assess the efficacy, tolerability and safety of TD-1211 in patients with OIC. We expect to report top-line data from this study toward the end of 2010.

Critical Accounting Policies and the Use of Estimates

As of the date of the filing of this quarterly report, we believe there have been no material changes or additions to our critical accounting policies and estimates during the three and six months ended June 30, 2010 compared to those discussed in our 2009 Annual Report on Form 10-K filed on February 26, 2010.

Collaboration and Licensing Agreements

2005 License, Development and Commercialization Agreement with Astellas

In November 2005, we entered into a collaboration arrangement with Astellas for the development and commercialization of telavancin. In July 2006, Japan was added to the collaboration, thereby giving Astellas worldwide rights to this medicine. Through June 30, 2010, we have received $191.0 million in upfront, milestone and other fees from Astellas. We are eligible to receive up to an additional $30.0 million in remaining milestone payments related to regulatory approvals in various regions of the world. We record these payments as deferred revenue and are amortizing them ratably over our estimated period of performance (development and commercialization period).

Table of Contents

Under this arrangement, we are responsible for substantially all costs to develop and obtain U.S. regulatory approval for telavancin for cSSSI and NP and Astellas is responsible for substantially all other costs associated with commercialization and further development of telavancin. We are entitled to receive royalties on global net sales of VIBATIV™ by Astellas that, on a percentage basis, range from the high teens to the upper twenties depending on sales volume. The following table discloses net revenue under this collaboration agreement:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	2010	2009	2010	2009
Amortization of deferred revenue	$ 3.2	$ 2.8	$ 6.5	$ 5.4
Royalties from net sales of VIBATIV™	0.1	—	0.1	—
Proceeds from VIBATIV™ delivered to Astellas	1.4	—	1.4	—
Cost of VIBATIV™ delivered to Astellas	(0.9)	—	(0.9)	—
Net Astellas collaboration revenue	$ 3.8	$ 2.8	$ 7.1	$ 5.4

RELOVAIR™ Program with GSK

In November 2002, we entered into our long-acting beta$_2$ agonist (LABA) collaboration with GSK (the RELOVAIR™ program) to develop and commercialize a LABA product candidate both as a single-agent new medicine for the treatment of COPD and as part of a new combination medicine with an ICS for the treatment of asthma and/or a long-acting muscarinic antagonist (LAMA) for COPD.

In connection with the RELOVAIR™ program, in 2002 we received from GSK an upfront payment of $10.0 million and sold to an affiliate of GSK shares of our Series E Preferred Stock for an aggregate purchase price of $40.0 million. In addition, we were eligible to receive up to $495.0 million in development, approval, launch and sales milestones and royalties on the sales of any product resulting from this program. Through June 30, 2010, we have received a total of $60.0 million in upfront and development milestone payments. GSK has determined to focus the collaboration's resources on the development of the lead LABA, GW642444, a GSK-discovered compound, together with GSK's ICS, fluticasone furoate. Accordingly, we do not expect to receive any further milestone payments from the RELOVAIR™ program. In the event that a LABA product candidate discovered by GSK is successfully developed and commercialized, we would be obligated to make milestone payments to GSK which could total as much as $220.0 million if both a single-agent and a combination product were launched in multiple regions of the world. Based on available information, we do not estimate that a significant portion of these potential milestone payments to GSK are likely to be made in the next two years. Moreover, we are entitled to receive the same royalties on sales of medicines from the RELOVAIR™ program, regardless of whether the product candidate originated with Theravance or with GSK. We are entitled to receive royalties of 15% on the first $3.0 billion of annual global net sales, and 5% on annual global net sales above $3.0 billion, for approved single-agent LABA and combination LABA-ICS medicines. Sales of single-agent LABA medicines and combination medicines would be combined for the purposes of this royalty calculation. For other products combined with a LABA from the RELOVAIR™ program, such as a combination LABA/LAMA medicine, which are launched after a LABA/ICS combination medicine, royalties are upward tiering and range from the mid-single digits to 10%. However, if GSK is not selling a LABA/ICS combination product at the time that the first other LABA combination is launched, then the royalties described above for the LABA/ICS combination medicine are applicable.

We recorded the initial cash payment and subsequent milestone payments as deferred revenue and are amortizing them ratably over our estimated period of performance (the product development period). Collaboration revenue from GSK under this agreement was $1.3 million in each of the three months ended June 30, 2010 and 2009 and $2.5 million in each of the six months ended June 30, 2010 and 2009, respectively.

2004 Strategic Alliance with GSK

In March 2004, we entered into our strategic alliance with GSK. Under this alliance, GSK received an option to license exclusive development and commercialization rights to product candidates from all of our full drug discovery programs initiated prior to September 1, 2007, on pre-determined terms and on an exclusive, worldwide basis. Under the terms of the strategic alliance, GSK has only one opportunity to license each of our programs. Upon GSK's decision to license a program, GSK is responsible for funding all future development, manufacturing and commercialization activities for product candidates

in that program. In addition, GSK is obligated to use diligent efforts to develop and commercialize product candidates from any program that it licenses. Consistent with our strategy, we are obligated at our sole cost to discover two structurally different product candidates for any programs that are licensed by GSK under the alliance. If these programs are successfully advanced through development by GSK, we are entitled to receive clinical, regulatory and commercial milestone payments and royalties on any sales of medicines developed from these programs. For product candidates licensed to date under this agreement, the royalty structure for a product containing one of our compounds as a single active ingredient would result in an average percentage royalty rate in the low double digits. If a product is successfully commercialized, in addition to any royalty revenue that we receive, the total upfront and milestone payments that we could receive in any given program that GSK licenses range from $130.0 million to $162.0 million for programs with single-agent medicines and up to $252.0 million for programs with both a single-agent and a combination medicine. If GSK chooses not to license a program, we retain all rights to the program and may continue the program alone or with a third party. To date, GSK has licensed our two COPD programs: long-acting muscarinic antagonist (LAMA) and bifunctional muscarinic antagonist-beta$_2$ agonist (MABA). We received $5.0 million payments from GSK in connection with its license of each of our LAMA and MABA programs in

Table of Contents

August 2004 and March 2005, respectively. GSK has chosen not to license our bacterial infections program, anesthesia program or 5-HT$_4$ program.

In connection with the strategic alliance with GSK, we received from GSK a payment of $20.0 million. This payment is being amortized over the initial performance period during which GSK may exercise its right to license certain of our programs under the agreement. In connection with the strategic alliance, we recognized $0.7 million in revenue for each of the three months ended June 30, 2010 and 2009 and $1.4 million for each of the six months ended June 30, 2010 and 2009. In addition, in May 2004, GSK purchased through an affiliate 6,387,096 shares of our Class A common stock for an aggregate purchase price of $108.9 million.

Through June 30, 2010, we have received $46.0 million in upfront and milestone payments from GSK relating to the strategic alliance agreement. In addition, pursuant to a partial exercise of its rights under the governance agreement, upon the closing of our initial public offering on October 8, 2004, GSK purchased through an affiliate an additional 433,757 shares of Class A common stock for $6.9 million.

In August 2004, GSK exercised its right to license our LAMA program pursuant to the terms of the strategic alliance. We received a $5.0 million payment from GSK in connection with its licensing of our LAMA program. In June 2005, we received a milestone payment from GSK of $3.0 million related to clinical progress of our product candidate. These payments were amortized ratably over the estimated period of performance (the product development period) until March 2009, when we recognized the remaining $4.2 million of deferred revenue related to the LAMA program as a result of the program being returned to us from GSK.

In March 2005, GSK exercised its right to license our MABA program pursuant to the terms of the strategic alliance. We received a $5.0 million payment from GSK in connection with the license of our MABA program. Through June 30, 2010, we received milestone payments from GSK of $13.0 million related to clinical progress of our product candidate. These payments are being amortized ratably over the estimated period of performance (the product development period). We recognized $0.5 million and $0.8 million in revenue related to the MABA program for the three months ended June 30, 2010 and 2009, respectively, and $1.0 million and $1.5 million for the six months ended June 30, 2010 and 2009, respectively.

RESULTS OF OPERATIONS

Revenue

Revenue, as compared to the prior year periods, was as follows:

	Three months Ended June 30,		Change		Six months Ended June 30,		Change	
(in millions, except percentages)	2010	2009	$	%	2010	2009	$	%
Revenue	$ 6.3	$ 5.5	$ 0.8	15%	$ 12.0	$ 15.0	$ (3.0)	(20)%

Revenue increased for the three months ended June 30, 2010 compared to the same period in 2009 primarily due to the sale of VIBATIV™ inventory to Astellas and VIBATIV™ royalties earned. Revenue decreased for the six months ended June 30, 2010 compared to the same period in 2009 primarily due to a one-time non-cash recognition of deferred revenue of $4.2 million as a result of the LAMA program being returned to us by GSK in the three months ended March 31, 2009, partially offset by revenues relating to the sale of VIBATIV™ inventory to Astellas and VIBATIV™ royalties earned. From GSK, we recognize revenue from the amortization of upfront and milestone payments related to our RELOVAIR™ program and strategic alliance agreements. From Astellas, we recognize revenue from the amortization of upfront and milestone payments related to our telavancin collaboration, royalties from net sales of VIBATIV™ and the impact of VIBATIV™ inventory transfers or dispositions.

Research & Development

Research and development expenses, as compared to the prior year periods, were as follows:

	Three months Ended June 30,		Change		Six months Ended June 30,		Change	
(in millions, except percentages)	2010	2009	$	%	2010	2009	$	%
External research and development	$ 3.3	$ 4.0	$ (0.7)	(18)%	$ 7.4	$ 6.7	$ 0.7	10%
Employee-related	7.3	7.1	0.2	3%	15.3	15.3	—	—%
Stock-based compensation	2.6	3.1	(0.5)	(16)%	5.1	6.1	(1.0)	(16)%
Facilities, depreciation and other allocated	5.5	5.8	(0.3)	(5)%	11.3	11.5	(0.2)	(2)%
Total research and development expenses	$ 18.7	$ 20.0	$ (1.3)	(7)%	$ 39.1	$ 39.6	$ (0.5)	(1)%

Table of Contents

Research and development expenses decreased for the three and six months ended June 30, 2010 compared to the same periods in 2009 primarily due to lower external costs from our drug discovery programs, lower stock-based compensation expenses and lower facilities and related expenses. The results for the three and six months ended June 30, 2009 include $1.0 million and $3.6 million of reimbursements of development expenses from Astellas, respectively.

Research and development expenses for the remainder of 2010 are expected to be driven largely by employee related expenses, costs associated with our continued development efforts in our oral peripherally selective mu opioid receptor antagonist, or PUMA, program for opioid-induced constipation with TD-1211, our MonoAmine Reuptake Inhibitor, or MARIN, program for chronic pain with TD-9855 and costs associated with drug discovery programs.

We have not provided program costs in detail because we do not track, and have not tracked, all of the individual components (specifically the internal cost components) of our research and development expenses on a program basis. We do not have the systems and processes in place to accurately capture these costs on a program basis.

General and administrative

General and administrative expenses, as compared to the prior year periods, were as follows:

	Three months Ended June 30,		Change		Six months Ended June 30,		Change	
(in millions, except percentages)	**2010**	**2009**	**$**	**%**	**2010**	**2009**	**$**	**%**
General and administrative	$ 7.0	$ 6.8	$ 0.2	3%	$ 13.5	$ 13.8	(0.3)	(2)%

General and administrative expenses increased for the three months ended June 30, 2010 compared to the same period in 2009 primarily due to higher stock compensation expenses. General and administrative expenses decreased for the six months ended June 30, 2010 compared to the same period in 2009 primarily due to lower external costs that were partially offset by higher stock compensation expenses. In connection with the retirement of our former chairman of the Board of Directors in April 2010, we entered into a consulting agreement that provided for, among other things, the acceleration of a restricted stock unit award that was scheduled to vest through April 2012 and an extension of the period of time in which vested stock options may be exercised until the stated expiration date of the stock options. As a result of the stock option modification, we recorded an expense of $0.9 million during the three months ended June 30, 2010.

We anticipate general and administrative expenses for the remainder of 2010 to be at a similar level to the first half of the year.

Restructuring charges

Restructuring charges, as compared to the prior year periods, were as follows:

	Three months Ended June 30,		Change		Six months Ended June 30,		Change	
(in millions, except percentages)	**2010**	**2009**	**$**	**%**	**2010**	**2009**	**$**	**%**
Restructuring charges	$ —	$ —	$ —	NA	$ —	$ 1.3	$ (1.3)	(100)%

The expense in 2009 relates to the sublease of excess space in a portion of one of our South San Francisco, CA buildings.

Interest and other income

Interest and other income, as compared to the prior year periods, were as follows:

	Three months Ended June 30,		Change		Six months Ended June 30,		Change	
(in millions, except percentages)	**2010**	**2009**	**$**	**%**	**2010**	**2009**	**$**	**%**
Interest and other income, net	$ 0.1	$ 1.2	$ (1.1)	(92)%	$ 0.2	$ 1.8	$ (1.6)	(89)%

Interest and other income decreased for the three and six months ended June 30, 2010 compared to the same period in 2009 primarily due to lower average market rates of return during 2010.

We expect interest and other income to fluctuate in the future due to changes in average cash, cash equivalents and marketable securities balances and market interest rates.

Table of Contents

LIQUIDITY AND CAPITAL RESOURCES

Since our inception, we have financed our operations primarily through private placements and public offerings of equity and debt securities and payments received under corporate collaboration agreements. As of June 30, 2010, we had $210.7 million in cash, cash equivalents and marketable securities, excluding $0.9 million in restricted cash that was pledged as collateral for certain of our leases. In March 2010, we completed a public offering of approximately 8.6 million shares of common stock, at a price of $11.50 per share. We received net proceeds of approximately $93.5 million after deducting underwriting fees and other related expenses of $5.7 million.

We expect to incur substantial expenses as we continue our discovery and development efforts; particularly to the extent we advance our product candidates into clinical studies, which are very expensive. We believe that our cash, cash equivalents and marketable securities will be sufficient to meet our anticipated operating needs for at least the next twelve months based upon current operating plans, milestone and royalty forecasts and spending assumptions. We will require additional capital to fund operating needs thereafter. If our current operating plans, milestone and royalty forecasts or spending assumptions change, we may require additional funding sooner in the form of public or private equity offerings or debt financings. Furthermore, if favorable financing

opportunities arise, we may seek additional funding sooner. However, future financing may not be available in amounts or on terms acceptable to us, if at all. This could leave us without adequate financial resources to fund our future operations.

Cash Flows

Cash flows, as compared to the prior year period, were as follows:

(in millions)	Six Months Ended June, 2010	2009
Net cash used in operating activities	$ (40.9)	$ (33.3)
Net cash used in investing activities	$ (33.5)	$ (4.1)
Net cash provided by financing activities	$ 96.5	$ 6.3

The increase in cash used in operating activities for the six months ended June 30, 2010 compared to the same period in 2009 was primarily due to higher milestones received in 2009 and a higher net loss in 2010.

The increase in cash used in investing activities for the six months ended June 30, 2010 compared to the same period in 2009 was primarily due to higher purchases of marketable securities as a result of investing the net proceeds of our public offering of common stock that closed in March 2010. These purchases were partially offset by higher maturities of marketable securities in 2010.

The increase in cash provided by financing activities for the six months ended June 30, 2010 compared to the same period in 2009 was primarily due to net proceeds of $93.5 million received from our public offering of common stock that closed in March 2010.

Contractual Obligations and Commitments

We entered into amendments to our South San Francisco, CA facility leases in June 2010. These amendments extend the lease terms through May 2020 and we may extend the terms for two additional five-year periods. The leases are for two buildings of approximately 110,000 and 60,000 square feet. As security for performance of certain obligations under the operating leases for our headquarters, we have issued letters of credit in the aggregate of approximately $0.8 million, collateralized by an equal amount of restricted cash.

Under the amendments, unused portions of a tenant improvement allowance can be used to reduce base rent up to a limit. Without considering such reductions, at June 30, 2010, future commitments under the amended noncancelable operating leases are as follows:

(in millions)	Remainder of 2010	2011 to 2013	2014 to 2015	After 2015	Total
Years ending December 31:					
Operating leases	$ 2.3	$ 14.9	$ 9.9	$ 24.0	$ 51.1

In January 2008, we closed an underwritten public offering of $172.5 million aggregate principal amount of unsecured convertible subordinated notes that will mature on January 15, 2015. The financing raised proceeds, net of issuance costs, of

Table of Contents

$166.7 million that is being used for general corporate purposes. The notes bear interest at the rate of 3.0% per year, which is payable semi-annually in arrears in cash on January 15 and July 15 of each year, beginning on July 15, 2008. The notes are convertible, at the option of the holder, into shares of our common stock at an initial conversion rate of 38.6548 shares per $1,000 principal amount of the notes, subject to adjustment in certain circumstances, which represents an initial conversion price of approximately $25.87 per share.

In addition to our debt commitment and facility leases mentioned above, our other outstanding contractual obligations relate to fixed purchase commitments under contract research, development and clinical supply agreements and a note payable.

Pursuant to our RELOVAIR™ collaboration with GSK, in the event that a LABA product candidate discovered by GSK is successfully developed and commercialized, we will be obligated to make milestone payments to GSK that could total as much as $220.0 million if both a single agent and a combination product were launched in multiple regions of the world. The current lead LABA candidate, GW642444, is a GSK-discovered compound. Based on available information, we do not estimate that any significant portion of these potential milestone payments to GSK is likely to be made in the next two years.

Effect of Recent Accounting Pronouncements

In January 2010, the Financial Accounting Standards Board issued guidance to amend the disclosure requirements related to recurring and nonrecurring fair value measurements. The guidance requires new disclosures on the transfers of assets and liabilities between Level 1 (quoted prices in active market for identical instruments) and Level 2 (significant other observable inputs) of the fair value measurement hierarchy, including the reasons and the timing of the transfers. Additionally, the guidance requires a roll forward of activities on purchases, sales, issuance, and settlements of the assets and liabilities measured using significant unobservable inputs (Level 3 fair value measurements). The guidance became effective for us with the reporting period beginning January 1, 2010, except for the disclosure on the roll forward activities for Level 3 fair value measurements, which will become effective for us with the reporting period beginning July 1, 2011. Adoption of this new guidance did not have a material impact on our condensed consolidated financial statements.

Item 3. Quantitative and Qualitative Disclosure about Market Risk

There have been no significant changes in our market risk or how our market risk is managed compared to the disclosures in Item 7A of our 2009 10-K.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We conducted an evaluation as of June 30, 2010, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, which are defined under SEC rules as controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files under the Securities Exchange Act of 1934 (Exchange Act) is recorded, processed, summarized and reported within required time periods. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective.

Limitations on the Effectiveness of Controls

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints and the benefit of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within Theravance have been detected. In addition, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) identified in connection with the evaluation required by paragraph (d) of Rule 13a-15 of the Exchange Act, which occurred during our most recent fiscal quarter which has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II. OTHER INFORMATION

Item 1A. Risk Factors

In addition to the other information in this Quarterly Report on Form 10-Q, the following risk factors should be considered carefully in evaluating our business and us.

Risks Related to our Business

If the RELOVAIR™ Phase 3 program in asthma or chronic obstructive pulmonary disease (COPD) does not demonstrate safety and efficacy, the RELOVAIR™ program will be significantly delayed or terminated, our business will be harmed, and the price of our securities could fall.

In late 2008 and early 2009, we announced results from multiple RELOVAIR™ program Phase 2b asthma studies and a COPD study; the Phase 3 program for COPD commenced in October 2009 and the Phase 3 program for asthma commenced in March 2010. Any adverse developments or results or perceived adverse developments or results with respect to the RELOVAIR™ program will significantly harm our business and could cause the price of our securities to fall. Examples of such adverse developments include, but are not limited to:

· the U.S. Food and Drug Administration (FDA) determining that additional clinical studies are required with respect to the Phase 3 program in asthma or COPD;

· safety or other concerns arising from ongoing preclinical or clinical studies in this program;

· the Phase 3 program in asthma or COPD raising safety concerns or not demonstrating efficacy; or

· any change in FDA policy or guidance regarding the use of long-acting $beta_2$ agonists (LABAs) to treat asthma or COPD.

On February 18, 2010 the FDA announced that LABAs should not be used alone in the treatment of asthma, and will require manufacturers to include this warning in the product labels of these drugs, along with taking other steps to reduce the overall use of these medicines. The FDA will now require that the product labels for LABA medicines reflect, among other things, that the use of LABAs is contraindicated without the use of an asthma controller medication such as an inhaled corticosteroid, that LABAs should only be used long-term in patients whose asthma cannot be adequately controlled on asthma controller medications, and that LABAs should be used for the shortest duration of time required to achieve control of asthma symptoms and discontinued, if possible, once asthma control is achieved. In addition, on March 10 and 11, 2010, the FDA held an Advisory Committee to discuss the design of medical research studies (known as “clinical trial design”) to evaluate serious asthma outcomes (such as hospitalizations, a procedure using a breathing tube known as intubation, or death) with the use of LABAs in the treatment of asthma in adults, adolescents, and children. It is unknown at this time what, if any, effect these or future FDA actions will have on the development of the RELOVAIR™ program. The current uncertainty regarding the FDA’s position on LABAs for the treatment of asthma and the lack of consensus expressed at the March 2010 Advisory Committee may result in increased time and cost of the asthma clinical trials in the United States for RELOVAIR™ and may increase the overall risk of the RELOVAIR™ asthma program in the United States.

With regard to our telavancin nosocomial pneumonia (NP) NDA, we believe that the FDA’s current position is that it will require data from an additional clinical study or studies before it will consider the NP NDA for approval and we do not currently intend to conduct any such studies.

Our first New Drug Application (NDA) for telavancin was submitted in late 2006 and on September 11, 2009 the FDA approved VIBATIV™ (telavancin) for the treatment of adults with complicated skin and skin structure infections (cSSSI) caused by susceptible Gram-positive bacteria. In January 2009 we submitted a second telavancin NDA to the FDA for the NP indication and we received a Complete Response letter from the FDA in late

November 2009. The Complete Response instructed us that submission of additional data and analyses for the NP patient population to support an evaluation of all-cause mortality as the primary efficacy endpoint is necessary to demonstrate the safety and efficacy of telavancin. The Phase 3 NP clinical program included clinical response as the primary efficacy endpoint, consistent with current draft FDA guidelines for antibacterial clinical trial design in NP, and all-cause mortality as a secondary endpoint. The Complete Response did not specify the time point at which the FDA will measure the all-cause mortality data, nor did it indicate the populations in which these analyses will be considered. The Complete Response letter also requested a scientific rationale for pooling the all-cause mortality data from the two studies as they may individually be of insufficient size and statistical power to support the evaluation of all-cause mortality as the primary efficacy endpoint.

We responded to the Complete Response letter in December 2009. The key elements of our response included a rationale for pooling the two Phase 3 NP studies to evaluate all-cause mortality as the primary efficacy endpoint and all available all-cause mortality data which was analyzed using Kaplan-Meier survival estimates. In January 2010 the FDA sent us a letter notifying us that it

considered our response "incomplete," and stating that even if pooling of the two studies is acceptable for analyzing mortality, the two pooled studies would then equate to only one adequate and well-controlled trial and therefore would not constitute the substantial evidence of efficacy required for approval. In addition, the FDA noted that the adequacy and similarity of populations across the studies for the purposes of pooling had not yet been determined, and is still a review issue. Finally, the FDA also suggested several design criteria that should be taken into account in the design of new clinical trials. These design criteria do not include a specific primary endpoint for the evaluation of efficacy, the size or number of studies required, or what the appropriate statistical analysis might be. As a result, the design, size and scope of any additional studies required by the FDA are unclear at this time. With regard to our telavancin NP NDA, we believe that the FDA's current position is that it will require data from an additional clinical study or studies before it will consider the NP NDA for approval and we do not currently intend to conduct any such studies. Any further adverse developments or perceived adverse developments with respect to telavancin for the NP indication could harm our business and cause the price of our securities to fall.

If telavancin is not approved by the European Medicines Agency (EMEA) or if the EMEA requires data from additional clinical studies of telavancin, our business will be adversely affected and the price of our securities could fall.

On October 28, 2009, Astellas Pharma Europe B.V., a subsidiary of our telavancin partner, Astellas Pharma Inc. (Astellas), announced that it submitted a new European marketing authorization application (MAA) for telavancin to the EMEA for the treatment of complicated skin and soft tissue infections (cSSTI) and NP. On November 30, 2009 we announced that the EMEA had completed the validation phase for the MAA and the EMEA's scientific review process had begun. In October 2008, we announced that Astellas Pharma Europe B.V. voluntarily withdrew a previously filed MAA for telavancin for the treatment of cSSTI from the EMEA based on communications from the Committee for Medicinal Products for Human Use (CHMP) of the EMEA that the data provided were not sufficient to allow the CHMP to conclude a positive benefit-risk balance for telavancin for the sole indication of cSSTI at that time.

If the EMEA does not approve our application, requires data from additional clinical studies regarding telavancin, or if telavancin is ultimately approved by the EMEA but with restrictions, including labeling that may limit the targeted patient population, our business will be harmed and the price of our securities could fall.

If our product candidates, in particular the lead compounds in the RELOVAIR™ program with GSK that are currently progressing in Phase 3 clinical programs for asthma and COPD and telavancin for the treatment of NP, are determined to be unsafe or ineffective in humans, our business will be adversely affected and the price of our securities could fall.

Although our first approved product, VIBATIV™, was commercially launched in the U.S. by our partner Astellas in November 2009, we have not yet commercialized any of our other product candidates. We are uncertain whether any of our other product candidates will prove effective and safe in humans or meet applicable regulatory standards. In addition, our approach to applying our expertise in multivalency to drug discovery may not result in the creation of successful medicines. The risk of failure for our product candidates is high. For example, in late 2005, we discontinued our overactive bladder program based upon the results of our Phase 1 studies with compound TD-6301, and GSK discontinued development of TD-5742, the first LAMA compound licensed from us, after completing initial Phase 1 studies. The data supporting our drug discovery and development programs is derived solely from laboratory experiments, preclinical studies and clinical studies. A number of other compounds remain in the lead identification, lead optimization, preclinical testing or early clinical testing stages.

Several well-publicized approvable and Complete Response letters issued by the FDA and safety-related product withdrawals, suspensions, post-approval labeling revisions to include boxed warnings and changes in approved indications over the last few years, as well as growing public and governmental scrutiny of safety issues, have created an increasingly conservative regulatory environment. The implementation of new laws and regulations, and revisions to FDA clinical trial design guidelines, have increased uncertainty regarding the approvability of a new drug. In addition, there are additional requirements for approval of new drugs, including advisory committee meetings for new chemical entities, and formal risk evaluation and mitigation strategy (REMS) at the FDA's discretion. These new laws, regulations, additional requirements and changes in interpretation could cause non-approval or further delays in the FDA's review and approval of our product candidates.

With regard to all of our programs, any delay in commencing or completing clinical studies for product candidates, as we are currently experiencing in our bifunctional muscarinic antagonist-beta$_2$ agonist (MABA) program with GSK, and any adverse results from clinical or preclinical studies or regulatory obstacles product candidates may face, would harm our business and could cause the price of our securities to fall.

Each of our product candidates must undergo extensive preclinical and clinical studies as a condition to regulatory approval. Preclinical and clinical studies are expensive, take many years to complete and study results may lead to delays in further studies or decisions to terminate programs. For example, we had planned to commence Phase 2b clinical studies in our MABA program with GSK in 2009, but we are awaiting the analysis of data from several preclinical studies. These key studies, which we have also referred to as "Phase 2b enabling studies," will likely determine whether or not Phase 2b clinical studies in this program proceed as planned. If

the analysis of the results of these studies leads to a decision not to proceed, GSK may need to conduct additional work that could significantly delay the MABA program, or GSK may decide to terminate the entire program.

The commencement and completion of clinical studies for our product candidates may be delayed by many factors, including:

· lack of effectiveness of product candidates during clinical studies;

· adverse events, safety issues or side effects relating to the product candidates or their formulation into medicines;

· inability to raise additional capital in sufficient amounts to continue our development programs, which are very expensive;

· the need to sequence clinical studies as opposed to conducting them concomitantly in order to conserve resources;

· our inability to enter into partnering arrangements relating to the development and commercialization of our programs and product candidates;

· our inability or the inability of our collaborators or licensees to manufacture or obtain from third parties materials sufficient for use in preclinical and clinical studies;

· governmental or regulatory delays and changes in regulatory requirements, policy and guidelines;

· failure of our partners to advance our product candidates through clinical development;

· delays in patient enrollment, which we experienced in our Phase 3 NP program for telavancin, and variability in the number and types of patients available for clinical studies;

· difficulty in maintaining contact with patients after treatment, resulting in incomplete data;

· a regional disturbance where we or our collaborative partners are enrolling patients in our clinical trials, such as a pandemic, terrorist activities or war, or a natural disaster; and

· varying interpretations of data by the FDA and similar foreign regulatory agencies.

If our product candidates that we develop on our own or through collaborative partners are not approved by regulatory agencies, including the FDA, we will be unable to commercialize them.

The FDA must approve any new medicine before it can be marketed and sold in the United States. We must provide the FDA and similar foreign regulatory authorities with data from preclinical and clinical studies that demonstrate that our product candidates are safe and effective for a defined indication before they can be approved for commercial distribution. We will not obtain this approval for a product candidate unless and until the FDA approves a NDA. The processes by which regulatory approvals are obtained from the FDA to market and sell a new product are complex, require a number of years and involve the expenditure of substantial resources. In order to market our medicines in foreign jurisdictions, we must obtain separate regulatory approvals in each country. The approval procedure varies among countries and can involve additional testing, and the time required to obtain approval may differ from that required to obtain FDA approval. Approval by the FDA does not ensure approval by regulatory authorities in other countries, and approval by one foreign regulatory authority does not ensure approval by regulatory authorities in other foreign countries or by the FDA. Conversely, failure to obtain approval in one or more jurisdictions may make approval in other jurisdictions more difficult.

Clinical studies involving our product candidates may reveal that those candidates are ineffective, inferior to existing approved medicines, unacceptably toxic, or that they have other unacceptable side effects. In addition, the results of preclinical studies do not necessarily predict clinical success, and larger and later-stage clinical studies may not produce the same results as earlier-stage clinical studies.

Frequently, product candidates that have shown promising results in early preclinical or clinical studies have subsequently suffered significant setbacks or failed in later clinical studies. In addition, clinical studies of potential products often reveal that it is not possible or practical to continue development efforts for these product candidates. If our clinical studies are substantially delayed or fail to prove the safety and effectiveness of our product candidates in development, we may not receive regulatory approval of any of these product candidates and our business and financial condition will be materially harmed.

Table of Contents

VIBATIV™ may not be accepted by physicians, patients, third party payors, or the medical community in general.

The commercial success of VIBATIV™ will depend upon its acceptance by physicians, patients, third party payors and the medical community in general. We cannot be sure that VIBATIV™ will be accepted by these parties. VIBATIV™ competes with vancomycin, a relatively inexpensive generic drug that is manufactured by a variety of companies, a number of existing anti-infectives manufactured and marketed by major pharmaceutical companies and others, and potentially against new anti-infectives that are not yet on the market. Even if the medical community accepts that VIBATIV™ is safe and efficacious for its indicated use, physicians may choose to restrict the use of VIBATIV™. If we and our partner, Astellas, are unable to demonstrate to physicians that, based on experience, clinical data, side-effect profiles and other factors, VIBATIV™ is preferable to vancomycin and other existing or subsequently-developed anti-infective drugs, we may never generate meaningful revenue from VIBATIV™. The degree of market acceptance of VIBATIV™ depends on a number of factors, including, but not limited to:

· the demonstration of the clinical efficacy and safety of VIBATIV™;

· the approved cSSSI labeling for VIBATIV™ in the U.S.;

· whether or not VIBATIV™ is approved for the NP indication and the labeling associated therewith;

· whether or not VIABTIV™ is approved by regulatory authorities in Europe;

· the advantages and disadvantages of VIBATIV™ compared to alternative therapies;

· potential negative perceptions, if any, of physicians related to the uncertainty surrounding our NP NDA;

· our and Astellas' ability to educate the medical community about the safety and effectiveness of VIBATIV™;

· the reimbursement policies of government and third party payors; and

· the market price of VIBATIV™ relative to competing therapies.

Even if our product candidates receive regulatory approval, such as VIBATIV™, commercialization of such products may be adversely affected by regulatory actions and oversight.

Even if we receive regulatory approval for our product candidates, this approval may include limitations on the indicated uses for which we can market our medicines or the patient population that may utilize our medicines, which may limit the market for our medicines or put us at a competitive disadvantage relative to alternative therapies. For example, VIBATIV™'s labeling contains a boxed warning regarding the risks of use of VIBATIV™ during pregnancy. Products with boxed warnings are subject to more restrictive advertising regulations than products without such warnings. These restrictions could make it more difficult to market VIBATIV™ effectively. Further, now that VIBATIV™ is approved, we remain subject to continuing regulatory obligations, such as safety reporting requirements and additional post-marketing obligations, including regulatory oversight of promotion and marketing. In addition, the labeling, packaging, adverse event reporting, advertising, promotion and recordkeeping for the approved product remain subject to extensive and ongoing regulatory requirements. If we become aware of previously unknown problems with an approved product in the U.S. or overseas or at contract manufacturers' facilities, a regulatory agency may impose restrictions on the product, the contract manufacturers or on us, including requiring us to reformulate the product, conduct additional clinical studies, change the labeling of the product, withdraw the product from the market or require the contract manufacturer to implement changes to its facilities. In addition, we may experience a significant drop in the sales of the product, our royalties on product revenues and reputation in the marketplace may suffer, and we could face lawsuits.

We are also subject to regulation by regional, national, state and local agencies, including the Department of Justice, the Federal Trade Commission, the Office of Inspector General of the U.S. Department of Health and Human Services and other regulatory bodies with respect to VIBATIV™, as well as governmental authorities in those foreign countries in which any of our product candidates are approved for commercialization. The Federal Food, Drug, and Cosmetic Act, the Public Health Service Act and other federal and state statutes and regulations govern to varying degrees the research, development, manufacturing and commercial activities relating to prescription pharmaceutical products, including preclinical and clinical testing, approval, production, labeling, sale, distribution, import, export, post-market surveillance, advertising, dissemination of information and promotion. If we or any third parties that provide these services for us are unable to comply, we may be subject to regulatory or civil actions or penalties that could

significantly and adversely affect our business. Any failure to maintain regulatory approval will limit our ability to commercialize our product candidates, which would materially and adversely affect our business and financial condition.

We have incurred operating losses in each year since our inception and expect to continue to incur substantial losses for the foreseeable future.

We have been engaged in discovering and developing compounds and product candidates since mid-1997. Our first approved product, VIBATIV™, was launched by our partner Astellas in the U.S. in November 2009, and to date we have received modest revenues and royalties. Since the commercial launch through June 30, 2010, Astellas recorded VIBATIV™ net sales of $4.9 million, a substantial portion of which was related to initial wholesaler stocking. We recognize royalty revenue from Astellas in the period the royalties are earned based on net sales of VIBATIV™ by Astellas as reported to us by Astellas. We may never generate sufficient revenue from selling medicines to achieve profitability. As of June 30, 2010, we had an accumulated deficit of approximately $1.2 billion.

We expect to incur substantial expenses as we continue our drug discovery and development efforts, particularly to the extent we advance our product candidates into and through clinical studies, which are very expensive. As a result, we expect to continue to incur substantial losses for the foreseeable future. We are uncertain when or if we will be able to achieve or sustain profitability. Failure to become and remain profitable would adversely affect the price of our securities and our ability to raise capital and continue operations.

If we fail to obtain the capital necessary to fund our operations, we may be unable to develop our product candidates and we could be forced to share our rights to commercialize our product candidates with third parties on terms that may not be favorable to us.

We need large amounts of capital to support our research and development efforts. If we are unable to secure capital to fund our operations we will not be able to continue our discovery and development efforts and we might have to enter into strategic collaborations that could require us to share commercial rights to our medicines to a greater extent than we currently intend. Based on our current operating plans, milestone forecasts and spending assumptions, we believe that our cash and cash equivalents and marketable securities will be sufficient to meet our anticipated operating needs for at least the next twelve months. We are likely to require additional capital to fund operating needs thereafter. While we have no current intention to do so, if we were to conduct additional studies to support the telavancin NP NDA and we were required to fund such studies, our capital needs could increase substantially. In addition, under our RELOVAIR™ program with GSK, in the event that a LABA product candidate discovered by GSK is successfully developed and commercialized, we will be obligated to pay GSK milestone payments that could total as much as $220.0 million if both a single-agent and a combination product were launched in multiple regions of the world. The current lead LABA candidate, GW642444, is a GSK-discovered compound and GSK has determined to focus the collaboration's LABA development resources on the development of this compound only. If this GSK-discovered compound, which is progressing through Phase 3 programs in asthma and COPD, is advanced through regulatory approval and commercialization, we would not be entitled to receive any further milestone payments from GSK with regard to the RELOVAIR™ program and we would have to pay GSK the milestones noted above. We cannot guarantee that future financing will be available in sufficient amounts or on terms acceptable to us, if at all. Even if we are able to raise additional

capital, such financing may result in significant dilution to existing security holders. If we are unable to raise additional capital in sufficient amounts or on terms acceptable to us, we may have to make additional reductions in our workforce and may be prevented from continuing our discovery and development efforts and exploiting other corporate opportunities. This could harm our business, prospects and financial condition and cause the price of our securities to fall.

Global financial and economic conditions have had an impact on our industry, may adversely affect our business and financial condition in ways that we currently cannot predict, and may limit our ability to raise additional funds.

Global financial conditions and general economic conditions, including the decreased availability of credit, have had an impact on our industry, and may adversely affect our business and our financial condition. Our ability to access the capital or debt markets and raise funds required for our operations may be severely restricted at a time when we would like, or need, to do so, which would have an adverse effect on our ability to fund our operations as planned. In addition, many biotechnology and biopharmaceutical companies with limited funds have been unable to raise capital during the recent period of financial and economic uncertainty and volatility, and they are left with limited alternatives including merging with other companies or out-licensing their assets. The large number of companies in this situation has led to an increase in supply of biotechnology and biopharmaceutical assets available for license or sale, which disadvantages companies like us that intend to partner certain of their assets.

Table of Contents

If our partners do not satisfy their obligations under our agreements with them, or if they terminate our partnership with them, we will be unable to develop our partnered product candidates as planned.

We entered into our collaboration agreement for the RELOVAIR™ program with GSK in November 2002, our strategic alliance agreement with GSK in March 2004, and our telavancin development and commercialization agreement with Astellas in November 2005. In connection with these agreements, we have granted to these parties certain rights regarding the use of our patents and technology with respect to compounds in our development programs, including development and marketing rights. Under our GSK agreements, GSK has full responsibility for development and commercialization of any product candidates in the programs that it has in-licensed, including RELOVAIR™ and MABA. Any future milestone payments or royalties to us from these programs will depend on the extent to which GSK advances the product candidate through development and commercial launch. In connection with our license, development and commercialization agreement with Astellas, Astellas is responsible for the commercialization of VIBATIV™ and any royalties to us from net sales of VIBATIV™ will depend upon Astellas' ability to commercialize the medicine.

Our partners might not fulfill all of their obligations under these agreements, and, in certain circumstances, they may terminate our partnership with them. In either event, we may be unable to assume the development and commercialization of the product candidates covered by the agreements or enter into alternative arrangements with a third party to develop and commercialize such product candidates. In addition, with the exception of product candidates in our RELOVAIR™ program, our partners generally are not restricted from developing and commercializing their own products and product candidates that compete with those licensed from us. If a partner elected to promote its own products and product candidates in preference to those licensed from us, future payments to us could be reduced and our business and financial condition would be materially and adversely affected. Accordingly, our ability to receive any revenue from the product candidates covered by these agreements is dependent on the efforts of the partner. We could also become involved in disputes with a partner, which could lead to delays in or termination of our development and commercialization programs and time-consuming and expensive litigation or arbitration.

If a partner terminates or breaches its agreements with us, or otherwise fails to complete its obligations in a timely manner, the chances of successfully developing or commercializing our product candidates would be materially and adversely affected. For example, under the terms of our telavancin license, development and commercialization agreement, Astellas has the right to terminate the agreement since VIBATIV™ was not approved by December 31, 2008. If Astellas chooses to terminate the agreement, the further commercialization of VIBATIV™ would be delayed, our business would be harmed and the price of our securities could fall.

In addition, while our strategic alliance with GSK sets forth pre-agreed upfront payments, development obligations, milestone payments and royalty rates under which GSK may obtain exclusive rights to develop and commercialize certain of our product candidates, GSK may in the future seek to negotiate more favorable terms on a project-by-project basis. To date, GSK has licensed our LAMA program and our MABA program under the terms of the strategic alliance agreement and has chosen not to license our bacterial infections program, our anesthesia program and our 5-HT_4 program. In February 2009, GSK returned the LAMA program to us because the current formulation of the lead product candidate is incompatible with GSK's proprietary inhaler device. There can be no assurance that GSK will license any other development program under the terms of the strategic alliance agreement, or at all. GSK's failure to license our development programs or its return of programs to us could adversely affect the perceived prospects of the product candidates that are the subject of these development programs, which could negatively affect both our ability to enter into collaborations for these product candidates with third parties and the price of our securities.

We rely on a limited number of manufacturers for our product candidates, and our business will be harmed if these manufacturers are not able to satisfy our demand and alternative sources are not available or if manufactured drug product is not purchased.

We have limited in-house active pharmaceutical ingredient (API) production capabilities and depend primarily on a number of third-party API and drug product manufacturers. We may not have long-term agreements with these third parties and our agreements with these parties may be terminable at will by either party at any time. If, for any reason, these third parties are unable or unwilling to perform, or if their performance does not meet regulatory requirements, we may not be able to locate alternative manufacturers or enter into favorable agreements with them. Any inability to acquire sufficient quantities of API and drug product in a timely manner from these third parties could delay clinical studies, prevent us from developing our product candidates in a cost-effective manner or on a timely basis and adversely affect the commercial introduction of any approved products. In addition, manufacturers of our API and drug product are subject to the FDA's current good manufacturing practice (cGMP) regulations and similar foreign standards and we do not have control over compliance with these regulations by our manufacturers.

We have had manufactured sufficient telavancin API and drug product for the six-month commercial launch supply of VIBATIV™ and this inventory has been delivered to our collaboration partner. Capitalized inventory in the amount of $2.5 million remains on our balance sheet as of June 30, 2010. Since our collaboration partner is not obligated to purchase any of the remaining VIBATIV™ inventory from us and the drug product has a limited shelf life, we may be required to write off and expense a portion or all of the remaining inventory. All further manufacture of VIBATIV™ API and drug product is now our collaboration partner's responsibility. For the foreseeable future, we anticipate that our collaboration partner will rely on third parties for

the manufacture of VIBATIV™ API and drug product. If, for any reason, these third parties are unable or unwilling to perform, or if their performance does not meet regulatory requirements, including maintaining cGMP compliance, our collaboration partner may not be able to locate alternative manufacturers or enter into favorable agreements with them. Any inability to acquire sufficient quantities of API and drug

Table of Contents

product in a timely manner from these third parties could delay further telavancin studies and development, and adversely affect the commercialization of VIBATIV™ and any other telavancin products, if approved.

Our manufacturing strategy presents the following additional risks:

· because of the complex nature of our compounds, our manufacturers may not be able to successfully manufacture our APIs and/or drug products in a cost effective and/or timely manner and changing manufacturers for our APIs or drug products could involve lengthy technology transfer and validation activities for the new manufacturer;

· the processes required to manufacture certain of our APIs and drug products are specialized and available only from a limited number of third-party manufacturers;

· some of the manufacturing processes for our APIs and drug products have not been scaled to quantities needed for continued clinical studies or commercial sales, and delays in scale-up to commercial quantities could delay clinical studies, regulatory submissions and commercialization of our product candidates; and

· because some of the third-party manufacturers are located outside of the U.S., there may be difficulties in importing our APIs and drug products or their components into the U.S. as a result of, among other things, FDA import inspections, incomplete or inaccurate import documentation or defective packaging.

Our relationship with GSK may have a negative effect on our ability to enter into relationships with third parties.

As of July 30, 2010, GSK beneficially owned approximately 12.8% of our outstanding capital stock. Pursuant to our strategic alliance with GSK, GSK has the right to license exclusive development and commercialization rights to our product candidates arising from (i) our oral peripherally selective mu opioid receptor antagonist (PUMA) program for opioid-induced constipation, (ii) our AT1 Receptor—Neprilysin Inhibitor (ARNI) program for cardiovascular disease and (iii) our MonoAmine Reuptake Inhibitor (MARIN) program for chronic pain. Because GSK is not required to decide whether to license these three development programs until after they have successfully completed a Phase 2 proof-of-concept study, we may be unable to collaborate with other partners with respect to these programs until we have expended substantial resources to advance them through clinical studies. We may not have sufficient funds to pursue such programs in the event GSK does not license them at an early stage. Pharmaceutical companies other than GSK that may be interested in developing products with us may be less inclined to do so because of our relationship with GSK, or because of the perception that development programs that GSK does not license, or returns to us, pursuant to our strategic alliance agreement are not promising programs. If our ability to work with present or future strategic partners or collaborators is adversely affected as a result of our strategic alliance with GSK, our business prospects may be limited and our financial condition may be adversely affected.

If we are unable to enter into future collaboration arrangements or if any such collaborations with third parties are unsuccessful, we will be unable to fully develop and commercialize our product candidates and our business will be adversely affected.

We have active collaborations with GSK for the RELOVAIR™ and MABA programs and with Astellas for telavancin, and we have licensed our anesthesia compound to AstraZeneca AB (AstraZeneca). Additional collaborations will be needed to fund later-stage development of our product candidates that have not been licensed to a collaborator, and to commercialize these product candidates if approved by the necessary regulatory agencies. Each of TD-5108, our lead compound in the 5-HT4 program, and TD-1792, our investigational antibiotic, has successfully completed a Phase 2 proof-of-concept study, and TD-4208, our LAMA compound that GSK returned to us in February 2009 under the terms of the strategic alliance agreement, has completed a Phase 1 study. We currently intend to pursue collaboration arrangements for the development and commercialization of these compounds. Collaborations with third parties regarding these programs or our other programs may require us to relinquish material rights, including revenue from commercialization of our medicines, on terms that are less attractive than our current arrangements or to assume material ongoing development obligations that we would have to fund. These collaboration arrangements are complex and time-consuming to negotiate, and if we are unable to reach agreements with third-party collaborators, we may fail to meet our business objectives and our financial condition may be adversely affected. We face significant competition in seeking third-party collaborators, especially in the current weak economy which is driving many biotechnology and biopharmaceutical companies to seek to sell or license their assets. We may be unable to find third parties to pursue product collaborations on a timely basis or on acceptable terms. Furthermore, for any collaboration, we may not be able to control the amount of time and resources that our partners devote to our product candidates and our partners may choose to pursue alternative products. Our inability to successfully collaborate with third parties would increase our development costs and would limit the likelihood of successful commercialization of our product candidates.

Table of Contents

We depend on third parties in the conduct of our clinical studies for our product candidates.

We depend on independent clinical investigators, contract research organizations and other third party service providers in the conduct of our preclinical and clinical studies for our product candidates. We rely heavily on these parties for execution of our preclinical and clinical studies, and control only certain aspects of their activities. Nevertheless, we are responsible for ensuring that our clinical studies are conducted in accordance with good clinical practices (GCPs) and other regulations as required by the FDA and foreign regulatory agencies, and the applicable protocol. Failure by these parties to comply with applicable regulations, GCPs and protocols in conducting studies of our product candidates can result in a delay in our development programs or non-approval of our product candidates by regulatory authorities.

The FDA enforces good clinical practices and other regulations through periodic inspections of trial sponsors, clinical research organizations (CROs), principal investigators and trial sites. For example, in connection with the FDA's review of our telavancin NDAs, the FDA conducted inspections of Theravance and certain of our study sites, clinical investigators and CROs. If we or any of the third parties on which we have relied to conduct our clinical studies are determined to have failed to comply with GCPs, the study protocol or applicable regulations, the clinical data generated in our studies may be deemed unreliable. This could result in non-approval of our product candidates by the FDA, or we or the FDA may decide to conduct additional audits or require additional clinical studies, which would delay our development programs and could result in significant additional costs.

We face substantial competition from companies with more resources and experience than we have, which may result in others discovering, developing, receiving approval for or commercializing products before or more successfully than we do.

Our ability to succeed in the future depends on our ability to demonstrate and maintain a competitive advantage with respect to our approach to the discovery and development of medicines. Our objective is to discover, develop and commercialize new small molecule medicines with superior efficacy, convenience, tolerability and/or safety. Because our strategy is to develop new product candidates primarily for biological targets that have been validated by existing medicines or potential medicines in late stage clinical studies, to the extent that we are able to develop medicines, they are likely to compete with existing drugs that have long histories of effective and safe use. We expect that any medicines that we commercialize with our collaborative partners will compete with existing or future market-leading medicines.

Many of our potential competitors have substantially greater financial, technical and personnel resources than we have. In addition, many of these competitors have significantly greater commercial infrastructures than we have. Our ability to compete successfully will depend largely on our ability to leverage our experience in drug discovery and development to:

· discover and develop medicines that are superior to other products in the market;

· attract and retain qualified personnel;

· obtain patent and/or other proprietary protection for our medicines and technologies;

· obtain required regulatory approvals; and

· successfully collaborate with pharmaceutical companies in the discovery, development and commercialization of new medicines.

Established pharmaceutical companies may invest heavily to quickly discover and develop or in-license novel compounds that could make our product candidates obsolete. Accordingly, our competitors may succeed in obtaining patent protection, receiving FDA approval or discovering, developing and commercializing medicines before we do. Other companies are engaged in the discovery of medicines that would compete with the product candidates that we are developing.

Any new medicine that competes with a generic or proprietary market leading medicine must demonstrate compelling advantages in efficacy, convenience, tolerability and/or safety in order to overcome severe price competition and be commercially successful. VIBATIV™ must demonstrate these advantages, as it competes with vancomycin, a relatively inexpensive generic drug that is manufactured by a number of companies, and a number of existing anti-infectives marketed by major and other pharmaceutical companies. If we are not able to compete effectively against our current and future competitors, our business will not grow and our financial condition and operations will suffer.

As the principles of multivalency become more widely known, we expect to face increasing competition from companies and other organizations that pursue the same or similar approaches. Novel therapies, such as gene therapy or effective vaccines for infectious diseases, may emerge that will make both conventional and multivalent medicine discovery efforts obsolete or less competitive.

Table of Contents

We have no experience selling or distributing products and no internal capability to do so.

Generally, our strategy is to engage pharmaceutical or other healthcare companies with an existing sales and marketing organization and distribution system to market, sell and distribute our products. We may not be able to establish these sales and distribution relationships on acceptable terms, or at all. If we receive regulatory approval to commence commercial sales of any of our product candidates that are not covered by our current agreements with GSK, Astellas or AstraZeneca, we will need a partner in order to commercialize such products unless we establish a sales and marketing organization with appropriate technical expertise and supporting distribution capability. At present, we have no sales personnel and a limited number of marketing personnel. Factors that may inhibit our efforts to commercialize our products without strategic partners or licensees include:

· our inability to recruit and retain adequate numbers of effective sales and marketing personnel;

· the inability of sales personnel to obtain access to or persuade adequate numbers of physicians to prescribe our products;

· the lack of complementary products to be offered by sales personnel, which may put us at a competitive disadvantage relative to companies with more extensive product lines; and

· unforeseen costs and expenses associated with creating an independent sales and marketing organization.

If we are not able to partner with a third party and are not successful in recruiting sales and marketing personnel or in building a sales and marketing infrastructure, we will have difficulty commercializing our product candidates, which would adversely affect our business and financial condition.

If we lose key management or scientific personnel, or if we fail to retain our key employees, our ability to discover and develop our product candidates will be impaired.

We are highly dependent on principal members of our management team and scientific staff to operate our business. We have become even more dependent on existing personnel since the significant workforce restructuring announced in April 2008, which involved the elimination of approximately 40% of our positions through layoffs from all departments throughout our organization, including senior management. While we planned our restructuring with the purpose of focusing on our key clinical programs while maintaining core research and exploratory development capability, the restructuring has adversely affected the pace and breadth of our research and development efforts. While the remaining scientific team has expertise in many different aspects of drug discovery and exploratory development, there is less depth to the team and we are more susceptible to remaining team members voluntarily leaving employment with us. Our company is located in northern California, which is headquarters to many other biotechnology and biopharmaceutical companies and many academic and research institutions. As a result, competition for certain skilled personnel in our market remains intense. None of our employees have employment commitments for any fixed period of time and may leave our employment at will.

If we fail to retain our remaining qualified personnel or replace them when they leave, we may be unable to continue our development and commercialization activities.

Our business and operations would suffer in the event of system failures.

Although we have security measures in place, our internal computer systems and those of our CROs and other service providers are vulnerable to damage from computer viruses, unauthorized access, natural disasters, terrorism, war and telecommunication and electrical failures. We have not experienced any such system failure, accident or security breach to date, but if such an event were to occur, it could result in a material disruption to our business. For example, the loss of clinical trial data from completed or ongoing clinical trials of our product candidates could result in delays in our regulatory approval efforts and significantly increase our costs to recover or reproduce the data. If a disruption or security breach results in a loss of or damage to our data or regulatory applications, or inadvertent disclosure of confidential or proprietary information, we could incur liability and the further development of our product candidates could be delayed.

Our principal facility is located near known earthquake fault zones, and the occurrence of an earthquake, extremist attack or other catastrophic disaster could cause damage to our facilities and equipment, which could require us to cease or curtail operations.

Our principal facility is located in the San Francisco Bay Area near known earthquake fault zones and therefore is vulnerable to damage from earthquakes. In October 1989, a major earthquake struck this area and caused significant property damage and a number of fatalities. We are also vulnerable to damage from other types of disasters, including power loss, attacks from extremist organizations, fire, floods, communications failures and similar events. If any disaster were to occur, our ability to operate our

Table of Contents

business could be seriously impaired. In addition, the unique nature of our research activities and of much of our equipment could make it difficult for us to recover from this type of disaster. We may not have adequate insurance to cover our losses resulting from disasters or other similar significant business interruptions and we do not plan to purchase additional insurance to cover such losses due to the cost of obtaining such coverage. Any significant losses that are not recoverable under our insurance policies could seriously impair our business and financial condition.

Risks Related to our Alliance with GSK

GSK's ownership of a significant percentage of our stock and its ability to acquire additional shares of our stock may create conflicts of interest, and may inhibit our management's ability to continue to operate our business in the manner in which it is currently being operated.

As of July 30, 2010, GSK beneficially owned approximately 12.8% of our outstanding capital stock, and GSK has the right to acquire stock from us to maintain its percentage ownership of our capital stock. GSK could have substantial influence in the election of our directors, delay or prevent a transaction in which stockholders might receive a premium over the prevailing market price for their shares and have significant control over certain changes in our business.

In addition, GSK may make an offer to our stockholders to acquire outstanding voting stock that would bring GSK's percentage ownership of our voting stock to no greater than 60%, provided that:

· the offer includes no condition as to financing;

· the offer is approved by a majority of our independent directors;

· the offer includes a condition that the holders of a majority of the shares of the voting stock not owned by GSK accept the offer by tendering their shares in the offer; and

· the shares purchased will be subject to the provisions of the governance agreement on the same basis as the shares of GSK's Class A common stock.

Further, pursuant to our certificate of incorporation, we renounce our interest in and waive any claim that a corporate or business opportunity taken by GSK constitutes a corporate opportunity of ours unless such corporate or business opportunity is expressly offered to one of our directors who is a director, officer or employee of GSK, primarily in his or her capacity as one of our directors.

GSK's rights under the strategic alliance and governance agreements may deter or prevent efforts by other companies to acquire us, which could prevent our stockholders from realizing a control premium.

Our governance agreement with GSK requires us to exempt GSK from our stockholder rights plan, affords GSK certain rights to offer to acquire us in the event third parties seek to acquire our stock and contains other provisions that could deter or prevent another company from seeking to acquire us. For example, GSK may offer to acquire 100% of our outstanding stock from stockholders in certain circumstances, such as if we are faced with a hostile acquisition offer or if our board of directors acts in a manner to facilitate a change in control of us with a party other than GSK. In addition, pursuant to our strategic alliance agreement with GSK, GSK has the right to license (i) our PUMA program, (ii) our ARNI program and (iii) our MARIN program. As a result

of these rights, other companies may be less inclined to pursue an acquisition of us and therefore we may not have the opportunity to be acquired in a transaction that stockholders might otherwise deem favorable, including transactions in which our stockholders might realize a substantial premium for their shares.

GSK could sell or transfer a substantial number of shares of our common stock, which could depress the price of our securities or result in a change in control of our company.

GSK may sell or transfer our common stock either pursuant to a public offering registered under the Securities Act of 1933, as amended (the "1933 Act"), or pursuant to Rule 144 of the 1933 Act. In addition, beginning in September 2012, GSK will have no restrictions on its ability to sell or transfer our common stock on the open market, in privately negotiated transactions or otherwise, and these sales or transfers could create substantial declines in the price of our securities or, if these sales or transfers were made to a single buyer or group of buyers, could contribute to a transfer of control of our company to a third party.

Table of Contents

Risks Related to Legal and Regulatory Uncertainty

If our efforts to protect the proprietary nature of the intellectual property related to our technologies are not adequate, we may not be able to compete effectively in our market.

We rely upon a combination of patents, patent applications, trade secret protection and confidentiality agreements to protect the intellectual property related to our technologies. Any involuntary disclosure to or misappropriation by third parties of this proprietary information could enable competitors to quickly duplicate or surpass our technological achievements, thus eroding our competitive position in our market. The status of patents in the biotechnology and pharmaceutical field involves complex legal and scientific questions and is very uncertain. As of June 30, 2010, we owned 203 issued United States patents and 663 granted foreign patents, as well as additional pending United States and foreign patent applications. Our patent applications may be challenged or fail to result in issued patents and our existing or future patents may be invalidated or be too narrow to prevent third parties from developing or designing around these patents. If the sufficiency of the breadth or strength of protection provided by our patents with respect to a product candidate is threatened, it could dissuade companies from collaborating with us to develop, and threaten our ability to commercialize, the product candidate. Further, if we encounter delays in our clinical trials or in obtaining regulatory approval of our product candidates, the patent lives of the related product candidates would be reduced.

In addition, we rely on trade secret protection and confidentiality agreements to protect proprietary know-how that is not patentable, for processes for which patents are difficult to enforce and for any other elements of our drug discovery and development processes that involve proprietary know-how, information and technology that is not covered by patent applications. Although we require our employees, consultants, advisors and any third parties who have access to our proprietary know-how, information and technology to enter into confidentiality agreements, we cannot be certain that this know-how, information and technology will not be disclosed or that competitors will not otherwise gain access to our trade secrets or independently develop substantially equivalent information and techniques. Further, the laws of some foreign countries do not protect proprietary rights to the same extent as the laws of the United States. As a result, we may encounter significant problems in protecting and defending our intellectual property both in the United States and abroad. If we are unable to prevent material disclosure of the intellectual property related to our technologies to third parties, we will not be able to establish or, if established, maintain a competitive advantage in our market, which could materially adversely affect our business, financial condition and results of operations.

Litigation or third-party claims of intellectual property infringement would require us to divert resources and may prevent or delay our drug discovery and development efforts.

Our commercial success depends in part on us and our partners not infringing the patents and proprietary rights of third parties. Third parties may assert that we or our partners are using their proprietary rights without authorization. There are third party patents that may cover materials or methods for treatment related to our product candidates. At present, we are not aware of any patent claims with merit that would adversely and materially affect our ability to develop our product candidates, but nevertheless the possibility of third party allegations cannot be ruled out. In addition, third parties may obtain patents in the future and claim that use of our technologies infringes upon these patents. Furthermore, parties making claims against us or our partners may obtain injunctive or other equitable relief, which could effectively block our ability to further develop and commercialize one or more of our product candidates. For example, an action has been filed in the United States Patent and Trademark office opposing registration of the trademark VIBATIV™. Failure to register this trademark may have an adverse impact on sales of VIBATIV™, which could adversely affect our business. Defense of these claims, regardless of their merit, would involve substantial litigation expense and would be a substantial diversion of employee resources from our business. In the event of a successful claim of infringement against us, we may have to pay substantial damages, obtain one or more licenses from third parties or pay royalties. In addition, even in the absence of litigation, we may need to obtain licenses from third parties to advance our research or allow commercialization of our product candidates, and we have done so from time to time. We may fail to obtain any of these licenses at a reasonable cost or on reasonable terms, if at all. In that event, we would be unable to further develop and commercialize one or more of our product candidates, which could harm our business significantly. In addition, in the future we could be required to initiate litigation to enforce our proprietary rights against infringement by third parties. Prosecution of these claims to enforce our rights against others would involve substantial litigation expenses and divert substantial employee resources from our business. If we fail to effectively enforce our proprietary rights against others, our business will be harmed.

Product liability lawsuits could divert our resources, result in substantial liabilities and reduce the commercial potential of our medicines.

The risk that we may be sued on product liability claims is inherent in the development and commercialization of pharmaceutical products. Side effects of, or manufacturing defects in, products that we or our partners develop or commercialize could result in the deterioration of a patient's condition, injury or even death. Once a product is approved for sale and commercialized, the likelihood of product liability lawsuits tends to increase. Our partner Astellas launched VIBATIV™, our first approved product, in the U.S. in November 2009. Claims may be brought by individuals seeking relief for themselves or by individuals or groups seeking to represent a class. These lawsuits may divert our management from pursuing our business strategy and may be costly to defend. In

addition, if we are held liable in any of these lawsuits, we may incur substantial liabilities and may be forced to limit or forgo further commercialization of the applicable products.

Although we maintain general liability and product liability insurance, this insurance may not fully cover potential liabilities. In addition, inability to obtain or maintain sufficient insurance coverage at an acceptable cost or to otherwise protect against potential product liability claims could prevent or inhibit the commercial production and sale of our products, which could adversely affect our business. Product liability claims could also harm our reputation, which may adversely affect our and our partners' ability to commercialize our products successfully.

Government restrictions on pricing and reimbursement, as well as other healthcare payor cost-containment initiatives, may negatively impact our ability to generate revenues.

The continuing efforts of the government, insurance companies, managed care organizations and other payors of health care costs to contain or reduce costs of health care may adversely affect one or more of the following:

· our or our collaborators' ability to set a price we believe is fair for our products, if approved;

· our ability to generate revenues and achieve profitability; and

· the availability of capital.

The recently enacted Patient Protection and Affordable Care Act and other potential legislative or regulatory action regarding healthcare and insurance matters, along with the trend toward managed healthcare in the United States could influence the purchase of healthcare products and reduce demand and prices for our products, if approved. This could harm our or our collaborators' ability to market our potential medicines and generate revenues. Cost containment measures that health care payors and providers are instituting and the effect of the Patient Protection and Affordable Care Act and further agency regulations that are likely to emerge in connection with the passage of this act could significantly reduce potential revenues from the sale of any product candidates approved in the future. In addition, in certain foreign markets, the pricing of prescription drugs is subject to government control and reimbursement may in some cases be unavailable. We believe that pricing pressures at the state and federal level, as well as internationally, will continue and may increase, which may make it difficult for us to sell our potential medicines that may be approved in the future at a price acceptable to us or our collaborators.

If we use hazardous and biological materials in a manner that causes injury or violates applicable law, we may be liable for damages.

Our research and development activities involve the controlled use of potentially hazardous substances, including chemical, biological and radioactive materials. In addition, our operations produce hazardous waste products. Federal, state and local laws and regulations govern the use, manufacture, storage, handling and disposal of hazardous materials. We may incur significant additional costs to comply with these and other applicable laws in the future. Also, even if we are in compliance with applicable laws, we cannot completely eliminate the risk of contamination or injury resulting from hazardous materials and we may incur liability as a result of any such contamination or injury. In the event of an accident, we could be held liable for damages or penalized with fines, and the liability could exceed our resources. We do not have any insurance for liabilities arising from hazardous materials. Compliance with applicable environmental laws and regulations is expensive, and current or future environmental regulations may impair our research, development and production efforts, which could harm our business.

Risks Related to Ownership of our Common Stock

The price of our securities has been extremely volatile and may continue to be so, and purchasers of our securities could incur substantial losses.

The price of our securities has been extremely volatile and may continue to be so. The stock market in general and the market for biotechnology and biopharmaceutical companies in particular have experienced extreme volatility that has often been unrelated to the operating performance of particular companies, in particular during the last few years. The following factors, in addition to the other risk factors described in this section, may also have a significant impact on the market price of our securities:

· any adverse developments or results or perceived adverse developments or results with respect to the RELOVAIR™ program with GSK, including, without limitation, any difficulties or delays encountered with regard to the regulatory path for the RELOVAIR™ program or delays in initiating or completing the various Phase 3 studies;

· any further adverse developments or perceived adverse developments with respect to the FDA's review of the telavancin NP NDA, which could include, without limitation, non-approval of the NDA;

· any adverse developments or perceived adverse developments with respect to the commercial launch of VIBATIV™, including any failure to meet market expectations with respect to the timing and volume of sales of VIBATIV™;

· any adverse developments or perceived adverse developments with respect to regulatory matters concerning telavancin in any foreign jurisdiction, in particular the MAA that our partner Astellas submitted to the EMEA in October 2009 and of which the EMEA commenced scientific review in November 2009;

· any adverse developments or results or perceived adverse developments or results with respect to the MABA program with GSK, including, without limitation, the possibility that the analysis of results from key preclinical studies may lead to significant delay of the MABA program or perhaps a decision to terminate the entire program;

· any adverse developments or perceived adverse developments in the field of LABAs, including any change in FDA policy or guidance (such as the pronouncement in February 2010 warning that LABAs should not be used alone in the treatment of asthma and related labeling requirements or the impact of the March 2010 FDA Advisory Committee discussing LABA clinical trial design to evaluate serious asthma outcomes);

· any announcements of developments with, or comments by, the FDA with respect to products we or our partners have under development or have commercialized;

· our incurrence of expenses in any particular quarter in excess of market expectations;

· our workforce restructuring commenced in April 2008 and uncertainties or perceived uncertainties related to the restructuring, including, without limitation, concerns regarding our ability to retain key employees and the possibility that we will have to implement further workforce reductions;

· the extent to which GSK advances (or does not advance) our product candidates through development into commercialization;

· any adverse developments or perceived adverse developments with respect to our relationship with GSK;

· any adverse developments or perceived adverse developments with respect to our relationship with Astellas, including without limitation, disagreements that may arise between us and Astellas concerning regulatory strategy or further development of telavancin, or Astellas' termination of our telavancin license, development and commercialization agreement, which it now has the right to do;

· any adverse developments or perceived adverse developments with respect to our partnering efforts with our 5- HT_4 program, TD-1792 or TD-4208;

· announcements regarding GSK's decisions whether or not to license any of our development programs or to return to us any previously licensed program, such as our experience with our LAMA program licensed from us by GSK in 2004 under the strategic alliance agreement and then returned to us by GSK in February 2009;

· announcements regarding GSK or Astellas generally;

· announcements of patent issuances or denials, technological innovations or new commercial products by us or our competitors;

· developments concerning any collaboration we may undertake with companies other than GSK or Astellas;

· publicity regarding actual or potential study results or the outcome of regulatory review relating to products under development by us, our partners or our competitors;

· regulatory developments in the United States and foreign countries;

· economic and other external factors beyond our control;

Table of Contents

· sales of stock by us or by our stockholders, including sales by certain of our employees and directors whether or not pursuant to written pre-determined selling plans under Rule 10b5-1 of the Securities Exchange Act of 1934, some of which plans are currently in effect, such as plans adopted by our employees to sell shares to cover taxes due upon the quarterly vesting of restricted stock units, and other plans that may be entered into; and

· potential sales or purchases of our capital stock by GSK.

Concentration of ownership will limit your ability to influence corporate matters.

As of July 30, 2010, GSK beneficially owned approximately 12.8% of our outstanding capital stock and our directors, executive officers and investors affiliated with these individuals beneficially owned approximately 9.6% of our outstanding capital stock. Based on our review of publicly available filings as of July 30, 2010, our six largest stockholders other than GSK collectively owned approximately 46.6% of our outstanding capital stock. These stockholders could control the outcome of actions taken by us that require stockholder approval, including a transaction in which stockholders might receive a premium over the prevailing market price for their shares.

Anti-takeover provisions in our charter and bylaws, in our rights agreement and in Delaware law could prevent or delay a change in control of our company.

Provisions of our certificate of incorporation and bylaws may discourage, delay or prevent a merger or acquisition that stockholders may consider favorable, including transactions in which you might otherwise receive a premium for your shares. These provisions include:

· requiring supermajority stockholder voting to effect certain amendments to our certificate of incorporation and bylaws;

· restricting the ability of stockholders to call special meetings of stockholders;

· prohibiting stockholder action by written consent; and

· establishing advance notice requirements for nominations for election to the board of directors or for proposing matters that can be acted on by stockholders at stockholder meetings.

In addition, our board of directors has adopted a rights agreement that may prevent or delay a change in control of us. Further, some provisions of Delaware law may also discourage, delay or prevent someone from acquiring us or merging with us.

Table of Contents

Item 6. Exhibits

Exhibit Number	Description	Form	Incorporated by Reference Filing Date/Period End Date
3.3	Amended and Restated Certificate of Incorporation	S-1	7/26/04
3.4	Certificate of Amendment of Restated Certificate of Incorporation	10-Q	3/31/07
3.5	Amended and Restated Bylaws (as amended by the board of directors April 25, 2007)	10-Q	9/30/08
4.1	Specimen certificate representing the common stock of the registrant	10-K	12/31/06
4.2	Amended and Restated Rights Agreement between Theravance, Inc. and The Bank of New York, as Rights Agent, dated as of June 22, 2007	10-Q	6/30/07
4.3	Indenture dated as of January 23, 2008 by and between Theravance, Inc. and The Bank of New York Trust Company, N.A., as trustee	8-K	1/23/08
4.4	Form of 3.0% Convertible Subordinated Note Due 2015 (included in Exhibit 4.3)		
4.5	Amendment to Amended and Restated Rights Agreement between the registrant and The Bank of New York Mellon Corporation, as Rights Agent, dated November 21, 2008	8-K	11/25/08
10.4	Employee Stock Purchase Plan, as amended April 27, 2010		
10.49	Consulting Agreement effective as of April 27, 2010 between the registrant and P. Roy Vagelos, M.D.		
10.50	First Amendment to Lease for 901 Gateway Boulevard effective as of June 1, 2010 between ARE-901/951 Gateway Boulevard, LLC and Theravance, Inc.		
10.51	First Amendment to Lease for 951 Gateway Boulevard effective as of June 1, 2010 between ARE-901/951 Gateway Boulevard, LLC and Theravance, Inc.		
31.1	Certification of Chief Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a) promulgated pursuant to the Securities Exchange Act of 1934, as amended		
31.2	Certification of Chief Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a) promulgated pursuant to the Securities Exchange Act of 1934, as amended		
32	Certifications Pursuant to 18 U.S.C. Section 1350		

Table of Contents

SIGNATURES

Pursuant to the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Theravance, Inc.
(Registrant)

August 4, 2010
Date

/s/ Rick E Winningham
Rick E Winningham
Chief Executive Officer

August 4, 2010
Date

/s/ Michael W. Aguiar
Michael W. Aguiar
Senior Vice President, Finance
and Chief Financial Officer

Table of Contents

EXHIBIT INDEX

Exhibit Number	Description	Form	Incorporated by Reference Filing Date/Period End Date
3.3	Amended and Restated Certificate of Incorporation	S-1	7/26/04
3.4	Certificate of Amendment of Restated Certificate of Incorporation	10-Q	3/31/07
3.5	Amended and Restated Bylaws (as amended by the board of directors April 25, 2007)	10-Q	9/30/08
4.1	Specimen certificate representing the common stock of the registrant	10-K	12/31/06
4.2	Amended and Restated Rights Agreement between Theravance, Inc. and The Bank of New York, as	10-Q	6/30/07

	Rights Agent, dated as of June 22, 2007		
4.3	Indenture dated as of January 23, 2008 by and between Theravance, Inc. and The Bank of New York Trust Company, N.A., as trustee	8-K	1/23/08
4.4	Form of 3.0% Convertible Subordinated Note Due 2015 (included in Exhibit 4.3)		
4.5	Amendment to Amended and Restated Rights Agreement between the registrant and The Bank of New York Mellon Corporation, as Rights Agent, dated November 21, 2008	8-K	11/25/08
10.4	Employee Stock Purchase Plan, as amended April 27, 2010		
10.49	Consulting Agreement effective as of April 27, 2010 between the registrant and P. Roy Vagelos, M.D.		
10.50	First Amendment to Lease for 901 Gateway Boulevard effective as of June 1, 2010 between ARE-901/951 Gateway Boulevard, LLC and Theravance, Inc.		
10.51	First Amendment to Lease for 951 Gateway Boulevard effective as of June 1, 2010 between ARE-901/951 Gateway Boulevard, LLC and Theravance, Inc.		
31.1	Certification of Chief Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a) promulgated pursuant to the Securities Exchange Act of 1934, as amended		
31.2	Certification of Chief Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a) promulgated pursuant to the Securities Exchange Act of 1934, as amended		
32	Certifications Pursuant to 18 U.S.C. Section 1350		

Exhibit 10.4

THERAVANCE, INC.

2004 EMPLOYEE STOCK PURCHASE PLAN

(AS ADOPTED MAY 27, 2004 AND AMENDED ON APRIL 19, 2005, DECEMBER 11, 2007, DECEMBER 10, 2008 AND APRIL 27, 2010)

TABLE OF CONTENTS

THERAVANCE, INC.

2004 EMPLOYEE STOCK PURCHASE PLAN

SECTION 1. PURPOSE OF THE PLAN.

The Board adopted the Plan effective as of the date of the IPO. The Plan shall be implemented on such date following its effectiveness as shall be determined by the Board in its discretion. The purpose of the Plan is to provide Eligible Employees with an opportunity to increase their proprietary interest in the success of the Company by purchasing Stock from the Company on favorable terms and to pay for such purchases through payroll deductions. The Plan is intended to qualify for favorable tax treatment under Section 423 of the Code.

SECTION 2. ADMINISTRATION OF THE PLAN.

(a) **Committee Composition**. The Committee shall administer the Plan. The Committee shall consist exclusively of one or more directors of the Company, who shall be appointed by the Board.

(b) **Committee Responsibilities**. The Committee shall interpret the Plan and make all other policy decisions relating to the operation of the Plan. The Committee may adopt such rules, guidelines and forms as it deems appropriate to implement the Plan. The Committee's determinations under the Plan shall be final and binding on all persons.

SECTION 3. STOCK OFFERED UNDER THE PLAN.

(a) **Authorized Shares**. The number of shares of Stock available for purchase under the Plan shall be 1,475,000(1) (subject to adjustment pursuant to Subsection (b) below).

(b) **Anti-Dilution Adjustments**. The aggregate number of shares of Stock offered under the Plan, the 2,500-share limitation described in Section 8(c) and the price of shares that any Participant has elected to purchase shall be adjusted proportionately for any increase or decrease in the number of outstanding shares of Stock resulting from a subdivision or consolidation of shares or the payment of a stock dividend, any other increase or decrease in such shares effected without receipt or payment of consideration by the Company, the distribution of the shares of a Subsidiary to the Company's stockholders, or a similar event.

(1) All share numbers reflect the reverse stock split approved in connection with the IPO. Reflects 300,000 share increase approved by the stockholders on June 30, 2005. Reflects 300,000 share increase approved by the Compensation Committee of the Board on December 11, 2007 and approved by stockholders at the Annual Stockholders Meeting on April 22, 2008. Reflects 550,000 share increase approved by the Board on December 10, 2008 and approved by stockholders at the Annual Stockholders Meeting on April 24, 2009.

(c) **Reorganizations**. Any other provision of the Plan notwithstanding, immediately prior to the effective time of a Corporate Reorganization, the Offering Period and Accumulation Period then in progress shall terminate and shares shall be purchased pursuant to Section 8, unless the Plan is continued or assumed by the surviving corporation or its parent corporation. The Plan shall in no event be construed to restrict in any way the Company's right to undertake a dissolution, liquidation, merger, consolidation or other reorganization.

SECTION 4. ENROLLMENT AND PARTICIPATION.

(a) **Offering Periods**. While the Plan is in effect, two overlapping Offering Periods shall commence in each calendar year. The Offering Periods shall consist of the 24-month periods commencing on each May 16 and November 16, except that:

(i) Each Offering Period shall commence on the date designated by the Board or Committee and shall end on the date 24 months later or such shorter period selected by the Board or Committee.

(ii) The Committee may determine that the first Offering Period applicable to the Eligible Employees of a new Participating Company shall commence on any date specified by the Committee.

(iii) An Offering Period shall in no event be longer than 27 months.

(b) **Accumulation Periods**. While the Plan is in effect, two Accumulation Periods shall commence in each calendar year. The Accumulation Periods shall consist of the six-month periods commencing on each May 16 and November 16, except that:

(i) Each Accumulation Period shall commence on May 16 and November 16 and end on the earliest of the next November 15 and May 15, respectively, unless otherwise provided by the Committee.

(ii) The Committee may determine that the first Accumulation Period applicable to the Eligible Employees of a new Participating Company shall commence on any date specified by the Committee.

(c) **Enrollment**. Each Eligible Employee may elect to become a Participant on the first day of an Offering Period by filing the prescribed enrollment form with the Company. The enrollment form shall be filed at the prescribed location not later than the day designated by the Company but in any event prior to the commencement of the Offering Period.

(d) **Duration of Participation**. Once enrolled in the Plan, a Participant shall continue to participate in the Plan until he or she:

(i) Reaches the end of the Accumulation Period in which his or her employee contributions were discontinued under Section 5(d) or 9(b);

(ii) Is deemed to withdraw from the Plan under Subsection (c) above;

(iii) Withdraws from the Plan under Section 6(a); or

(iv) Ceases to be an Eligible Employee.

A Participant whose employee contributions were discontinued automatically under Section 9(b) shall automatically resume participation at the beginning of the earliest Accumulation Period ending in the next calendar year, if he or she then is an Eligible Employee. In all other cases, a former Participant may again become a Participant, if he or she then is an Eligible Employee, by following the procedure described in Subsection (d) above.

(e) **Applicable Offering Period**. For purposes of calculating the Purchase Price under Section 8(b), the applicable Offering Period shall be determined as follows:

(i) Once a Participant is enrolled in the Plan for an Offering Period, such Offering Period shall continue to apply to him or her until the earliest of (A) the end of such Offering Period, (B) the end of his or her participation under Subsection (e) above or (C) re-enrollment for a subsequent Offering Period under Paragraph (ii), (iii) or (iv) below.

(ii) In the event that the Fair Market Value of Stock on the last trading day before the commencement of the Offering Period for which the Participant is enrolled is higher than on the last trading day before the commencement of any subsequent Offering Period, the Participant shall automatically be re-enrolled for such subsequent Offering Period.

(iii) If Section 14(b) applies, the Participant shall automatically be re-enrolled for a new Offering Period.

(iv) Any other provision of the Plan notwithstanding, the Company (at its sole discretion) may determine prior to the commencement of any new Offering Period that all Participants shall be re-enrolled for such new Offering Period.

(v) When a Participant reaches the end of an Offering Period but his or her participation is to continue, then such Participant shall automatically be re-enrolled for the Offering Period that commences immediately after the end of the prior Offering Period.

SECTION 5. EMPLOYEE CONTRIBUTIONS.

(a) **Commencement of Payroll Deductions**. A Participant may purchase shares of Stock under the Plan solely by means of payroll deductions. Payroll deductions shall commence as soon as reasonably practicable after the Company has received the prescribed enrollment form.

(b) **Amount of Payroll Deductions**. An Eligible Employee shall designate on the enrollment form the portion of his or her Compensation that he or she elects to have

withheld for the purchase of Stock. Such portion shall be a whole percentage of the Eligible Employee's Compensation, but not less than 1% nor more than 15%.

(c) **Changing Withholding Rate**. If a Participant wishes to change the rate of payroll withholding, he or she may do so by filing a new enrollment form with the Company at the prescribed location at any time. The new withholding rate shall be effective as soon as reasonably practicable

after the Company has received such form. The new withholding rate shall be a whole percentage of the Eligible Employee's Compensation, but not less than 1% nor more than 15%.

(d) **Discontinuing Payroll Deductions**. If a Participant wishes to discontinue employee contributions entirely, he or she may do so by filing a new enrollment form with the Company at the prescribed location at any time. Payroll withholding shall cease at the date requested by the Participant or thereafter as soon as reasonably practicable after the Company has received such form. (In addition, employee contributions may be discontinued automatically pursuant to Section 9(b).) A Participant who has discontinued employee contributions may resume such contributions by filing a new enrollment form with the Company at the prescribed location. Payroll withholding shall resume as soon as reasonably practicable after the Company has received such form.

(e) **Limit on Number of Elections**. No Participant shall make more than 2 elections under Subsection (c) or (d) above during any Accumulation Period.

SECTION 6. WITHDRAWAL FROM THE PLAN.

(a) **Withdrawal**. A Participant may elect to withdraw from the Plan by filing the prescribed form with the Company at the prescribed location at any time before the last day of an Accumulation Period. As soon as reasonably practicable thereafter, payroll deductions shall cease and the entire amount credited to the Participant's Plan Account shall be refunded to him or her in cash. No partial withdrawals shall be permitted.

(b) **Re-Enrollment After Withdrawal**. A former Participant who has withdrawn from the Plan shall not be a Participant until he or she re-enrolls in the Plan under Section 4(d). Re-enrollment may be effective only at the commencement of an Offering Period.

SECTION 7. CHANGE IN EMPLOYMENT STATUS.

(a) **Termination of Employment**. Termination of employment as an Eligible Employee for any reason, including death, shall be treated as an automatic withdrawal from the Plan under Section 6(a). (A transfer from one Participating Company to another shall not be treated as a termination of employment.)

(b) **Leave of Absence**. For purposes of the Plan, employment shall not be deemed to terminate when the Participant goes on a military leave, a sick leave or another *bona fide* leave of absence, if the leave was approved by the Company in writing. Employment, however, shall be deemed to terminate 90 days after the Participant goes on a leave, unless a contract or statute guarantees his or her right to return to work. Employment shall be deemed to

terminate in any event when the approved leave ends, unless the Participant immediately returns to work.

(c) **Death**. In the event of the Participant's death, the amount credited to his or her Plan Account shall be paid to a beneficiary designated by him or her for this purpose on the prescribed form or, if none, to the Participant's estate. Such form shall be valid only if it was filed with the Company at the prescribed location before the Participant's death.

SECTION 8. PLAN ACCOUNTS AND PURCHASE OF SHARES.

(a) **Plan Accounts**. The Company shall maintain a Plan Account on its books in the name of each Participant. Whenever an amount is deducted from the Participant's Compensation for purposes of the Plan, such amount shall be credited to the Participant's Plan Account. Amounts credited to Plan Accounts shall not be trust funds and may be commingled with the Company's general assets and applied to general corporate purposes. No interest shall be credited to Plan Accounts, except to the extent otherwise provided by the Committee.

(b) **Purchase Price**. The Purchase Price for each share of Stock purchased at the close of an Accumulation Period shall not be less than the lower of:

(i) 85% of the Fair Market Value of such share on the last trading day before the commencement of the applicable Offering Period (as determined under Section 4(f)); or

(ii) 85% of the Fair Market Value of such share on the last trading day in such Accumulation Period.

(iii) The Committee may determine at any time prior to the start of an Accumulation Period that the Purchase Price will be such percentage of the Fair Market Value as the Committee shall determine provided that the price shall not be lower than 85% nor higher than 100% of the Fair Market Value of such share on the last trading day before the commencement of the applicable Offering Period or on the last trading day of an Accumulation Period (whichever of such days is selected by the Committee).

(c) **Number of Shares Purchased**. As of the last day of each Accumulation Period, each Participant shall be deemed to have elected to purchase the number of shares of Stock calculated in accordance with this Subsection (c), unless the Participant has previously elected to withdraw from the Plan in accordance with Section 6(a). The amount then in the Participant's Plan Account shall be divided by the Purchase Price, and the number of shares that results shall be purchased from the Company with the funds in the Participant's Plan Account. The foregoing notwithstanding, no Participant shall purchase more than 2,500 shares of Stock with respect to any Accumulation Period (or such lesser number established by the Committee prior to the beginning of an Accumulation Period) nor more than the amounts of Stock set forth in Sections 3(a) and 9(b). The Committee may determine with respect to all Participants that any fractional share, as calculated under this Subsection (c), shall be (i) rounded down to the next lower whole share or (ii) credited as a fractional share.

(d) **Available Shares Insufficient**. In the event that the aggregate number of shares that all Participants elect to purchase during an Accumulation Period exceeds the maximum number of shares remaining available for issuance under Section 3, then the number of shares to which each Participant is entitled shall be determined by multiplying the number of shares available for issuance by a fraction. The numerator of such fraction is the number of shares that such Participant has elected to purchase, and the denominator of such fraction is the number of shares that all Participants have elected to purchase.

(e) **Issuance of Stock**. Certificates representing the shares of Stock purchased by a Participant under the Plan shall be issued to him or her as soon as reasonably practicable after the close of the applicable Accumulation Period, except that the Committee may determine that such shares shall be held for each Participant's benefit by a broker designated by the Committee (unless the Participant has elected that certificates be issued to him or her). Shares may be registered in the name of the Participant or jointly in the name of the Participant and his or her spouse as joint tenants with right of survivorship or as community property.

(f) **Tax Withholding**. To the extent required by applicable federal, state, local or foreign law, a Participant shall make arrangements satisfactory to the Company for the satisfaction of any withholding tax obligations that arise in connection with the Plan. The Company shall not be required to issue any shares of Stock under the Plan until such obligations are satisfied.

(g) **Unused Cash Balances**. An amount remaining in the Participant's Plan Account that represents the Purchase Price for any fractional share shall be carried over in the Participant's Plan Account to the next Accumulation Period. Any amount remaining in the Participant's Plan Account that represents the Purchase Price for whole shares that could not be purchased by reason of Subsection (c) above, Section 3 or Section 9(b) shall be refunded to the Participant in cash, without interest.

(h) **Stockholder Approval**. Any other provision of the Plan notwithstanding, no shares of Stock shall be purchased under the Plan unless and until the Company's stockholders have approved the adoption of the Plan.

SECTION 9. LIMITATIONS ON STOCK OWNERSHIP.

(a) **Five Percent Limit**. Any other provision of the Plan notwithstanding, no Participant shall be granted a right to purchase Stock under the Plan if such Participant, immediately after his or her election to purchase such Stock, would own stock possessing more than 5% of the total combined voting power or value of all classes of stock of the Company or any parent or Subsidiary of the Company. For purposes of this Subsection (a), the following rules shall apply:

(i) Ownership of stock shall be determined after applying the attribution rules of Section 424(d) of the Code;

(ii) Each Participant shall be deemed to own any stock that he or she has a right or option to purchase under this or any other plan; and

(iii) Each Participant shall be deemed to have the right to purchase 2,500 shares of Stock under this Plan with respect to each Accumulation Period (or such lesser number established by the Committee prior to the beginning of an Accumulation Period).

(b) **Dollar Limit**. Any other provision of the Plan notwithstanding, no Participant shall purchase Stock with a Fair Market Value in excess of the following limit:

(i) In the case of Stock purchased during an Offering Period that commenced in the current calendar year, the limit shall be equal to (A) $25,000 minus (B) the Fair Market Value of the Stock that the Participant previously purchased under the Plan in the current calendar year.

(ii) In the case of Stock purchased during an Offering Period that commenced in the immediately preceding calendar year, the limit shall be equal to (A) $50,000 minus (B) the Fair Market Value of the Stock that the Participant previously purchased under the Plan in the current calendar year and in the immediately preceding calendar year.

(iii) In the case of Stock purchased during an Offering Period that commenced in the second preceding calendar year, the limit shall be equal to (A) $75,000 minus (B) the Fair Market Value of the Stock that the Participant previously purchased under the Plan in the current calendar year and in the two preceding calendar years.

For all purposes under this Subsection (b), the Fair Market Value of Stock shall be determined as of the beginning of the Offering Period in which such Stock is purchased. For all purposes under this Subsection (b), this Plan shall be aggregated with any other employee stock purchase plans of the Company (or any parent or Subsidiary of the Company) that is described in Section 423 of the Code, and employee stock purchase plans not described in Section 423 of the Code shall be disregarded. If a Participant is precluded by this Subsection (b) from purchasing additional Stock under the Plan, then his or her employee contributions shall automatically be discontinued and shall automatically resume at the beginning of the earliest Accumulation Period ending in the next calendar year (if he or she then is an Eligible Employee).

SECTION 10. RIGHTS NOT TRANSFERABLE.

The rights of any Participant under the Plan, or any Participant's interest in any Stock or moneys to which he or she may be entitled under the Plan, shall not be transferable by voluntary or involuntary assignment or by operation of law, or in any other manner other than by beneficiary designation or the laws of descent and distribution. If a Participant in any manner attempts to transfer, assign or otherwise encumber his or her rights or interest under the Plan, other than by beneficiary designation or the laws of descent and distribution, then such act shall be treated as an election by the Participant to withdraw from the Plan under Section 6(a).

SECTION 11. NO RIGHTS AS AN EMPLOYEE.

Nothing in the Plan or in any right granted under the Plan shall confer upon the Participant any right to continue in the employ of a Participating Company for any period of specific duration or interfere with or otherwise restrict in any way the rights of the Participating Companies or of the Participant, which rights are hereby expressly reserved by each, to terminate his or her employment at any time and for any reason, with or without cause.

SECTION 12. NO RIGHTS AS A STOCKHOLDER.

A Participant shall have no rights as a stockholder with respect to any shares of Stock that he or she may have a right to purchase under the Plan until such shares have been purchased on the last day of the applicable Accumulation Period.

SECTION 13. SECURITIES LAW REQUIREMENTS.

Shares of Stock shall not be issued under the Plan unless the issuance and delivery of such shares comply with (or are exempt from) all applicable requirements of law, including (without limitation) the Securities Act of 1933, as amended, the rules and regulations promulgated thereunder, state securities laws and regulations, and the regulations of any stock exchange or other securities market on which the Company's securities may then be traded.

SECTION 14. AMENDMENT OR DISCONTINUANCE.

The Board or Committee shall have the right to amend, suspend or terminate the Plan at any time and without notice. Except as provided in Section 3, any increase in the aggregate number of shares of Stock that may be issued under the Plan shall be subject to the approval of the Company's stockholders. In addition, any other amendment of the Plan shall be subject to the approval of the Company's stockholders to the extent required by any applicable law or regulation. The Plan shall terminate automatically 20 years after its adoption by the Board, unless (a) the Plan is extended by the Board and (b) the extension is approved within 12 months by a vote of the stockholders of the Company.

SECTION 15. DEFINITIONS.

(a) "**Accumulation Period**" means a period during which contributions may be made toward the purchase of Stock under the Plan, as determined pursuant to Section 4(b).

(b) "**Board**" means the Board of Directors of the Company, as constituted from time to time.

(c) "**Code**" means the Internal Revenue Code of 1986, as amended.

(d) "**Committee**" means a committee of the Board, as described in Section 2.

(e) "**Company**" means Theravance, Inc., a Delaware corporation.

(f) "**Compensation**" means (i) the total compensation paid in cash to a Participant by a Participating Company, including salaries, wages, bonuses, incentive compensation, commissions, overtime pay and shift premiums, plus (ii) any pre-tax contributions made by the Participant under section 401(k) or 125 of the Code. "Compensation" shall exclude all non-cash items, moving or relocation allowances, cost-of-living equalization payments, car allowances, tuition reimbursements, imputed income attributable to cars or life insurance, severance pay, fringe benefits, contributions or benefits received under employee benefit plans, income attributable to the exercise of stock options, and similar items. The Committee shall determine whether a particular item is included in Compensation.

(g) "**Corporate Reorganization**" means:

(i) The consummation of a merger or consolidation of the Company with or into another entity or any other corporate reorganization; or

(ii) The sale, transfer or other disposition of all or substantially all of the Company's assets or the complete liquidation or dissolution of the Company.

(h) "**Eligible Employee**" means any employee of a Participating Company who meets both of the following requirements:

(i) His or her customary employment is for more than five months per calendar year and for more than 20 hours per week; and

(ii) He or she has been an employee of a Participating Company for such period (if any) as the Committee may determine before the beginning of the applicable Offering Period.

Officers of the Company shall not participate in the initial Offering Period or in any subsequent Offering Period unless the Committee announces prior to commencement of an Offering Period that officers shall be eligible to participate. The foregoing notwithstanding, an individual shall not be considered an Eligible Employee if his or her participation in the Plan is prohibited by the law of any country that has jurisdiction over him or her or if he or she is subject to a collective bargaining agreement that does not provide for participation in the Plan.

(i) "**Exchange Act**" means the Securities Exchange Act of 1934, as amended.

(j) "**Fair Market Value**" means the market price of Stock, determined by the Committee as follows:

(i) If the Stock was traded on The Nasdaq National Market or The Nasdaq SmallCap Market on the date in question, then the Fair Market Value shall be equal to the last-transaction price quoted for such date by such Market;

(ii) If the Stock was traded on a stock exchange on the date in question, then the Fair Market Value shall be equal to the closing price reported by the applicable composite transactions report for such date; or

(iii) If none of the foregoing provisions is applicable, then the Committee shall determine the Fair Market Value in good faith on such basis as it deems appropriate.

Whenever possible, the determination of Fair Market Value by the Committee shall be based on the prices reported in The Wall Street Journal or as reported directly to the Company by Nasdaq or a stock exchange. Such determination shall be conclusive and binding on all persons.

(k) "**Offering Period**" means a period with respect to which the right to purchase Stock may be granted under the Plan, as determined pursuant to Section 4(a).

(l) "**Participant**" means an Eligible Employee who participates in the Plan, as provided in Section 4.

(m) "**Participating Company**" means (i) the Company and (ii) each present or future Subsidiary designated by the Committee as a Participating Company.

(n) "**Plan**" means this Theravance, Inc. 2004 Employee Stock Purchase Plan, as it may be amended from time to time.

(o) "**Plan Account**" means the account established for each Participant pursuant to Section 8(a).

(p) "**Purchase Price**" means the price at which Participants may purchase Stock under the Plan, as determined pursuant to Section 8(b).

(q) "**Stock**" means the Common Stock of the Company.

(r) "**Subsidiary**" means any corporation (other than the Company) in an unbroken chain of corporations beginning with the Company, if each of the corporations other than the last corporation in the unbroken chain owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

Addendum for International Participants

The Committee may allow Participants who are employed by a Participating Company designated by the Committee, who are not employed by the Company and who work or reside outside of the United States an opportunity to acquire Common Stock pursuant to the Plan in accordance with such special terms and conditions as the Committee may designate with respect to each such Participating Company. Without limiting the authority of the Committee, the special terms and conditions which may be established with respect to each such Participating Company, and which need not be the same for all Participating Companies, include but are not limited to the right to participate, procedures for elections to participate, the payment of any interest with respect to amounts received from or credited to accounts held for the benefit of Participants, the purchase price of any shares to be acquired, the length of any purchase period, the maximum amount of contributions, credits or Stock which may be acquired by any Participant, and a Participant's rights in the event of his or her death, disability, withdrawal from the Plan, termination of employment on behalf of the Company and all matters related thereto. This Addendum is not subject to Section 423 of the Code or any other provision of the Plan that refers to or is based upon such Section. For purposes of United States tax laws, this Addendum shall be treated as separate and apart from the balance of the Plan.

CONSULTING AGREEMENT

Effective April 27, 2010 (the "Effective Date") P. Roy Vagelos, M.D., 82 Mosle Road, Far Hills, NJ 07931 ("Consultant") and Theravance, Inc., 901 Gateway Boulevard, South San Francisco CA 94080 ("Theravance" or the "Company") agree as follows:

1. Services and Payment. Upon his retiring from the Theravance Board on April 27, 2010, Consultant agrees to continue to consult with and advise Theravance from time to time, at Theravance's request ("Services") at mutually convenient times, but in any event not more than once every three (3) months, for the primary purpose of assisting the Chief Executive Officer and the Senior Vice President—Research and Early Clinical Development with questions relating to the business of Theravance. As full payment for the Services provided during term of this Agreement:

(i) Consultant will receive a total consulting fee of $80,000.00 for his Services during the term of this Agreement, payable in equal monthly installments on the last day of each month beginning May 31, 2010;

(ii) Consultant will continue to vest in all of his currently outstanding (a) options to purchase the Company's common stock and (b) restricted stock unit awards (RSUs) through the expiration or earlier termination of this Agreement in accordance with the terms of such options and RSUs (as the same may be amended from time to time, including as contemplated by clauses (iii)(and (iv) below);

(iii) Consultant's outstanding options to purchase the Company's common stock shall be amended to provide that such options will remain exercisable with respect to any option shares that are vested as of the termination of Consultant's service for the length of the option term, notwithstanding Consultant's earlier cessation of service to the Company, subject to earlier termination of such options in the event of certain corporate transactions as described in Sections 11.2 and 11.3 of the Company's 2004 Equity Incentive Plan; and

(iv) provided Consultant remains in continuous Service through December 31, 2011, the last 2,408 shares subject to Consultant's RSU granted on April 22, 2008 scheduled to vest during calendar 2012 shall instead vest on December 31, 2011. Consultant understands that issuance of the shares underlying any of his RSUs (settlement) will occur in accordance with the terms of his RSUs.

Consultant shall also be entitled to reimbursement for expenses for which Consultant has received prior approval from Theravance within thirty (30) days of Consultant's submission of receipts thereof. Theravance will pay all o fConsultant's travel, lodging and related expenses where he is actively consulting. Payment of the consulting fee will be made within 30 days of the Company's receipt of a reasonably detailed invoice from Consultant.

---

2. Ownership of Inventions. Theravance shall own all right, title and interest (including patent rights, copyrights, trade secret rights, trademark rights and all other rights of any sort throughout the world) relating to any and all inventions (whether or not patentable), including without limitation, discoveries, compositions of matter, pharmaceutical formulations, methods of use, methods of making, techniques, processes, formulas, improvements, works of authorship, designations, designs, know-how, ideas and information made or conceived or reduced to practice, in whole or in part, by Consultant (solely or jointly with others) during the term of this Agreement that arise out of or relate to the Services or any Proprietary Information (as defined below) (collectively, "Inventions"). Consultant will promptly disclose, provide and assign all Inventions to Theravance. Consultant shall further assist Theravance, at Theravance's expense, to further evidence, record and perfect such assignments, and to perfect, obtain, maintain, enforce, and defend any rights assigned throughout the world. Such assistance may include, but is not limited to, execution of documents and assistance or cooperation in legal proceedings. Consultant hereby irrevocably designates and appoints Theravance as his agent and attorney-in-fact to act for and on Consultant's behalf to execute and file any document and to do all other lawfully permitted acts to further the foregoing with the same legal force and effect as if executed by Consultant. When requested by Theravance, Consultant will make available to Theravance all notes, data and other information relating to any Invention.

3. Proprietary Information. Consultant agrees that all Inventions and other business, technical and financial information concerning Theravance (including, without limitation, the identity of and information relating to Theravance's employees, vendors and service providers) that Consultant develops, learns or obtains during the term of this Agreement or while he is providing Services constitute "Proprietary Information." Consultant will hold in confidence and not disclose or make available to third parties or make use of any Proprietary Information except with the prior written consent of Theravance or to the extent necessary in performing Services for Theravance. However, Consultant shall not be obligated under this paragraph with respect to information Consultant can document (i) is or becomes readily publicly available without restriction through no fault of Consultant, or (ii) that Consultant knew without restriction prior to its disclosure by Theravance. Upon termination of this Agreement or as otherwise requested by Theravance, Consultant will promptly return to Theravance all documents, materials and copies containing or embodying Proprietary Information, except that Consultant may keep a personal copy of (i) compensation records relating to the Services and (ii) this Agreement.

4. Solicitation. As additional protection for Proprietary Information, Consultant agrees that during the term of this Agreement and for one year thereafter, Consultant will not encourage or solicit any employee of or consultant to Theravance to leave Theravance for any reason.

5. Term and Termination. This Agreement shall become effective on the Effective Date and remain in force until the earlier of December 31, 2011 or when terminated by either party. Consultant may terminate this Agreement at any time, for any reason, by giving Theravance thirty days advance written notice and Theravance will be liable for the consulting

---

fees accrued through the end of the month in which the Agreement terminates. Theravance may terminate this Agreement prior to December 31, 2011 only for cause, which for purposes hereof shall mean: (i) the unauthorized use or disclosure of the confidential information or trade secrets of the Company; (ii) conviction of a felony under the laws of the United States or any state thereof; (iii) gross negligence; (iv) a material breach of this Agreement which has not been cured within ten days after receiving written notification from the Company; (v) failure to perform lawful assigned Services as contemplated hereby for ten days after receiving written notification from the Company. Theravance will be liable for the consulting fees accrued through the end of the month in which the Agreement terminates. The Consultant is entitled to the total consulting fee described in Section 1(i) above, unless, prior to December 31, 2011, the Consultant terminates the Agreement or Theravance terminates the Agreement for cause. All provisions of this Agreement and any remedies for breach of this Agreement shall survive any termination or expiration.

6. Relationship of the Parties. Notwithstanding any provision hereof, for all purposes of this Agreement each party shall be and act as an independent contractor and not as a partner, joint venturer, or agent of the other and shall not bind nor attempt to bind the other to any contract. Consultant is an independent contractor and is solely responsible for all taxes, withholdings, and other statutory or contractual obligations of any sort, including, but not limited to, Workers' Compensation Insurance. Consultant recognizes and agrees that Consultant has no expectation of privacy with respect to Theravance's telecommunications, networking or information processing systems (including, without limitation, computer files, email messages and attachments, and voice messages) and that Consultant's activity, and any files or messages, on or using any of those systems may be monitored at any time without notice.

7. Assignment. This Agreement and the Services performed hereunder are personal to Consultant and Consultant shall not have the right or ability to assign, transfer, or subcontract any obligations under this Agreement without the written consent of Theravance. Any attempt to do so shall be void. Theravance shall not have the right to assign or transfer this Agreement to a third party without the written consent of Consultant.

8. No Conflict. Consultant represents and warrants that (i) his performance hereunder will not breach any agreement or obligation to keep in confidence proprietary information acquired by Consultant in confidence or trust prior to or during Consultant's engagement with Theravance, and (ii) all work under this Agreement will be Consultant's original work and none of the Services or Inventions or any development, use, production, distribution or exploitation thereof will infringe, misappropriate or violate any intellectual property or other right of any person or entity. Consultant represents and warrants that he has not entered into, and agrees that he will not enter into, any agreement whether written or oral in conflict with this Agreement or with his obligations as a consultant to Theravance.

9. Company Policies. Consultant represents that he has read the Theravance Insider Trading Policy provided herewith and the Theravance Code of Business Conduct located at http://files.shareholder.com/downloads/THERA/558292177x0x249170/2b36461a-d8f6-44bf-901d-07448c4f42db/THERAconduct.pdf,

and agrees to abide by each such policy during the term of this Agreement.

10. Remedies. Any breach of Section 2, 3, 4 or 8 will cause irreparable harm to Theravance for which damages would not be an adequate remedy, and, therefore, Theravance will be entitled to injunctive relief with respect thereto in addition to any other remedies. The failure of either party to enforce its rights under this Agreement at any time for any period shall not be construed as a waiver of such rights.

11. Entire Agreement. This Agreement supersedes all prior agreements between the parties and constitutes the entire agreement between the parties as to the subject matter hereof.

12. Notices. All notices, requests and other communications called for by this Agreement shall be deemed to have been given if made in writing and mailed, postage prepaid, to the address of each party set forth above, or to such other addresses as either party shall specify to the other.

13. Amendments. No changes or modifications or waivers to this Agreement will be effective unless in writing and signed by both parties.

14. Severability. In the event that any provision of this Agreement shall be determined to be illegal or unenforceable, that provision will be limited or eliminated to the minimum extent necessary so that this Agreement shall otherwise remain in full force and effect and enforceable.

15. Arbitration. Subject to the exceptions set forth below, Consultant understands and agrees that any disagreement regarding this Agreement will be determined by submission to arbitration as provided by Section 1280 et seq. of the California Code of Civil Procedure, and not by a lawsuit or resort to court process proceedings. The only claims or disputes not covered by this paragraph are claims or disputes related to issues affecting the validity, infringement or enforceability of any trade secret or patent rights held or sought by Theravance or which Theravance could otherwise seek; in which case such claims or disputes shall not be subject to arbitration and will be resolved pursuant to applicable law.

16. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of California without regard to conflicts of law provisions thereof. In any action or proceeding to enforce rights under this Agreement, the prevailing party shall be entitled to recover costs and attorneys fees.

Consultant	Theravance, Inc.
/s/ Roy Vagelos	By: /s/ William H. Waltrip
(signature)	(signature)
	Name: William H. Waltrip
	Title: Lead Independent Director

FIRST AMENDMENT TO LEASE

THIS FIRST AMENDMENT TO LEASE (this "**First Amendment**") is made as of June 1, 2010 ("**Effective Date**"), by and between **ARE-901/951 GATEWAY BOULEVARD, LLC**, a Delaware limited liability company ("**Landlord**"), and **THERAVANCE, INC.**, a Delaware corporation ("**Tenant**").

RECITALS

A. Landlord and Tenant are now parties to that certain Lease Agreement dated January 1, 2001 (the "**Lease**"). Pursuant to the Lease, Tenant leases certain premises consisting of approximately 110,428 rentable square feet ("**Premises**") in a building located at 901 Gateway Boulevard, South San Francisco, California. The Premises are more particularly described in the Lease. Capitalized terms used herein without definition shall have the meanings defined for such terms in the Lease.

B. Landlord and Tenant desire, subject to the terms and conditions set forth below, to amend the Lease to, among other things, (i) extend the Term of the Lease, and (ii) provide Tenant with an additional tenant improvement allowance.

NOW, THEREFORE, in consideration of the foregoing Recitals, which are incorporated herein by this reference, the mutual promises and conditions contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Landlord and Tenant hereby agree as follows:

1. **Term**. The "**Expiration Date**" of the Term of the Lease is hereby extended from March 31, 2012, until May 31, 2020. From and after the Effective Date, references in the Lease to "Term" shall mean the one hundred twenty (120) months commencing on June 1, 2010 and expiring on May 31, 2020.

2. **Monthly Base Rent**. Notwithstanding anything to the contrary contained in the Lease, commencing on the Effective Date of this First Amendment, Monthly Base Rent shall be payable pursuant to the following table:

Time Period	Monthly Base Rent
6/1/10 — 5/31/11	$287,112.80 per month
6/1/11 — 3/31/12	$309,198.40 per month
4/1/12 — 3/31/13	$325,762.60 per month
4/1/13 — 3/31/14	$335,535.48 per month
4/1/14 — 3/31/15	$345,601.54 per month
4/1/15 — 3/31/16	$355,969.59 per month
4/1/16 — 3/31/17	$366,648.68 per month
4/1/17 — 3/31/18	$377,648.14 per month
4/1/18 — 3/31/19	$388,977.58 per month
4/1/19 — 3/31/20	$400,646.91 per month
4/1/20 — 5/31/20	$412,666.32 per month

Notwithstanding the foregoing, the above-referenced Monthly Base Rent payable by Tenant (i) shall be reduced by $55,556.00 per month for the period commencing June 1, 2010, through November 30, 2011, and (ii) shall be increased by $62,223.00 for the period commencing December 1, 2011, through May 31, 2013.

3. **Additional Tenant Improvement Allowance**. From and after the Effective Date, Landlord shall make available to Tenant a tenant improvement allowance of up to $2,606,840.00 (the "**Additional TI Allowance**") for the design and construction of fixed and permanent

improvements in the Premises and in Tenant's premises located on the third floor of the adjacent Building located at 951 Gateway Boulevard ("**951 Premises**") desired by and performed by Tenant (provided that Tenant may not spend more than $782,052.00 of the Additional TI Allowance in the 951 Premises), and which improvements shall be of a fixed and permanent nature (the "**Additional Tenant Improvements**"). Tenant acknowledges that (i) the Additional Tenant Improvements shall be constructed pursuant to space plans mutually agreed upon by Landlord and Tenant pursuant to this paragraph, and (ii) upon the expiration of the Term of the Lease, the Additional Tenant Improvements shall become the property of Landlord and Tenant shall not be obligated to remove, and may not remove, the Additional Tenant Improvements at any time during the Term, including upon the expiration or earlier termination of the Lease. Tenant shall deliver to Landlord space plans detailing Tenant's requirements for the Additional Tenant Improvements following the preparation of the same by Tenant's architect. Not more than ten (10) days thereafter, Landlord shall deliver to Tenant either written consent to the space plans, which consent of the space plans shall not be unreasonably withheld, conditioned or delayed, or the written objections, questions or comments of Landlord with regard to the space plans. Representatives of both parties shall promptly make themselves available to discuss and resolve any such objections, questions or comments. In the event the parties cannot reach agreement and resolve all disputed matters relating to any such documents, the parties shall promptly meet and confer and negotiate in good faith to reach agreement on any disputed matters. Tenant shall cause the space plans to be revised to address any agreed-upon changes and shall resubmit said space plans to Landlord for approval within five (5) business days thereafter. Such process shall continue until Landlord has reasonably approved the space plans. The foregoing process also shall apply to Tenant's preparation of final plans and specifications which describe the Additional Tenant Improvements and are based on the approved space plans, and Landlord's approval of the final plans and specifications shall not be unreasonably withheld, conditioned or delayed. Notwithstanding anything to the contrary contained herein, Tenant shall have the right to use up to $250,000 of the Additional TI Allowance to purchase and install within the Premises furniture, cubicles and other personal property and non-Building system materials and equipment, including, but not limited to, Tenant's voice or data cabling, non-ducted biological safety cabinets and other scientific equipment. Except for the Additional TI Allowance, Tenant shall be solely responsible for all of the costs of the Additional Tenant Improvements. The Additional

Tenant Improvements shall be treated as Alterations and shall be undertaken pursuant to Paragraph 12 of the Lease, except to the extent the provisions of Paragraph 12 conflict with the provisions of this Section 3, in which case the provisions of this Section 3 shall control. The contractor for the Additional Tenant Improvements shall be selected by Tenant, subject to Landlord's approval, which approval shall not be unreasonably withheld, conditioned or delayed. Prior to the commencement of construction of the Additional Tenant Improvements, Tenant shall deliver to Landlord a copy of any contract with Tenant's contractors (including the architect), and certificates of insurance from any contractor performing any part of the Additional Tenant Improvements evidencing industry standard commercial general liability, automotive liability, "builder's risk", and workers' compensation insurance. Tenant shall cause the general contractor to provide a certificate of insurance naming Tenant, Landlord, Alexandria Real Estate Equities, Inc., and Landlord's lender (if any) as additional insureds for the general contractor's liability coverages required above.

During the course of design and construction of the Additional Tenant Improvements, Landlord shall reimburse Tenant for the cost of the Additional Tenant Improvements once a month against a draw request in Landlord's commercially reasonable standard form, containing evidence of payment of the applicable costs and such certifications, lien waivers (including a conditional lien release for each progress payment and unconditional lien releases for the prior month's progress payments), inspection reports and other matters as Landlord reasonably and customarily obtains, to the extent of Landlord's approval thereof for payment, no later than thirty (30) days following receipt of such draw request. Upon completion of the Additional Tenant Improvements (and prior to any final disbursement of the Additional TI Allowance), Tenant shall provide to Landlord the following items: (i) sworn statements setting forth the names of all contractors and subcontractors

who did work on the Additional Tenant Improvements and final lien waivers from all such contractors and subcontractors; and (ii) "as built" plans for the Additional Tenant Improvements. Notwithstanding the foregoing, if the cost of the Additional Tenant Improvements exceeds the Additional TI Allowance, Tenant shall be required to pay such excess. Except as specifically provided in the immediately following paragraph, the Additional TI Allowance shall only be available for use by Tenant for the construction of the Additional Tenant Improvements for a period of twenty-four (24) months following the Effective Date of this First Amendment and any portion of the Additional TI Allowance which has not been requested by Tenant for disbursement by Landlord on or before June 30, 2012 shall be forfeited and shall not be available for use by Tenant.

Notwithstanding anything to the contrary contained herein, Tenant may elect to apply a portion of the Additional TI Allowance, up to $1,042,736.00, to the payment of Monthly Base Rent due under the Lease. Tenant shall notify Landlord in writing not later than thirty (30) days prior to the first day of the month in which Tenant desires that the credit against Monthly Base Rent commence (provided; however, that in no event shall Tenant deliver such notice after June 30, 2012), and Tenant's notice shall state the amount of the Additional TI Allowance that Tenant will take as a credit against Monthly Base Rent ("**Rent Credit**"). The Rent Credit shall be applied to Monthly Base Rent next coming due after the date of Tenant's notice until credited in full.

4. **Letter of Credit**. The definition of "**Letter of Credit**" in the Basic Lease Information is hereby deleted and replaced with the following:

"*Letter of Credit*: $833,333.33"

5. **Security Deposit**. Effective as of the Effective Date of this First Amendment, Paragraph 7 of the Lease is hereby deleted in its entirety and replaced with the following:

"**7. Security Deposit**. Tenant has deposited with Landlord a security deposit (the "**Security Deposit**") for the performance of all of Tenant's obligations hereunder in the amount set forth in the Letter of Credit section in the Basic Lease Information, which Security Deposit shall be in the form of an unconditional and irrevocable stand-by letter of credit (the "**Letter of Credit**"): (i) in form and substance reasonably satisfactory to Landlord, (ii) naming Landlord as beneficiary, (iii) expressly allowing Landlord to draw upon it at any time from time to time by delivering to the issuer notice that Landlord is entitled to draw thereunder pursuant to the terms of this Lease, (iv) issued by an FDIC-insured financial institution reasonably satisfactory to Landlord ("**LC Issuing Bank**"), (v) redeemable by presentation of LC Issuing Bank's sight draft in person, by nationally recognized overnight courier or by facsimile; and (vi) having an expiration date not earlier than ninety (90) days after the Expiration Date or, in the alternative, have a term of not less than one (1) year and be automatically renewable for an additional one (1) year periods (provided, however, that the final Letter of Credit shall not expire earlier than ninety (90) days after the Expiration Date) unless, on or before the date forty-five (45) days prior to the expiration of the term of such Letter of Credit, the LC Issuer gives notice to Landlord of its election not to renew such Letter of Credit for any additional period pursuant thereto. If Tenant does not provide Landlord with a substitute Letter of Credit complying with all of the requirements hereof at least 10 days before the stated expiration date of any then current Letter of Credit, Landlord shall have the right to draw the full amount of the current Letter of Credit and hold the funds drawn in cash without obligation for interest thereon as the Security Deposit. The Security Deposit shall be held by Landlord as security for the performance of Tenant's obligations under this Lease. The Security Deposit is not an advance rental deposit or a measure of Landlord's damages in case of Tenant's default. Upon each occurrence of a Default (as defined in Paragraph 24) by Tenant under this Lease, Landlord may use all or any part of the Security Deposit to pay delinquent payments due under this Lease, future rent damages under California Civil Code Section 1951.2, and the cost of any damage, injury, expense or liability caused by such Default, without prejudice

to any other remedy provided herein or provided by law. Landlord's right to use the Security Deposit under this Paragraph 7 includes the right to use the Security Deposit to pay future rent damages following the termination of this Lease pursuant to Paragraph 25.5 below. Upon any use of all or any portion of the Security Deposit, Tenant shall pay Landlord within twenty (20) days after receipt of written demand the amount that will restore (by delivery of a replacement or amended Letter of Credit) the Security Deposit to the amount set forth in the definition of "Letter of Credit" set forth in the Basic Lease Information of this Lease. Tenant hereby waives the provisions of any law, now or hereafter in force, including, without limitation, California Civil Code Section 1950.7, which provide that Landlord may claim from a security deposit only those sums reasonably necessary to remedy defaults in the payment of rent, to repair damage caused by Tenant or to clean the Premises, it being agreed that Landlord may, in addition, claim those sums reasonably necessary to compensate Landlord for any other loss or damage, foreseeable or unforeseeable, caused by the Default of Tenant or any of Tenant's Agents under this Lease. Upon bankruptcy or other debtor-creditor proceedings against Tenant, the Security Deposit shall be deemed to be applied first to the payment of Rent and other charges due Landlord for periods prior to the filing of such

proceedings, subject to applicable bankruptcy law. If Tenant shall fully perform every provision of this Lease to be performed by Tenant and Landlord is holding cash in the amount of the Letter of Credit or cash proceeds therefrom, the Security Deposit, or any balance thereof (i.e., after deducting therefrom all amounts to which Landlord is entitled under the provisions of this Lease), shall be returned to Tenant within ninety (90) days after the expiration or earlier termination of this Lease. If, in lieu of a cash Security Deposit, Landlord is holding the Letter of Credit upon the expiration or earlier termination of this Lease, Landlord shall comply with the LC Issuer's requirements necessary to cancel the Letter of Credit by the date that is ninety (90) days after the expiration or earlier termination of this Lease.

Notwithstanding anything contained in this Paragraph 7 to the contrary, if Landlord draws on the Letter of Credit for any reason, then Tenant shall have the right, upon ten (10) days' prior written notice to Landlord, to obtain a refund from Landlord of any unapplied proceeds of the Letter of Credit which Landlord has drawn upon, any such refund being conditioned upon Tenant simultaneously delivering to Landlord a replacement Letter of Credit in the amount required by, and otherwise meeting the requirements contained in, this Paragraph 7.

Notwithstanding anything to the contrary contained herein or in the 951 Gateway Lease, if requested by Landlord at any time following the date of this Lease, Tenant shall cause the LC Issuing Bank to bifurcate the Letter of Credit into two separate letters of credit, one securing Tenant's obligations under the 951 Gateway Lease and the other securing Tenant's obligations under this Lease. Such bifurcated letters of credit shall each be in an amount specified by Landlord, provided that the aggregate amount of such letters of credit shall equal the amount of the Letter of Credit immediately prior to such bifurcation. Concurrently with the bifurcation of the Letter of Credit, Landlord and Tenant shall enter into a modification of the 951 Gateway Lease and a modification of this Lease, which modifications shall amend Paragraph 7 of the 951 Gateway Lease and this Paragraph 7 to provide for separate, stand-alone security deposit provisions in the 951 Gateway Lease and this Lease.

If Landlord transfers its interest in the Project or this Lease, Landlord shall either (a) transfer any Security Deposit then held by Landlord to a person or entity assuming Landlord's obligations under this Paragraph 7, or (b) return to Tenant any Security Deposit then held by Landlord and remaining after the deductions permitted herein. Upon such transfer to such transferee or the return of the Security Deposit to Tenant, Landlord shall have no further obligation with respect to the Security Deposit, and Tenant's right to the return of the Security Deposit shall apply solely against Landlord's transferee. Landlord's obligation respecting the Security Deposit is that of a debtor, not a trustee, and no interest shall accrue thereon.

Notwithstanding anything to the contrary contained in this Lease, Landlord shall have the right to apply all or any portion of the Security Deposit in connection with any Defaults (as such term is defined in the 951 Gateway Lease) under the 951 Gateway Lease.

For avoidance of doubt, "Security Deposit" shall mean both the Letter of Credit any cash proceeds therefrom."

Tenant shall have up to sixty (60) days from the date of Tenant's execution of this First Amendment to provide Landlord with an amendment to the Letter of Credit which complies with the requirements set forth in the first paragraph of Section 7, as set forth above.

6. **Surrender Plan**. Effective as of the Effective Date of this First Amendment, Paragraph 32.9 of the Lease hereby is deleted in its entirety and replaced with the following:

"**32.9** **Condition of Premises upon Expiration or Termination**. Upon the expiration of the Term or earlier termination of Tenant's right of possession, Tenant shall surrender the Premises to Landlord (y) free of Hazardous Materials brought upon, kept, used, stored, handled, treated, generated in, or released or disposed of from, the Premises by Tenant or Tenant's Agents ("**Tenant HazMat Operations**") in a manner consistent with prudent commercial practices and such that no Hazardous Materials resulting from Tenant HazMat Operations remain at the Premises in violation of Environmental Requirements and the continued presence of such Hazardous Materials are not in excess of industry standards for the occupancy and re-use of the Premises for research and scientific purposes by a subsequent tenant of the Premises, and (z) released of any license, clearance or other authorization of any kind issued by any governmental authority having jurisdiction over the use, storage, handling, treatment, generation, release, disposal, removal or remediation of Hazardous Materials in, on or about the Premises (collectively referred to herein as "**Hazardous Materials Clearances**"). At least 3 months prior to the surrender of the Premises, Tenant shall deliver to Landlord a narrative description of the actions proposed (or required by any governmental authority) to be taken by Tenant in order to surrender the Premises (including any installations permitted by Landlord to remain in the Premises) at the expiration or earlier termination of the Term, free from any residual impact from the Tenant HazMat Operations and in a manner consistent with prudent commercial practices and such that no Hazardous Materials resulting from Tenant HazMat operations remain at the Premises in violation of Environmental Requirements and the continued presence of such Hazardous Materials are not in excess of industry standards for the occupancy and re-use of the Premises for research and scientific purposes by a subsequent tenant of the Premises (the "**Surrender Plan**"). Such Surrender Plan shall be accompanied by a current listing of (i) all Hazardous Materials licenses and permits held by or on behalf of any of Tenant or Tenant's Agents with respect to the Premises, and (ii) all Hazardous Materials used, stored, handled, treated, generated, released or disposed of or from the Premises by Tenant or Tenant's Agents, and shall be subject to the review and approval of Landlord's environmental consultant, which approval shall not be unreasonably withheld, conditioned or delayed. In connection with the review and approval of the Surrender Plan, upon the request of Landlord, Tenant shall deliver to Landlord or its consultant such additional non-proprietary information concerning Tenant HazMat Operations as Landlord reasonably shall request. On or before such surrender, Tenant shall deliver to Landlord commercially reasonable evidence that the approved Surrender Plan has been satisfactorily completed and Landlord shall have the right, subject to reimbursement at Tenant's expense as set forth below, to cause Landlord's environmental consultant to inspect the Premises and perform such additional procedures as may be deemed reasonably necessary to confirm that the Premises are, as of the effective date of such surrender or early termination of the Lease, free from any residual impact from Tenant HazMat Operations as required pursuant to this Paragraph 7. Tenant shall reimburse Landlord, as Additional Rent, for the actual out-of pocket expense incurred by Landlord for Landlord's environmental consultant to review and approve the Surrender Plan and to visit the Premises and verify satisfactory completion of the same, which cost shall not exceed $5,000. Landlord shall have the unrestricted right to deliver

such Surrender Plan (subject to any standard non-reliance letter, if any, prepared by Tenant and delivered by Tenant to Landlord concurrently with Tenant's delivery of the Surrender Plan to Landlord, which non-reliance letter shall be applicable only to third parties other than Landlord) and any report by Landlord's environmental consultant with respect to the surrender of the Premises to Landlord's potential tenants, purchasers, lenders and

other third parties with a need to know in connection with Landlord's business; provided, however, that Landlord instructs such parties to treat the same as confidential.

If Tenant shall fail to prepare or submit a Surrender Plan reasonably approved by Landlord, or if Tenant shall fail to complete the approved Surrender Plan, or if such Surrender Plan, whether or not approved by Landlord, shall fail to adequately address any residual effect of Tenant HazMat Operations in, on or about the Premises, shall fail to adequately address any Hazardous Materials resulting from Tenant's HazMat Operations remaining at the Premises in violation of Environmental Requirements or in a manner not consistent with prudent commercial practices or such that the continued presence of such Hazardous Materials are in excess of industry standards for the occupancy and re-use of the Premises for research and scientific purposes by a subsequent tenant of the Premises, Landlord shall have the right to take such actions as Landlord reasonably may deem reasonable or appropriate to assure that the Premises and the Project are surrendered free from any such residual impact from Tenant HazMat Operations, the cost of which actions shall be reimbursed by Tenant as Additional Rent, without regard to the limitation set forth in the first paragraph of this Paragraph 32.9.

All obligations of Tenant hereunder not fully performed as of the expiration or earlier termination of this Lease, including the obligations of Tenant under Paragraph 32 of this Lease, shall survive the expiration or earlier termination of the Term, including, without limitation, indemnity obligations, payment obligations with respect to rent and obligations concerning the condition and repair of the Premises."

7. **Option to Renew**. Tenant shall have two (2) options (each a "**Renewal Option**") to extend the term of this Lease with respect to the entire Premises for successive periods of five (5) years each (each a "**Renewal Term**") pursuant to the provisions of Paragraph 49 of the Lease.

8. **Right of First Offer**. Notwithstanding anything to the contrary contained herein or in the Lease, Paragraph 51 of the Lease is hereby deleted in its entirety and of no further force or effect and Tenant shall have no further right of first offer or other right to purchase the Building.

9. **Additional Modifications to Lease**. From and after the Effective Date of this First Amendment, the Lease shall be modified as follows:

a. Modification to Basic Lease Information. The Tenant's Contact Person shall be "General Counsel" rather than "Marty Glick".

b. Modification to Paragraph 2.2(a), "Changes to Common Area". The following shall be added at the end of Paragraph 2.2(a): "Notwithstanding the foregoing, Landlord's exercise of the foregoing rights shall not materially interfere with Tenant's access to or use of the Premises to the extent that Tenant's business operations are materially interrupted thereby."

c. Modification to Paragraph 2.2(b), "Changes to Common Area". The second sentence of Paragraph 2.2(b) hereby is deleted and revised to state in its entirety as follows: "During periods of construction only, Landlord shall have the right to provide parking to Tenant on properties reasonably proximate to the Project (the "**Adjacent Properties**") or through the use of valets or parking attendants on the Parking Areas or the Adjacent Properties,

provided that Tenant shall at all times have parking for the number of automobiles contemplated under the Lease."

d. Modification to Paragraph 4.2, "Additional Rent". There shall be added to Paragraph 4.2 a new Paragraph 4.2.10, "Exclusions from Expenses", which reads as follows:

"4.2.11 Exclusions from Expenses. Notwithstanding anything to the contrary contained in this Paragraph 4.2, and in addition to the exclusions set forth in the preceding paragraph, there shall be excluded from Expenses and Additional Rent the following: (i) leasing commissions, advertising expenses, promotional expenses, attorneys' fees, disbursements, and other costs and expenses incurred in procuring prospective tenants, negotiating and executing leases, and constructing improvements required to prepare for a new tenant's occupancy for the Building or the Project, if any; (ii) finance and debt service fees, principal and/or interest on debt or amortization payments on any mortgages executed by Landlord covering Landlord's property, any other indebtedness of Landlord, and rental under any ground lease or leases for the Building or the Project; (iii) any depreciation allowance or expense, amortization (except for expenditures permitted under this Lease) or expense reserve; (iv) the costs of Landlord's third party property manager or, if there is no third party property manager, administration rent in excess of the amount of 3.0% of Base Rent); (v) except for management fees, Landlord's general overhead and any overhead or profit increment to any subsidiary or affiliate of Landlord for services on or to the Project to the extent that the cost of such service exceeds competitive costs for such services rendered by persons or entities of similar skill, competence and experience other than a subsidiary or affiliate of Landlord; (vi) any costs or expenses representing any amount paid for services and materials to a (personal or business) related person, firm, or entity to the extent such amount exceeds the amount that would have been paid for such service or materials at the then existing market rates in the absence of such relationship; (vii) compensation paid to any employee of Landlord above the grade of Property Manager/Building Superintendent, including officers and executives of Landlord (provided that Landlord may pass through as Expenses compensation paid to employees at or below the grade of Property Manager/Building Superintendant or affiliates of Landlord providing services to the Project); (viii) costs of electrical energy furnished and metered directly to tenants of the Project or for which Landlord is entitled to be reimbursed by tenants as additional rental over and above tenant's Monthly Base Rent or pass-through of Expenses; (ix) the cost of any work or service furnished to any tenant or occupant of the Project to a materially greater extent or in a materially more favorable manner than that furnished generally to the tenants and other occupants of the Project, or the costs of work or service furnished exclusively for the benefit of any tenant or occupant of the Project or at such tenant's cost; (x) the costs and expenses incurred in resolving disputes with other tenants, other occupants, or prospective tenants or occupants of the Project, collecting rents or otherwise enforcing leases of the tenants of the Project; (xi) the costs of any work or service performed for any facility other than a facility located within the Project; (xii) the costs of repairs, alterations, and general maintenance necessitated by the gross negligence or willful misconduct of Landlord or its agents, employees, or contractors or repairs; (xiii) interest or penalties due to the late payment by Landlord of taxes, utility bills or other such costs (except to the extent caused by Tenant's action or inaction); (xiv) any of the following tax or assessment expenses: (a) estate, inheritance, transfer, gift, federal, state or franchise taxes of Landlord, or (b) penalties and interest, other than those attributable to Tenant's failure to comply timely with its obligations pursuant to this Lease; and (xv) bad debt expenses and charitable contributions and donations. Landlord agrees that (a) Landlord will not collect or be entitled to collect more than one hundred percent (100%) of the Expenses actually paid by Landlord in connection with the operation of the Project in any calendar year, and (b) Landlord shall make no profit from Landlord's collection of Expenses."

e. Modifications to Paragraph 15, "Tenant's Insurance". The third sentence of Paragraph 15.2 hereby is revised in its entirety to state: "No such policy shall contain a deductible greater than Twenty-Five Thousand Dollars ($25,000.00). Paragraph 15.5 hereby is deleted and revised to state in its entirety as follows: "All insurance required to be carried by Tenant hereunder shall be maintained with insurance companies authorized to do business in the State of California for the issuance of the applicable type of insurance coverage and rated A-VII or better in Best's Key Rating Guide. Tenant shall deliver to Landlord certificates of insurance and true and complete copies of any and all endorsements required herein for all insurance required to be maintained by Tenant hereunder at the execution of this Lease by Tenant. Tenant shall, at least thirty (30) days prior to expiration of each policy, furnish Landlord and the other parties named as additional insureds with certificates of renewal thereof. Tenant shall (i) provide Landlord with 30 days advance written notice of cancellation of each policy, and (ii) require Tenant's insurer to endeavor to provide 30 days advance written notice of cancellation of each policy."

f. Modification to Paragraph 23.2, "Assignment and Subletting — Requirements of Request for Consent". Paragraph 23.2 shall be amended to provide that if Tenant requests consent to a proposed assignment or subletting (except in connection with a Permitted Transfer), whether or not the term of the proposed transfer is for the balance of the Term, Landlord shall have the right to recapture that portion of the Premises that is the subject of the proposed assignment or subletting and terminate the Lease with respect thereto; provided, however, that subsection (3) of Paragraph 23.2 shall be of no further force or effect and Landlord shall not have the right to sublease or take an assignment, as the case may be, of the interest in the Lease that is at issue.

g. Modification to Paragraph 24, "Tenant's Default". The following is hereby added at the end of Paragraph 24.(a): "provided, however, that if Tenant vacates the Premises at any time during the last nine (9) months of the Term but continues to perform all of its obligations hereunder, including, without limitation, maintaining all insurance policies required by this Lease and complying with all of the surrender requirements of Paragraph 32.9, Tenant shall not be deemed to be in default under this Paragraph 24.(a);".

h. Modification to Paragraph 32.2, "Tenant's Obligation to Update Disclosure Certificates". The first sentence of Paragraph 32.2 hereby is deleted and revised to state in its entirety as follows: "Within ten (10) business days after receipt of Landlord's written request, Tenant shall complete, execute and deliver to Landlord an updated Disclosure Certificate (each, an "Updated Disclosure Certificate") describing Tenant's then current and proposed future uses of Hazardous Materials on or about the Premises, which Update Disclosure Certificates shall be in the same format as that which is set forth in Exhibit D or in such other form as is reasonably acceptable to Landlord".

i. Modification to Paragraph 34, "Waiver". The last two sentences of Paragraph 34 hereby are deleted and revised to state in their entirety as follows: "No delay or omission in the exercise of any right or remedy of Landlord or Tenant in regard to any default by the other shall impair such right or remedy or be construed as a waiver. Any waiver by Landlord or Tenant of any default must be in writing and shall not be a waiver of any other default concerning the same or any other provisions of this Lease."

j. Modification to Paragraph 40, "Financial Statements". Paragraph 40 hereby is deleted and revised to state in its entirety as follows: "Within ten (10) days after Landlord's request, Tenant shall deliver to Landlord the then current, or if Tenant is a publicly traded company, the most recent publicly available financial statements of Tenant prepared, compiled or reviewed by a certified public accountant, including a balance sheet and

profit and loss statement for the most recent prior year, all prepared in accordance with GAAP.".

k. New Paragraphs. The following new paragraphs are hereby added to the Lease:

"**54.** **Commercially Reasonable**. Where Landlord or Tenant are required to use "best efforts" in the performance of any obligation under this Lease, "best efforts" shall mean "commercially reasonable good faith efforts."

"**55.** **Force Majeure**. Whenever a period of time is herein prescribed for action (other than the payment of money) to be taken by Landlord or Tenant, such party shall not be liable or responsible for, and there shall be excluded from the computation for any such period of time, any delays due to strikes, riots, acts of God, shortages of labor or materials, war, terrorist activity, governmental laws, regulations or restrictions".

10. **Brokers**. Landlord and Tenant each represents and warrants that it has not dealt with any broker, agent or other person (collectively, "**Broker**") in connection with this First Amendment and that no Broker brought about this transaction, other than BT Cassidy/Turley. Landlord and Tenant each hereby agree to indemnify and hold the other harmless from and against any claims by any Broker, other than the broker, if any named in this Section 11, claiming a commission or other form of compensation by virtue of having dealt with Tenant or Landlord, as applicable, with regard to this First Amendment. Landlord shall pay any commission due to BT Cassidy/Turley in connection with this First Amendment pursuant to a separate written agreement between Landlord and BT Cassidy/Turley.

11. **OFAC**. To Tenant's knowledge, without any duty of inquiry, as of the date of Tenant's execution of this First Amendment, Tenant is currently (a) in compliance with and shall at all times during the Term of the Lease remain in compliance with the regulations of the Office of Foreign Assets Control ("**OFAC**") of the U.S. Department of Treasury and any statute, executive order, or regulation relating thereto (collectively, the "**OFAC Rules**"), (b) not listed on, and shall not during the term of the Lease be listed on, the Specially Designated Nationals and Blocked Persons List maintained by OFAC and/or on any other similar list maintained by OFAC or other governmental authority pursuant to any authorizing statute, executive order, or regulation, and (c) not a person or entity with whom a U.S. person is prohibited from conducting business under the OFAC Rules.

12. **Miscellaneous**.

a. This First Amendment is the entire agreement between the parties with respect to the subject matter hereof and supersedes all prior and contemporaneous oral and written agreements and discussions. This First Amendment may be amended only by an agreement in writing, signed by the parties hereto.

b. This First Amendment is binding upon and shall inure to the benefit of the parties hereto, their respective agents, employees, representatives, officers, directors, divisions, subsidiaries, affiliates, assigns, heirs, successors in interest and shareholders.

c. Landlord and Tenant each acknowledge that it has read the provisions of this First Amendment, understands them, and is bound by them. Time is of the essence in this First Amendment.

d. This First Amendment may be executed in any number of counterparts, each of which shall be deemed an original, but all of which when taken together shall constitute one and the same instrument. The signature page of any counterpart may be detached therefrom without impairing the legal effect of the signature(s) thereon provided such signature page is attached to

any other counterpart identical thereto except having additional signature pages executed by other parties to this First Amendment attached thereto.

e. Except as amended and/or modified by this First Amendment, the Lease is hereby ratified and confirmed and all other terms of the Lease shall remain in full force and effect, unaltered and unchanged by this First Amendment. In the event of any conflict between the provisions of this First Amendment and the provisions of the Lease, the provisions of this First Amendment shall prevail. Whether or not specifically amended by this First Amendment, all of the terms and provisions of the Lease are hereby amended to the extent necessary to give effect to the purpose and intent of this First Amendment.

[Signatures are on the next page.]

IN WITNESS WHEREOF, the parties hereto have executed this First Amendment as of the day and year first above written.

TENANT:

THERAVANCE, INC.,
a Delaware corporation

/s/ Rick E Winningham

By: Rick E Winningham
Its: Chief Executive Officer

LANDLORD:

ARE-901/951 GATEWAY BOULEVARD, LLC,
a Delaware limited liability company

By: ALEXANDRIA REAL ESTATE EQUITIES, L.P.,
a Delaware limited partnership,
managing member

By: ARE-QRS CORP.,
a Maryland corporation,
general partner

/s/ Eric S. Johnson

By: Eric S. Johnson
Its: Vice President, Real Estate Legal Affairs

FIRST AMENDMENT TO LEASE

THIS FIRST AMENDMENT TO LEASE (this "**First Amendment**") is made as of June 1, 2010 ("**Effective Date**"), by and between **ARE-901/951 GATEWAY BOULEVARD, LLC**, a Delaware limited liability company ("**Landlord**"), and **THERAVANCE, INC.**, a Delaware corporation ("**Tenant**").

RECITALS

A. Landlord and Tenant are now parties to that certain Amended and Restated Lease Agreement dated January 1, 2001 (the "**Lease**"). Pursuant to the Lease, Tenant leases certain premises consisting of approximately 59,816 rentable square feet ("**Premises**") in a three (3)-story building located at 951 Gateway Boulevard, South San Francisco, California. The Premises are more particularly described in the Lease. Capitalized terms used herein without definition shall have the meanings defined for such terms in the Lease.

B. Pursuant to that certain Sublease dated February 9, 2009 ("**Sublease**") now between Tenant and IPERIAN, INC., a Delaware corporation (as successor-in-interest to iZumi Bio, Inc.,) ("**Subtenant**"), Tenant subleases to Subtenant the entire second floor of the Building, consisting of approximately 19,988 rentable square feet ("**Second Floor Premises**").

C. Landlord and Tenant desire, subject to the terms and conditions set forth below, to amend the Lease to, among other things, (i) extend the Term of the Lease, (ii) provide for the surrender by Tenant of the entire first floor of the Building, consisting of approximately 19,914 rentable square feet ("**First Floor Premises**") on May 31, 2011 ("**FFP Surrender Date**"), and (iii) provide for the surrender by Tenant of the Second Floor Premises on March 31, 2012 ("**SFP Surrender Date**").

NOW, THEREFORE, in consideration of the foregoing Recitals, which are incorporated herein by this reference, the mutual promises and conditions contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Landlord and Tenant hereby agree as follows:

1. **Term**. The "**Expiration Date**" of the Term of the Lease is hereby extended from March 31, 2012, until May 31, 2020. From and after the Effective Date, references in the Lease to "Term" shall mean the one hundred twenty (120) months commencing on June 1, 2010 and expiring on May 31, 2020.

2. **Premises**.

a. **Following the FFP Surrender Date**. Notwithstanding anything to the contrary contained in the Lease, commencing on June 1, 2011, the definition of "Premises" shall be amended to mean the Second Floor Premises and the Third Floor Premises.

As of June 1, 2011, the Site Plan attached to the Lease as Exhibit A2 describing the Premises shall be deleted and replaced with **Exhibit A** attached hereto.

b. **Following the SFP Surrender Date**. Commencing on April 1, 2012, the definition of "Premises" shall be amended to mean the Third Floor Premises.

As of April 1, 2012, **Exhibit A** attached hereto shall be amended to exclude the Second Floor Premises.

3. **Premises Square Footage**.

a. **Following the FFP Surrender Date**. Commencing on June 1, 2011, the definition of "Premises Square Footage" contained in the Basic Lease Information shall be deleted and replaced with the following:

"*Premises Square Footage*: 39,902 rentable square feet"

b. **Following the SFP Surrender Date**. Commencing on April 1, 2012, the definition of "Premises Square Footage" contained in the Basic Lease Information shall be deleted and replaced with the following:

"*Premises Square Footage*: 19,914 rentable square feet"

4. **Tenant's Proportionate Share**.

a. **Following the FFP Surrender Date**. Commencing on June 1, 2011, the definitions of "Tenant's Proportionate Share of Project" and "Tenant's Proportionate Share of Building" contained in the Basic Lease Information shall be deleted and replaced with the following:

"*Tenant's Proportionate Share of Project*: 66.71%

Tenant's Proportionate Share of Building: 66.71%"

b. **Following the SFP Surrender Date**. Commencing on April 1, 2012, the definitions of "Tenant's Proportionate Share of Project" and "Tenant's Proportionate Share of Building" contained in the Basic Lease Information shall be deleted and replaced with the following:

"*Tenant's Proportionate Share of Project*: 33.29%

Tenant's Proportionate Share of Building: 33.29%"

5. **Monthly Base Rent**.

a. **First Floor Premises/Third Floor Premises**. Notwithstanding anything to the contrary contained in the Lease, commencing on the Effective Date of this First Amendment, Monthly Base Rent for the First Floor Premises and the entire third floor of the Building, consisting of approximately 19,914 rentable square foot feet ("**Third Floor Premises**") shall be payable as follows through the FFP Surrender Date:

Time Period	Monthly Base Rent
6/1/10 — 5/31/11	$103,552.80 per month

b. **Third Floor Premises**. Notwithstanding anything to the contrary contained in the Lease, commencing on June 1, 2011, Monthly Base Rent for the Third Floor Premises shall be payable pursuant to the following table:

Time Period	Monthly Base Rent
6/1/11 — 3/31/12	$55,759.20 per month
4/1/12 — 3/31/13	$58,746.30 per month
4/1/13 — 3/31/14	$60,508.69 per month
4/1/14 — 3/31/15	$62,323.95 per month

4/1/15 — 3/31/16	$64,193.69 per month
4/1/16 — 3/31/17	$66,119.50 per month
4/1/17 — 3/31/18	$68,103.08 per month
4/1/18 — 3/31/19	$70,146.17 per month
4/1/19 — 3/31/20	$72,250.56 per month
4/1/20 — 5/31/20	$74,418.08 per month

c. **Second Floor Premises**. Notwithstanding anything to the contrary contained in the Lease, commencing on the date of this First Amendment, Tenant shall pay to Landlord Monthly Base Rent for the Second Floor Premises through the SFP Surrender Date, as follows:

Time Period	Monthly Base Rent
6/1/10 — 11/30/10	$51,968.80 per month
12/1/10 - 2/28/11	$41,175.28 per month
3/1/11 — 3/31/12	$42,410.54 per month

6. **Notice to Subtenant**. Concurrently with Tenant's execution of this First Amendment, Tenant shall notify Subtenant in writing that the Lease with respect to the Second Floor Premises will terminate as of March 31, 2012, pursuant to this First Amendment, and that Subtenant shall have no right to extend the term of the Sublease beyond March 31, 2012.

7. **Additional Rent**. Notwithstanding anything to the contrary contained in the Lease, commencing on December 1, 2010, until the SFP Surrender Date, Tenant shall be required to pay for Expenses (as defined in Paragraph 4.2 of the Lease) with respect to the Second Floor Premises only in an amount equal to $1.50 per rentable square foot of the Second Floor Premises per month. Notwithstanding the foregoing, Tenant shall continue to pay Expenses and Additional Rent for the First Floor Premises (through the FFP Surrender Date, as the same may be extended pursuant to Section 12(a) below) and the Third Floor Premises as provided for in the Lease.

8. **Additional Tenant Improvement Allowance**. Landlord and Tenant have amended the 901 Gateway Lease to, among other things, provide Tenant an "Additional TI Allowance" of up to $2,606,840.00. Notwithstanding anything to the contrary contained in the 901 Gateway Lease, Tenant shall only have the right to use up to $782,052.00 of the Additional TI Allowance for the design and construction of fixed and permanent improvements within the Third Floor Premises desired by and performed by Tenant and which improvements shall be of a fixed and permanent nature (the "**Additional Tenant Improvements**"); provided, however, that Tenant shall comply with the terms of Section 3 of that certain First Amendment to Lease of even date herewith entered into by Landlord and Tenant with respect to the 901 Gateway Lease in connection with Tenant's use of the Additional TI Allowance and the construction by Tenant of the Additional Tenant Improvements within the Third Floor Premises.

9. **Security Deposit**. Effective as of the Effective Date of this First Amendment, Paragraph 7 of the Lease is hereby deleted in its entirety and replaced with the following:

"**7.** **Security Deposit**. Tenant acknowledges and agrees that Tenant has delivered to Landlord a Security Deposit (as defined in the 901 Gateway Lease) pursuant to the terms of the 901 Gateway Lease and that Landlord shall have the right to apply all or any portion of such Security Deposit in connection with any Default (as defined in Paragraph 24) under this Lease.

The Security Deposit is not an advance rental deposit or a measure of Landlord's damages in case of Tenant's default. Upon each occurrence of a Default by Tenant under this Lease, Landlord may use all or any part of the Security Deposit to pay delinquent payments due

under this Lease, future rent damages under California Civil Code Section 1951.2, and the cost of any damage, injury, expense or liability caused by such Default, without prejudice to any other remedy provided herein or provided by law. Landlord's right to use the Security Deposit under this Paragraph 7 includes the right to use the Security Deposit to pay future rent damages following the termination of this Lease pursuant to Paragraph 25.5 below. Upon any use of all or any portion of the Security Deposit, Tenant shall pay Landlord within twenty (20) days after receipt of written demand the amount that will restore (by the delivery of a replacement or amended Letter of Credit) the Security Deposit to the amount set forth in the definition of "Letter of Credit" set forth in the Basic Lease Information of the 901 Gateway Lease. Tenant hereby waives the provisions of any law, now or hereafter in force, including, without limitation, California Civil Code Section 1950.7, which provide that Landlord may claim from a security deposit only those sums reasonably necessary to remedy defaults in the payment of rent, to repair damage caused by Tenant or to clean the Premises, it being agreed that Landlord may, in addition, claim those sums reasonably necessary to compensate Landlord for any other loss or damage, foreseeable or unforeseeable, caused by the Default of Tenant or any of Tenant's Agents under this Lease. Upon bankruptcy or other debtor-creditor proceedings against Tenant, the Security Deposit shall be deemed to be applied first to the payment of Rent and other charges due Landlord for periods prior to the filing of such proceedings, subject to applicable bankruptcy law. If Tenant shall fully perform every provision of this Lease to be performed by Tenant and Landlord is holding cash in the amount of a bifurcated Letter of Credit (as described below) or cash proceeds therefrom, the Security Deposit, or any balance thereof (i.e., after deducting therefrom all amounts to which Landlord is entitled under the provisions of this Lease), shall be returned to Tenant within ninety (90) days after the expiration or earlier termination of this Lease. If Landlord is holding a bifurcated Letter of Credit upon the expiration or earlier termination of this Lease, Landlord shall comply with the LC Issuer's requirements necessary to cancel the bifurcated Letter of Credit by the date that is ninety (90) days after the expiration or earlier termination of this Lease.

Notwithstanding anything contained in this Paragraph 7 to the contrary, if Landlord draws on the Letter of Credit for any reason, then Tenant shall have the right, upon ten (10) days' prior written notice to Landlord, to obtain a refund from Landlord of any unapplied proceeds of the Letter of Credit which Landlord has drawn upon, any such refund being conditioned upon Tenant simultaneously delivering to Landlord a replacement Letter of Credit in the amount required by, and otherwise meeting the requirements contained in, this Paragraph 7 and Paragraph 7 of the 901 Gateway Lease.

Notwithstanding anything to the contrary contained herein or in the 901 Gateway Lease, if requested by Landlord at any time following the date of this Lease, Tenant shall cause the LC Issuing Bank (as defined in the 901 Gateway Lease) to bifurcate the Letter of Credit (as defined in the 901 Gateway Lease) into two separate letters of credit, one securing Tenant's obligations under the 901 Gateway Lease and the other securing Tenant's obligations under this Lease. Such bifurcated letters of credit shall each be in an amount specified by Landlord, provided that the aggregate amount of such letters of credit shall equal the amount of the Letter of Credit immediately prior to such bifurcation. Concurrently with the bifurcation of the Letter of Credit, Landlord and Tenant shall enter into a modification of the 901 Gateway Lease and a modification of this Lease, which modifications shall amend Paragraph 7 of the 901 Gateway Lease and this Paragraph 7 to provide for separate, stand-alone security deposit provisions in the 901 Gateway Lease and this Lease.

If Landlord transfers its interest in the Project or this Lease, Landlord shall either (a) transfer any Security Deposit then held by Landlord to a person or entity assuming Landlord's obligations under this Paragraph 7, or (b) return to Tenant any Security Deposit then held by Landlord and remaining after the deductions permitted herein. Upon such transfer to such transferee or the return of the Security Deposit to Tenant, Landlord shall have no further obligation with respect to the Security Deposit, and Tenant's right to the return of the Security

Deposit shall apply solely against Landlord's transferee. Landlord's obligation respecting the Security Deposit is that of a debtor, not a trustee, and no interest shall accrue thereon."

10. **Unreserved Parking Spaces**. Commencing on June 1, 2011, the definition of "Unreserved Parking Spaces" contained in the Basic Lease Information shall be deleted and replaced with the following:

"*Unreserved Parking Spaces*: Subject to the terms of Paragraph 50, Tenant shall have the right, in common with other tenants of the Project pro rata in accordance with the rentable area of the Premises and the rentable areas of the Project occupied by such other tenants, to park in the Project Parking Areas (as defined in Paragraph 50)."

11. **Surrender Plan**. Effective as of the Effective Date of this First Amendment, Paragraph 32.9 of the Lease hereby is deleted in its entirety and replaced with the following:

"**32.9 Condition of Premises upon Expiration or Termination**. Upon the expiration of the Term or earlier termination of Tenant's right of possession, Tenant shall surrender the Premises to Landlord (x) free of Hazardous Materials brought upon, kept, used, stored, handled, treated, generated in, or released or disposed of from, the Premises by Tenant or Tenant's Agents ("**Tenant HazMat Operations**") in a manner consistent with prudent commercial practices and such that no Hazardous Materials resulting from Tenant HazMat Operations remain at the Premises in violation of Environmental Requirements and the continued presence of such Hazardous Materials are not in excess of industry standards for the occupancy and re-use of the Premises for research and scientific purposes by a subsequent tenant of the Premises, and (z) released of any license, clearance or other authorization of any kind issued by any governmental authority having jurisdiction over the use, storage, handling, treatment, generation, release, disposal, removal or remediation of Hazardous Materials in, on or about the Premises (collectively referred to herein as "**Hazardous Materials Clearances**"). At least 3 months prior to the surrender of the Premises, Tenant shall deliver to Landlord a narrative description of the actions proposed (or required by any governmental authority) to be taken by Tenant in order to surrender the Premises (including any installations permitted by Landlord to remain in the Premises) at the expiration or earlier termination of the Term, free from any residual impact from the Tenant HazMat Operations and in a manner consistent with prudent commercial practices and such that no Hazardous Materials resulting from Tenant HazMat Operations remain at the Premises in violation of Environmental Requirements and the continued presence of Hazardous Materials are not in excess of industry standards for the occupancy and re-use of the Premises for research and scientific purposes by a subsequent tenant of the Premises (the "**Surrender Plan**"). Such Surrender Plan shall be accompanied by a current listing of (i) all Hazardous Materials licenses and permits held by or on behalf of any of Tenant or Tenant's Agents with respect to the Premises, and (ii) all Hazardous Materials used, stored, handled, treated, generated, released or disposed of or from the Premises by Tenant or Tenant's Agents, and shall be subject to the review and approval of Landlord's environmental consultant, which approval shall not be unreasonably withheld, conditioned or delayed. In connection with the review and approval of the Surrender Plan, upon the request of Landlord, Tenant shall deliver to Landlord or its consultant such additional non-

proprietary information concerning Tenant HazMat Operations as Landlord reasonably shall request. On or before such surrender, Tenant shall deliver to Landlord commercially reasonable evidence that the approved Surrender Plan has been satisfactorily completed and Landlord shall have the right, subject to reimbursement at Tenant's expense as set forth below, to cause Landlord's environmental consultant to inspect the Premises and perform such additional procedures as may be deemed reasonably necessary to confirm that the Premises are, as of the effective date of such surrender or early termination of the Lease, free from any residual impact from Tenant HazMat Operations as required pursuant to this Paragraph 7. Tenant shall reimburse Landlord, as Additional Rent, for the actual out-of pocket expense incurred by Landlord for Landlord's environmental consultant to review and approve the Surrender Plan and to visit the Premises and verify satisfactory completion of the same, which

cost shall not exceed $5,000. Landlord shall have the unrestricted right to deliver such Surrender Plan (subject to any standard non-reliance letter, if any, prepared by Tenant and delivered by Tenant to Landlord concurrently with Tenant's delivery of the Surrender Plan to Landlord, which non-reliance letter shall be applicable only to third parties other than Landlord) and any report by Landlord's environmental consultant with respect to the surrender of the Premises to Landlord's potential tenants, purchasers, lenders and other third parties with a need to know in connection with Landlord's business; provided, however, that Landlord instructs such parties to treat the same as confidential.

If Tenant shall fail to prepare or submit a Surrender Plan reasonably approved by Landlord, or if Tenant shall fail to complete the approved Surrender Plan, or if such Surrender Plan, whether or not approved by Landlord, shall fail to adequately address any residual effect of Tenant HazMat Operations in, on or about the Premises, shall fail to adequately address any Hazardous Materials resulting from Tenant's HazMat Operations remaining at the Premises in violation of Environmental Requirements or in a manner not consistent with prudent commercial practices or such that the continued presence of such Hazardous Materials are in excess of industry standards for the occupancy and re-use of the Premises for research and scientific purposes by a subsequent tenant of the Premises, Landlord shall have the right to take such actions as Landlord reasonably may deem reasonable or appropriate to assure that the Premises and the Project are surrendered free from any such residual impact from Tenant HazMat Operations, the cost of which actions shall be reimbursed by Tenant as Additional Rent, without regard to the limitation set forth in the first paragraph of this Paragraph 32.9.

All obligations of Tenant hereunder not fully performed as of the expiration or earlier termination of this Lease, including the obligations of Tenant under Paragraph 32 of this Lease, shall survive the expiration or earlier termination of the Term, including, without limitation, indemnity obligations, payment obligations with respect to rent and obligations concerning the condition and repair of the Premises."

12. **Surrender of the Surrender Premises**.

a. **First Floor Premises**. The Lease with respect to the First Floor Premises shall terminate as provided for in the Lease on the FFP Surrender Date. Tenant shall voluntarily surrender the First Floor Premises on or before such date in the condition which Tenant is required to surrender the Premises as of the expiration of the Lease. Tenant represents and warrants that since the Commencement Date of the Lease, the First Floor Premises has been used solely for offices purposes, warehousing and shipping and receiving (including the storage of Subtenant's chemicals in the warehouse space and storage of chemical waste in the chemical waste room located in the First Floor Premises). Notwithstanding anything to the contrary contained herein or in the Lease, so long as the First Floor Premises continues to be used solely for office purposes, warehousing and shipping and receiving through the FFP Surrender Date, Tenant shall not be required to provide Landlord a Surrender Plan with respect to the First Floor Premises in connection with Tenant's surrender of the First Floor Premises. From and after the FFP Surrender Date, Tenant shall have no further rights or obligations of any kind with respect to the First Floor Premises. Notwithstanding the foregoing, those provisions of the Lease which, by their terms, survive the termination of the Lease shall survive the surrender of the First Floor Premises and termination of the Lease with respect to the First Floor Premises as provided for herein. Nothing herein shall excuse Tenant from its obligations under the Lease with respect to the First Floor Premises prior to the FFP Surrender Date. Notwithstanding anything to the contrary contained in the Lease, (i) Tenant shall not be required to remove any Tenant Improvements or Alterations from the First Floor Premises in connection with its surrender of the First Floor Premises and all Tenant Improvements and Alterations located in the First Floor Premises shall become the Property of Landlord on the Surrender Date, and (ii) in addition to any such Tenant Improvements and Alterations, all casework, if any, located in the First Floor

Premises as of the date of this First Amendment shall also remain in the First Floor Premises and become the Property of Landlord on the Surrender Date.

Tenant has informed Landlord that Tenant will be relocating certain of its employees currently located in the First Floor Premises to a portion of Tenant's premises located within the 901 Gateway Building (as defined below). Tenant shall have the right to extend the term of the Lease with respect to the First Floor Premises for a period of ninety (90) days in order to complete the relocation of its employees. Not later than 90 days after the mutual execution and delivery of this First Amendment by the parties, Tenant shall notify Landlord in writing ("**FFP Notice**") whether Tenant elects to extend the term of the Lease with respect to the First Floor Premises for such ninety (90) day period. If Tenant delivers the FFP Notice to Landlord within the time period provided in the immediately preceding sentence, the FFP Surrender Date shall be automatically extended for one (1) additional period of ninety (90) days ("**FFP Extension Period**"). During the FFP Extension Period, Tenant shall have the right to continue to occupy the First Floor Premises pursuant to all of the terms and conditions of the Lease, as modified by this First Amendment; provided, however, that Tenant shall be required to pay Monthly Base Rent for the First Floor Premises in an amount equal to $55,759.20 per month for each month of the FFP Extension Period, along with all Additional Rent payable with respect to the First Floor Premises pursuant to the terms of the Lease.

b. **Second Floor Premises**. The Lease with respect to the Second Floor Premises shall terminate as provided for in the Lease on the SFP Surrender Date. Tenant shall voluntarily surrender the Second Floor Premises on or before such date in the condition which Tenant is required to surrender the Premises as of the expiration of the Lease and in compliance with the surrender requirements set forth in the Lease (including this First Amendment). From and after the SFP Surrender Date, Tenant shall have no further rights or obligations of any kind with respect to the Second Floor Premises. Notwithstanding the foregoing, those provisions of the Lease which, by their terms, survive the termination of the Lease shall survive the surrender of the Second Floor Premises and termination of the Lease with respect to the Second Floor Premises as provided for herein. Nothing herein shall excuse Tenant from its obligations under the Lease with respect to the Second Floor Premises prior to the SFP Surrender Date.

Notwithstanding anything to the contrary contained in the Lease, (i) Tenant shall not be required to remove any Tenant Improvements or Alterations from the Second Floor Premises in connection with its surrender of the Second Floor Premises and all Tenant Improvements and Alterations located in the Second Floor Premises shall become the Property of Landlord on the SFP Surrender Date, and (ii) in addition to any such Tenant Improvements and Alterations, all laboratory casework located in the Second Floor Premises as of the date of this First Amendment shall also remain in the Second Floor Premises and become the Property of Landlord on the SFP Surrender Date.

Notwithstanding anything to the contrary contained herein, Tenant acknowledges that Landlord may enter into a direct lease with Subtenant pursuant to which Subtenant would lease the Second Floor Premises directly from Landlord following the SFP Surrender Date ("**Direct Lease**"). If Landlord and Subtenant enter into a Direct Lease prior to the SFP Surrender Date, Tenant shall not be required to provide Landlord a Surrender Plan with respect to the Second Floor Premises in connection with Tenant's surrender of the Second Floor Premises; provided, however, that Landlord shall have the right to conduct any inspections and testing of the Second Floor Premises determined reasonably necessary by Landlord to determine whether the condition of the Second Floor Premises is in compliance with the provisions of the Lease and whether any contamination has occurred in or from the Second Floor Premises. Upon request from Tenant, Landlord shall provide Tenant with a copy of the results of such testing, subject to Landlord's standard non-reliance letter. Notwithstanding anything to the contrary contained herein, Tenant shall be required to pay the cost of such testing of the Second Floor Premises if there is a violation of Paragraph 32 of the Lease caused by Tenant or any of Tenant's Agents or if contamination for which Tenant is responsible under Paragraph 32 of the Lease is identified,

along with all costs incurred to clean up, remove or remediate any contamination identified by the investigations and testing conducted by Landlord hereunder.

c. First Floor Warehouse/Shipping and Receiving. Landlord acknowledges and agrees that from and after the FFP Surrender Date the warehouse and shipping and receiving areas located in the First Floor Premises will be Common Area to which Tenant, Subtenant and other tenants, licensees and occupants of the Building will have shared access for warehouse and shipping and receiving purposes. In addition, in connection with the splitting of services pursuant to Section 13 below, Tenant may be required to locate the new CDA compressor, N2 and CO2 distribution systems and the House Vacuum in the warehouse space, which likely would result in the removal of some existing cages (collectively, the "**Warehouse Relocation Work**"). Subject to the provisions of Section 13 below, Landlord consents to Tenant's installation of the Warehouse Relocation Work in the First Floor warehouse, and Tenant's continued use of the warehouse and shipping and receiving areas in the First Floor Premises in common with other tenants, licensees and occupants of the Building from and after the FFP Surrender Date for such purposes.

13. **Splitting of Services**. Landlord and Tenant acknowledge that because Tenant currently leases the entire Building pursuant to the Lease and that certain adjacent building located at 901 Gateway Boulevard, South San Francisco, California ("**901 Building**") pursuant to the 901 Gateway Lease, the services identified in this Section 13, along with any additional services which may be identified by both Landlord and Tenant, each in the exercise of its reasonable discretion (collectively, "**Shared Services**"), are currently shared between the Building and the 901 Building. Because Tenant is surrendering the First Floor Premises and the Second Floor Premises pursuant to this First Amendment, Tenant has requested that the Shared Services be split pursuant to this Section 13 so that they may independently serve each of the Building and the 901 Building, respectively ("**Splitting Work**").

a. Landlord shall make available to Tenant an allowance of up to $250,000.00 (the "**Splitting Allowance**") for the Splitting Work. Except for the Splitting Allowance, Tenant shall be solely responsible for all of the costs of the Splitting Work. Landlord and Tenant agree to work together in good faith to minimize the cost of the Splitting Work. The Splitting Allowance shall only be available for use by Tenant for the payment of the cost of the Splitting Work until July 31, 2012, and any portion of the Splitting Allowance which has not been disbursed by Landlord for the Splitting Work on or before the expiration of such date shall be forfeited and shall not be available for use by Tenant. Notwithstanding anything to the contrary contained herein, Landlord and Tenant shall agree upon the equitable allocation of the cost of the Splitting Work for any additional Shared Services identified by Landlord and Tenant after July 31, 2012, at the time such additional Shared Services are identified.

b. Unless Landlord elects otherwise, Tenant shall perform the Splitting Work pursuant to plans approved by Landlord, which approval shall not be unreasonably withheld, conditioned or delayed. The contractors for the Splitting Work shall be shall be selected by Tenant, subject to Landlord's approval, which approval shall not be unreasonably withheld. conditioned or delayed. Prior to the commencement of the Splitting Work, Tenant shall deliver to Landlord a copy of any contract with Tenant's contractors and certificates of insurance from any contractor performing any part of the Splitting Work evidencing industry standard commercial general liability, automotive liability, "builder's risk", and workers' compensation insurance. Tenant shall cause the general contractor to provide a certificate of insurance naming Landlord, Alexandria Real Estate Equities, Inc., and Landlord's lender (if any) as additional insureds for the general contractor's liability coverages required above. Landlord shall be entitled to receive the benefit of any warranties, if any, obtained by Tenant with respect to Splitting Work

c. Except as otherwise expressly provided in this Section 13(c), Tenant shall cause the Splitting Work to be completed on or before June 30, 2012. Notwithstanding the foregoing, Tenant shall complete the Splitting Work with respect to the CO2, N2, CDA, DI and House Vacuum distribution of services ("**Specified Services**") no later than April 30, 2012; provided, however, that Landlord may, by not less than one hundred twenty (120) days' prior written notice to Tenant, cause Tenant to complete the Splitting Work with respect to the Specified Services prior to such date if Landlord intends to enter into a lease or other occupancy agreement with a third party (including, without limitation, Subtenant) with respect to any portion of the First Floor Premises and/or Second Floor Premises.

d. Notwithstanding anything to the contrary contained herein, Tenant shall not be required to perform any Splitting Work with respect to the telephone, IT, building management and security systems serving the Building prior to March 31, 2011. Prior to such date, Landlord and Tenant agree to work together in good faith to determine the manner and timing of splitting such systems at the lowest possible cost.

Tenant, at Tenant's sole cost and expense, shall disconnect the existing public address systems serving the First Floor Premises and the Second Floor Premises on or before April 30, 2011.

14. **Utilities**. On or before September 1, 2010, Tenant shall transfer all water, electricity, heat, light, power, sewer, refuse and trash collection contracts for the Building to Landlord. With respect to Tenant's obligation to transfer utilities to Landlord, Tenant and Landlord shall reasonably cooperate to ensure that each such utility will continue to be available to the Building without interruption. Such cooperation shall include working with each party's account representative to coordinate the termination of the utility service in Tenant's name and the commencement of such service in Landlord's name in a manner that permits utility service without disruption. With respect to janitorial services for the Premises, during the Term, as extended, Tenant shall provide janitorial services to the Premises pursuant to its contract for janitorial services with the vendor performing such services for the 901 Building and Landlord shall have no obligation to provide janitorial services to the Premises. Except for janitorial services provided by Landlord with respect to the Common Areas, which shall be passed through as an Expense, Landlord shall provide for its own janitorial service to that portion of the Building not occupied by Tenant, and may not charge Tenant for any portion of such service as an Expense or otherwise.

Notwithstanding anything to the contrary contained in the Lease, as of the date that all such utilities are established in Landlord's name, Paragraph 5.1 of the Lease shall be deleted in its entirety and replaced with the following:

"***5.1 Tenants Obligation to Pay***

Landlord shall provide, subject to the terms of this Paragraph 5.1, water, electricity, heat, light, power, sewer, and other utilities (including natural gas [but not process gas] and fire sprinklers to the extent the Project is plumbed for such services), refuse and trash collection and janitorial services (collectively, "**Utilities**"). Landlord shall pay, as part of Expenses or subject to Tenant's reimbursement obligation, for all Utilities used on the Premises, all maintenance charges for Utilities, and any storm sewer charges or other similar charges for Utilities imposed by any governmental authority or Utility provider, and any taxes, penalties, surcharges or similar charges thereon. Landlord may cause, at Tenant's expense, any Utilities to be separately metered or charged directly to Tenant by the provider. Notwithstanding the foregoing, Tenant's cost for the installation of any separate meter shall not exceed that then-applicable cost of a "Demon Meter" or its reasonable equivalent. Tenant shall pay directly to the Utility provider, prior to delinquency, any separately metered Utilities and services which may be furnished to Tenant or the Premises during the Term. Tenant shall pay, as part of Expenses, its share of all charges for jointly metered Utilities based upon consumption, as reasonably determined by Landlord. Tenant acknowledges that the Premises, the Building and/or the Project may become subject to the

rationing of Utility services or restrictions on Utility use as required by a public utility company, governmental agency or other similar entity having jurisdiction thereof. Tenant acknowledges and agrees that its tenancy and occupancy hereunder shall be subject to such rationing or restrictions as may be imposed upon Landlord, Tenant, the Premises, the Building and/or the Project, and Tenant shall in no event be excused or relieved from any covenant or obligation to be kept or performed by Tenant by reason of any such rationing or restrictions. Upon request from Landlord, Tenant agrees to cooperate in good faith with Landlord to develop the most efficient energy conservation program possible in order to comply with Laws, but in no event shall Landlord have the right to implement any energy conservation program (except to the extent mandated by Law) which unreasonably interferes, in Tenant's reasonable good faith judgment, with Tenant's operation of its business at the Premises. Except to the extent that an energy conservation or program or measure is mandated by Law, Tenant shall have the right, in Tenant's reasonable discretion, to approve in advance any energy conservation program or measure proposed by Landlord."

15. **Emergency Generator**. Although Landlord is the owner of emergency generator and related automatic transfer switches serving the Building and the 901 Building (collectively, the "**Emergency Generator**"), prior to the date of this First Amendment, Tenant, as the sole tenant of the Building and the 901 Building, has been operating and maintaining the Emergency Generator. Tenant shall, on the date that is 1 day after the mutual execution and delivery of this First Amendment by the parties ("**EG Transfer Date**"), (x) deliver the Emergency Generator to Landlord in good working order with a full tank of diesel (y) assign to, transfer and deliver to Landlord all governmental permits and licenses (to the extent such permits and licenses are assignable), if any, warranties (to the extent assignable), operating and maintenance manuals, records and other documents concerning the Emergency Generator, and (y) terminate any service, maintenance or other contracts maintained by Tenant with respect to the Emergency Generator. Tenant has not been obligated to maintain a wastewater permit in connection with the Emergency Generator. With respect to any permit required for the Emergency Generator, Landlord acknowledges and agrees that Tenant has been in the process of obtaining a generator permit in connection with a Tenant permitting process underway with the Bay Area Air Quality Management District ("BAAQMD") for the 901 Building, that Tenant will remove the generator from its permit application with BAAQMD, and that Landlord will need to obtain a generator permit from BAAQMD in its own name. To the best of Tenant's knowledge, Tenant does not have any other permits in connection with the Emergency Generator. To the extent Tenant has current contracts with any vendors for the Emergency Generator, Tenant and Landlord shall reasonably cooperate to assign or terminate such contracts in the manner set forth in Section 14 above regarding utilities.

To the extent it is not possible for Tenant to remove the request for a generator permit from its BAAQMD application or to assign or terminate any service maintenance or other contracts within 1 day after the mutual execution and delivery of this First Amendment, Tenant shall not be in default hereunder if Tenant promptly commences efforts to do so and diligently performs until such actions have been completed within a reasonable period after such date.

Landlord shall, within 5 days of the EG Transfer Date, as part of Expenses, conduct such testing of the Emergency Generator required, in Landlord's sole and absolute discretion, to determine whether the Emergency Generator is, in fact, in good working order. If such testing discloses that the Emergency Generator is not in good working order, Landlord shall have the right, at Tenant's sole cost and expense, to perform any maintenance and/or repairs required to put the Emergency Generator in good working order.

Following the EG Transfer Date, Landlord's sole obligation for either providing emergency generators or providing emergency back-up power to Tenant shall be: (i) to provide emergency generators with not less than the current capacity of the Emergency Generator and Tenant shall be entitled to Tenant's share of the capacity thereof available for use by all tenants

of the Building and the 901 Building, collectively, in accordance with the rentable area of the Premises and the 901 Building and the collective rentable areas of the Building and the 901 Building occupied by such other tenants, (ii) to contract with a third party to maintain the emergency generators ("**Emergency Generator Servicer**") as per the manufacturer's standard maintenance guidelines, and (iii) to obtain and maintain licenses for the emergency generators as required by applicable law. Landlord shall have no obligation to provide Tenant with operational emergency generators or back-up power or to supervise, oversee or confirm that the Emergency Generator Servicer or any other third party maintaining the emergency generators is maintaining the generators as per the manufacturer's standard guidelines or otherwise. Landlord shall provide to Tenant copies of any reports received by Landlord from the Emergency Generator Servicer regarding its maintenance and repairs of the emergency generators; provided, however, that in no event shall Landlord's failure to deliver such reports constitute a default by Landlord under the Lease. During any period of replacement, repair or maintenance of the emergency generators when the emergency generators are not operational, including any delays thereto due to the inability to obtain parts or replacement equipment, Landlord shall have no obligation to provide Tenant with an alternative back-up generator or generators or alternative sources of back-up power. Tenant expressly acknowledges and agrees that Landlord does not guaranty that such emergency generators will be operational at all times or that emergency power will be available to the Premises when needed. Landlord shall provide Tenant with not less than five (5) business days' notice of the scheduled disruption in the operation of the emergency generators. In the case of an emergency, Landlord shall provide Tenant with notice of any emergency disruption as soon as reasonably possible after Landlord becomes aware of the need for such emergency disruption.

16. **Maintenance**. Tenant shall continue to maintain the Building pursuant to Paragraph 13.1 of the Lease following the FFP Surrender Date until such date that Landlord notifies Tenant in writing that Landlord shall assume the maintenance of the Building ("**Assumption Date**"); provided, however, that in no event shall the Assumption Date occur after July 31, 2011. Nothing contained herein shall release Tenant from its obligations arising prior to the Assumption Date. Commencing on the Assumption Date, Paragraph 13 of the Lease shall be deleted in its entirely and replaced with the following:

"**13. MAINTENANCE AND REPAIRS OF PREMISES**

13.1 Landlord Repairs. Landlord, as an Expense, shall repair, replace when necessary (as reasonably determined by Landlord) and maintain in good repair the exterior of the Building (including exterior doors), parking, landscaping, exterior lighting, roof membrane, roof covering and all other Common Areas of the Project, including HVAC, plumbing, fire sprinklers, elevators, fire safety equipment, sewer and septic systems, the Emergency Generator and all other building systems serving the Premises and other portions of the Project ("**Building Systems**"), uninsured losses and damages caused by Tenant, or by any of Tenant's Agents excluded. Landlord, at Landlord's sole cost without right of reimbursement from Tenant, shall repair, replace when necessary (as reasonably determined by Landlord) and maintain the structural portions of the roof (specifically excluding the roof membrane and the roof covering, the repair and/or replacement of which shall be treated as an Expense), the foundation, footings, floor slab and load-bearing walls and exterior walls of the Building (excluding any glass and any routine maintenance, including, without limitation, any painting, sealing, patching and waterproofing of such walls, repair, the maintenance of which shall be treated as an Expense), uninsured losses and damages caused by Tenant or Tenant's Agents excluded. Any losses and damages caused by Tenant or any Tenant Agent shall be repaired by Landlord, to the extent not covered by insurance, at Tenant's sole cost and expense. Landlord reserves the right to stop Building Systems services when necessary (i) by reason of accident or emergency, or (ii) for planned repairs, alterations or improvements, which are, in the reasonable judgment of Landlord, desirable or necessary to be made, until said repairs, alterations or improvements shall have been completed. Landlord shall have no responsibility or liability for failure to supply Building Systems services during any such

period of interruption; provided, however, that Landlord shall, except in case of emergency, give Tenant not less than five (5) business days' advance notice of any planned stoppage of Building Systems services for routine and planned maintenance, repairs, alterations or improvements. Tenant shall promptly give Landlord written notice of any repair required by Landlord pursuant to this section, after which Landlord shall make a commercially reasonable effort to effect such repair within five (5) business days, or, where the repair cannot reasonably be completed within five (5) business days, as soon as reasonably possible thereafter. Landlord shall not be liable for any failure to make any repairs or to perform any maintenance unless such failure shall persist for an unreasonable time after the time periods set forth herein. Tenant waives its rights under any state or local law to terminate this Lease or to make such repairs at Landlord's expense and agrees that the parties' respective rights with respect to such matters shall be solely as set forth herein. Repairs required as the result of fire, earthquake, flood, vandalism, war, or similar cause of damage or destruction shall be controlled by Paragraph 21.

Notwithstanding anything to the contrary contained in the Lease, commencing on the Assumption Date, to the extent that Landlord performs or is required to perform any capital repairs, replacements or improvements for the Project, whether to comply with Law, with any obligation imposed on Landlord pursuant to this Lease or at Landlord's election, Tenant shall be responsible as part of Expenses for its Proportionate Share of the cost of such capital repairs, replacements and improvements amortized over the useful life (as reasonably determined by Landlord taking into account relevant real estate accounting principles, consistently applied, including, without limitation, the hours of operation of the Building and its use for laboratory/office purposes) of such capital items. Tenant shall pay Tenant's Proportionate Share of such amortized costs for each month after such capital repairs, replacements or improvements are completed until the first to occur of the expiration of the Term (as it may be extended) or the end of the period over which such costs are amortized.

13.2 Tenant's Repairs. Subject to Paragraph 13.1 hereof, Tenant, at its expense, shall repair and maintain in good condition all portions of the Premises, including, without limitation, entries, doors (excluding exterior doors providing access to the Building, maintenance, repair and replacement of which is the obligation of Landlord as an Expense), ceilings, interior windows, interior walls, and the interior side of demising walls. Should Tenant fail to make any such repair or replacement or fail to maintain the Premises, Landlord shall give Tenant notice of such failure. If Tenant fails to commence cure of such failure within ten (10) days of Landlord's notice, and thereafter diligently prosecute such cure to completion, Landlord may perform such work and shall be reimbursed by Tenant within thirty (30) days after receipt of written demand therefor (together with reasonable documentation); provided, however, that if such failure by Tenant creates or could create an emergency, Landlord may immediately commence cure of such failure and shall thereafter be entitled to recover the actual and reasonable costs of such cure from Tenant. Subject to Paragraphs 21 and 22 of the Lease, Tenant shall bear the full uninsured cost of any repair or replacement to any part of the Project that results from damage caused by Tenant or any Tenant Party and any repair that benefits only the Premises."

17. **Signs**. Tenant shall be entitled to its Proportionate Share of any available external Building signage, if any, which signage shall be at Tenant's cost and expense. Notwithstanding the foregoing, Tenant acknowledges and agrees that Tenant's signage on the Building including, without limitation, the size, color and type, shall be subject to Landlord's prior written approval and shall be consistent with Landlord's signage program at the Project

and applicable legal requirements. Tenant shall be responsible, at Tenant's sole cost and expense, for the maintenance of Tenant's signage, for the removal of Tenant's signs at the expiration or earlier termination of this Lease and for the repair all damage resulting from such removal.

18. **Option to Renew**. Tenant shall have two (2) options (each a "**Renewal Option**") to extend the term of this Lease with respect to the entire Premises for successive periods of five (5) years each (each a "**Renewal Term**") pursuant to the provisions of Paragraph 49 of the Lease. For

avoidance of doubt, the parties hereby acknowledge and agree that if the Monthly Base Rent during any Renewal Term is calculated pursuant to Paragraph 49.4(ii) of the Lease, Monthly Base Rent shall be increased on each annual anniversary of the commencement of such Renewal Term by a percentage as determined by Landlord and agreed to by Tenant at the time the Fair Market Rent is determined.

19. **Right of First Offer**. Notwithstanding anything to the contrary contained herein or in the Lease, Paragraph 51 of the Lease is hereby deleted in its entirety and of no further force or effect and Tenant shall have no further right of first offer or other right to purchase the Building.

20. **Right to Expand**.

a. **Right of First Refusal**. From and after the FFP Surrender Date with respect to the First Floor Premises, and from and after the SFP Surrender Date with respect to the Second Floor Premises through the expiration or earlier termination of the Term, each time that Landlord intends to accept a written proposal (the "**Pending Deal**") to lease the First Floor Space or, if applicable, the Second Floor Space to a third party ("**ROFR Space**"), Landlord shall deliver to Tenant written notice (the "**Pending Deal Notice**") of the existence and the terms of such Pending Deal; provided, however, that the terms of this Section 20(a) shall not apply to any current or future transaction pursuant to which Landlord intends to lease all or any of the Second Floor Space and/or the First Floor Premises directly to Subtenant. Tenant shall be entitled to exercise its right under this Section 20(a) only with respect to the entire ROFR Space. Within ten (10) business days after Tenant's receipt of the Pending Deal Notice, Tenant shall deliver to Landlord written notice (the "**Space Acceptance Notice**") if Tenant elects to lease the ROFR Space. Tenant's right to receive the Pending Deal Notice and election to lease or not lease the ROFR Space pursuant to this Section 20(a) is hereinafter referred to as the "**Right of First Refusal**." If Tenant elects to lease the ROFR Space by delivering the Space Acceptance Notice within the required ten (10) business day period, Tenant shall be deemed to agree to lease the ROFR Space on the terms and conditions set forth in the Pending Deal Notice and any other terms agreeable to Landlord and Tenant, in the respective sole discretion of each party.

If (i) Tenant fails to deliver a Space Acceptance Notice to Landlord within the required ten (10) business day period, or (ii) no lease amendment or lease agreement for the ROFR Space, acceptable to Landlord and Tenant in their respective reasonable discretion, has been executed and delivered by the parties within thirty (30) days after Landlord delivers a draft of the same to Tenant despite the good faith efforts of both parties, Tenant shall be deemed to have elected not to exercise Tenant's right to lease the ROFR Space pursuant to the Pending Deal Notice in question in which case Tenant shall be deemed to have forever waived its right to lease the ROFR Space pursuant to the Pending Deal Notice in question, this Section 20(a) shall terminate and be of no further force or effect with respect to the Pending Deal Notice in question, and Landlord shall have the right to lease the ROFR Space to the party that was the subject of the Pending Deal Notice on substantially the same business terms and conditions set forth in the Pending Deal Notice. Notwithstanding the foregoing, if Landlord negotiates with the proposed tenant economic lease terms materially more favorable (but in no event shall the economic lease terms be considered materially more favorable unless the difference in net effective base rent is 10% or greater), as reasonably determined by Landlord, than those offered to Tenant but rejected as part of the Pending Deal Notice, Landlord shall be required to submit the more favorable economic terms to Tenant for its review. Tenant shall have five (5) business days after receipt of the more favorable economic terms to accept or reject the revised terms. If Tenant rejects the more favorable terms, Landlord shall be free to enter into a lease with the proposed tenant on such terms. Tenant's rejection of any particular Pending Deal Notice shall not relieve Landlord of its obligation to again offer any Right of First Refusal Space to Tenant at any time that Landlord intends, other than with respect to Subtenant with respect to whom the terms of this Section 20 shall not apply, to again agree to a written proposal from another party to lease such space in such period.

b. **Amended Lease**. If: (i) Tenant fails to timely deliver a Space Acceptance Notice, or (ii) after the expiration of a period of thirty (30) days from Tenant's delivery of a Space Acceptance Notice pursuant to Section 20(a), no lease amendment or lease agreement for the ROFR Space, acceptable to Landlord and Tenant, in the respective sole discretion of each, has been executed, Tenant shall be deemed to have waived its right to lease the ROFR Space at issue.

c. **Exceptions**. Notwithstanding the above, the Right of First Refusal shall not be in effect and may not be exercised by Tenant:

(i) during any period of time that Tenant is in Default under any provision of the Lease; or

(ii) if Tenant has been in Default under any provision of the Lease three (3) or more times, whether or not the Defaults are cured, during the twelve (12) month period prior to the date on which Tenant seeks to exercise the Right of First Refusal.

d. **Termination**. The Right of First Refusal shall terminate and be of no further force or effect even after Tenant's due and timely exercise of the Right of First Refusal, if, after such exercise, but prior to the commencement date of the lease of such ROFR Space, (i) Tenant fails to timely cure any default by Tenant under the Lease; or (ii) Tenant has Defaulted three (3) or more times during the period from the date of the exercise of the Right of First Refusal to the date of the commencement of the lease of the ROFR Space, whether or not such Defaults are cured.

e. **Rights Personal**. The Right of First Refusal is personal to Tenant and is not assignable without Landlord's consent, which may be granted or withheld in Landlord's sole discretion separate and apart from any consent by Landlord to an assignment of Tenant's interest in the Lease, except that they may be assigned in connection with any Permitted Transfer of this Lease.

f. **No Extensions**. The period of time within which the Right of First Refusal may be exercised shall not be extended or enlarged by reason of Tenant's inability to exercise the Right of First Refusal.

21. **Additional Modifications to Lease**. From and after the Effective Date of this First Amendment, the Lease shall be modified as follows:

a. Modification to Basic Lease Information. The Tenant's Contact Person shall be "General Counsel" rather than "Marty Glick".

b. Modification to Paragraph 2.3(a), "Changes to Common Area". The following shall be added at the end of Paragraph 2.3(a): "Notwithstanding the foregoing, Landlord's exercise of the foregoing rights shall not materially interfere with Tenant's access to or use of the Premises to the extent that Tenant's business operations are materially interrupted thereby."

c. Modification to Paragraph 2.3(b), "Changes to Common Area". The second sentence of Paragraph 2.3(b) hereby is deleted and revised to state in its entirety as follows: "During periods of construction only, Landlord shall have the right to provide parking to Tenant on properties reasonably proximate to the Project (the "**Adjacent Properties**") or through the use of valets or parking attendants on the Parking Areas or the Adjacent Properties, provided that Tenant shall at all times have parking for the number of automobiles contemplated under the Lease."

d. Modification to Paragraph 4.2, "Additional Rent". There shall be added to Paragraph 4.2 a new Paragraph 4.2.11, "Exclusions from Expenses", which reads as follows:

"4.2.11 Exclusions from Expenses. Notwithstanding anything to the contrary contained in this Paragraph 4.2, and in addition to the exclusions set forth in the preceding paragraph, there shall be excluded from Expenses and Additional Rent the following: (i) leasing commissions, advertising expenses, promotional expenses, attorneys' fees, disbursements, and other costs and expenses incurred in procuring prospective tenants, negotiating and executing leases, and constructing improvements required to prepare for a new tenant's occupancy for the Building or the Project, if any; (ii) finance and debt service fees, principal and/or interest on debt or amortization payments on any mortgages executed by Landlord covering Landlord's property, any other indebtedness of Landlord, and rental under any ground lease or leases for the Building or the Project; (iii) any depreciation allowance or expense, amortization (except for expenditures permitted under this Lease) or expense reserve; (iv) the costs of Landlord's third party property manager or, if there is no third party property manager, administration fees in excess of the amount of 3.0% of Base Rent); (v) except for management fees, Landlord's general overhead and any overhead or profit increment to any subsidiary or affiliate of Landlord for services on or to the Project to the extent that the cost of such service exceeds competitive costs for such services rendered by persons or entities of similar skill, competence and experience other than a subsidiary or affiliate of Landlord; (vi) any costs or expenses representing any amount paid for services and materials to a (personal or business) related person, firm, or entity to the extent such amount exceeds the amount that would have been paid for such service or materials at the then existing market rates in the absence of such relationship; (vii) compensation paid to any employee of Landlord above the grade of Property Manager/Building Superintendent, including officers and executives of Landlord (provided that Landlord may pass through as Expenses compensation paid to employees at or below the grade of Property Manager/Building Superintendant or affiliates of Landlord providing services to the Project); (viii) costs of electrical energy furnished and metered directly to tenants of the Project or for which Landlord is entitled to be reimbursed by tenants as additional rental over and above tenant's Monthly Base Rent or pass-through of Expenses; (ix) the cost of any work or service furnished to any tenant or occupant of the Project to a materially greater extent or in a materially more favorable manner than that furnished generally to the tenants and other occupants of the Project, or the costs of work or service furnished exclusively for the benefit of any tenant or occupant of the Project or at such tenant's cost; (x) the costs and expenses incurred in resolving disputes with other tenants, other occupants, or prospective tenants or occupants of the Project, collecting rents or otherwise enforcing leases of the tenants of the Project; (xi) any costs incurred to remove, study, test, remediate or otherwise related to the presence of Hazardous Materials in the Building, which Hazardous Materials (A) Tenant proves originated from any separately demised tenant space within the Building other than the Premises or (B) Tenant proves were not brought upon, kept, used, stored, handled, treated, generated in, or released or disposed of from, the Building by Tenant or Tenant's Agents; (xii) the costs of any work or service performed for any facility other than a facility located within the Project; (xiii) the costs of repairs, alterations, and general maintenance necessitated by the gross negligence or willful misconduct of Landlord or its agents, employees, or contractors or repairs; (xiv) interest or penalties due to the late payment by Landlord of taxes, utility bills or other such costs (except to the extent caused by Tenant's action or inaction); (xv) any of the following tax or assessment expenses: (a) estate, inheritance, transfer, gift, federal, state or franchise taxes of Landlord, or (b) penalties and interest, other than those attributable to Tenant's failure to comply timely with its obligations pursuant to this Lease; and (xvi) bad debt expenses and charitable contributions and donations. Landlord agrees that (a) Landlord will not collect or be entitled to collect more than one hundred percent (100%) of the Expenses actually paid by Landlord in connection with the operation of the Project in any calendar year, and (b) Landlord shall make no profit from Landlord's collection of Expenses."

e. Modifications to Paragraph 15, "Tenant's Insurance". The third sentence of Paragraph 15.2 hereby is revised in its entirety to state: "No such policy shall contain a deductible greater than Twenty-Five Thousand Dollars ($25,000.00). Paragraph 15.5 hereby is deleted and revised to state in its entirety as follows: "All insurance required to be carried by Tenant hereunder shall be maintained with insurance companies authorized to do business in the State of California for the issuance of the applicable type of insurance coverage and rated A-VII or better in Best's Key Rating Guide. Tenant shall deliver to Landlord certificates of insurance and true and complete copies of any and all endorsements required herein for all insurance required to be maintained by Tenant hereunder at the execution of this Lease by Tenant. Tenant shall, at least thirty (30) days prior to expiration of each policy, furnish Landlord and the other parties named as additional insureds with certificates of renewal thereof. Tenant shall (i) provide Landlord with 30 days advance written notice of cancellation of each policy, and (ii) require Tenant's insurer to endeavor to provide 30 days advance written notice of cancellation of each policy."

f. Modification to Paragraph 23.2, "Assignment and Subletting — Requirements of Request for Consent". Paragraph 23.2 shall be amended to provide that if Tenant requests consent to a proposed assignment or subletting (except in connection with a Permitted Transfer), whether or not the term of the proposed transfer is for the balance of the Term, Landlord shall have the right to recapture that portion of the Premises that is the subject of the proposed assignment or subletting and terminate the Lease with respect thereto; provided, however, that subsection

(3) of Paragraph 23.2 shall be of no further force or effect and Landlord shall not have the right to sublease or take an assignment, as the case may be, of the interest in the Lease that is at issue.

g. Modification to Paragraph 24, "Tenant's Default". The following is hereby added at the end of Paragraph 24.(a): "provided, however, that if Tenant vacates the Premises at any time during the last nine (9) months of the Term but continues to perform all of its obligations hereunder, including, without limitation, maintaining all insurance policies required by this Lease and complying with all of the requirements of Paragraph 32.9, Tenant shall not be deemed to be in default under this Paragraph 24.(a);".

h. Modification to Paragraph 32.2, "Tenant's Obligation to Update Disclosure Certificates". The first sentence of Paragraph 32.2 hereby is deleted and revised to state in its entirety as follows: "Within ten (10) business days after receipt of Landlord's written request, Tenant shall complete, execute and deliver to Landlord an updated Disclosure Certificate (each, an "Updated Disclosure Certificate") describing Tenant's then current and proposed future uses of Hazardous Materials on or about the Premises, which Update Disclosure Certificates shall be in the same format as that which is set forth in Exhibit D or in such other form as is reasonably acceptable to Landlord".

i. Modification to Paragraph 34, "Waiver". The last two sentences of Paragraph 34 hereby are deleted and revised to state in their entirety as follows: "No delay or omission in the exercise of any right or remedy of Landlord or Tenant in regard to any default by the other shall impair such right or remedy or be construed as a waiver. Any waiver by Landlord or Tenant of any default must be in writing and shall not be a waiver of any other default concerning the same or any other provisions of this Lease."

j. Modification to Paragraph 40, "Financial Statements". Paragraph 40 hereby is deleted and revised to state in its entirety as follows: "Within ten (10) days after Landlord's request, Tenant shall deliver to Landlord the then current, or if Tenant is a publicly traded company, the most recent publicly available financial statements of Tenant prepared, compiled or reviewed by a certified public accountant, including a balance sheet and

profit and loss statement for the most recent prior year, all prepared in accordance with GAAP.".

k. New Paragraphs. The following new paragraphs are hereby added to the Lease:

"**53.** **Commercially Reasonable**. Where Landlord or Tenant are required to use "best efforts" in the performance of any obligation under this Lease, "best efforts" shall mean "commercially reasonable good faith efforts."

"**54.** **Force Majeure**. Whenever a period of time is herein prescribed for action (other than the payment of money) to be taken by Landlord or Tenant, such party shall not be liable or responsible for, and there shall be excluded from the computation for any such period of time, any delays due to strikes, riots, acts of God, shortages of labor or materials, war, terrorist activity, governmental laws, regulations or restrictions".

22. **Brokers**. Landlord and Tenant each represents and warrants that it has not dealt with any broker, agent or other person (collectively, "**Broker**") in connection with this First Amendment and that no Broker brought about this transaction, other than BT Cassidy/Turley. Landlord and Tenant each hereby agree to indemnify and hold the other harmless from and against any claims by any Broker, other than the broker, if any named in this Section 22, claiming a commission or other form of compensation by virtue of having dealt with Tenant or Landlord, as applicable, with regard to this First Amendment.

23. **OFAC**. To Tenant's knowledge, without any duty of inquiry, as of the date of Tenant's execution of this First Amendment, Tenant is currently (a) in compliance with and shall at all times during the Term of the Lease remain in compliance with the regulations of the Office of Foreign Assets Control ("**OFAC**") of the U.S. Department of Treasury and any statute, executive order, or regulation relating thereto (collectively, the "**OFAC Rules**"), (b) not listed on, and shall not during the term of the Lease be listed on, the Specially Designated Nationals and Blocked Persons List maintained by OFAC and/or on any other similar list maintained by OFAC or other governmental authority pursuant to any authorizing statute, executive order, or regulation, and (c) not a person or entity with whom a U.S. person is prohibited from conducting business under the OFAC Rules.

24. **Miscellaneous**.

a. This First Amendment is the entire agreement between the parties with respect to the subject matter hereof and supersedes all prior and contemporaneous oral and written agreements and discussions. This First Amendment may be amended only by an agreement in writing, signed by the parties hereto.

b. This First Amendment is binding upon and shall inure to the benefit of the parties hereto, their respective agents, employees, representatives, officers, directors, divisions, subsidiaries, affiliates, assigns, heirs, successors in interest and shareholders.

c. Tenant acknowledges that it has read the provisions of this First Amendment, understands them, and is bound by them. Time is of the essence in this First Amendment.

d. This First Amendment may be executed in any number of counterparts, each of which shall be deemed an original, but all of which when taken together shall constitute one and the same instrument. The signature page of any counterpart may be detached therefrom without impairing the legal effect of the signature(s) thereon provided such signature page is attached to any other counterpart identical thereto except having additional signature pages executed by other parties to this First Amendment attached thereto.

e. Except as amended and/or modified by this First Amendment, the Lease is hereby ratified and confirmed and all other terms of the Lease shall remain in full force and effect, unaltered and unchanged by this First Amendment. In the event of any conflict between the provisions of this

First Amendment and the provisions of the Lease, the provisions of this First Amendment shall prevail. Whether or not specifically amended by this First Amendment, all of the terms and provisions of the Lease are hereby amended to the extent necessary to give effect to the purpose and intent of this First Amendment.

[Signatures are on the next page.]

IN WITNESS WHEREOF, the parties hereto have executed this First Amendment as of the day and year first above written.

TENANT:

THERAVANCE, INC.,
a Delaware corporation

/s/ Rick E Winningham

By: Rick E Winningham
Its: Chief Executive Officer

LANDLORD:

ARE-901/951 GATEWAY BOULEVARD, LLC,
a Delaware limited liability company

By: ALEXANDRIA REAL ESTATE EQUITIES, L.P.,
a Delaware limited partnership,
managing member

By: ARE-QRS CORP.,
a Maryland corporation,
general partner

/s/ Eric S. Johnson

By: Eric S. Johnson
Its: Vice President, Real Estate Legal Affairs

EXHIBIT A

The Premises

(Attached)

Exhibit 31.1

Certification of Chief Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Rick E Winningham, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Theravance, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

August 4, 2010
(Date)

/s/ Rick E Winningham
Rick E Winningham
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

Certification of Chief Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Michael W. Aguiar, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Theravance Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

August 4, 2010
(Date)

/s/ Michael W. Aguiar
Michael W. Aguiar
Senior Vice President, Finance and
Chief Financial Officer
(Principal Financial Officer)

Exhibit 32

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Rick E Winningham, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Theravance Inc. on Form 10-Q for the three months ended June 30, 2010 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended and that information contained in such Quarterly Report on Form 10-Q fairly presents in all material respects the financial condition of Theravance, Inc. at the end of the periods covered by such Quarterly Report on Form 10-Q and results of operations of Theravance, Inc. for the periods covered by such Quarterly Report on Form 10-Q.

August 4, 2010 — By: /s/ Rick E Winningham
(Date)
Name: Rick E Winningham
Title: Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Michael W. Aguiar, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Theravance Inc. on Form 10-Q for the three months ended June 30, 2010 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended and that information contained in such Quarterly Report on Form 10-Q fairly presents in all material respects the financial condition of Theravance, Inc. at the end of the periods covered by such Quarterly Report on Form 10-Q and results of operations of Theravance, Inc. for the periods covered by such Quarterly Report on Form 10-Q.

August 4, 2010 — By: /s/ Michael W. Aguiar
(Date)
Name: Michael W. Aguiar
Title: Senior Vice President, Finance and Chief Financial Officer