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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 September 30, 2013

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)

(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 x 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 x	Accelerated filer o
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 October 23, 2013 was 110,558,092.

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

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

	September 30, 2013 (Unaudited)	December 31, 2012 *
Assets		
Current assets:		
Cash and cash equivalents	$ 171,892	$ 94,849
Short-term investments	334,261	153,640
Accounts receivable	450	—
Receivables from collaborative arrangements (including amounts from a related party of $517 at September 30, 2013 and $123 at December 31, 2012)	2,489	1,064
Notes receivable	140	100
Prepaid expenses and other current assets	4,071	3,966
Inventories	9,038	7,514
Total current assets	522,341	261,133
Marketable securities	88,333	95,194
Restricted cash	833	833
Property and equipment, net	8,563	9,154
Intangible assets	40,000	—
Other assets	5,946	2,268
Total assets	$ 666,016	$ 368,582
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 5,733	$ 5,377
Accrued personnel-related expenses	8,362	9,002
Accrued clinical and development expenses	10,599	6,550
Other accrued liabilities	3,093	2,072
Accrued interest on convertible subordinated notes	1,273	2,372
Deferred revenue, current	9,601	4,593
Total current liabilities	38,661	29,966
Convertible subordinated notes	287,500	172,500
Deferred rent	4,658	5,074
Deferred revenue, non-current	5,148	6,014
Commitments and contingencies (Notes 3, 9 and 11)		
Stockholders' equity:		
Common stock, $0.01 par value; authorized: 200,000 shares; outstanding: 110,543 at September 30, 2013 and 98,379 at December 31, 2012	1,105	984
Additional paid-in capital	1,784,016	1,488,447
Accumulated other comprehensive income	202	99
Accumulated deficit	(1,455,274)	(1,334,502)

Total stockholders' equity	330,049	155,028
Total liabilities and stockholders' equity	$ 666,016	$ 368,582

* Condensed consolidated balance sheet at December 31, 2012 has been derived from audited consolidated financial statements.

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Revenue:				
Revenue from collaborative arrangements (including amounts from a related party: three months—2013-$415; 2012-$1,430; nine months—2013-$3,059; 2012-$4,291)	$ 439	$ 1,430	$ 3,110	$ 129,960
Operating expenses:				
Research and development	33,395	27,026	91,550	89,778
Selling, general and administrative	12,282	7,754	31,971	23,201
Total operating expenses	45,677	34,780	123,521	112,979
Income (loss) from operations	(45,238)	(33,350)	(120,411)	16,981
Other income (expense), net	(37)	—	6,734	—
Interest income	192	158	567	304
Interest expense	(1,902)	(1,500)	(7,662)	(4,503)
Net income (loss)	$ (46,985)	$ (34,692)	$ (120,772)	$ 12,782
Net income (loss) per share:				
Basic net income (loss) per share	$ (0.44)	$ (0.37)	$ (1.20)	$ 0.14
Diluted net income (loss) per share	$ (0.44)	$ (0.37)	$ (1.20)	$ 0.14
Shares used to compute basic earnings per share	106,925	95,027	100,321	89,271
Shares used to compute diluted earnings per share	106,925	95,027	100,321	91,713

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net income (loss)	$ (46,985)	$ (34,692)	$ (120,772)	$ 12,782
Other comprehensive loss:				
Net unrealized gain on available-for-sale securities, net of tax	217	225	103	100
Comprehensive income (loss)	$ (46,768)	$ (34,467)	$ (120,669)	$ 12,882

See accompanying notes to condensed consolidated financial statements.

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

	Nine Months Ended September 30,	
	2013	2012
Cash flows from operating activities		
Net income (loss)	$ (120,772)	$ 12,782
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	5,684	5,462
Stock-based compensation	19,704	18,044
Gain on marketable securities	(3)	(8)
Loss on disposal of assets	20	—
Change in capped-call option valuation	1,422	—
Changes in operating assets and liabilities:		
Receivables from collaborative arrangements	(1,425)	152
Prepaid expenses and other current assets	(35)	(247)
Inventories	(2,912)	(4,567)
Accounts payable	2,040	(452)
Accrued personnel-related expenses, accrued clinical and development expenses, and other accrued liabilities	4,472	(3,902)
Accrued interest on convertible subordinated notes	(1,099)	—
Deferred rent expense	(416)	(546)
Deferred revenue	3,692	(129,979)
Net cash used in operating activities	(89,628)	(103,261)
Cash flows from investing activities		
Purchases of property and equipment	(1,667)	(2,329)
Purchases of available-for-sale securities	(354,583)	(276,425)
Maturities of available-for-sale securities	155,396	38,670
Sales of available-for-sale securities	22,600	181,495
Increase in intangible assets	(40,000)	—
Release of restricted cash	—	60
Issuances of notes receivable	—	(140)
Payments received on notes receivable	100	240
Net cash used in investing activities	(218,154)	(58,429)
Cash flows from financing activities		
Payments on note payable and capital lease	—	(69)
Proceeds from issuances of common stock, net	140,003	229,216
Payment for capped calls	(36,800)	—
Proceeds from issuances of convertible subordinated notes, net	281,622	—
Net cash provided by financing activities	384,825	229,147
Net increase in cash and cash equivalents	77,043	67,457
Cash and cash equivalents at beginning of period	94,849	44,778
Cash and cash equivalents at end of period	$ 171,892	$ 112,235
Supplemental non-cash financing activities:		
Conversion of convertible subordinated notes into common stock	$ 172,499	$ —

See accompanying notes to condensed consolidated financial statements.

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

1. DESCRIPTION OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Operations

Theravance, Inc. (the Company or Theravance) is a biopharmaceutical company with a pipeline of internally discovered product candidates and strategic collaborations with pharmaceutical companies. 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 central nervous system (CNS)/pain.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of 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, comprehensive income (loss) and cash flows. The interim results are not necessarily indicative of the results of operations to be expected for the year ending December 31, 2013 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, 2012 filed with the Securities and Exchange Commission (SEC) on February 26, 2013.

Business Separation

In April 2013, Theravance announced that its Board of Directors approved plans to separate its businesses into two independent publicly traded companies. The company to be spun-off, Theravance Biopharma, Inc., filed an initial Form 10 with the SEC on August 1, 2013 and filed amendments of its Form 10 with the SEC on September 27, 2013 and October 29, 2013. After the business separation, Theravance will focus on managing all development and commercial responsibilities under the LABA collaboration with Glaxo Group Limited (GSK) and associated potential royalty revenue from RELVAR™ ELLIPTA™ or BREO™ ELLIPTA™, ANORO™ ELLIPTA™ and VI monotherapy, with the intention of providing a consistent return of capital to its stockholders. Theravance Biopharma, Inc. will be a biopharmaceutical company focused on discovery, development and commercialization of small-molecule medicines in areas of significant unmet medical need. The result will be two independent, publicly traded companies with different business models enabling investors to align their investment philosophies with the strategic opportunities and financial objectives of the two independent companies. The accompanying unaudited condensed consolidated financial statements do not reflect any adjustments resulting from the planned business separation.

Principles of Consolidation

The condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

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 consolidated financial statements and accompanying notes. Actual results could differ materially from those estimates.

Segment Reporting

The Company has determined that it operates in a single segment, which is the discovery (research), development and commercialization of human therapeutics. Revenues are generated primarily from the Company's collaboration agreements with GSK, located in Great Britain, Astellas Pharma Inc. (''Astellas'') (through January 6, 2012), located in Japan, and Merck (which agreement

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will terminate in December 2013), located in the United States. All long-lived assets, which were comprised of property and equipment, are maintained in the United States.

Investments in Marketable Securities

The Company invests in short-term and long-term marketable securities, primarily corporate notes, government, government agency, and municipal bonds. The Company classifies its marketable securities as available-for-sale securities and reports them at fair value in cash equivalents, short-term investments or marketable securities on the condensed consolidated balance sheets with related unrealized gains and losses included as a component of stockholders' equity. The amortized cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity, which is included in interest income on the condensed consolidated statements of operations. Realized gains and losses and declines in value judged to be other-than-temporary, if any, on available-for-sale securities are included in interest income. The cost of securities sold is based on the specific identification method. Interest and dividends on securities classified as available-for-sale are included in interest income.

The Company regularly reviews all of its investments for other-than-temporary declines in estimated fair value. The Company's review includes the consideration of the cause of the impairment, including the creditworthiness of the security issuers, the number of securities in an unrealized loss position, the severity and duration of the unrealized losses, whether the Company has the intent to sell the securities and whether it is more likely than not that the Company will be required to sell the securities before the recovery of their amortized cost basis. When the Company's management determines that the decline in estimated fair value of an investment is below the amortized cost basis and the decline is other-than-temporary, the Company reduces the carrying value of the security and records a loss for the amount of such decline.

Inventories

Inventories consist of the Company's currently marketed product, VIBATIV® (telavancin). The Company values inventory at the lower of cost or net realizable value. The Company determines the cost of inventory using the average-cost method. The Company analyzes its inventory levels quarterly and writes down inventory that is expected to become obsolete, that has a cost basis in excess of its expected net realizable value or for inventory quantities in excess of expected requirements.

Intangible Assets

The Company capitalizes fees paid to licensors related to agreements for approved products or commercialized products. The Company capitalizes these fees as finite-lived intangible assets and amortizes these intangible assets on a straight-line basis over their estimated useful lives once the Company begins recognizing the related royalty revenue. Consistent with the Company's policy for classification of costs under the research and development collaborative arrangements, the amortization of these intangible assets will be recognized as a reduction of royalty revenue. The Company reviews its intangible assets for impairment when events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. The

recoverability of finite-lived intangible assets is measured by comparing the asset's carrying amount to the expected undiscounted future cash flows that the asset is expected to generate. The determination of recoverability typically requires various estimates and assumptions, including estimating the useful life over which cash flows will occur, their amount, and the asset's residual value, if any. The Company derives the required cash flow estimates from near-term forecasted product sales and long-term projected sales in the corresponding market.

Revenue Recognition

Revenue is recognized when the related costs are incurred and the four basic criteria of revenue recognition are met: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or services have been rendered; (3) the fee is fixed or determinable; and (4) collectability is reasonably assured. Determination of criteria (3) and (4) are based on management's judgments regarding the nature of the fee charged for products or services delivered and the collectability of those fees. Where the revenue recognition criteria are not met, the Company defers the recognition of revenue by recording deferred revenue until such time that all criteria are met.

Collaborative Arrangements and Multiple-Element Arrangements

Revenue from nonrefundable, up-front license or technology access payments under license and collaborative arrangements that are not dependent on any future performance by the Company is recognized when such amounts are earned. If the Company has continuing obligations to perform under the arrangement, such fees are recognized over the estimated period of continuing performance obligation.

The Company accounts for multiple element arrangements, such as license and development agreements in which a customer may purchase several deliverables, in accordance with FASB ASC Subtopic 605-25, "Multiple Element Arrangements". For new or materially amended multiple element arrangements, the Company identifies the deliverables at the inception of the arrangement and each deliverable within a multiple deliverable revenue arrangement is accounted for as a separate unit of accounting if both of the following criteria are met: (1) the delivered item or items have value to the customer on a standalone basis and (2) for an arrangement that includes a general right of return relative to the delivered item(s), delivery or performance of the undelivered item(s) is considered probable and substantially in the Company's control. The Company allocates revenue to each non-contingent element based on the relative selling price of each element. When applying the relative selling price method, the Company determines the selling price for each deliverable using vendor-specific objective evidence ("VSOE") of selling price, if it exists, or third-party evidence ("TPE") of selling price, if it exists. If neither VSOE nor TPE of selling price exist for a deliverable, the Company uses the best estimated selling price for that deliverable. Revenue allocated to each element is then recognized based on when the basic four revenue recognition criteria are met for each element.

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For multiple-element arrangements entered into prior to January 1, 2011, the Company's management determined the deliverables under its collaborative arrangements did not meet the criteria to be considered separate accounting units for the purposes of revenue recognition. As a result, the Company recognized revenue from non-refundable, upfront fees and development contingent payments ratably over the term of its performance under the agreements. These upfront or contingent payments received, pending recognition as revenue, are recorded as deferred revenue and are classified as a short-term or long-term liability on the Company's consolidated balance sheet and amortized over the estimated period of performance. The Company periodically reviews the estimated performance periods of its contracts based on the progress of its programs.

Where a portion of non-refundable upfront fees or other payments received are allocated to continuing performance obligations under the terms of a collaborative arrangement, they are recorded as deferred revenue and recognized as revenue or as an accrued liability and recognized as a reduction of research and development expenses ratably over the term of the Company's estimated performance period under the agreement. The Company's management determines the estimated performance periods, and they are periodically reviewed based on the progress of the related program. The effect of any change made to an estimated performance period and therefore revenue recognized would occur on a prospective basis in the period that the change was made.

Under certain collaborative arrangements, the Company has been reimbursed for a portion of its research and development expenses. These reimbursements have been reflected as a reduction of research and development expense in the Company's consolidated statements of operations, as the Company does not consider performing research and development services to be a part of its ongoing and central operations. Therefore, the reimbursement of research and developmental services and any amounts allocated to the Company's research and development services are recorded as a reduction of research and development expense.

Amounts deferred under a collaborative arrangement in which the performance obligations are terminated will result in an immediate recognition of any remaining deferred revenue and accrued liability in the period that termination occurred, provided that all performance obligations have been satisfied.

The Company accounts for contingent payments in accordance with FASB Subtopic ASC 605-28 "Revenue Recognition—Milestone Method". The Company recognizes revenue from milestone payments when (i) the milestone event is substantive and its achievability was not reasonably assured at the inception of the agreement and (ii) the Company does not have ongoing performance obligations related to the achievement of the milestone. Milestone payments are considered substantive if all of the following conditions are met: the milestone payment (a) is commensurate with either the Company's performance to achieve the milestone or the enhancement of the value of the delivered item or items as a result of a specific outcome resulting from the Company's performance to achieve the milestone, (b) relates solely to past performance, and (c) is reasonable relative to all of the deliverables and payment terms (including other potential milestone consideration) within the arrangement. See Note 3, "Collaborative Arrangements," for analysis of each milestone event deemed to be substantive or non-substantive.

In accordance with FASB Subtopic ASC 808-10, "Collaborative Arrangements," and pursuant to the Company's agreement with Astellas, the Company recognized as revenue the net impact of transactions with Astellas related to VIBATIV® inventories including revenue specifically attributable to any sales, and cost of inventories either transferred or expensed as unrealizable.

Product Revenues

The Company sells VIBATIV® in the U.S. through a limited number of distributors, and title and risk of loss transfer upon receipt by these distributors. Healthcare providers order VIBATIV® through these distributors. For all product shipped during the three months ended September 30, 2013, the Company is deferring the recognition of revenue until the product is sold through to healthcare providers, the end customers, due to the inherent uncertainties in estimating normal channel inventory at the distributors, and during which period the Company also provided extended payment terms and expanded return

rights that allow distributors to return the product up to one year after the product launch. As of September 30, 2013, the Company had deferred revenue of $0.5 million related to VIBATIV® shipments and recorded this amount as a current liability in the condensed consolidated balance sheet.

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Product sales are recorded net of estimated government-mandated rebates and chargebacks, distribution fees, estimated product returns and other deductions. Reserves are established for these deductions and actual amounts incurred are offset against applicable reserves. The Company reflects these reserves as either a reduction in the related account receivable from the distributor, or as an accrued liability, depending on the nature of the sales deduction. Sales reserves are based on management's estimates that consider payer mix in target markets, industry benchmarks and experience to date. The Company monitors inventory levels in the distribution channel, as well as sales of VIBATIV® by distributors to healthcare providers, using product-specific data provided by the distributors. Product return allowances are based on amounts owed or to be claimed on related sales. These estimates take into consideration the terms of the Company's agreements with customers, historical product returns of VIBATIV® experienced by Astellas, rebates or discounts taken, estimated levels of inventory in the distribution channel, the shelf life of the product, and specific known market events, such as competitive pricing and new product introductions. The Company updates its estimates and assumptions each quarter and if actual future results vary from the Company's estimates, the Company may adjust these estimates, which could have an effect on product sales and earnings in the period of adjustment.

Sales Discounts: The Company offers cash discounts to its customers, generally 2% of the sales price, as an incentive for prompt payment. The Company expects its customers to comply with the prompt payment terms to earn the cash discount. The Company accounts for cash discounts by reducing accounts receivable by the full amount and recognizes the discount as a reduction of revenue in the same period the related revenue is recognized.

Chargebacks and Government Rebates: For VIBATIV® sales in the U.S., the Company estimates reductions to product sales for qualifying federal and state government programs including discounted pricing offered to PHS as well as government-managed Medicaid programs. The Company's reserve for PHS is based on actual chargebacks that distributors have claimed for reduced pricing offered to such health care providers. The Company's accrual for Medicaid is based upon statutorily-defined discounts, estimated payer mix, expected sales to qualified healthcare providers, and the Company's expectation about future utilization. The Medicaid accrual and government rebates that are invoiced directly to the Company are recorded in other accrued liabilities on the condensed consolidated balance sheet. For qualified programs that can purchase the Company's products through distributors at a lower contractual government price, the distributors charge back to the Company the difference between their acquisition cost and the lower contractual government price.

Distribution Fees and Product Returns: The Company has written contracts with its distributors that include terms for distribution-related fees. The Company records distribution-related fees based on a percentage of the product sales price. The Company offers its distributors a right to return product purchased directly from the Company, which is principally based upon the product's expiration date. Additionally, the Company has granted more expansive return rights to its distributors for a period of up to twelve months following its product launch of VIBATIV®. The Company will generally accept returns for expired product during the six months prior to and twelve months after the product expiration date on product that had been sold to the Company's distributors. Product returned is generally not resalable given the nature of the Company's products and method of administration. The Company has developed estimates for VIBATIV® product returns based upon historical VIBATIV® sales from the Company's former collaborative partner, Astellas.

The Company maintains a policy to record allowances for potentially doubtful accounts for estimated losses resulting from the inability of its customers to make required payments.

Royalties

The Company recognizes royalty revenue on licensee net sales of its products in the period in which the royalties are earned and reported to the Company and collectability is reasonably assured.

Concentration of Risk

The Company's accounts receivable at September 30, 2013, represent amounts due to the Company from distributors, including AmerisourceBergen Drug Corporation, Cardinal Health, Inc. and McKesson Corporation. The Company performs ongoing credit

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evaluations of its customers and generally does not require collateral. For the three months ended September 30, 2013, the Company did not have any write-offs of accounts receivable.

The following table summarizes accounts receivable balances at September 30, 2013 by distributor:

Distributor	Accounts Receivable Balance (In thousands)	Percentage of Total Accounts Receivable Balance
AmerisourceBergen Drug Corporation	$ 285	63%
Cardinal Health, Inc.	103	23
McKesson Corporation	59	13
Other	3	1
Total	$ 450	100%

The Company depends on a single-source supplier of the active pharmaceutical ingredient, or API, in VIBATIV® and one supplier to provide fill-finish services related to the manufacturing of VIBATIV®. If any of the Company's suppliers were to limit or terminate production or otherwise fail to meet the quality or delivery requirements needed to supply VIBATIV® at levels to meet market demand, the Company could experience a loss of revenue, which could materially and adversely impact its results of operations.

Fair Value of Stock-Based Compensation Awards

The Company uses the Black-Scholes-Merton option pricing model to estimate the fair value of options granted under its equity incentive plans and rights to acquire stock granted under its employee stock purchase plan (ESPP). The Black-Scholes-Merton option valuation model requires the use of assumptions, including the expected term of the award and the expected stock price volatility. The Company uses the "simplified" method as described in Staff Accounting Bulletin No. 107, "Share-Based Payment," for the expected option term because the usage of its historical option exercise data is limited due to post-IPO exercise restrictions. Beginning April 1, 2011, the Company has used its historical volatility to estimate expected stock price volatility. Prior to April 1, 2011, the Company used peer company price volatility to estimate expected stock price volatility due to the Company's limited historical common stock price volatility since its initial public offering in 2004.

Restricted Stock Units (RSUs) and Restricted Stock Awards (RSAs) are measured based on the fair market values of the underlying stock on the dates of grant.

Stock-based compensation expense was calculated based on awards ultimately expected to vest and was reduced for estimated forfeitures at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differed from those estimates. The Company's estimated annual forfeiture rates for stock options, RSUs and RSAs are based on its historical forfeiture experience.

The estimated fair value of stock options, RSUs and RSAs is expensed on a straight-line basis over the expected term of the grant and the estimated fair value of performance-contingent RSUs and RSAs is expensed using an accelerated method over the term of the award once the Company's management has determined that it is probable that performance milestones will be achieved. Compensation expense for RSUs and RSAs that contain performance conditions is based on the grant date fair value of the award. Compensation expense is recorded over the requisite service period based on management's best estimate as to whether it is probable that the shares awarded are expected to vest. The Company's management assesses the probability of the performance milestones being met on a continuous basis.

Compensation expense for purchases under the ESPP is recognized based on the fair value of the common stock on the date of offering, less the purchase discount percentage provided for in the plan.

The Company has not recognized, and does not expect to recognize in the near future, any tax benefit related to employee stock-based compensation expense as a result of the full valuation allowance on the Company's deferred tax assets including deferred tax assets related to its net operating loss carryforwards.

Other Income (Expense), net

In May 2013, the Company and Elan Corporation, plc (Elan) entered into a royalty participation agreement. The closing of the transaction was subject to closing conditions, including the approval of the transaction by Elan's shareholders. Elan's shareholders did not approve the transaction at an Extraordinary General Meeting. Subsequently, the Company terminated the agreement and as a result, Elan paid the Company a $10.0 million termination fee in June 2013, which is reflected in other income. Non-operating

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expense is comprised of third party expenses related to the aforementioned royalty participation agreement and the change in the estimated fair value of the capped call instruments related to the Company's convertible subordinated notes issued in January 2013, which is reflected in other expense.

2. NET INCOME (LOSS) PER SHARE

Basic net income (loss) per share for each period presented was computed by dividing net income (loss) by the weighted-average number of shares of common stock outstanding, less RSAs subject to forfeiture.

For the three and nine months ended September 30, 2013, and the three months ended September 30, 2012, diluted net loss per share was identical to basic net loss per share since potential common shares were excluded from the calculation, as their effect was anti-dilutive.

For the nine months ended September 30, 2012, diluted net income per share was computed by dividing net income by the weighted-average number of shares of common stock outstanding during the period, less RSAs subject to forfeiture, plus all additional common shares that would have been outstanding, assuming dilutive potential common shares had been issued for other dilutive securities.

Dilutive potential common shares include the dilutive effect of the common stock underlying in-the-money stock options and ESPP shares and were calculated based on the average share price for each period using the treasury stock method. Under the treasury stock method, the exercise price of an option and the average amount of compensation cost, if any, for future service that the Company has not yet recognized when the option is exercised, are assumed to be used to repurchase shares in the current period. Dilutive potential common shares also reflect the dilutive effect of unvested restricted stock units.

The computations for basic and diluted net income (loss) per share were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands, except per share data)	2013	2012	2013	2012
Numerator:				
Net income (loss)	$ (46,985)	$ (34,692)	$ (120,772)	$ 12,782
Denominator:				
Weighted-average common shares outstanding	109,343	97,590	102,739	91,834
Less: unvested RSAs	(2,418)	(2,563)	(2,418)	(2,563)
Weighted-average common shares outstanding — basic	106,925	95,027	100,321	89,271
Dilutive effect of equity incentive plans and ESPP	—	—	—	2,442

Weighted-average common shares outstanding and dilutive potential common shares - diluted	106,925	95,027	100,321	91,713
Net income (loss) per share:				
Basic net income (loss) per share	$ (0.44)	$ (0.37)	$ (1.20)	$ 0.14
Diluted net income (loss) per share	$ (0.44)	$ (0.37)	$ (1.20)	$ 0.14 **(1)**

(1) In connection with the preparation of the Company's unaudited condensed consolidated financial statements for the quarter ended September 30, 2013, the Company determined that its convertible subordinated notes were incorrectly included as dilutive securities using the "if-converted" method in the calculation of diluted earnings per share for the nine months ended September 30, 2012. Accordingly, the Company has corrected its calculation of diluted earnings per share for the nine months ended September 30, 2012 as presented herein to report diluted earnings per share of $0.14, which was previously reported in its quarterly report on Form 10-Q for the nine months ended September 30, 2012 as $0.18 per diluted share.

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Anti-Dilutive Securities

The following common equivalent shares were not included in the computation of diluted net income (loss) per share because their effect was anti-dilutive:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	**2013**	**2012**	**2013**	**2012**
Shares issuable under equity incentive plans and ESPP	3,590	5,098	4,161	2,915
Shares issuable upon the conversion of convertible subordinated notes	10,503	6,668	16,262	6,668
Total anti-dilutive securities	14,093	11,766	20,423	9,583

3. COLLABORATIVE ARRANGEMENTS

Revenue from Collaborative Arrangements

The Company has recognized revenue from its collaborative arrangements as follows:

	Three months Ended September 30,		Nine months Ended September 30,	
(In thousands)	**2013**	**2012**	**2013**	**2012**
GSK	$ 415	$ 1,430	$ 3,059	$ 4,291
Astellas	—	—	—	125,669
Other	24	—	51	—
Total revenue	$ 439	$ 1,430	$ 3,110	$ 129,960

Reimbursement of Research and Development (R&D) Costs

Under the GSK, Merck, Alfa Wasserman and R-Pharm collaboration arrangements, the Company is entitled to reimbursement of certain R&D costs. The Company's policy is to account for the reimbursement payments by its collaboration partners as reductions to R&D expense.

The following table summarizes the reductions to R&D expenses related to the reimbursement payments:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	**2013**	**2012**	**2013**	**2012**
GSK	$ 181	$ 40	$ 517	$ 116
Merck	1,501	—	4,579	—
Alfa Wassermann	471	—	924	—
R-Pharm	—	—	86	—
Total reduction to R&D expense	$ 2,153	$ 40	$ 6,106	$ 116

GSK

LABA collaboration

In November 2002, the Company entered into its long-acting beta$_2$ agonist (LABA) collaboration with GSK to develop and commercialize once-daily LABA products for the treatment of chronic obstructive pulmonary disease (COPD) and asthma. For the treatment of COPD, the collaboration is developing two combination products: (1) RELVAR™ ELLIPTA™ or BREO™ ELLIPTA™ (FF/VI), a once-daily combination medicine consisting of a LABA, vilanterol (VI), and an inhaled corticosteroid (ICS), fluticasone furoate (FF) and (2) ANORO™ ELLIPTA™ (UMEC/VI), a once-daily investigational medicine combining a long-acting muscarinic antagonist (LAMA), umeclidinium bromide (UMEC), with a LABA, VI. For the treatment of asthma, the collaboration is developing FF/VI.

In the event that a product containing VI is successfully developed and commercialized, the Company will be obligated to make future milestone payments to GSK, which could total as much as $180.0 million if both a single-agent and a combination product or two different combination products are launched in multiple regions of the world. Of these potential milestone payments,

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$30.0 million became payable in October 2013 due to the launch of BREO™ ELLIPTA™ in the U.S., and the Company estimates another $70.0 million could become payable during the remainder of 2013 and all the milestone payments could be payable by the end of 2014. On May 10, 2013 the U.S. Food and Drug Administration (FDA) approved BREO™ ELLIPTA™ as an inhaled long-term, once-daily maintenance treatment of airflow obstruction in patients with COPD, including chronic bronchitis and/or emphysema. It is also indicated to reduce exacerbations of COPD in patients with a history of exacerbations. On September 20, 2013 the Japanese Ministry of Health, Labour and Welfare (MHLW) approved RELVAR™ ELLIPTA™ for the treatment of bronchial asthma in cases where concurrent use of inhaled corticosteroid and long-acting inhaled beta2 agonist is required. As a result of these approvals the Company paid GSK $40.0 million for registrational milestone fees in the first nine months of 2013. These milestone payments to GSK were capitalized as finite-lived intangible assets and will be amortized over their estimated useful lives.

The Company is entitled to receive annual royalties from GSK of 15% on the first $3.0 billion of annual global net sales and 5% for all annual global net sales above $3.0 billion. 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 LABA collaboration, such as ANORO™ ELLIPTA™, royalties are upward tiering and range from the mid-single digits to 10%.

2004 Strategic Alliance

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 certain of the Company's discovery programs on pre-determined terms and on an exclusive, worldwide basis. 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. If the program is 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 the program. 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. GSK has no further option rights on any of the Company's research or development programs under the strategic alliance.

In 2005, GSK licensed the Company's bifunctional muscarinic antagonist-beta$_2$ agonist (MABA) program for the treatment of COPD, and in October 2011, the Company and GSK expanded the MABA program by adding six additional Theravance-discovered preclinical MABA compounds (the "Additional MABAs"). GSK's development, commercialization, milestone and royalty obligations under the strategic alliance remain the same with respect to GSK961081 ('081), the lead compound in the MABA program. GSK is obligated to use diligent efforts to develop and commercialize at least one MABA within the MABA program, but may terminate progression of any or all Additional MABAs at any time and return them to the Company, at which point the Company may develop and commercialize such Additional MABAs alone or with a third party. Both GSK and the Company have agreed not to conduct any MABA clinical studies outside of the strategic alliance so long as GSK is in possession of the Additional MABAs. If a single-agent MABA medicine containing '081 is successfully developed and commercialized, the Company is entitled to receive royalties from GSK of between 10% and 20% of annual global net sales up to $3.5 billion, and 7.5% for all annual global net sales above $3.5 billion. If a MABA medicine containing '081 is commercialized only as a combination product, such as '081/FF, the royalty rate is 70% of the rate applicable to sales of the single-agent MABA medicine. For single-agent MABA medicines containing an Additional MABA, the Company is entitled to receive royalties from GSK of between 10% and 15% of annual global net sales up to $3.5 billion, and 10% for all annual global net sales above $3.5 billion. For combination products containing an Additional MABA, such as a MABA/ICS combination, the royalty rate is 50% of the rate applicable to sales of the single-agent MABA medicine. If a MABA medicine containing '081 is successfully developed and commercialized in multiple regions of the world, the Company could earn total contingent payments of up to $125.0 million for a single-agent medicine and up to $250.0 million for both a single-agent and a combination medicine. If a MABA medicine containing an Additional MABA is successfully developed and commercialized in multiple regions of the world, the Company could earn total contingent payments of up to $129.0 million.

Purchase of Common Stock under the Company's Governance Agreement and Common Stock Purchase Agreement with GSK

During the first nine months of 2013, the Company issued and Glaxo Group Limited, an affiliate of GSK, purchased 3,374,497 shares of the Company's common stock, for an aggregate purchase price of approximately $121.1 million pursuant to its periodic "top-up" rights under the Company's governance agreement with GSK dated June 4, 2004, as amended.

GSK Contingent Payments and Revenue

The potential future contingent payments receivable related to the MABA program of $363.0 million are not deemed substantive milestones due to the fact that the achievement of the event underlying the payment predominantly relates to GSK's

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performance of future development, manufacturing and commercialization activities for product candidates after licensing the program.

Revenue recognized from GSK under the LABA collaboration and strategic alliance agreements was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2013	2012	2013	2012
LABA collaboration	$ —	$ 907	$ 1,814	$ 2,722
Strategic alliance—MABA program license	415	523	1,245	1,569
Total revenue from GSK Collaborations	$ 415	$ 1,430	$ 3,059	$ 4,291

Merck

Research Collaboration and License Agreement

In October 2012, the Company entered into a research collaboration and license agreement (the "Research Collaboration and License Agreement") with Merck, known as MSD outside the United States and Canada, to discover, develop and commercialize novel small molecule therapeutics directed towards a target being investigated for the treatment of hypertension and heart failure. Under the agreement, the Company granted Merck a worldwide, exclusive license to the Company's therapeutic candidates. The Company received a $5.0 million upfront payment in November 2012. Also, the Company received funding for research and was eligible for potential future contingent payments totaling up to $148.0 million for the first indication and royalties on worldwide annual net sales of any products derived from the collaboration. The initial research term was twelve months, with optional extensions by mutual agreement. Merck had the right to terminate the agreement at any time and provided Theravance with notice of termination in September 2013. The agreement will terminate in December 2013.

Under the Research Collaboration and License Agreement, the significant deliverables were determined to be the license, committee participation and research services. The Company determined that the license represents a separate unit of accounting because the license has standalone value. The license, which includes rights to the Company's underlying technologies for its therapeutic candidates, permit Merck to perform all efforts necessary to use the Company's technologies to bring a therapeutic candidate through development and, upon regulatory approval, commercialization. The Company based the best estimate of selling price on potential future cash flows under the arrangement over the estimated development period. The Company determined that the committee participation represents a separate unit of accounting as Merck could negotiate for and/or acquire these services from other third parties and based the best estimate of selling price on the nature and timing of the services to be performed. The Company determined that the research services represent a separate unit of accounting and based the best estimate of selling price on the nature and timing of the services to be performed.

The $5.0 million upfront payment received in November 2012 was allocated to the three units of accounting based on the relative selling price method as follows: $4.4 million to the license, $0.4 million to the research services and $0.2 million to the committee participation. The Company recognized revenue of $4.4 million from the license in 2012 as the technical transfer activities were complete and the associated unit of accounting was deemed delivered. The amount of the upfront payment allocated to the committee participation was deferred and recognized as revenue over the estimated performance period. The amount of the upfront payment allocated to the research services was deferred and is being recognized as a reduction of research and development expense as the underlying services are performed, as the nature of the research services is more appropriately characterized as research and development expense, consistent with the research reimbursements being received.

Due to the notice of termination, the Company revised the estimated performance period resulting in an increase in revenue of $37,000 in the third quarter of 2013. Revenue recognized from Merck under the collaboration agreement was $41,000 for the three months and $51,000 for the nine months ended September 30, 2013.

Clinigen Group

Commercialization Agreement

In March 2013, the Company entered into a commercialization agreement (the "Clinigen Commercialization Agreement") with Clinigen Group plc (Clinigen) to commercialize VIBATIV® for the treatment of hospital acquired nosocomial pneumonia, including ventilator-associated pneumonia, known or suspected to be caused by methicillin resistant *Staphylococcus aureus* (MRSA) when other alternatives are not suitable. Under the agreement, the Company granted Clinigen exclusive commercialization rights in the European Union and certain other European countries (including Switzerland and Norway). The Company received a $5.0 million

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upfront payment in March 2013. Also, the Company is eligible to receive tiered royalty payments on net sales of VIBATIV®, ranging from 20% to 30%. The Company is responsible, either directly or through its vendors or contractors, for supplying at Clinigen's expense both API and finished drug product for Clinigen's commercialization activities. The agreement has a term of at least 15 years, with an option to extend exercisable by Clinigen. However, Clinigen may terminate the agreement at any time after it has initiated commercialization upon 12 months' advance notice.

Under the Clinigen Commercialization Agreement, the significant deliverables were determined to be the license, committee participation and manufacturing supply. The Company determined that the license represents a separate unit of accounting as the license, which includes rights to the Company's underlying technologies for VIBATIV®, has standalone value because the rights conveyed permit Clinigen to perform all efforts necessary to use the Company's technologies to bring the compound through commercialization. The Company based the best estimate of selling price for the license on potential future cash flows under the arrangement over the estimated commercialization period. The Company determined that the committee participation represents a separate unit of accounting as Clinigen could negotiate for and/or acquire these services from other third parties, and the Company based the best estimate of selling price on the nature and timing of the services to be performed. The Company based the best estimate of selling price for the manufacturing supply on a fully burdened cost to purchase and transfer the underlying API and finished goods from the Company's third party contract manufacturer.

The $5.0 million upfront payment received in the first quarter of 2013 was allocated to two units of accounting based on the relative selling price method as follows: $4.9 million to the license and $0.1 million to the committee participation. The Company did not recognize any revenue from the license and committee participation as the technical transfer activities were not completed as of September 30, 2013 and the associated units of accounting were not delivered. The amount of the upfront payment allocated to the committee participation was deferred and will be recognized as revenue over the estimated performance period. Amounts received under a future separate supply agreement for API and finished goods, which will be manufactured by the Company's third party contract manufacturers, will be recognized as revenue to the extent of future API and finished goods inventory sales.

R-Pharm CJSC

Development and Commercialization Agreements

In October 2012, the Company entered into two development and commercialization agreements with R-Pharm CJSC (R-Pharm): one to develop and commercialize VIBATIV® (the "VIBATIV® Development and Commercialization Agreement") and the other to develop and commercialize TD-1792 (the "TD-1792 Development and Commercialization Agreement"), one of the Company's investigational glycopeptide-cephalosporin heterodimer antibiotics for the treatment of Gram-positive infections. Under each agreement, the Company granted R-Pharm exclusive development and commercialization rights in

Russia, Ukraine, other member countries of the Commonwealth of Independent States, and Georgia. The Company received $1.1 million in upfront payments for each agreement. Also, the Company is eligible to receive potential future contingent payments totaling up to $10.0 million for both agreements and royalties on net sales by R-Pharm of 15% from TD-1792 and 25% from VIBATIV®. The contingent payments are not deemed substantive milestones due to the fact that the achievement of the event underlying the payment predominantly relates to R-Pharm's performance of future development and commercialization activities.

TD-1792

Under the TD-1792 Development and Commercialization Agreement, the significant deliverables were determined to be the license, committee participation and a contingent obligation to supply R-Pharm with API compound at R-Pharm's expense, either directly or through the Company's contract manufacturer. The Company determined that the license represents a separate unit of accounting as the license, which includes rights to the Company's underlying technologies for TD-1792, has standalone value because the rights conveyed permit R-Pharm to perform all efforts necessary to use the Company's technologies to bring the compounds through development and, upon regulatory approval, commercialization. Also, the Company determined that the committee participation represents a separate unit of accounting as R-Pharm could negotiate for and/or acquire these services from other third parties, and the Company based the best estimate of selling price on the nature and timing of the services to be performed. In March 2013, the Company entered into a supply agreement for TD-1792 API compound under which the Company will sell its existing API compound to R-Pharm. Upon execution of this supply agreement, the Company determined that the supply agreement represents a separate unit of accounting under the development and commercialization arrangement and based the best estimate of selling price for the supply agreement on its fully burdened cost to manufacture the underlying API.

The $1.1 million upfront payment for the TD-1792 agreement was allocated to two units of accounting based on the relative selling price method as follows: $0.9 million to the license and $0.1 million to the committee participation. The amount allocated to the license was deferred and will be recognized as revenue upon completion of technical transfer for the underlying license. The amount allocated to committee participation was deferred and is being recognized as revenue over the estimated performance period.

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Amounts to be received under the supply agreement described above will be recognized as revenue to the extent R-Pharm purchases API compound from the Company.

VIBATIV®

Under the VIBATIV® Development and Commercialization Agreement, the significant deliverables were determined to be the license, committee participation and a contingent obligation to supply R-Pharm with API compound at R-Pharm's expense, subject to entering into a future supply agreement. The Company determined that the license represents a separate unit of accounting as the license, which includes rights to the Company's underlying technologies for VIBATIV®, has standalone value because the rights conveyed permit R-Pharm to perform all efforts necessary to use the Company's technologies to bring the compounds through development and, upon regulatory approval, commercialization. The Company based the best estimate of selling price for the license on potential future cash flows under the arrangement over the estimated performance period. The Company determined that the committee participation represents a separate unit of accounting as R-Pharm could negotiate for and/or acquire these services from other third parties, and the Company based the best estimate of selling price on the nature and timing of the services to be performed.

The $1.1 million upfront payment for the VIBATIV® agreement was allocated to two units of accounting based on the relative selling price method as follows: $1.0 million to the license and $33,000 to the committee participation. The amount allocated to the license was deferred and will be recognized as revenue upon completion of technical transfer. The amount allocated to committee participation was deferred and is being recognized as revenue over the estimated performance period.

Alfa Wassermann

Development and Collaboration Arrangement

In October 2012, the Company entered into a development and collaboration arrangement with Alfa Wassermann società per azioni (S.p.A.) (Alfa Wassermann) for velusetrag under which the parties agreed to collaborate in the execution of a two-part Phase 2 program to test the efficacy, safety and tolerability of velusetrag in the treatment of patients with gastroparesis (a medical condition consisting of a paresis (partial paralysis) of the stomach, resulting in food remaining in the stomach for a longer time than normal). Alfa Wassermann has an exclusive option to develop and commercialize velusetrag in the European Union, Russia, China, Mexico and certain other countries, while the Company retains full rights to velusetrag in the United States, Canada, Japan and certain other countries. The Company is entitled to receive funding for the Phase 2a study and a subsequent Phase 2b study if the parties agree to proceed. If Alfa Wassermann exercises its license option at the completion of the Phase 2 program, then the Company is entitled to receive a $10.0 million option fee. If velusetrag is successfully developed and commercialized, the Company is entitled to receive potential future contingent payments totaling up to $53.5 million, and royalties on net sales by Alfa Wassermann ranging from the low teens to 20%.

Hikma Pharmaceuticals LLC

Commercialization Agreement

In May 2013, the Company entered into a commercialization agreement with Hikma Pharmaceuticals LLC (Hikma) providing Hikma with the right to commercialize telavancin for the treatment of Gram-positive bacterial infections, including MRSA (the "Hikma Commercialization Agreement"). Under the agreement, the Company granted Hikma exclusive commercialization rights in the Middle East and North Africa (MENA) region to register, and upon regulatory approval, market and distribute telavancin in 16 countries across MENA. The Company received a $0.5 million upfront payment in June 2013. Also, the Company is eligible to receive contingent payments of up to $0.5 million related to the successful commercialization of telavancin. The Company is responsible, either directly or through its vendors or contractors, for supplying drug product for Hikma's commercialization activities for 15 years.

Under the Hikma Commercialization Agreement, the significant deliverables were determined to be the license and manufacturing supply. The Company determined that the license and manufacturing supply together represent a single unit of accounting. The license, which includes rights to the Company's underlying technologies for telavancin, does not have standalone value because the rights conveyed do not permit Hikma to perform all efforts

necessary to use the Company's technologies to bring the compound through commercialization. The Company deferred the upfront payment and will recognize revenue over the term of the manufacturing supply period, which is 15 years, on a straight-line basis. Future contingent payments will be deferred and recognized over the remaining term of the agreement on a straight-line basis. Revenue will be recognized from the sale of drug product upon delivery to Hikma.

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Former Collaboration Arrangement with Astellas

License, Development and Commercialization Agreement

In November 2005, the Company entered into a global collaboration arrangement with Astellas for the license, development and commercialization of VIBATIV®. Under this agreement, Astellas paid the Company non-refundable cash payments totaling $191.0 million. In January 2012, Astellas exercised its right to terminate the collaboration agreement. The rights previously granted to Astellas ceased upon termination of the agreement, and Astellas stopped all promotional sales efforts. Pursuant to the terms of the agreement, Astellas is entitled to a ten-year, 2% royalty on future net sales of VIBATIV®. As such, the Company recognized into revenue $125.8 million of deferred revenue related to Astellas in the first quarter of 2012, and the Company is no longer eligible to receive any further milestone payments from Astellas.

4. AVAILABLE-FOR-SALE SECURITIES

The estimated fair value of available-for-sales securities is based on quoted market prices for these or similar investments that were based on prices obtained from a commercial pricing service. Available-for-sale securities are summarized below:

	September 30, 2013			
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. government securities	$ 42,169	$ 60	$ —	$ 42,229
U.S. government agencies	161,751	107	(1)	161,857
U.S. corporate notes	103,773	43	(7)	103,809
U.S. commercial paper	133,818	—	—	133,818
Money market funds	146,459	—	—	146,459
Total	$ 587,970	$ 210	$ (8)	$ 588,172

	December 31, 2012			
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. government securities	$ 27,197	$ 10	$ (2)	$ 27,205
U.S. government agencies	115,397	85	(16)	115,466
U.S. corporate notes	91,544	32	(10)	91,566
U.S. commercial paper	23,082	—	—	23,082
Money market funds	78,646	—	—	78,646
Total	$ 335,866	$ 127	$ (28)	$ 335,965

The following table summarizes the classification of the available-for-sale securities on the Company's condensed consolidated balance sheets:

(In thousands)	September 30, 2013	December 31, 2012
Cash and cash equivalents	$ 164,745	$ 86,298
Short-term investments	334,261	153,640
Marketable securities	88,333	95,194
Restricted cash	833	833
Total	$ 588,172	$ 335,965

At September 30, 2013, all of the marketable securities have contractual maturities within two years and the average duration of marketable securities was approximately eight 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 September 30, 2013, were temporary in nature. All marketable securities with unrealized losses have been in a loss position for less than twelve months.

5. 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.

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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—Quoted prices for identical instruments in active markets.

Level 2—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—Unobservable inputs and little, if any, market activity for the assets.

The Company's available-for-sale securities are measured at fair value on a recurring basis and the Company's convertible subordinated notes are not measured at fair value on a recurring basis. The estimated fair values were as follows:

	Estimated Fair Value Measurements at Reporting Date Using			
Types of Instruments (In thousands)	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total
Assets at September 30, 2013:				
U.S. government securities	$ 42,229	$ —	$ —	$ 42,229
U.S. government agency securities	114,180	47,677	—	161,857
U.S. corporate notes	85,302	18,507	—	103,809
U.S. commercial paper	—	133,818	—	133,818
Money market funds	146,459	—	—	146,459
Total assets measured at estimated fair value	$ 388,170	$ 200,002	$ —	$ 588,172
Liabilities at September 30, 2013:				
Convertible subordinated notes due 2023	$ —	$ 476,531	$ —	$ 476,531

	Estimated Fair Value Measurements at Reporting Date Using			
Types of Instruments (In thousands)	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total
Assets at December 31, 2012:				
U.S. government securities	$ 27,205	$ —	$ —	$ 27,205
U.S. government agency securities	56,969	58,497	—	115,466
U.S. corporate notes	40,472	51,094	—	91,566
U.S. commercial paper	—	23,082	—	23,082
Money market funds	78,646	—	—	78,646
Total assets measured at estimated fair value	$ 203,292	$ 132,673	$ —	$ 335,965
Liabilities at December 31, 2012:				
Convertible subordinated notes due 2015	$ —	$ 194,050	$ —	$ 194,050

At September 30, 2013, securities with a total fair value of $6.6 million were measured using Level 1 inputs in comparison to December 31, 2012, at which time the securities had a fair value of $6.6 million and were measured using Level 2 inputs. The transfer to Level 1 from Level 2 was primarily the result of increased trading volume of the securities at and around September 30, 2013, compared to December 31, 2012.

At September 30, 2013, securities with a total fair value of $8.5 million were measured using Level 2 inputs in comparison to December 31, 2012, at which time the securities had a fair value of $8.5 million and were measured using Level 1 inputs. The transfer to Level 2 from Level 1 was primarily the result of decreased trading volume of the securities at and around September 30, 2013, compared to December 31, 2012.

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Due to their short-term maturities, the Company believes that the fair value of its bank deposits, receivables from collaborative arrangements, accounts payable and accrued expenses approximate their carrying value.

6. INVENTORIES

Inventories consist of raw materials, work-in-process and finished goods related to the production of VIBATIV® (telavancin). Raw materials include VIBATIV® active pharmaceutical ingredient (API). Work-in-process includes third party manufacturing and associated labor costs relating to the Company's personnel directly involved in the production process. Included in inventories are raw materials and work-in-process that may be used as clinical products, which are charged to research and development (R&D) expense when consumed. In addition, under certain commercialization agreements, the Company may sell VIBATIV® packaged in unlabeled vials that are recorded in work-in-process. Inventories are summarized as follows:

(In thousands)	September 30, 2013	December 31, 2012
Raw materials	$ 4,081	$ 5,668
Work-in-process	3,605	1,846
Finished goods	1,352	—
Total inventories	$ 9,038	$ 7,514

Inventories as of September 30, 2013, include $219,000 of raw materials and work-in-process related to the production of VIBATIV® (telavancin) manufactured using certain process and specification changes that have not yet received regulatory approval. The process and specification changes are required to be approved by the FDA before the product can be sold commercially, however, the Company expects to receive FDA approval and realize the costs of the inventories through future sales.

7. INTANGIBLE ASSETS

The Company's intangible assets at September 30, 2013 consist of a $30.0 million registrational milestone fee paid to GSK for the FDA approval of BREO™ ELLIPTA™ in the U.S. and a $10.0 million registrational milestone fee paid to GSK for the MHLW approval of RELVAR™ ELLIPTA™ (see Note 3 "Collaborative Arrangements" above for more information). Each of these intangible assets is considered a finite-lived intangible asset with an estimated amortization period of 15 years. The amortization expense, which will be a reduction in revenue from collaborative arrangements over the next five years, is estimated to be $13.3 million. There was no amortization expense for the three months and nine months ended September 30, 2013.

8. LONG-TERM DEBT

Long-term obligations are as follows:

(In thousands)	September 30, 2013	December 31, 2012
Convertible Subordinated Notes Due 2015	$ —	172,500
Convertible Subordinated Notes Due 2023	287,500	—
Total	$ 287,500	$ 172,500

Convertible Subordinated Notes Due 2015

In January 2008, the Company completed an underwritten public offering of $172.5 million aggregate principal amount of unsecured 3% Convertible Subordinated Notes due January 15, 2015 (2015 Notes). The financing raised proceeds, net of issuance costs, of $166.7 million. On June 4, 2013, the Company called for the redemption of all outstanding 2015 Notes, $172.5 million principal amount, pursuant to the redemption right in the indenture governing the 2015 Notes. Any 2015 Notes outstanding on July 5, 2013 were to be redeemed in cash for 100% of the principal amount, plus accrued and unpaid interest to, but excluding, the redemption date. The 2015 Notes were convertible at any time prior to 5:00 p.m. Eastern time on July 3, 2013 into shares of the Company's common stock at a conversion rate of 38.6548 shares per $1,000 principal amount (equivalent to a conversion price of approximately $25.87 per share). All of the convertible subordinated notes, $172.5 million principal amount, were converted into 6,667,932 of the Company's common stock between June 30, 2013 and July 3, 2013 and none were redeemed for cash. As a result of the conversion, unamortized debt issuance costs of $1.3 million was reclassified from other long-term assets to additional paid-in capital in the third quarter of 2013.

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Amortization of the debt issuance costs ceased upon the conversion of the 2015 Notes. Amortization expense was negligible in the three months ended September 30, 2013, $0.2 million in the three months ended September 30, 2012, $0.4 million in the nine months ended September 30, 2013 and $0.6 million in the nine months ended September 2012.

Convertible Subordinated Notes Due 2023

In January 2013, the Company completed an underwritten public offering of $287.5 million aggregate principal amount of unsecured convertible subordinated notes which will mature on January 15, 2023. The financing raised proceeds, net of issuance costs, of approximately $281.2 million, less $36.8 million to purchase two privately-negotiated capped call option transactions in connection with the issuance of the notes. The notes bear interest at the rate of 2.125% per year, that is payable semi-annually in arrears, in cash on January 15 and July 15 of each year, beginning on July 15, 2013. The issuance costs, which are included in other long-term assets, are being amortized over the life of the notes. Unamortized issuance costs totaled $5.9 million as of September 30, 2013. Amortization expense was $0.2 million for the three months and $0.4 million for the nine months ended September 30, 2013.

The notes are convertible, at the option of the holder, into shares of the Company's common stock at an initial conversion rate of 35.9903 shares per $1,000 principal amount of the notes, subject to adjustment in certain circumstances, which represents an initial conversion price of approximately $27.79 per share. 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 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 their stated maturity date.

In connection with the offering of the notes, the Company entered into two privately-negotiated capped call option transactions with a single counterparty. The capped call option transaction is an integrated instrument consisting of a call option on its common stock purchased by the Company with a strike price equal to the conversion price of $27.79 per share for the underlying number of shares and a cap price of $38.00 per share. The cap component is economically equivalent to a call option sold by the Company for the underlying number of shares with a strike price of $38.00 per share. As an integrated instrument, the settlement of the capped call coincides with the due date of the convertible debt. At settlement, the Company will receive from its hedge counterparty a number of the Company's common shares that will range from zero, if the stock price is below $27.79 per share, to a maximum of 2,779,659 shares, if the stock price is above $38.00 per share. However, if the market price of the Company's common stock, as measured under the terms of the capped call transactions, exceeds $38.00 per share, there is no incremental anti-dilutive benefit from the capped call. The aggregate cost of the capped call options was $36.8 million.

The terms of the capped call option agreements include a provision under which the Company would have been required to make cash payments to the counterparty if the debt offering did not close. As a result of this provision, the capped calls were recorded as derivative assets between the trade dates and the date of the closing of the debt offering, at which time the cash settlement provision was no longer applicable. Upon the closing of the debt offering, the capped call transactions met the criteria for classification as an equity instrument, and the Company reclassified the carrying value of the capped call derivative assets to stockholders' equity. The change in fair value between the trade dates and the date at which the capped call derivative assets were reclassified to stockholders' equity was $1.4 million, which was recorded as other income (expense), net, in the Company's condensed consolidated statement of operations in the first quarter of 2013.

9. STOCK-BASED COMPENSATION

Equity Incentive Plan

The 2012 Equity Incentive Plan (2012 Plan) provides for the granting of stock options, time-based and performance-contingent restricted stock units, time-based and performance-contingent restricted stock awards, and stock appreciation rights to employees, officers, directors and consultants of the Company. As of September 30, 2013, total shares remaining available for issuance under the 2012 Plan were 3,666,342.

Employee Stock Purchase Plan

The 2004 Employee Stock Purchase Plan (ESPP) provides for the purchase of the Company's common stock to the Company's non-officer employees. As of September 30, 2013, total shares remaining available for issuance under the ESPP were 343,233.

Performance-Contingent Restricted Stock Awards

In 2013, the Compensation Committee of the Company's Board of Directors approved the grant of 44,500 performance-contingent RSAs to senior management. These awards have dual triggers of vesting based upon the achievement of one of three

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possible performance goals by December 31, 2014, as well as a requirement for continued employment through early 2017. In the second quarter of 2013, one of the performance goals was deemed achieved and time-based vesting commenced with respect to these awards. As a result, compensation expense was $317,000 for the nine months ended September 30, 2013, and the remaining unrecognized expense will be recognized over the remaining vesting period through early-2017 using the graded vesting expense attribution method.

In 2012, the Compensation Committee of the Company's Board of Directors approved the grant of 44,500 performance-contingent RSAs to senior management. These awards have dual triggers of vesting based upon the achievement of one of three possible performance goals by December 31, 2013, as well as a requirement for continued employment through early 2016. In the fourth quarter of 2012, one of the performance goals was deemed achieved and time-based vesting commenced with respect to these awards. Compensation expense was $158,000 for the nine months ended September 30, 2013 and was $286,000 for the nine months ended September 30, 2012. The remaining unrecognized expense will be recognized over the remaining vesting period through early-2016 using the graded vesting expense attribution method.

In 2011, the Compensation Committee of the Company's Board of Directors approved the grant of 1,290,000 special long-term retention and incentive performance-contingent RSAs to senior management. These awards have dual triggers of vesting based upon the achievement of certain performance conditions over a six-year timeframe from 2011-2016 and continued employment, both of which must be satisfied in order for the RSAs to vest. Expense associated with these RSAs would be recognized, if at all, during these years depending on the probability of meeting the performance conditions. The maximum potential expense associated with the RSAs could be up to approximately $28.2 million (allocated as $6.3 million for research and development expense and $21.9 million for general and administrative expense) if all of the performance conditions are achieved on time. As of September 30, 2013, the Company had determined that the achievement of the requisite performance conditions was not probable and, as a result, no compensation expense has been recognized. As the RSAs are dependent upon the achievement of certain performance conditions, the expense associated with the RSAs may vary significantly from period to period. If sufficient performance conditions are achieved in the remainder of 2013, then the Company would recognize up to $6.7 million in stock-based compensation expense associated with these RSAs.

In 2011, the Compensation Committee of the Company's Board of Directors approved the grant of a 25,000 performance-contingent RSA to a non-executive officer that has dual triggers of vesting based upon the achievement of a performance condition over a timeframe from 2012-2013 and continued employment through 2014, both of which must be satisfied in order for the award to vest in full. The maximum potential expense associated with this award is approximately $475,000, which would be recognized in increments based on the achievement of the performance condition. In the second quarter of 2013, the performance goal was deemed achieved and time-based vesting commenced with respect to this award. As a result, compensation expense was $404,000 for the nine months ended September 30, 2013, and the remaining unrecognized expense will be recognized over the remaining vesting period through mid-2014 using the graded vesting expense attribution method.

Performance-Contingent Restricted Stock Units

In 2010, the Compensation Committee of the Company's Board of Directors approved the grant of 210,000 performance-contingent RSUs to senior management. These awards have dual triggers of vesting based upon the successful achievement of certain corporate operating milestones during 2010 and 2011, as well as a requirement for continued employment through early 2014. In the first quarter of 2011, both performance milestones were deemed achieved, and time-based vesting commenced with respect to all of the performance-contingent RSU shares. Compensation expense was $49,000 for the nine months ended September 30, 2013 and was $244,000 for the nine months ended September 30, 2012. The remaining unrecognized expense will be recognized over the remaining vesting period through early-2014 using the graded vesting expense attribution method.

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Stock-Based Compensation Expense

The allocation of stock-based compensation expense included in the condensed consolidated statements of operations was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2013	2012	2013	2012
Research and development	$ 4,191	$ 3,259	$ 12,496	$ 10,329
Selling, general and administrative	2,255	2,571	7,208	7,715
Total stock-based compensation expense	$ 6,446	$ 5,830	$ 19,704	$ 18,044

Total stock-based compensation expense capitalized to inventory was nil for the three months and $170,000 for the nine months ended September 30, 2013. Total stock-based compensation expense capitalized to inventory was $198,000 for both the three months and nine months ended September 30, 2012.

As of September 30, 2013, unrecognized compensation expense, net of expected forfeitures, was as follows: $8.7 million related to unvested stock options; $18.8 million related to unvested RSUs; and $25.3 million related to unvested RSAs (excludes performance-contingent RSAs).

Valuation Assumptions

The range of weighted-average assumptions used to estimate the fair value of stock options granted was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Employee stock options				
Risk-free interest rate	1.68%-2.02%	0.83%-0.86%	0.76%-2.02%	0.74%-1.17%
Expected term (in years)	6	6	5-6	5-6
Volatility	60%	57%	58%-60%	55%-60%
Dividend yield	—%	—%	—%	—%
Weighted-average estimated fair value of stock options granted	$ 21.63	$ 14.31	$ 18.11	$ 11.41

Stockholders' Equity

For the nine months ended September 30, 2013, approximately 1,312,000 shares were exercised at a weighted-average exercise price of $15.11 per share, for total cash proceeds of approximately $19,834,000.

10. INCOME TAXES

The Company did not record a provision for income taxes for both of the three months and nine months ended September 30, 2013 and September 30, 2012, because it expected to generate a taxable net operating loss for the fiscal year ended December 31, 2013 and 2012. In addition, the deferred tax assets continue to be treated as having no current value and remain fully offset by a valuation allowance or uncertain tax position liabilities.

11. COMMITMENTS AND CONTINGENCIES

Special Long-Term Retention and Incentive Equity Awards Program

In 2011, the Company granted special long-term retention and incentive cash bonus awards to certain employees. The awards have dual triggers of vesting based upon the achievement of certain performance conditions over a six-year timeframe from 2011 through December 31, 2016 and continued employment. The maximum potential cash bonus expense associated with this program is $38.2 million, which would be recognized in increments based on achievement of the performance conditions. As of September 30, 2013, the Company's management determined that the achievement of the requisite performance conditions was not probable and, as a result, no bonus expense has been recognized. If sufficient performance conditions are achieved in the remainder of 2013, then the Company would recognize up to $9.5 million cash bonus expense in 2013.

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 September 30, 2013.

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12. SUBSEQUENT EVENT

Sale of Stock

On October 29, 2013, the Company and Glaxo Group Limited, an affiliate of GSK, entered into an agreement to purchase 130,473 shares of the Company's common stock at $37.66 per share, for an aggregate purchase price of approximately $4.9 million, pursuant to its rights under the Company's governance agreement with GSK dated June 4, 2004, as amended.

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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 revenue, projected costs, prospects, plans, intentions, expectations, goals and objectives, may be forward-looking statements. The words "anticipates," "believes," "could," "designed," "estimates," "expects," "goal," "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.

OVERVIEW

Executive Summary

Theravance is a biopharmaceutical company with a pipeline of internally discovered product candidates and strategic collaborations with pharmaceutical companies. We are focused on the discovery, development and commercialization of small molecule medicines across a number of therapeutic areas including respiratory disease, bacterial infections, and central nervous system (CNS)/pain. Our key programs include: RELVAR™ ELLIPTA™ or BREO™ ELLIPTA™ (fluticasone furoate/vilanterol), ANORO™ ELLIPTA™ (umeclidinium bromide/vilanterol) and MABA (Bifunctional Muscarinic Antagonist-Beta$_2$ Agonist), each partnered with GlaxoSmithKline plc (GSK), and our oral Peripheral Mu Opioid Receptor Antagonist program. By leveraging our proprietary insight of multivalency to drug discovery, we are pursuing a best-in-class strategy designed to discover superior medicines in areas of significant unmet medical need.

In the third quarter of 2013, our net loss was $47.0 million, an increase of 35.4% from $34.7 million in the third quarter of 2012. In the first nine months of 2013, our net loss was $120.8 million, compared with net income of $12.8 million in the first nine months of 2012. Net income in the nine months ended September 30, 2012 reflects the recognition of deferred revenue of $125.7 million from our global collaboration arrangement with Astellas Pharma Inc. (Astellas) for the development and commercialization of VIBATIV®. This recognition resulted from Astellas' January 6, 2012 termination of our agreement with them. In the third quarter of 2013, our research and development expenses were $33.4 million, an increase of 23.7% from $27.0 million in the third quarter of 2012. In the first nine months of 2013, our research and development expenses were $91.6 million, an increase of 2% from $89.8 million in the first nine months of 2012. Cash, cash equivalents, short-term investments, and marketable securities totaled $594.5 million at September 30, 2013, an increase of $250.8 million from December 31, 2012. The increase was primarily due to net proceeds of $281.2 million received from the January 2013 issuance of convertible subordinated notes, net proceeds of $121.1 million received from our private placements of common stock to an affiliate of GSK and net proceeds of $18.9 million received from employee stock transactions. These increases were partially offset by cash used in operations of $89.6 million and by $36.8 million of payments on privately-negotiated capped call option transactions in connection with the issuance of the convertible subordinated notes.

In 2012, our total operating expenses were $148.8 million. We anticipate total operating expenses for 2013 to increase relative to 2012.

Recent Developments

Business Separation Announcement

In April 2013, we announced that our Board of Directors approved plans to separate our businesses into two independent publicly traded companies. The company to be spun-off, Theravance Biopharma, Inc., filed an initial Form 10 with the SEC on August 1, 2013 and filed amendments of its Form 10 with the SEC on September 27, 2013 and October 29, 2013. After the business separation, Theravance will focus on managing all development and commercial responsibilities under the LABA

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collaboration with GSK and associated potential royalty revenue from RELVAR™ ELLIPTA™ or BREO™ ELLIPTA™, ANORO™ ELLIPTA™ and VI monotherapy, with the intention of providing a consistent return of capital to stockholders. Theravance Biopharma, Inc. will be a biopharmaceutical company focused on discovery, development and commercialization of small-molecule medicines in areas of significant unmet medical need. The result will be two independent, publicly traded companies with different business models enabling investors to align their investment philosophies with the strategic opportunities and financial objectives of the two independent companies.

Conversion of Convertible Subordinated Notes Due 2015

On June 4, 2013, we called for the redemption of all of our outstanding 3% Convertible Subordinated Notes due 2015 (the "2015 Notes"), pursuant to the redemption right in the indenture governing the 2015 Notes. Any 2015 Notes outstanding on July 5, 2013 were to be redeemed in cash for 100% of the principal amount, plus accrued and unpaid interest to, but excluding, the redemption date. The 2015 Notes were convertible at any time prior to 5:00 p.m. Eastern time on July 3, 2013 into shares of our common stock at a conversion rate of 38.6548 shares per $1,000 principal amount (equivalent to a conversion price of approximately $25.87 per share). All of the convertible subordinated notes, $172.5 million principal amount, were converted into 6,667,932 of our common stock between June 30, 2013 and July 3, 2013 and none were redeemed for cash.

Reintroduction of VIBATIV® to the U.S. Market

On August 14, 2013, we announced that we commenced shipments of VIBATIV® (telavancin) into the U.S. wholesaler channel.

Program Highlights

Respiratory Programs with GlaxoSmithKline plc (GSK)

RELVAR™ ELLIPTA™ or BREO™ ELLIPTA™ (Fluticasone Furoate/Vilanterol, FF/VI)

In September 2013, the Japanese Ministry of Health, Labour and Welfare (MHLW) approved RELVAR™ ELLIPTA™ for the treatment of bronchial asthma (in cases where concurrent use of inhaled corticosteroid and long-acting inhaled beta2 agonist (LABA) is required). RELVAR™ ELLIPTA™ is not

indicated for the treatment of chronic obstructive pulmonary disease (COPD) in Japan. RELVAR is a combination of the inhaled corticosteroid (ICS), fluticasone furoate “FF”, and the LABA, vilanterol “VI”. The MHLW has approved two doses of FF/VI - 100/25 mcg and 200/25 mcg. Both strengths will be administered once-daily using the ELLIPTA™, a new dry powder inhaler (DPI). Under the terms of the 2002 LABA collaboration agreement, Theravance made a milestone payment of $10 million (USD) to GlaxoSmithKline plc (GSK) following MHLW approval of RELVAR™ ELLIPTA™ in Japan. It is anticipated RELVAR™ ELLIPTA™ will be made available in Japan by GSK during the fourth quarter of 2013.

In addition, the European Medicines Agency’s (EMA) Committee for Medicinal Products for Human Use (CHMP) issued a positive opinion recommending marketing authorization for FF/VI under the proposed brand name RELVAR™ ELLIPTA™ for:

Asthma: the regular treatment of asthma in adults and adolescents aged 12 years and older where use of a combination medicinal product (LABA and ICS) is appropriate:

· patients not adequately controlled with inhaled corticosteroids and ‘as needed’ inhaled short acting beta2-agonists

COPD: the symptomatic treatment of adults with COPD with a FEV1<70% predicted normal (post-bronchodilator) with an exacerbation history despite regular bronchodilator therapy

Two strengths of FF/VI are proposed for asthma (92/22 mcg and 184/22 mcg) and one strength is proposed for COPD (92/22 mcg). All strengths will be administered once-daily using the ELLIPTA™. The FF/VI doses of 92/22 mcg and 184/22 mcg are specified as the delivered doses (emitted from the inhaler). The lower strength is equivalent to the 100/25 mcg pre-dispensed doses (contained inside the inhaler) approved in the U.S. for COPD.

A CHMP positive opinion is one of the final steps before marketing authorization is granted by the European Commission, but does not always result in marketing authorization. A final decision by the European Commission is anticipated during the fourth quarter of 2013.

FF/VI 100/25 mcg was approved by the FDA for use in patients with COPD in May 2013 under the trade name BREO™ ELLIPTA™. It was also approved for the treatment of COPD by Health Canada in July 2013 under the same trade name. It is not

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indicated for the relief of acute bronchospasm or the treatment of asthma in the U.S. or Canada. BREO™ ELLIPTA™ 100/25 mcg was made available in the U.S. during the fourth quarter of 2013.

Regulatory applications for FF/VI are planned for submission in a number of other countries worldwide.

ANORO™ ELLIPTA™ (Umeclidinium Bromide/Vilanterol, UMEC/VI)

On September 10, 2013, the Pulmonary-Allergy Drugs Advisory Committee (PADAC) to the FDA recommended approval of UMEC/VI, 62.5/25 mcg dose, for the treatment of COPD. The FDA Advisory Committee provides non-binding recommendations for consideration by the FDA, with the final decision on approval made by the FDA. The Prescription Drug User Fee Act (PDUFA) goal date for UMEC/VI is December 18, 2013.

ANORO™ ELLIPTA™ is the proposed proprietary name for UMEC/VI, a combination of two investigational bronchodilator molecules — umeclidinium, a long-acting muscarinic antagonist (LAMA) and VI, a LABA, administered using the ELLIPTA™ inhaler.

UMEC/VI is an investigational medicine, which is not currently approved anywhere in the world. UMEC/VI is under regulatory review by the FDA, European Medicines Agency and the Japanese Ministry of Health, Labor and Welfare. Regulatory submissions for UMEC/VI have also been submitted in a number of countries worldwide.

Inhaled Bifunctional Muscarinic Antagonist-Beta2 Agonist (MABA) — GSK961081

GSK961081 (‘081) is an investigational, single molecule bifunctional bronchodilator with both muscarinic antagonist and beta2 receptor agonist activities. In July 2013, Theravance announced that GSK had initiated preclinical Phase 3-enabling studies with the combination ‘081/FF, supporting development as a once-daily medicine delivered in the ELLIPTA™ inhaler.

Bacterial Infections Program

VIBATIV® (telavancin)

In August 2013, Theravance reintroduced VIBATIV® (telavancin) into the U.S. VIBATIV® is approved in the U.S. for the treatment of adult patients with hospital-acquired and ventilator-associated bacterial pneumonia (HABP/VABP) caused by susceptible isolates of Staphylococcus aureus when alternative treatments are not suitable, and for the treatment of complicated skin and skin structure infections (cSSSI) caused by susceptible isolates of Gram-positive bacteria, including Staphylococcus aureus, both methicillin-susceptible (MSSA) and methicillin-resistant (MRSA) strains. VIBATIV®, discovered and developed by Theravance, is a bactericidal, once-daily, injectable lipoglycopeptide antibiotic with a dual mechanism of action whereby telavancin both inhibits bacterial cell wall synthesis and disrupts bacterial cell membrane function.

Central Nervous System (CNS)/Pain Programs

Norepinephrine and Serotonin Reuptake Inhibitor — TD-9855

TD-9855 is an investigational norepinephrine and serotonin reuptake inhibitor for the treatment of central nervous system conditions such as Attention-Deficit/Hyperactivity Disorder (ADHD) and chronic pain. TD-9855 is being evaluated in an ongoing Phase 2 study in adult patients with ADHD and in an ongoing Phase 2 study in patients with fibromyalgia. Both studies are progressing and results from the Phase 2 study in ADHD and fibromyalgia are anticipated to be reported late this year and during the first half of 2014, respectively.

Theravance Respiratory Program

Long-Acting Muscarinic Antagonist (LAMA) — TD-4208

In September 2013, Theravance announced positive topline results from a dose-ranging 7-day cross-over design Phase 2b study of TD-4208, an investigational LAMA, administered once-a-day as a nebulized aqueous solution in patients with moderate to severe COPD. All doses met the primary and secondary efficacy endpoints. The primary efficacy endpoint in this study was change from baseline in trough FEV1 (forced expiratory volume in one second) at the end of Day 7. TD-4208 demonstrated significant bronchodilation over 24 hours. All doses of TD-4208 were generally well tolerated in the study with rates of adverse events comparable to placebo.

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Collaboration Arrangements with GSK

LABA collaboration

In November 2002, we entered into our long-acting beta$_2$ agonist (LABA) collaboration with GSK to develop and commercialize once-daily LABA products for the treatment of chronic obstructive pulmonary disease (COPD) and asthma. For the treatment of COPD, the collaboration is developing two combination products: (1) RELVAR™ ELLIPTA™ or BREO™ ELLIPTA™ (FF/VI), a once-daily combination medicine consisting of a LABA, vilanterol (VI), and an inhaled corticosteroid (ICS), fluticasone furoate (FF) and (2) ANORO™ ELLIPTA™ (UMEC/VI), a once-daily investigational medicine combining a long-acting muscarinic antagonist (LAMA), umeclidinium bromide (UMEC), with a LABA, VI. For the treatment of asthma, the collaboration is developing FF/VI. The FF/VI program is aimed at developing a once-daily combination LABA/ICS to succeed GSK's Advair®/Seretide™ (salmeterol and fluticasone as a combination) franchise, which had reported 2012 sales of approximately $8.0 billion, and to compete with Symbicort® (formoterol and budesonide as a combination), which had reported 2012 sales of approximately $3.2 billion. ANORO™ ELLIPTA™, which is also a combination product, is targeted as an alternative treatment option to Spiriva® (tiotropium), a once-daily, single-mechanism bronchodilator, which had reported 2012 sales of approximately $4.6 billion.

In the event that a product containing VI is successfully developed and commercialized, we will be obligated to make future milestone payments to GSK, which could total as much as $180.0 million if both a single-agent and a combination product or two different combination products are launched in multiple regions of the world. Of these potential milestone payments, $30.0 million became payable in October 2013 due to the launch of BREO™ ELLIPTA™ in the U.S., and we estimate another $70.0 million could become payable during the remainder of 2013 and all the milestone payments could be payable by the end of 2014. On May 10, 2013 the U.S. Food and Drug Administration (FDA) approved BREO™ ELLIPTA™ as an inhaled long-term, once-daily maintenance treatment of airflow obstruction in patients with COPD, including chronic bronchitis and/or emphysema. It is also indicated to reduce exacerbations of COPD in patients with a history of exacerbations. On September 20, 2013 the Japanese Ministry of Health, Labour and Welfare (MHLW) approved RELVAR™ ELLIPTA™ for the treatment of bronchial asthma in cases where concurrent use of inhaled corticosteroid and long-acting inhaled beta2 agonist is required. As a result of these approvals we paid GSK $40.0 million for registrational milestone fees in the first nine months of 2013. These milestone payments to GSK were capitalized as finite-lived intangible assets and will be amortized over their estimated useful life.

We are entitled to receive annual royalties from GSK of 15% on the first $3.0 billion of annual global net sales and 5% for all annual global net sales above $3.0 billion. 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 LABA collaboration, such as ANORO™ ELLIPTA™, royalties are upward tiering and range from the mid-single digits to 10%.

2004 Strategic Alliance

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 certain of our discovery programs on pre-determined terms and on an exclusive, worldwide basis. 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. If the program is 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 the program. 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. GSK has no further option rights on any of our research or development programs under the strategic alliance.

In 2005, GSK licensed our bifunctional muscarinic antagonist-beta$_2$ agonist (MABA) program for the treatment of COPD, and in October 2011, we and GSK expanded the MABA program by adding six additional Theravance-discovered preclinical MABA compounds (the "Additional MABAs"). GSK's development, commercialization, milestone and royalty obligations under the strategic alliance remain the same with respect to GSK961081 ('081), the lead compound in the MABA program. GSK is obligated to use diligent efforts to develop and commercialize at least one MABA within the MABA program, but may terminate progression of any or all Additional MABAs at any time and return them to us, at which point we may develop and commercialize such Additional MABAs alone or with a third party. Both GSK and we have agreed not to conduct any MABA clinical studies outside of the strategic alliance so long as GSK is in possession of the Additional MABAs. If a single-agent MABA medicine containing '081 is successfully developed and commercialized, we are entitled to receive royalties from GSK of between 10% and 20% of annual global net sales up to $3.5 billion, and 7.5% for all annual global net sales above $3.5 billion. If a MABA medicine containing '081 is commercialized only as a combination product, such as '081/FF, the royalty rate is 70% of the rate applicable to sales of the single-agent MABA medicine. For single-agent MABA medicines containing an Additional MABA, we are entitled to receive royalties from GSK of between 10% and 15% of annual global net sales up to $3.5 billion, and 10% for all annual global net sales above $3.5 billion. For

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combination products containing an Additional MABA, such as a MABA/ICS combination, the royalty rate is 50% of the rate applicable to sales of the single-agent MABA medicine. If a MABA medicine containing '081 is successfully developed and commercialized in multiple regions of the world, we

could earn total contingent payments of up to $125.0 million for a single-agent medicine and up to $250.0 million for both a single-agent and a combination medicine. If a MABA medicine containing an Additional MABA is successfully developed and commercialized in multiple regions of the world, we could earn total contingent payments of up to $129.0 million.

Purchases of Common Stock under our Governance Agreement and Common Stock Purchase Agreement with GSK

During the first nine months of 2013, we issued and Glaxo Group Limited, an affiliate of GSK, purchased 3,374,497 shares of our common stock for an aggregate purchase price of approximately $121.1 million pursuant to its periodic "top-up" rights under our governance agreement with GSK dated June 4, 2004, as amended.

GSK Contingent Payments and Revenue

The potential future contingent payments receivable related to the MABA program of $363.0 million are not deemed substantive milestones due to the fact that the achievement of the event underlying the payment predominantly relates to GSK's performance of future development, manufacturing and commercialization activities for product candidates after licensing the program.

Revenue recognized from GSK under the LABA collaboration and strategic alliance agreements was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	2013	2012	2013	2012
LABA collaboration	$ —	$ 0.9	$ 1.8	$ 2.7
Strategic alliance—MABA program license	0.4	0.5	1.3	1.6
Total revenue from GSK Collaborations	$ 0.4	$ 1.4	$ 3.1	$ 4.3

Under the GSK collaborative arrangements, we are reimbursed for research and development (R&D) expenses. These reimbursements have been reflected as a reduction of R&D expense. Reduction of R&D expense was $0.2 million for the three months and $0.5 million for the nine months ended September 30, 2013. Reduction of R&D expense was less than $0.1 million for the three months and $0.1 million for the nine months ended September 30, 2012.

Critical Accounting Policies and Significant Judgments and Estimates

Our management's discussion and analysis of our financial condition and results of operations is based on our financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles (" GAAP"). The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported revenue generated and expenses incurred during the reporting periods. Our estimates are based on our historical experience and on various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. We believe that the accounting policies discussed below are critical to understanding our historical and future performance, as these policies relate to the more significant areas involving management's judgments and estimates.

Revenue Recognition

Revenue is recognized when the related costs are incurred and the four basic criteria of revenue recognition are met: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or services have been rendered; (3) the fee is fixed or determinable; and (4) collectability is reasonably assured. Determination of criteria (3) and (4) are based on management's judgments regarding the nature of the fee charged for products or services delivered and the collectability of those fees. Where the revenue recognition criteria are not met, we defer the recognition of revenue by recording deferred revenue until such time that all criteria are met.

Product Revenues: We sell VIBATIV® in the U.S. through a limited number of distributors, and title and risk of loss transfer upon receipt by these distributors. Healthcare providers order VIBATIV® through these distributors. For all product shipped during the three months ended September 30, 2013, we are deferring the recognition of revenue until the product is sold through to healthcare providers, the end customers, due to the inherent uncertainties in estimating normal channel inventory at the distributors, and during which period we also provided extended payment terms and expanded return rights that allow distributors to return the product up to one year after the product launch. As of September 30, 2013, we had deferred revenue of $0.5 million related to VIBATIV® shipments and recorded this amount as a current liability in the condensed consolidated balance sheet.

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Product sales are recorded net of estimated government-mandated rebates and chargebacks, distribution fees, estimated product returns and other deductions. Reserves are established for these deductions and actual amounts incurred are offset against applicable reserves. We reflect these reserves as either a reduction in the related account receivable from the distributor, or as an accrued liability, depending on the nature of the sales deduction. Sales reserves are based on management's estimates that consider payer mix in target markets, industry benchmarks and experience to date. We monitor inventory levels in the distribution channel, as well as sales of VIBATIV® by distributors to healthcare providers, using product-specific data provided by the distributors. Product return allowances are based on amounts owed or to be claimed on related sales. These estimates take into consideration the terms of our agreements with customers, historical product returns of VIBATIV® experienced by Astellas, rebates or discounts taken, estimated levels of inventory in the distribution channel, the shelf life of the product, and specific known market events, such as competitive pricing and new product introductions. We update our estimates and assumptions each quarter and if actual future results vary from our estimates, we may adjust these estimates, which could have an effect on product sales and earnings in the period of adjustment.

Sales Discounts: We offer cash discounts to our customers, generally 2% of the sales price, as an incentive for prompt payment. We expect our customers to comply with the prompt payment terms to earn the cash discount. We account for cash discounts by reducing accounts receivable by the full amount and recognize the discount as a reduction of revenue in the same period the related revenue is recognized.

Chargebacks and Government Rebates: For VIBATIV® sales in the U.S., we estimate reductions to product sales for qualifying federal and state government programs including discounted pricing offered to PHS as well as government-managed Medicaid programs. Our reserve for PHS is based on actual chargebacks that distributors have claimed for reduced pricing offered to such health care providers. Our accrual for Medicaid is based upon statutorily-defined discounts, estimated payer mix, expected sales to qualified healthcare providers, and our expectation about future utilization. The Medicaid accrual and government rebates that are invoiced directly to us are recorded in other accrued liabilities on the condensed consolidated balance sheet. For qualified programs that can purchase our products through distributors at a lower contractual government price, the distributors charge back to us the difference between their acquisition cost and the lower contractual government price.

Distribution Fees and Product Returns: We have written contracts with our distributors that include terms for distribution-related fees. We record distribution-related fees based on a percentage of the product sales price. We offer our distributors a right to return product purchased directly us, which is principally based upon the product's expiration date. Additionally, we have granted more expansive return rights to our distributors for a period of up to twelve months following our product launch of VIBATIV®. We will generally accept returns for expired product during the six months prior to and twelve months after the product expiration date on product that had been sold to the our distributors. Product returned is generally not resalable given the nature of our products and method of administration. We have developed estimates for VIBATIV® product returns based upon historical VIBATIV® sales from our former collaborative partner, Astellas.

We maintain a policy to record allowances for potentially doubtful accounts for estimated losses resulting from the inability of our customers to make required payments.

Concentration of Credit Risk: Financial instruments which potentially subject us to concentrations of credit risk include accounts receivable. At September 30, 2013, 99% of our accounts receivable balance represents amounts due to us from three distributors, AmerisourceBergen Drug Corporation, Cardinal Health, Inc. and McKesson Corporation. Despite the significant concentration of distributors, the demand for VIBATIV® is driven primarily by patient therapy requirements and we are not dependent upon any individual distributor with respect to VIBATIV® sales.

Collaborative Arrangements. We generate revenue from collaboration and license agreements for the development and commercialization of our product candidates. Collaboration and license agreements may include non-refundable upfront payments, partial or complete reimbursement of research and development costs, supply arrangement, contingent payments based on the occurrence of specified events under our collaborative arrangements, license fees and royalties on sales of product candidates if they are successfully approved and commercialized. Our performance obligations under the collaborations may include the transfer of intellectual property rights in the form of licenses, obligations to provide research and development services and related materials, supply of active pharmaceutical ingredient (API) and/or drug product, and obligations to participate on certain development and/or commercialization committees with the collaborative partners. We make judgments that affect the periods over which we recognize revenue. We periodically review our estimated periods of performance based on the progress under each arrangement and account for the impact of any changes in estimated periods of performance on a prospective basis.

On January 1, 2011, we adopted an accounting standards update that amends the guidance on accounting for new or materially modified multiple-element arrangements that we enter into subsequent to January 1, 2011. This guidance removed the

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requirement for objective and reliable evidence of fair value of the undelivered items in order to consider a deliverable a separate unit of accounting. It also changed the allocation method such that the relative-selling-price method must be used to allocate arrangement consideration to all the units of accounting in an arrangement. This guidance established the following hierarchy that must be used in estimating selling price under the relative-selling-price method: (1) vendor-specific objective evidence of fair value of the deliverable, if it exists, (2) third-party evidence of selling price, if vendor-specific objective evidence is not available or (3) vendor's best estimate of selling price (BESP) if neither vendor-specific nor third-party evidence is available.

We may determine that the selling price for the deliverables within collaboration and license arrangements should be determined using BESP. The process for determining BESP involves significant judgment on our part and includes consideration of multiple factors such as estimated direct expenses and other costs, and available data. We have determined BESP for license units of accounting based on market conditions, similar arrangements entered into by third parties and entity-specific factors such as the terms of previous collaborative agreements, our pricing practices and pricing objectives, the likelihood that clinical trials will be successful, the likelihood that regulatory approval will be received and that the products will become commercialized. We have also determined BESP for services-related deliverables based on the nature of the services to be performed and estimates of the associated effort as well as estimated market rates for similar services.

For each unit of accounting identified within an arrangement, we determine the period over which the performance obligation occurs. Revenue is then recognized using either a proportional performance or straight-line method. We recognize revenue using the proportional performance method when the level of effort to complete our performance obligations under an arrangement can be reasonably estimated. Direct labor hours or full time equivalents are typically used as the measurement of performance. The total amount of deferred revenue based on BESP at September 30, 2013 was $7.3 million. Any changes in the remaining estimated performance obligation periods under these collaborative arrangements will not have a significant impact on the results of operations, except for a change in estimated performance period resulting from the termination of a collaborative arrangement, which would result in immediate recognition of the related deferred revenue.

For multiple element arrangements entered into prior to January 1, 2011, we determined whether the elements had stand-alone value and whether there was objective and reliable evidence of fair value. When the delivered element did not have stand-alone value or there was insufficient evidence of fair value for the undelivered element(s), we recognized the consideration for the combined unit of accounting ratably over the estimated period of performance, which was the same manner in which the revenue was recognized for the final deliverable. Our collaborative agreements with GSK and our former collaborative arrangement with Astellas were entered into prior to January 1, 2011. The deliverables under these collaborative agreements did not meet the criteria required to be accounted for as separate accounting units for the purposes of revenue recognition. As a result, revenue from non-refundable, upfront fees and development contingent payments were recognized ratably over the term of our performance periods under the agreements. These upfront or contingent payments received, pending recognition as revenue, were recorded as deferred revenue and amortized over the estimated performance periods.

We recognized revenue from our GSK collaborative arrangements of $3.1 million in the nine months ended September 30, 2013 and $4.3 million in the nine months ended September 30, 2012. The remaining deferred revenue under the GSK strategic alliance agreement is $6.2 million at September 30, 2013. Any change in the estimated performance period, which is predominantly based on GSK's development timeline, will not have a significant impact on

the results of operations, except for a change in estimated performance period resulting from the termination of the MABA program, which would result in immediate recognition of the deferred revenue. The collaborative arrangement with Astellas was terminated on January 6, 2012. The termination resulted in the recognition of deferred revenue of $125.8 million in the nine months ended September 30, 2012.

On January 1, 2011, we also adopted an accounting standards update that provides guidance on revenue recognition using the milestone method. Payments that are contingent upon achievement of a substantive milestone are recognized in their entirety in the period in which the milestone is achieved. Milestones are defined as events that can be achieved based only on our performance and as to which, at the inception of the arrangement, there is substantive uncertainty about whether the milestone will be achieved. Events that are contingent only on the passage of time or only on third-party performance are not considered milestones subject to this guidance. Further, the amounts received must relate solely to prior performance, be reasonable relative to all of the deliverables and payment terms in the agreement and commensurate with our performance to achieve the milestone after commencement of the agreement. Under this guidance, total contingent payments that may become payable to us under our collaborative agreements with R-Pharm and Hikma were $10.5 million at September 30, 2013 and are considered non-substantive.

Amounts related to research and development funding is recognized as the related services or activities are performed, in accordance with the contract terms. Payments may be made to us based on the number of full-time equivalent researchers assigned to the collaborative project and the related research and development expenses incurred. Accordingly, reimbursement of research and development expenses pursuant to the cost-sharing provisions of our agreements with Merck, Alfa Wassermann, GSK and R-Pharm are recognized as a reduction of research and development expenses. For the nine months ended September 30, 2013, we recorded a

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reduction in our research and development expenses of $6.1 million for reimbursement of research and development expenses received from Merck, Alfa Wassermann, GSK, and R-Pharm.

Accrued Research and Development Expenses

As part of the process of preparing financial statements, we are required to estimate and accrue expenses, the largest of which are research and development expenses. This process involves the following:

- communicating with our applicable personnel to identify services that have been performed on our behalf and estimating the level of service performed and the associated cost incurred for the service when we have not yet been invoiced or otherwise notified of actual cost;
- estimating and accruing expenses in our financial statements as of each balance sheet date based on facts and circumstances known to us at the time; and
- periodically confirming the accuracy of our estimates with selected service providers and making adjustments, if necessary.

Examples of estimated research and development expenses that we accrue include:

- fees paid to CROs in connection with preclinical and toxicology studies and clinical studies;
- fees paid to investigative sites in connection with clinical studies;
- fees paid to CMOs in connection with the production of product and clinical study materials; and
- professional service fees for consulting and related services.

We base our expense accruals related to clinical studies on our estimates of the services received and efforts expended pursuant to contracts with multiple research institutions and clinical research organizations that conduct and manage clinical studies on our behalf. The financial terms of these agreements vary from contract to contract and may result in uneven payment flows. Payments under some of these contracts depend on factors, such as the successful enrollment of patients and the completion of clinical study milestones. Our service providers invoice us monthly in arrears for services performed. In accruing service fees, we estimate the time period over which services will be performed and the level of effort to be expended in each period. If we do not identify costs that we have begun to incur or if we underestimate or overestimate the level of services performed or the costs of these services, our actual expenses could differ from our estimates.

To date, we have not experienced significant changes in our estimates of accrued research and development expenses after a reporting period. However, due to the nature of estimates, we cannot assure you that we will not make changes to our estimates in the future as we become aware of additional information about the status or conduct of our clinical studies and other research activities.

Fair Value of Stock- Based Compensation Awards

We use the Black-Scholes-Merton option pricing model to estimate the fair value of options at the date of grant. The Black-Scholes-Merton option valuation model requires the use of assumptions, including the expected term of the award and the expected stock price volatility. We use the “simplified” method as described in Staff Accounting Bulletin No. 107, “Share Based Payment”, for the expected option term because the usage of our historical option exercise data is limited due to post-IPO exercise restrictions. Beginning April 1, 2011, we have used our historical volatility to estimate expected stock price volatility. Prior to April 1, 2011, we used our peer company price volatility to estimate expected stock price volatility due to our limited historical common stock price volatility since our initial public offering in 2004. The estimated fair value of the option is expensed on a straight-line basis over the expected term of the grant.

We estimated the fair value of restricted stock units (RSUs) and restricted stock awards (RSAs) based on the fair market values of the underlying stock on the dates of grant. The estimated fair value of time-based RSUs and RSAs is expensed on a straight-line basis over the expected term of the grant. The estimated fair value of performance-contingent RSUs and RSAs is expensed using an accelerated method over the requisite service period based on

management's best estimate as to whether it is probable that the shares awarded are expected to vest. We assess the probability of the performance indicators being met on a continuous basis.

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Stock-based compensation expense was calculated based on awards ultimately expected to vest and was reduced for estimated forfeitures at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differed from those estimates. The estimated annual forfeiture rates for stock options, RSUs and RSAs are based on our historical forfeiture experience.

In 2011, we granted special long-term retention and incentive performance-contingent RSAs to members of senior management, which have dual triggers of vesting based upon the achievement of certain performance conditions over a six-year timeframe from 2011 through December 31, 2016 and continued employment. The maximum potential expense associated with these RSAs is $28.2 million, which would be recognized in increments based on achievement of the performance conditions. As of September 30, 2013, we determined that the achievement of the requisite performance conditions was not probable and, as a result, no compensation expense has been recognized. If sufficient performance conditions are achieved in 2013, then we would recognize up to $6.7 million in stock-based compensation expense associated with these RSAs in 2013.

We do not expect to recognize in the near future any tax benefit related to employee stock-based compensation expense as a result of the full valuation allowance on our deferred tax assets including deferred tax assets related to our net operating loss carry forwards.

Inventories

Inventories are stated at the lower of cost or market value. Inventories include VIBATIV® API and other raw materials of $4.1 million, work-in-process of $3.6 million and finished goods of $1.4 million at September 30, 2013. Work-in-process consists of third party manufacturing costs and associated labor costs relating to our personnel directly involved in the production process. Included in inventories are raw materials and work-in-process that may be used as clinical products, which are charged to R&D expense when consumed. If information becomes available that suggests the inventories may not be realizable, we may be required to expense a portion or all of the previously capitalized inventories.

Impairment of Finite-lived Intangible Assets

We review intangible assets for impairment when events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. The recoverability of finite-lived intangible assets is measured by comparing the asset's carrying amount to the expected undiscounted future cash flows that the asset is expected to generate. The determination of recoverability typically requires various estimates and assumptions, including estimating the useful life over which cash flows will occur, their amount, and the asset's residual value, if any. We derive the required cash flow estimates from near-term forecasted product sales and long-term projected sales in the corresponding market.

Our intangible assets at September 30, 2013 consist of a $30.0 million registrational milestone fee paid to GSK for the FDA approval of BREO™ ELLIPTA™ in the U.S. and a $10.0 million registrational milestone fee paid to GSK for the MHLW approval of RELVAR™ ELLIPTA™ (see "Collaboration Arrangements with GSK" above for more information). Each of these intangible assets is considered a finite-lived intangible asset, which will be amortized over its estimated useful life of 15 years using the straight-line method.

RESULTS OF OPERATIONS

Revenue

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

(In millions, except percentages)	Three months Ended September 30, 2013	2012	Change $	Change %	Nine months Ended September 30, 2013	2012	Change $	Change %
Collaborative arrangements								
GSK Collaborative arrangement	$ 0.4	$ 1.4	$ (1.0)	(71)%	$ 3.1	$ 4.3	$ (1.2)	(28)%
Astellas Collaborative arrangement	—	—	—	—%	—	125.7	(125.7)	(100)%
Other Collaborative arrangements	*	—	*	**	0.1	—	0.1	**
Total Revenue	$ 0.4	$ 1.4	$ (1.0)	(71)%	$ 3.2	$ 130.0	$ (126.8)	(98)%

* Amount is less than $50,000.
** Calculation not meaningful.

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Revenue decreased 71% to $0.4 million in the third quarter of 2013 and decreased 98% to $3.2 million in the first nine months of 2013, from the comparable periods in 2012. The decrease in the first nine months of 2013 was primarily due to the January 6, 2012 termination of our global collaboration arrangement with Astellas for the development and commercialization of VIBATIV®, which resulted in the recognition of the remaining deferred revenue under that agreement of $125.7 million.

A portion of our upfront fees and certain contingent payments received from our collaborative arrangements other than with Astellas have been deferred and are being amortized ratably into revenue or research and development expense over the estimated performance period. Future revenue will include the ongoing amortization of upfront and contingent payments earned. We periodically review and, if necessary, revise the estimated periods of our performance pursuant to these contracts.

Research & Development

Our R&D expenses consist primarily of employee-related costs, external costs, and various allocable expenses. We budget total R&D expenses on an internal department level basis, we do not have project or program level reporting capabilities. We manage and report our R&D activities across the following four cost categories:

1) Employee-related costs, which include salaries, wages and benefits;
2) Stock-based compensation, which includes expenses associated with our stock option and other award plans;
3) External costs, which include clinical trial related expenses, other contract research fees, consulting fees, and contract manufacturing fees; and
4) Facilities and other, which include laboratory and office supplies, depreciation and other allocated expenses, which include general and administrative support functions, insurance and general supplies.

Our R&D expenses incurred during the periods presented were as follows:

	Three months Ended September 30,		Change		Nine months Ended September 30,		Change	
(In millions, except percentages)	2013	2012	$	%	2013	2012	$	%
Employee-related	$ 9.0	$ 9.0	$ —	—%	$ 26.9	$ 28.7	$ (1.8)	(6)%
External-related	14.5	8.8	5.7	65%	34.2	32.9	1.3	4%
Stock-based compensation	4.2	3.3	0.9	27%	12.5	10.3	2.2	21%
Facilities, depreciation and other allocated	5.7	5.9	(0.2)	(3)%	18.0	17.9	0.1	1%
Total expenses	$ 33.4	$ 27.0	$ 6.4	24%	$ 91.6	$ 89.8	$ 1.8	2%

R&D expenses increased 24% to $33.4 million in the third quarter and increased 2% to $91.6 million in the first nine months of 2013 from the comparable periods in 2012. The increase in the first nine months of 2013 was primarily due to higher external costs of $5.7 million. The key Phase 2 clinical trials we were conducting in the first nine months of 2013 were our Phase 2 clinical studies in our MARIN program with TD-9855 and a Phase 2b study in our LAMA program with TD-4208. In the comparable period in 2012 our key Phase 2 clinical trials primarily consisted of our Phase 2b studies in our program for opioid induced constipation with TD-1211 and one Phase 2 study in our MARIN program with TD-9855. Under certain of our collaborative arrangements we received partial reimbursement of external costs and employee-related costs, which have been reflected as a reduction of R&D expenses of $2.2 million in the third quarter of 2013 compared to a nominal amount in the same period of 2012 and $6.1 million in the first nine months of 2013 compared to $0.1 million in the same period of 2012.

Selling, general and administrative

Selling, general and administrative (SG&A) expenses, as compared to the prior year periods, were as follows:

	Three months Ended September 30,		Change		Nine months Ended September 30,		Change	
(In millions, except percentages)	2013	2012	$	%	2013	2012	$	%
Selling, general and administrative expense	$ 12.3	$ 7.8	$ 4.5	58%	$ 32.0	$ 23.2	8.8	38%

SG&A expenses increased 58% to $12.3 million in the third quarter and 38% to $32.0 million in the first nine months of 2013 from the comparable periods in 2012. The increases in 2013 were primarily due to an increase in external legal and accounting

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fees in connection with our separation strategy. Total external expenses related to the proposed company separation were $3.9 million for the three months and $6.2 million for the nine months ended September 30, 2013. Stock-based compensation expense was $2.3 million in the third quarter of 2013, compared to $2.6 million in the same period of 2012 and $7.2 million in the nine months ended September 30, 2013, compared to $7.7 million in the same period of 2012.

Interest and other income (expense), net

Interest and other income (expense), net, as compared to the prior year periods, were as follows:

	Three months Ended September 30,		Change		Nine months Ended September 30,		Change	
(In millions, except percentages)	2013	2012	$	%	2013	2012	$	%
Interest income	$ 0.2	$ 0.2	$ —	%	$ 0.6	$ 0.3	$ 0.3	100%
Other income (expense), net	*	—	*	**	6.7	—	6.7	**
Interest and other income (expense), net	$ 0.2	$ 0.2	$ —	**	$ 7.3	$ 0.3	$ 7.0	**

* Amount is less than $50,000.
** Calculation not meaningful.

Interest and other income (expense), net remained relatively flat in the third quarter and increased from $0.3 million to $7.3 million in the first nine months of 2013, compared to the same periods in 2012. The increase in the first nine months of 2013 was primarily related to other income of $10.0 million resulting from the termination of our royalty participation agreement with Elan in the second quarter of 2013. The increase was partially offset by other expense of $1.8 million in third party expenses relating to the aforementioned royalty participation agreement in the second quarter of 2013 and $1.4 million

related to the change in fair value of the capped call instruments related to our convertible subordinated notes issued in January 2013 in the first quarter of 2013.

Interest expense

Interest expense, as compared to the prior year periods, was as follows:

(In millions, except percentages)	Three months Ended September 30, 2013	2012	Change $	%	Nine months Ended September 30, 2013	2012	Change $	%
Interest expense	$ 1.9	$ 1.5	$ 0.4	27%	$ 7.7	$ 4.5	$ 3.2	71%

Interest expense increased 27% to $1.9 million in the third quarter of 2013 and increased 71% in the first nine months of 2013 from the comparable periods of 2012. The increases were primarily due to the interest expense and amortization of debt issuance costs from our 2.125% convertible subordinated notes due 2023 issued in January 2013. Interest expense is primarily comprised of interest expense and amortization of debt issuance costs from our convertible subordinated notes issued in January 2008 and January 2013.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

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 collaborative arrangements. At September 30, 2013, we had $594.5 million in cash, cash equivalents, short-term investments and marketable securities, excluding $0.8 million in restricted cash that was pledged as collateral for certain of our leases. On January 24, 2013, we completed an underwritten public offering of $287.5 million aggregate principal amount of unsecured 2.125% convertible subordinated notes due 2023. The financing raised proceeds, net of issuance costs, of approximately $281.2 million, less $36.8 million of payments on privately-negotiated capped call option transactions in connection with the issuance of the notes. In connection with the offering of the notes, we entered into privately-negotiated capped call option transactions with an aggregate cost of $36.8 million. Also, during the first nine months of 2013, we issued and Glaxo Group Limited, an affiliate of GSK, purchased 3,374,497 shares of our common stock for an aggregate purchase price of approximately $121.1 million pursuant to its periodic “top-up” rights under our governance agreement with GSK dated June 4, 2004, as amended.

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On June 4, 2013, we called for the redemption of all of our outstanding 3% Convertible Subordinated Notes due 2015 (the “2015 Notes”), pursuant to the redemption right in the indenture governing the 2015 Notes. Any 2015 Notes outstanding on July 5, 2013 were to be redeemed in cash for 100% of the principal amount, plus accrued and unpaid interest to, but excluding, the redemption date. The 2015 Notes were convertible at any time prior to 5:00 p.m. Eastern time on July 3, 2013 into shares of our common stock at a conversion rate of 38.6548 shares per $1,000 principal amount (equivalent to a conversion price of approximately $25.87 per share). All of the convertible subordinated notes, $172.5 million principal amount, were converted into 6,667,932 of our common stock between June 30, 2013 and July 3, 2013 and none were redeemed for cash.

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. For example, TD-9855 in our MARIN program is in Phase 2 studies for ADHD and fibromyalgia, and our LAMA compound TD-4208 recently completed a Phase 2b study in the third quarter of 2013. Also, in July 2012, we announced positive results from the key study in our Phase 2b program with TD-1211 in our Peripheral Mu Opioid Receptor Antagonist program for opioid-induced constipation. Though we seek to partner this program, we may choose to progress TD-1211 into Phase 3 studies by ourselves, which would increase our operating expenses substantially. In addition, we reintroduced VIBATIV® in the U.S. during the third quarter of 2013, which involves outside services costs associated with manufacturing and distribution capabilities. Furthermore, as we commercialize VIBATIV® in the United States without a partner, we incur costs and expenses associated with creating an independent sales and marketing organization with appropriate technical expertise and supporting infrastructure. We also intend to invest in other assets in our pipeline, including programs in earlier-stage clinical development and late-stage discovery.

As part of the business separation announced in April 2013, we currently anticipate funding the new company with a minimum of $300 million at separation. We expect this initial cash will fund the new company’s operations through significant potential corporate milestones for approximately the next two to three years after the completion of the spin-off, based on current operating plans and financial forecasts. Changes in our development or operating plans, the timing of, and our cash balance at the time of the spin-off, however, could affect the amount of cash available for the two companies at the time of separation and the initial cash funding needed to adequately capitalize both companies.

Pursuant to our LABA collaboration with GSK, we are 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 or two different combination products are launched in multiple regions of the world. Of these potential milestone payments, we paid GSK $40.0 million in registrational milestone fees in the first nine months of 2013, $30.0 million became payable in October 2013 due to the launch of BREO™ ELLIPTA™ in the U.S., and we estimate another $70.0 million could become payable during the remainder of 2013 and the remaining milestone payments could be payable by the end of 2014.

In 2011, we granted special long-term retention and incentive cash bonus awards to certain employees. The awards have dual triggers of vesting based upon the achievement of certain performance conditions over a six-year timeframe from 2011 through December 31, 2016 and continued employment. As of September 30, 2013, we determined that the achievement of the requisite performance conditions was not probable and, as a result, no compensation expense has been recognized. If sufficient performance conditions are achieved in 2013, then we would recognize up to $9.5 million related to cash bonus expense in 2013.

Adequacy of cash resources to meet future needs

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 and financial forecasts. If our current operating plans and financial forecasts change, we may require additional funding sooner in the form of public or private equity offerings or debt financings. Furthermore, if in our view favorable financing opportunities arise, we may seek additional funding at any time. 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 operations as currently planned. In addition, we regularly explore debt restructuring and/or reduction alternatives, including through tender offers, redemptions, repurchases or otherwise, all consistent with the terms of our debt agreements.

Cash Flows

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

	Nine Months Ended September 30,	
(In millions)	**2013**	**2012**
Net cash used in operating activities	$ (89.6)	$ (103.3)
Net cash used in investing activities	$ (218.2)	$ (58.4)
Net cash provided by financing activities	$ 384.8	$ 229.1

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Cash Flows from Operating Activities

Cash used in operating activities is primarily driven by net loss, excluding the effect of non-cash charges or differences in the timing of cash flows and earnings recognition.

Net cash used in operating activities in the nine-months ended September 30, 2013 was $89.6 million, which was primarily due to:

- $98.5 million used in operating expenses, after adjusting for non-cash related items of: $25.0 million consisting primarily of stock-based compensation expense of $19.7 million, depreciation and amortization expenses of $5.7 million, and, partially offset by rent expense of $0.4 million;
- $8.8 million used for interest payments on convertible subordinated notes payable;
- $2.9 million used to increase inventories;
- $1.4 million used to increase receivable from collaborative arrangements related to reimbursement of R&D services;
- $8.2 million increase for cash, net of third party expenses, for the termination of our royalty participation agreement;
- $6.5 million increase in accrued liabilities due to $4.5 million increase in accrued personnel-related expenses, accrued clinical and development expense, and other accrued liabilities, and $2.0 million increase in accounts payable primarily due to the timing of payments, and
- $6.5 million received in upfront fees from collaboration agreements with Clinigen, R-Pharm and Hikma.

Net cash used in operating activities in the nine-months ended September 30, 2012 was $103.3 million, which was primarily due to:

- $90.0 million used in operating expenses, after adjusting for non-cash related items of $23.0 million consisting primarily of stock-based compensation expense of $18.0 million, depreciation and amortization expenses of $5.5 million, partially offset by a reduction of rent expense of $0.5 million;
- $5.4 million used for interest payments on convertible subordinated notes payable;
- $4.6 million used to increase inventories; and
- $4.4 million used to decrease accrued liabilities due to a $3.9 million decrease in accrued personnel-related expenses, accrued clinical and development expense, and $0.5 million decrease in accounts payable primarily due to timing of payments.

Cash Flows from Investing Activities

Net cash used in investing activities in the nine-months ended September 30, 2013 was $218.2 million, which was primarily due to $176.6 million in cash balances being invested in short-term investments and long-term marketable securities and $40.0 million used for milestone payments to GSK.

Net cash used in investing activities in the nine months ended September 30, 2012 was $58.4 million, which was primarily due to $56.3 million in cash balances being invested in short-term investments and long-term marketable securities.

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Cash Flows from Financing Activities

Net cash provided by financing activities in the nine months ended September 30, 2013 was $384.8 million, which was primarily due to the net proceeds of $281.2 million received from the January 2013 issuance of 2.125% convertible subordinated notes due in 2023 and net proceeds from the issuance of common stock of $140.0 million, partially offset by $36.8 million of payments on privately-negotiated capped call option transactions in connection with the issuance of the notes.

Net cash provided by financing activities in the nine months ended September 30, 2012 was $229.1 million, which was primarily due to $212.5 million, net of issuance costs, received from the sale of our common stock to an affiliate of GSK.

OFF-BALANCE SHEET ARRANGEMENTS

We lease various real properties under an operating lease that generally requires us to pay taxes, insurance, maintenance, and minimum lease payments. This lease has options to renew.

We have not entered into any off-balance sheet financial arrangements and have not established any structured finance or special purpose entities. We have not guaranteed any debts or commitments of other entities or entered into any options on non-financial assets.

Commitments and Contingencies

We indemnify our officers and directors for certain events or occurrences, subject to certain limits. We may be subject to contingencies that may arise from matters such as product liability claims, legal proceedings, shareholder suits and tax matters, as such, we are unable to estimate the potential exposure related to these indemnification agreements. We have not recognized any liabilities relating to these agreements at September 30, 2013.

In 2011, we granted special long-term retention and incentive RSAs to members of senior management and special long-term retention and incentive cash bonus awards to certain employees. The awards have dual triggers of vesting based upon the achievement of certain performance conditions over a six-year timeframe from 2011 through December 31, 2016 and continued employment. The maximum potential expense associated with this program is $28.2 million related to stock-based compensation expense and $38.2 million related to cash bonus expense, which would be recognized in increments based on achievement of the performance conditions. As of September 30, 2013, we determined that the achievement of the requisite performance conditions was not probable and, as a result, no compensation expense has been recognized. If sufficient performance conditions are achieved in the remainder of 2013, then we would recognize up to $6.7 million in stock-based compensation expense associated with these RSAs and $9.5 million related to cash bonus expense in 2013.

Contractual Obligations and Commercial Commitments

There have been no significant changes in our payments due under contractual obligations, compared to those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2012.

Pursuant to our LABA collaboration with GSK, we will 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 or two different combination products are launched in multiple regions of the world. Of these potential milestone payments, we paid GSK $40.0 million in registrational milestone fees in the first nine months of 2013, $30.0 million became payable in October 2013 due to the launch of BREO™ ELLIPTA™ in the U.S., and we estimate another $70.0 million could become payable during the remainder of 2013 and all the milestone payments could be payable by the end of 2014. We have not recognized any liabilities relating to this agreement at September 30, 2013.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

During the first nine months of 2013, there have been no significant changes in our market risk or how our market risk is managed, compared to those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2012.

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Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures.

We conducted an evaluation as of September 30, 2013, 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) (i) is recorded, processed, summarized and reported within required time periods and (ii) is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. 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 at the reasonable assurance level.

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. Also, 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.

PART II. OTHER INFORMATION

Item 1A. Risk Factors

Risks Related to our Business

If the commercialization of BREO™ ELLIPTA™ and RELVAR™ ELLIPTA™ in the countries in which it has received regulatory approval encounter any delays or adverse developments, or perceived delays or adverse developments, or if sales do not meet investor expectations, our business will be harmed, and the price of our securities could fall.

In May 2013, the U.S. Food and Drug Administration (FDA) approved BREO™ ELLIPTA™ (FF/VI 100/25 mcg) as an inhaled long-term, once-daily maintenance treatment of airflow obstruction in patients with chronic obstructive pulmonary disease (COPD), including chronic bronchitis and/or emphysema. It is also indicated to reduce exacerbations of COPD in patients with a history of exacerbations. In July 2013, Health Canada approved BREO™ ELLIPTA™ (100/25mcg) for the long-term, once-daily maintenance treatment of airflow obstruction in patients with COPD, including chronic bronchitis and/or emphysema, and for the reduction of exacerbations of COPD in patients with a history of exacerbations. In addition, in September 2013, the Japanese Ministry of Health, Labour and Welfare (MHLW) approved RELVAR™ ELLIPTA™ (two doses, FF/VI - 100/25 mcg and 200/25 mcg) for the treatment of bronchial asthma in cases where concurrent use of inhaled corticosteroid and long-acting inhaled $beta_2$ agonist is required. Under our agreements with our collaborative partner GSK, GSK has full responsibility for commercialization of BREO™ ELLIPTA™ and RELVAR™ ELLIPTA™. In October 2013, GSK began shipping BREO™ ELLIPTA™ into the U.S. market. Following the MHLW approval, it is also anticipated that RELVAR™ ELLIPTA™ will be made available by GSK in Japan during the fourth quarter of 2013. Any delays or adverse developments or perceived delays or adverse developments with respect to the commercialization of BREO™ ELLIPTA™ in the U.S. or Canada, or RELVAR™ ELLIPTA™ in Japan, including if sales do not meet investor expectations, will significantly harm our business and could cause the price of our securities to fall.

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If regulatory authorities determine that the Phase 3 programs for FF/VI in asthma and/or outside the U.S. for COPD do not demonstrate adequate safety and efficacy, the continued development of FF/VI may be significantly delayed, it may not be approved by these regulatory authorities, and even if approved it may be subject to restrictive labeling, any of which will harm our business, and the price of our securities could fall.

During the first quarter of 2012, we announced the completion of, and reported certain top-line data from, the Phase 3 registrational program for FF/VI in COPD and asthma. In July 2012, GSK submitted a regulatory application for FF/VI (proposed brand name RELVAR™ ELLIPTA™) in Europe for both COPD and asthma, as well as to other regulatory agencies throughout the world, which applications have been accepted for review. In September 2012, GSK announced that it was commencing an additional Phase 3 study to complete the U.S. asthma filing package. The Phase 3b program for FF/VI in COPD commenced in February 2011. In September 2013, GSK and we announced that the European Medicines Agency's Committee for Medicinal Products for Human Use issued a positive opinion recommending marketing authorization for FF/VI. Any adverse developments or results or perceived adverse developments or results with respect to the FF/VI regulatory submissions, such as the recent withdrawal of the COPD submission from the current Japanese New Drug Application, the asthma Phase 3 study or the Phase 3b 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:

- not every study, nor every dose in every study, in the Phase 3 programs for FF/VI achieved its primary endpoint and regulatory authorities may determine that additional clinical studies are required;
- inability to gain, or delay in gaining, regulatory approval outside the U.S., Canada and Japan, for the new ELLIPTA™ investigational dry powder inhaler used in these programs;
- safety, efficacy or other concerns arising from clinical or non-clinical studies in these programs. For example, GSK is investigating seven cases of fatal pneumonia in the Phase 3 FF/VI COPD program, six of which were at a dose that is higher than the dose being pursued for approval and a majority of which occurred at one clinical site;
- safety, efficacy or other concerns arising from clinical or non-clinical studies with umeclidinium bromide/vilanterol (proposed brand name ANORO™ ELLIPTA™) (UMEC/VI) having to do with the LABA VI, which is also a component of FF/VI;
- regulatory authorities determining that the Phase 3 program in asthma, or outside the U.S., in COPD, raises safety concerns or does not demonstrate adequate efficacy; or
- any change in FDA policy or guidance regarding the use of LABAs to treat asthma.

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 now requires 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. Further, in April 2011, the FDA announced that to further evaluate the safety of LABAs, it is requiring the manufacturers of currently marketed LABAs to conduct additional randomized, double-blind, controlled clinical trials comparing the addition of LABAs to inhaled corticosteroids versus inhaled corticosteroids alone. Results from these post-marketing studies are expected in 2017. It is unknown at this time what, if any, effect these or future FDA actions will have on the prospects for FF/VI. 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 the FDA requiring additional asthma clinical trials in the United States (U.S.) for FF/VI and increase the overall risk for FF/VI for the treatment of asthma in the U.S.

If the FDA does not approve UMEC/VI on the December 18, 2013 PDUFA goal date, if FDA's action on UMEC/VI is delayed beyond the PDUFA goal date, or if regulatory authorities determine that the Phase 3 program for UMEC/VI for the treatment of COPD does not demonstrate adequate safety and efficacy, continued development of UMEC/VI will be significantly delayed or terminated, our business will be harmed, and the price of our securities could fall.

The Phase 3 program for UMEC/VI with the combination of a LAMA umeclidinium bromide (UMEC), and a LABA, VI, for the treatment of COPD commenced in February 2011. In July 2012, GSK and we reported top-line results from four pivotal studies in this Phase 3 program and in August 2012, GSK and we announced the completion of this Phase 3 program and reported certain top-line data from the remaining studies in the registrational program. GSK submitted regulatory applications for UMEC/VI (proposed brand name ANORO™ ELLIPTA™) for the treatment of COPD in December 2012 in the U.S. and in January 2013 in Europe and both submissions have been accepted for review. In September 2013, the FDA's Pulmonary-Allergy Drugs Advisory Committee discussed the New Drug Application for UMEC/VI, sponsored by GSK, for the for the long-term, once-daily, maintenance bronchodilator treatment of airflow obstruction in patients with COPD, including chronic bronchitis and emphysema. The Committee voted that the efficacy and safety data provide substantial evidence to support approval of UMEC/VI (62.5/25mcg dose) for the long-term, once-daily, maintenance bronchodilator treatment of airflow obstruction in patients with COPD, including chronic bronchitis and emphysema, that the safety of the investigational medicine had been adequately demonstrated at the 62.5/25mcg dose for the proposed indication , and that the efficacy data provided substantial evidence of a clinically meaningful benefit for UMEC/VI (62.5/25mcg) once daily for the long-term, maintenance treatment of airflow obstruction in COPD .Despite these favorable votes, the FDA is not bound by the recommendation of the advisory committee, and could decide not to approve, or delay approval of, the UMEC/VI NDA on the December 18 PDUFA goal date. GSK plans to make regulatory submissions in other countries. Any adverse developments or results or perceived adverse developments or results with respect to these regulatory submissions or the UMEC/VI 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:

- any unfavorable action or decision by the FDA on the UMEC/VI December 18, 2013 PDUFA goal date;
- the FDA and/or other regulatory authorities determining that additional clinical studies are required with respect to the Phase 3 program in COPD;
- inability to gain, or delay in gaining, regulatory approval outside the U.S. for the new ELLIPTA™ investigational dry powder inhaler used in the program;
- safety, efficacy or other concerns arising from clinical or non-clinical studies in this program;
- safety, efficacy or other concerns arising from clinical or non-clinical studies with FF/VI having to do with the LABA, VI, which is also a component of UMEC/VI;
- regulatory authorities determining that the Phase 3 program in COPD raises safety concerns or does not demonstrate adequate efficacy; or
- any change in FDA policy or guidance regarding the use of LABAs combined with a LAMA to treat COPD.

If the MABA program for the treatment of COPD encounters further delays, does not demonstrate safety and efficacy or is terminated, our business will be harmed, and the price of our securities could fall.

The lead compound, GSK961081 ('081), in the bifunctional muscarinic antagonist-beta$_2$ agonist (MABA) program with GSK has completed a Phase 2b study, a Phase 1 study in combination with fluticasone propionate (FP), an inhaled corticosteroid (ICS), and a number of Phase 3-enabling non-clinical studies. GSK recently initiated preclinical Phase 3 enabling studies in the combination '081/FF program. GSK has informed us that the Phase 3 study will not be initiated for '081 monotherapy in 2013. GSK made a decision to move away from twice-daily option with fluticasone propionate (FP) in the Diskus® inhaler to the combination of '081/FF delivered once-daily in the ELLIPTA™ inhaler which requires additional work on non-clinical studies, manufacturing and a Phase 1 bioequivalence study. We are in further discussions with GSK regarding the '081 monotherapy program but we believe it is unlikely that a Phase 3 study with '081 monotherapy will commence in 2014. Any further delays or adverse developments or results or perceived adverse developments or results with respect to the MABA program will harm our business and could cause the price of our securities to fall. Examples of such adverse developments include, but are not limited to:

- GSK deciding to further delay or halt development of '081 monotherapy or the combination '081/FF;
- the FDA and/or other regulatory authorities determining that any of these studies do not demonstrate adequate safety or efficacy, or that additional non-clinical or clinical studies are required with respect to the MABA program;
- the inability to gain, or delay in gaining, regulatory approval outside the U.S. for the ELLIPTA™ dry powder inhaler used in the program;

- safety, efficacy or other concerns arising from clinical or non-clinical studies in this program; or
- any change in FDA policy or guidance regarding the use of MABAs to treat COPD.

In April 2013 we announced our intention to separate our businesses into two independent publicly traded companies by separating our late-stage partnered respiratory assets from our biopharmaceutical operations, and the ongoing process to separate the two businesses may divert the attention of our management and employees, may disrupt our operations, will increase our professional services expenses and is subject to other risks.

On April 25, 2013 we announced our intention to separate our businesses into two independent publicly traded companies. On August 1, 2013, the company to be spun-off, Theravance Biopharma, Inc. (Theravance Biopharma), filed a preliminary Form 10 with the SEC, and subsequent amendments on

September 27, 2013 and October 29, 2013. Theravance will continue to manage all development and commercial responsibilities under the LABA collaboration with GSK and associated potential royalty revenues from FF/VI (RELVAR™ ELLIPTA™ or BREO™ ELLIPTA™), UMEC/VI (ANORO™ ELLIPTA™) and VI monotherapy, and Theravance Biopharma, will be a biopharmaceutical company focusing on the discovery, development and commercialization of small-molecule medicines in areas of significant unmet medical need. Our ability to effect the business separation is subject to the completion of numerous tasks, including but not limited to the preparation of audited financial statements for the new company, the completion of required regulatory filings, the receipt of a private letter ruling from the Internal Revenue Service (should we determine to proceed on a tax-free basis), and obtaining the consent of third parties to the transfer of contractual rights to the new company. The failure to obtain necessary approvals and consents could delay or make impractical our plan to effect the business separation. In addition, other transactions or developments could delay, prevent the completion of, or otherwise adversely affect the planned business separation. If the business separation is delayed or not consummated for any reason, we will not realize the anticipated benefits of the business separation as expected or at all.

The process of planning for and effecting the business separation will continue to demand a significant amount of time and effort from our management and certain employees. The diversion of our management's and employees' attention to the business separation process may disrupt our operations and may adversely impact the progress of our discovery and development efforts, disrupt our relationships with collaborators and increase employee turnover.

We currently anticipate funding the new company with approximately $300 million at separation. We expect this initial cash will fund the new company's operations through significant potential corporate milestones for approximately the next two to three years after the completion of the spin-off, based on current operating plans and financial forecasts. Changes in our development or operating plans, the timing of, and our cash balance at the time of, the spin-off, however, could affect the amount of cash available for the two companies at the time of separation and the initial cash funding needed to adequately capitalize both companies. In addition, any delays in completion of the planned separation may increase the amount of time, effort, and expense that the Company devotes to the transaction and reduce the amount of funding available to both companies.

We cannot assure you that we will not undertake additional restructuring activities, that the planned business separation will be completed or if completed will succeed, or that the actual results will not differ materially from the results that the Company anticipates.

We will continue to incur significant expenditures for professional services in connection with our planning and implementation of the business separation, including financial advisory, accounting and legal fees.

Under the terms of a separation and distribution agreement to be entered into between us and Theravance Biopharma, Theravance Biopharma will indemnify us from and after the spin-off with respect to (i) all debts, liabilities and obligations transferred to Theravance Biopharma in connection with the spin-off (including its failure to pay, perform or otherwise promptly discharge any such debts, liabilities or obligations after the spin-off), (ii) any misstatement or omission of a material fact in its information statement filed with the SEC, resulting in a misleading statement and (iii) any breach by it of certain agreements entered into between the parties in connection with the spin-off. Theravance Biopharma's ability to satisfy these indemnities, if called upon to do so, will depend upon its future financial strength and if we are not able to collect on indemnification rights from Theravance Biopharma, our financial condition may be harmed.

Under the terms of a transition services agreement to be entered into between us and Theravance Biopharma, Theravance Biopharma will provide us with a variety of administrative services for a period of time following the spin-off, including (i) record keeping support, (ii) finance, tax and accounting support to assist us in a secondary capacity to our own personnel, (iii) legal support, (iv) human resources support and (v) facilities support to the extent we continue to occupy space at our current South San Francisco, California facilities. We will be relying on Theravance Biopharma for execution of these administrative activities through the

transition period, which is a period when Theravance Biopharma personnel will be highly focused on supporting their own newly public company. If there is any disruption in the provision of these services to us, or if the services provided to us are not provided in a timely or satisfactory manner, our business operations could be adversely affected.

The amount of our net operating losses that will be used as a result of pre-spin-off restructuring is uncertain.

As a part of the overall spin-off transaction, it is anticipated that certain assets that are transferred by us to Theravance Biopharma will result in taxable transfers pursuant to Section 367 of the Internal Revenue Code of 1986, as amended (the "Code"), or other applicable provisions of the Code and Treasury Regulations. The taxable gain recognized by us attributable to the transfer of certain assets to Theravance Biopharma will equal the excess of the fair market value of each asset transferred over our adjusted tax basis in such asset. While our basis in the cash we transfer to Theravance Biopharma will be equal to the amount of cash (and, therefore, we will recognize no gain on the transfer of such cash), our basis in some assets (other than cash) transferred to Theravance Biopharma may be significantly less than their associated fair market values, which could result in substantial taxable gain to us. The determination of the fair market value of non publicly traded assets is subjective and could be subject to adjustments or future challenge by the Internal Revenue Service ("IRS"), which could result in an increase in the amount of gain, and thus U.S. federal income tax, realized by us as a result of the transfer. Our U.S. federal income tax resulting from any gain realized upon the transfer of our assets to Theravance Biopharma (including any increased U.S. federal income tax that may result from a subsequent determination of higher fair market values of the transferred assets), may be reduced by our net operating loss carryforward. While federal and state tax laws impose restrictions on the utilization of net operating losses in the event of an ownership change, as defined in Section 382 of the Code, we conducted an analysis to determine whether an ownership change had occurred since inception through December 31, 2012, and has concluded that we had not undergone an ownership change. We had approximately $1.2 billion of net operating loss as of December 31, 2012 and estimated additional losses in 2013 (excluding any spin-off related gains) exceeding $100 million. We expect our net operating loss carryforward and current projected losses will fully offset the U.S. federal income tax resulting from the gains we will realize in connection with the pre spin-off restructuring. However, the amount of our net operating loss carryforward that will be used is uncertain as we are not seeking a pre-spin-off appraisal of the fair market value of our transferred assets, but instead will be determining fair market values after the spin-off in significant part on the trading prices of Theravance Biopharma shares following the spin-off.

If the distribution is determined to be taxable for U.S. federal income tax purposes, our shareholders could incur significant U.S. federal income tax liabilities.

We intend to seek a private letter ruling from the IRS regarding the U.S. federal income tax consequences of the distribution of the Theravance Biopharma common shares to our stockholders substantially to the effect that the distribution, except for cash received in lieu of a fractional share of the

Theravance Biopharma common shares, will qualify as tax free under Sections 368(a)(1)(D) and 355 of the Code and, that, for U.S. federal income tax purposes, no gain or loss will be recognized by a holder of our common stock upon the receipt of the Theravance Biopharma common shares pursuant to the distribution. As part of the IRS' general policy with respect to rulings on spin-off transactions (including the distribution), the private letter ruling expected to be received by us will not be based upon a determination by the IRS that certain conditions which are necessary to obtain tax free treatment under Section 355 of the Code have been satisfied. Rather, the private letter ruling relies or will rely on certain facts and assumptions, and certain representations and undertakings, from us and Theravance Biopharma regarding the past and future conduct of our respective businesses and other matters. Notwithstanding the private letter ruling, the IRS could determine on audit that the distribution or certain related transactions should be treated as taxable transactions if it determines that any of these facts, assumptions, representations or undertakings is not correct or has been violated or that the distributions should be taxable for other reasons, including as a result of significant changes in stock or asset ownership after the distribution. In addition, the receipt of a private letter ruling is not a condition to the distribution, and the spin-off may occur prior to the receipt of such ruling. If the distribution ultimately is determined to be taxable for U.S. federal income tax purposes, the distribution could be treated as a taxable dividend or capital gain to you for U.S. federal income tax purposes, and you could incur significant U.S. federal income tax liabilities.

Completion of the Proposed Spin-off of Theravance Biopharma will result in substantial changes in our Board and management.

After the spin-off, our Chief Executive Officer is expected to work part time for us and part time for Theravance Biopharma and this arrangement is expected to last until the recruitment and transition of a new chief executive officer for Theravance. While we will benefit from his deep knowledge of our business, as well as his familiarity with our systems, policies, procedures and mode of operation, the lack of his full time focus on our business may dilute his effectiveness on our behalf and therefore hurt our business. In addition, we also anticipate that some or all of the other senior officers remaining at Theravance may become officers of Theravance Biopharma following the spin-off as we recruit and integrate new officers for our royalty management business. Some of these senior officer transitions may occur quickly after the spin-off depending in part on our success in recruiting and integrating new officers into our management. We also anticipate that substantially all of the current members of our Board of Directors other than Mr. Winningham

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and Mr. Waltrip will resign from our Board of Directors prior to the spin-off. We are currently engaged in a search to locate additional independent board members and we expect our Board to have at least four continuing directors prior to the spin-off. At the time of the spin-off and for a period of time thereafter, these senior officer and board level changes could be disruptive to our operations, present significant management challenges and could harm our business.

If we cannot identify a suitable commercialization partner for VIBATIV® in the U.S. we will bear the full cost of developing the capability to market, sell and distribute the product.

Our general 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. For any of our product candidates that receive regulatory approval in the future and are not covered by our current collaboration agreements, we will need a partner in order to commercialize such products unless we establish independent sales, marketing and distribution capabilities with appropriate technical expertise and supporting infrastructure. VIBATIV® was returned to Theravance by Astellas Pharma Inc. (Astellas) (our former VIBATIV® collaboration partner) in January 2012. On August 14, 2013 we announced the reintroduction of VIBATIV® to the U.S. market with the commencement of shipments into the wholesaler channel. While we have contracted a small sales force and expanded our medical affairs presence, other commercialization alternatives for the U.S. market are being evaluated. The risks of commercializing VIBATIV® in the U.S. without a partner include:

- costs and expenses associated with creating an independent sales and marketing organization with appropriate technical expertise and supporting infrastructure and distribution capability, which costs and expenses could, depending on the scope and the method of the marketing effort, exceed any product revenue from VIBATIV® for several years;
- our unproven ability to recruit and retain adequate numbers of effective sales and marketing personnel;
- the unproven ability of sales personnel to obtain access to or educate adequate numbers of physicians about prescribing VIBATIV® in appropriate clinical situations; and
- 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.

If we are not able to partner VIBATIV® in the U.S. with a third party with marketing, sales and distribution capabilities and if we are not successful in recruiting sales and marketing personnel or in building an internal sales and marketing organization with appropriate technical expertise and supporting infrastructure and distribution capability, we will have difficulty commercializing VIBATIV® in the U.S., which would adversely affect our business and financial condition and which could cause the price of our securities to fall.

With regard to all of our programs, any delay in commencing or completing clinical studies for product candidates and any adverse results from clinical or non-clinical 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 non-clinical and clinical studies as a condition to regulatory approval. Non-clinical 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.

The commencement and completion of clinical studies for our product candidates may be delayed and programs may be terminated due to many factors, including, but not limited to:

- 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;

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- 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 non-clinical 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 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;
- varying regulatory requirements or interpretations of data among the FDA and foreign regulatory authorities; and
- a regional disturbance where we or our collaborative partners are enrolling patients in clinical trials, such as a pandemic, terrorist activities or war, political unrest or a natural disaster.

If our product candidates that we develop on our own or with collaborative partners are not approved by regulatory authorities, 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 or non-clinical studies. In addition, clinical and non-clinical studies of potential products often reveal that it is not possible or practical to continue development efforts for these product candidates. If these 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 and the price of our securities may fall.

If any product candidates, in particular those in any respiratory program with GSK, are determined to be unsafe or ineffective in humans, our business will be adversely affected and the price of our securities could fall.

Although VIBATIV®, discovered and developed by us, is approved in the U.S. and Canada, and BREO™ ELLIPTA™, developed in collaboration with GSK, is approved in the U.S. and Canada, and RELVAR™ ELLIPTA™ is approved in Japan, none of our other product candidates have been approved by regulatory authorities. We are uncertain whether any of our other product candidates and our collaborative partners' 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 a single-dose Phase 1 study. In addition, although we believe the results of our Phase 2b program with TD-1211, our investigational mu-opioid antagonist, support progression into Phase 3 development, the FDA appears to be exploring whether there is evidence of a potential cardiovascular class effect related to opioid

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withdrawal associated with mu-opioid antagonists. Accordingly, we are currently evaluating our Phase 3 strategy due to the potentially evolving FDA requirements in this area. The data supporting our drug discovery and development programs is derived solely from laboratory experiments, non-clinical 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 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 several years, as well as growing public and governmental scrutiny of safety issues, have created a conservative regulatory environment. The implementation of new laws and regulations, and revisions to FDA clinical trial design guidance, have increased uncertainty regarding the approvability of a new drug. Further, 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

laws, regulations, additional requirements and changes in interpretation could cause non-approval or further delays in the FDA's review and approval of our and our collaborative partner's product candidates.

We rely on a single manufacturer for the Active Pharmaceutical Ingredient (API) for telavancin and a separate, single manufacturer for VIBATIV® drug product supply. Our business will be harmed if either of these single-source manufacturers are not able to satisfy demand and alternative sources are not available.

We have a single source of supply of API for telavancin and another, separate single source of supply of VIBATIV® drug product. If, for any reason, either single-source third party manufacturer of telavancin API or of VIBATIV® drug product is unable or unwilling to perform, or if its performance does not meet regulatory requirements, including maintaining current Good Manufacturing Practice (cGMP) compliance, we may not be able to locate alternative manufacturers, enter into acceptable agreements with them or obtain sufficient quantities of API or finished drug product in a timely manner. Any inability to acquire sufficient quantities of API or finished drug product in a timely manner from current or future sources would adversely affect the commercialization of VIBATIV® and could cause the price of our securities to fall.

Our previous VIBATIV® commercialization partner failed to maintain a reliable source of drug product supply which resulted in critical product shortages and, eventually, suspension of commercialization. In addition, the E.U. marketing authorization for VIBATIV® has been suspended since May 2012 because our previous VIBATIV® commercialization partner's single-source VIBATIV® drug product supplier at that time did not meet cGMP requirements for the manufacture of VIBATIV®. Theravance has filed the first of several anticipated submissions to support the removal of the suspension, and we currently believe the suspension could be lifted sometime in the first half of 2014, and possibly sooner. Manufacturing of E.U. approved VlBATIV® finished drug product currently is scheduled for late 2013. Any failure to remove the E.U. marketing authorization suspension or manufacture E.U. approved drug product on a timely basis will continue to delay the commercial introduction of VIBATIV® in the E.U. and Canada. In May 2012, we entered into an agreement with Hospira Worldwide, Inc. (Hospira) to supply VIBATIV® drug product. In June 2013 the FDA approved Hospira as a VIBATIV® drug product manufacturer. Although we believe that Hospira will be a reliable supplier of VIBATIV® drug product, if it cannot perform or if its performance does not meet regulatory requirements, including maintaining cGMP compliance, and if commercial manufacture of VIBATIV® drug product cannot be arranged elsewhere on a timely basis, the commercialization of VIBATIV® in the U.S. could be adversely affected and the commercial introduction of VIBATIV® in the E.U. and Canada will be further delayed.

We rely on a single source of supply for a number of our product candidates, and our business will be harmed if any of these single-source manufacturers are not able to satisfy demand and alternative sources are not available.

We have limited in-house production capabilities for preclinical and clinical study purposes, 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 acceptable agreements with them. Any inability to acquire sufficient quantities of API and drug product in a timely manner from these third parties could delay preclinical and clinical studies, prevent us from developing our product candidates in a cost-effective manner or on a timely basis. In addition, manufacturers of our API and drug product are subject to the FDA's cGMP regulations and similar foreign standards and we do not have control over compliance with these regulations by our manufacturers.

Our manufacturing strategy presents the following additional risks:

- because of the complex nature of many 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, validation and regulatory qualification activities for the new manufacturer;

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- 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.

Even if our product candidates receive regulatory approval, as VIBATIV® has, 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, the U.S. labeling for VIBATIV® contains a number of boxed warnings. Products with boxed warnings are subject to more restrictive advertising regulations than products without such warnings. In addition, the VIBATIV® labeling for hospital-acquired and ventilator associated bacterial pneumonia (HABP/VABP) in the U.S. and the E.U. specifies that VIBATIV® should be reserved for use when alternative treatments are not suitable. These restrictions make it more difficult to market VIBATIV®. With VIBATIV® approved in certain countries, we are 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 manufacturing, 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 authority 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. For example, during the fourth quarter of 2011, the third party manufacturer of VIBATIV® drug product utilized by Theravance's former commercialization partner notified the FDA of an ongoing investigation related to its production equipment and processes. In response to this notice, Theravance's former VIBATIV® commercialization partner placed a voluntary hold on distribution of VIBATIV® to wholesalers and cancelled pending orders for VIBATIV® with this manufacturer. In April 2013, we were advised by the FDA that its consent decree with the manufacturer prohibited the distribution of the VIBATIV® drug product lots previously manufactured but unreleased by this manufacturer. As a result of this supply termination, commercialization of VIBATIV® ceased for well over a year.

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 non-clinical 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, which may cause the price of our securities to fall.

The risks identified in this risk factor relating to regulatory actions and oversight by agencies in the U.S. and throughout the world also apply to the commercialization of partnered products by our collaboration partners, and such regulatory actions and oversight may limit our collaboration partners' ability to commercialize such products, which could materially and adversely affect our business and financial condition, which may cause the price of our securities to fall.

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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. We may never generate sufficient revenue from the sale of medicines or royalties on sales by our partners to achieve profitability. As of September 30, 2013, we had an accumulated deficit of approximately $1.5 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. For example, TD-9855 in our MARIN program is in Phase 2 studies for both attention deficit/hyperactivity disorder and fibromyalgia and in September 2013 we reported positive top line data from a Phase 2b study with TD-4208, our LAMA compound. Also, in July 2012, we announced positive results from the key study in our Phase 2b program with TD-1211 in our Peripheral Mu Opioid Receptor Antagonist program for opioid induced constipation. Though we are seeking to partner these programs, we may choose to progress one or more of these programs into later stage clinical studies by ourselves, which could increase our anticipated operating expenses substantially. Furthermore, should we decide to continue to commercialize VIBATIV® in the United States without a partner, we will incur costs and expenses associated with creating an independent sales and marketing organization with appropriate technical expertise, supporting infrastructure and distribution capabilities. 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 maintain or obtain the capital necessary to fund our operations, we may be unable to develop our product candidates or commercialize VIBATIV® 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 maintain or 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 and financial forecasts, 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. If our current operating plans and financial forecasts change, we may seek additional funding sooner in the form of public or private equity offerings or debt financings. For example, if we chose to conduct Phase 3 studies with TD-1211 in our Peripheral Mu Opioid Receptor Antagonist program for opioid-induced constipation, or progress TD-4208 in our LAMA program or TD-9855 in our MARIN program into later stage development and we chose to progress any of these programs on our own, our capital needs would increase substantially. We also intend to invest in other assets in our pipeline, including programs in earlier-stage clinical development and late-stage discovery. In addition, under our LABA collaboration with GSK, in the event that a product containing vilanterol (VI), which is the LABA product candidate in FF/VI, UMEC/VI and UMEC/VI/FF and which was discovered by GSK, is successfully developed and commercialized in multiple regions of the world as both a single-agent and a combination product or two different combination products, we will be obligated to pay GSK future milestone payments that could total as much as $180.0 million. Of these potential milestone payments, $30.0 million became payable in October due to the launch of BREO™ ELLIPTA™ in the U.S., and we estimate another $70.0 million could become payable during the remainder of 2013 and that all the milestone payments could be payable by the end of 2014. We are not entitled to receive any further milestone payments from GSK under the LABA collaboration. Future financing to meet our capital needs may not 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 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.

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

The commercial success of VIBATIV® depends 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, and a number of existing antibacterials manufactured and marketed by major pharmaceutical companies and others, and may compete against new antibacterials that are not yet on the market. If we are unable to demonstrate to physicians that, based on experience, clinical data, side-effect profiles and other factors, VIBATIV® for the treatment of complicated skin and skin structure infections (cSSSI) and HABP/VABP caused by susceptible Gram-positive bacteria in adult patients is a suitable alternative to vancomycin and other antibacterial drugs in certain clinical

situations, we may never generate meaningful revenue from VIBATIV® which could cause the price of our securities to fall. 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 experiences of physicians, patients and payors with the use of VIBATIV® in the U.S.;

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- potential negative perceptions of physicians related to product shortages and regional supply outages that halted commercialization of VIBATIV®, stemming from the manufacturing issues at the previous drug product supplier;
- potential negative perceptions of physicians related to the European Commission's suspension of marketing authorization for VIBATIV® because our previous VIBATIV® commercialization partner's single-source VIBATIV® drug product supplier did not meet the cGMP requirements for the manufacture of VIBATIV®;
- the advantages and disadvantages of VIBATIV® compared to alternative therapies;
- our ability to educate the medical community about the appropriate circumstances for use of VIBATIV®;
- the reimbursement policies of government and third party payors; and
- the market price of VIBATIV® relative to competing therapies.

If our partners do not satisfy their obligations under our agreements with them, or if they terminate our partnerships with them, we may not be able to develop or commercialize our partnered product candidates as planned.

We entered into our LABA collaboration agreement with GSK in November 2002, our strategic alliance agreement with GSK in March 2004, and our VIBATIV® collaboration agreement with Astellas in November 2005, which was terminated by Astellas in January 2012. In October 2012, we entered into an exclusive development and commercialization agreement with Alfa Wassermann for velusetrag, our lead compound in the 5-HT4 program, covering the European Union (EU), Russia, China, Mexico and certain other countries, and we entered into a research collaboration and license agreement with Merck to discover, develop and commercialize novel small molecule therapeutics for the treatment of cardiovascular disease on an exclusive, worldwide basis. In March 2013, we entered into a commercialization agreement with Clinigen Group plc for VIBATIV® in the European Union and certain other European countries (including Switzerland and Norway). 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 FF/VI, UMEC/VI, UMEC/VI/FF, VI monotherapy and any product candidates in the MABA program. 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, if approved, commercialization. The Merck and Alfa Wassermann agreements provide us with research and development funding, respectively, for the programs under license, and if either partner decides not to progress the licensed program, we may not be able to develop or commercialize the program on our own. In September 2013, Merck provided Theravance notice of its termination of the Research Collaboration and License Agreement. The termination is expected to be effective in December 2013.

Our partners might not fulfill all of their obligations under these agreements, and, in certain circumstances, they may terminate our partnership with them as Astellas did in January 2012 with its VIBATIV® agreement and as Merck did in September 2013 with the cardiovascular disease collaboration. 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. 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 our partners. 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 product candidates under the collaboration could be materially and adversely affected. 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 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 FF/VI, UMEC/VI, UMEC/VI/FF, VI monotherapy and the MABA program, with Alfa Wassermann for velusetrag, with Clinigen for VIBATIV® for the EU, and with other companies for regional development and commercialization of VIBATIV®. Additional collaborations will be needed to fund later-stage development of our product candidates that have not been licensed to a collaborator or for territory that is not covered by the collaboration, and to commercialize these product candidates if approved by the necessary regulatory authorities. Velusetrag, our lead compound in the 5 HT4 program, and TD-1792, our investigational antibiotic have successfully completed a Phase 2 proof of concept study. In July 2012 we reported positive results from a Phase 2b study with TD-1211, the lead compound in our Peripheral Mu Opioid Receptor Antagonist program

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for opioid induced constipation and in September 2013 we reported positive top line results from a Phase 2b study with TD-4208 LAMA compound. In addition, in connection with the expansion of the MABA program under the strategic alliance with GSK in October 2011, GSK relinquished its right to option our MARIN program with TD-9855 and our ARNI program. We currently intend to seek additional third parties with which to pursue collaboration arrangements for the development and commercialization of our development programs and for the future commercialization of VIBATIV® in regions where it is not currently partnered. 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. 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 prioritize alternative programs. 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 which may cause the price of our securities to fall.

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 non-clinical and clinical studies for our product candidates. We rely heavily on these parties for execution of our non-clinical 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 authorities, 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 GCPs and other regulations through periodic inspections of trial sponsors, clinical research organizations (CROs), principal investigators and trial sites. 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, could result in significant additional costs and could cause the price of our securities to fall.

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 using our proprietary insight in chemistry, biology and multivalency, where applicable. 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.

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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 in certain circumstances, as it competes with vancomycin, a relatively inexpensive generic drug that is manufactured by a number of companies, and a number of existing antibacterial drugs 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, our financial condition and operations will suffer and the price of our securities could fall.

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.

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. 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 they all may leave our employment at will. If we fail to retain our qualified personnel or replace them when they leave, we may be unable to continue our development and commercialization activities, which may cause the price of our securities to fall.

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. Any material system failure, accident or security breach 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, the further development of our product candidates could be delayed and the price of our securities could fall.

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 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, which could cause the price of our securities to fall.

Risks Related to our Alliance with GSK

Because GSK is a strategic partner as well as a significant stockholder, it may take actions that in certain cases are materially harmful to both our business or to our other stockholders.

Although GSK beneficially owns approximately 26.9% of our outstanding capital stock as of September 30, 2013, it is also a strategic partner with rights and obligations under our collaboration and strategic alliance agreements with GSK that cause its interests to differ from the interests of us and our other stockholders. In particular, GSK has a substantial respiratory product portfolio, and only some of its products are covered by our GSK agreements. GSK may make respiratory product portfolio decisions or statements about its portfolio which may be, or may be perceived to be, harmful to the respiratory products partnered with us. For example, GSK could promote its own respiratory products and/or delay or terminate the development or commercialization of the respiratory programs covered by our GSK agreements. Also, given the potential future royalty payments GSK may be obligated to pay under our GSK agreements, GSK may seek to acquire us in order to effectively terminate those payment obligations. The timing of when GSK may seek to acquire us could potentially be when it possesses information regarding the status of drug programs covered by our GSK agreements that has not been publicly disclosed. As a result of these differing interests, GSK may take actions that it believes are in its best interest but which might not be in the best interests of either us or our other stockholders. In addition, GSK could also seek to challenge the spin-off or the post-spin-off operation of the limited liability company to be jointly owned by us and Theravance Biopharma as violating or allowing it to terminate the GSK agreements, including by violating the assignment or confidentiality provisions of those agreements, or otherwise violating its legal rights. While we believe the spin-off and planned operation of the limited liability company fully complies with our GSK agreements and applicable law, there can be no assurance that we will prevail against any such claims by GSK. Moreover, regardless of the merit of any claims by GSK, we may incur significant cost and diversion of resources in defending them. In addition, any uncertainty about the our respiratory programs partnered with GSK or the enforceability of our GSK agreements could result in significant reduction in the market price of our securities and other material harm to our business.

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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 September 30, 2013, GSK beneficially owned approximately 26.9% of our outstanding capital stock, and GSK has the right to acquire stock from us to maintain its percentage ownership of our capital stock in certain circumstances. 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 same provisions of the governance agreement as are the shares of voting stock currently held by GSK.

If pursuant to the provision described above GSK's ownership of us is greater than 50.1%, then GSK is allowed to make an offer to our stockholders to acquire outstanding voting stock that would bring GSK's percentage ownership of our voting stock to 100%, provided that;

- the offer includes no condition as to financing;
- the offer is approved by a majority of our independent directors; and
- 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.

The procedures governing GSK offers to ours stockholders to acquire outstanding voting stock set forth in the preceding two paragraphs are applicable until the termination of the governance agreement September 1, 2015 and thereafter the foregoing restrictions will not apply.

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 significant ownership position and its rights under the governance agreement may deter or prevent efforts by other companies to acquire us, which could prevent our stockholders from realizing a control premium.

As of September 30, 2013, GSK beneficially owned approximately 26.9% of our outstanding capital stock. GSK may vote at its sole discretion on any proposal to effect a change of control of us or for us to issue equity securities to one or more parties that would result in that party or parties beneficially owning more than 20% of our outstanding capital stock. 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. As a result of GSK's significant ownership and its rights under the governance agreement, 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.

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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.

Under our governance agreement with GSK, GSK could previously sell or transfer our common stock only pursuant to a public offering registered under the Securities Act or pursuant to Rule 144 of the Securities Act. GSK no longer has contractual 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.

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 September 30, 2013, we owned 367 issued United States patents and 1338 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, which could cause the price of our securities to fall.

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. 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, which may cause the price of our securities to fall.

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If the efforts of our partner, GSK, to protect the proprietary nature of the intellectual property related to the assets in the LABA collaboration are not adequate, the future commercialization of any medicines resulting from the LABA collaboration could be delayed or prevented, which would materially harm our business and could cause the price of our securities to fall.

The risks identified in the two preceding risk factors also apply to the intellectual property protection efforts of our partner, GSK. To the extent the intellectual property protection of any of the assets in the LABA collaboration are successfully challenged or encounter problems with the United States Patent and Trademark Office or other comparable agencies throughout the world, the future commercialization of these potential medicines could be delayed or prevented. Any challenge to the intellectual property protection of a late-stage development asset arising from the LABA collaboration could harm our business and cause the price of our securities to fall.

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 and have likely increased with the reintroduction of VIBATIV®. 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. Claims may be brought by individuals seeking relief for themselves or by individuals or groups seeking to represent a class. Also, changes in laws outside the U.S. are expanding our potential liability for injuries that occur during clinical trials. 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 and we cannot be sure that our insurer will not disclaim coverage as to a future claim. 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. The cost of defending any product liability litigation or other proceeding, even if resolved in our favor, could be substantial and uncertainties resulting from the initiation and continuation of product liability litigation or other proceedings could have a material adverse effect on our ability to compete in the marketplace. Product liability claims could also harm our reputation, which may adversely affect our and our partners' ability to commercialize our products successfully, which could cause the price of our securities to fall.

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 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, which may cause the price of our securities to fall.

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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, which could cause the price of our securities to fall.

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 companies' operating performance, in particular during the last several 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 development or commercialization of FF/VI with GSK, including, without limitation, any difficulties or delays encountered with regard to the regulatory path for FF/VI or any indication from clinical or non-clinical studies, including the large Phase 3b program, that FF/VI is not safe or efficacious;

- any adverse developments or results or perceived adverse developments or results with respect to the development of UMEC/VI with GSK, including, without limitation, any difficulties or delays encountered with regard to the regulatory path for UMEC/VI, any indication from clinical or non-clinical studies that UMEC/VI is not safe or efficacious or an unfavorable outcome on the December 18, 2013 PDUFA goal date;

- any adverse developments or results or perceived adverse developments or results with respect to the MABA program with GSK, including, without limitation, any further delays encountered in progressing the MABA program or a decision by GSK to halt the program or any further development of certain drug candidates in the program, any difficulties or delays encountered with regard to the regulatory path for GSK961081, either alone or in combination with other therapeutically active ingredients, or any indication from non-clinical studies of GSK961081 that the compound is not safe or efficacious;

- any further adverse developments or perceived adverse developments with respect to the commercialization of VIBATIV®;

- 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, the impact of the March 2010 FDA Advisory Committee discussing LABA clinical trial design to evaluate serious asthma outcomes or the FDA's April 2011 announcement that manufacturers of currently marketed LABAs conduct additional clinical studies comparing the addition of LABAs to inhaled corticosteroids versus inhaled corticosteroids alone);

- GSK's decisions whether or not to purchase, on a quarterly basis, sufficient shares of our common stock to maintain its ownership percentage taking into account our preceding quarter's option exercise, equity vesting and debt conversion activity;

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

- our incurrence of expenses in any particular quarter that are different than market expectations;

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- the extent to which GSK advances (or does not advance) FF/VI, UMEC/VI, UMEC/VI/FF, VI monotherapy and the MABA program through development into commercialization in all indications in all major markets;

- any adverse developments or perceived adverse developments with respect to our relationship with GSK, including, without limitation, disagreements that may arise between us and GSK;

- any adverse developments or perceived adverse developments with respect to our relationship with any of our research, development or commercialization partners other than GSK, including, without limitation, disagreements that may arise between us and any of those partners;

- any adverse developments or perceived adverse developments with respect to our partnering efforts with VIBATIV®, velusetrag, TD-1211, TD-9855, TD-4208, TD-1792 or our cardiovascular program;

- announcements regarding GSK generally;

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

- developments concerning any collaboration we undertake with companies other than GSK;

- 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;

- sales of stock by us or by our stockholders, including sales by certain of our employees and directors whether or not pursuant to selling plans under Rule 10b5-1 of the Securities Exchange Act of 1934;

- relative illiquidity in the public market for our common stock (our three largest stockholders other than GSK collectively owned approximately 30.9% of our outstanding capital stock as of September 30, 2013 based on our review of publicly available filings);
- any adverse developments or perceived adverse developments with respect to the proposed business separation; and
- potential sales or purchases of our capital stock by GSK.

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

As of September 30, 2013, GSK beneficially owned approximately 26.9% of our outstanding capital stock and our directors, executive officers and investors affiliated with these individuals beneficially owned approximately 4.4% of our outstanding capital stock. Based on our review of publicly available filings as of September 30, 2013, our three largest stockholders other than GSK collectively owned approximately 30.9% 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 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.

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Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

On August 2, 2013, we completed the sale of 3,064,407 shares of our common stock to Glaxo Group Limited, an affiliate of GSK, at a price of $36.50 per share, resulting in aggregate gross proceeds of $111.9 million before deducting transaction expenses. Neither we nor the affiliate of GSK engaged any investment advisors with respect to the sale and no underwriting discounts or commissions were paid or will be paid to any party in connection with the sale. We issued and sold the shares in reliance upon an exemption from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended.

Item 6. Exhibits

(a) **Index to 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	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
4.4	Indenture dated as of January 24, 2013 by and between Theravance, Inc. and The Bank of New York Mellon Trust Company, N.A., as trustee	8-K	1/25/13
4.5	Form of 2.125% Convertible Subordinated Note Due 2023 (included in Exhibit 4.4)		
10.8*	Collaboration Agreement between the registrant and Glaxo Group Limited, dated as of November 14, 2002		
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
101	Financial statements from the quarterly report on Form 10-Q of the Company for the quarter and first three quarters ended September 30, 2013, formatted in XBRL: (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Operations, (iii) the Condensed Consolidated Statements of Comprehensive Income (Loss), (iv) the Condensed Consolidated Statements of Cash Flows and (iv) the Notes to the Condensed Consolidated Financial Statements

* Application has been made to the Securities and Exchange Commission to seek confidential treatment of certain provisions. Omitted material for which confidential treatment has been requested has been filed separately with the Securities and Exchange Commission.

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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)

November 1, 2013
Date

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

November 1, 2013
Date

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

Exhibit 10.8

COLLABORATION AGREEMENT

by and between

THERAVANCE, INC.

and

GLAXO GROUP LIMITED

Dated: November 14, 2002

***CERTAIN INFORMATION HAS BEEN OMITTED AND FILED SEPARATELY WITH THE COMMISSION. CONFIDENTIAL TREATMENT HAS BEEN REQUESTED WITH RESPECT TO THE OMITTED PORTIONS.

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COLLABORATION AGREEMENT

This COLLABORATION AGREEMENT ("Agreement") dated November 14, 2002, is made by and between THERAVANCE, INC., a Delaware corporation, and having its principal office at 901 Gateway Boulevard, South San Francisco, California 94080 ("Theravance"), and GLAXO GROUP LIMITED, a United Kingdom corporation, and having its principal office at Glaxo Wellcome House, Berkeley Avenue, Greenford, Middlesex, UB6 0NN, United Kingdom ("GSK"). Theravance and GSK may be referred to as a "Party" or together, the "Parties".

RECITALS

WHEREAS, Theravance is currently developing Long-Acting β2 Adrenoceptor Agonists such as but not limited to TD-3327 and AMI-15471 for the treatment and/or prophylaxis of asthma and other respiratory diseases;

WHEREAS, GSK is also currently developing Long-Acting β2 Adrenoceptor Agonists such as but not limited to [***], as well as other anti-inflammatory compounds, for the treatment and/or prophylaxis of respiratory disease;

WHEREAS, GSK and Theravance desire to pool certain of their respective development compounds on an exclusive, worldwide basis to commercialize at least one Long-Acting β2 Adrenoceptor Agonist that can be used as a single agent and/or in combination with a Long-Acting Inhaled Corticosteroid and potentially other compounds for treatment and/or prophylaxis of respiratory disease;

WHEREAS, GSK and Theravance are willing to undertake research and development activities and investment and to coordinate such activities and investment as provided by this Agreement with respect to the Collaboration Products; and

WHEREAS, GSK and Theravance believe that a collaboration pursuant to this Agreement for the development and commercialization of Collaboration Products would be desirable and compatible with their respective business objectives.

NOW, THEREFORE, in consideration of the foregoing premises and the representations, covenants and agreements contained herein, Theravance and GSK, intending to be legally bound, hereby agree as follows:

ARTICLE 1
DEFINITIONS

For purposes of this Agreement, the following initially capitalized terms, whether used in the singular or plural, shall have the following meanings:

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1.1 "AMI-15471" means the Long-Acting β2 Adrenoceptor Agonist designated as such by Theravance and all pharmaceutically acceptable salts and solvates thereof.

1.2 "Adverse Drug Experience" means any of: an "adverse drug experience," a "life-threatening adverse drug experience," a "serious adverse drug experience," or an "unexpected adverse drug experience," as those terms are defined at either 21 C.F.R.(S)312.32 or 21 C.F.R.(S)314.80.

1.3 "Affiliate" of a Party means any Person, whether de jure or de facto, which directly or indirectly controls, is controlled by, or is under common control with such Person for so long as such control exists, where "control" means the decision-making authority as to such Person and, further, where such control shall be presumed to exist where a Person owns more than fifty percent (50%) of the equity (or such lesser percentage which is the maximum allowed to be owned by a foreign corporation in a particular jurisdiction) having the power to vote on or direct the affairs of the entity.

1.4 “API Compound” means bulk quantities of active pharmaceutical ingredient compound prior to the commencement of secondary manufacturing resulting in a Collaboration Product.

1.5 “Breaching Party” shall have the meaning set forth in Section 14.2.

1.6 “Business Day” means any day on which banking institutions in both New York City, New York, United States and London, England are open for business.

1.7 “Calendar Month” means for each Calendar Year, each of the one-month periods.

1.8 “Calendar Quarter” means for each Calendar Year, each of the three month periods ending March 31, June 30, September 30 and December 31; provided, however, that the first calendar quarter for the first Calendar Year shall extend from the Effective Date to the end of the first complete calendar quarter thereafter.

1.9 “Calendar Year” means, for the first calendar year, the period commencing on the Effective Date and ending on December 31 of the calendar year during which the Effective Date occurs, and each successive period beginning on January 1 and ending twelve (12) consecutive calendar months later on December 31.

1.10 “Change in Control” means, with respect to a Party, any transaction or series of related transactions following which continuing stockholders of such Party hold less than 50% of the outstanding voting securities of either such Party or the entity surviving such transaction.

1.11 “Claim” means all charges, complaints, actions, suits, proceedings, hearings, investigations, claims and demands.

1.12 “Collaboration Product” means any of the Long-Acting β2 Adrenoceptor Agonists identified in Section 4.1 as Pooled Compounds (including any Theravance New Compounds and Replacement Compounds, as applicable) which may become Developed and Commercialized subject to and in accordance with the terms of this Agreement, which such Collaboration Product can be used as a single agent and/or in combination with other therapeutically active components, including but not limited to a Long-Acting Inhaled Corticosteroid, for the treatment and prophylaxis of respiratory diseases. The term

“Collaboration Product” shall also include any formulation of excipients, stabilizers, propellants, or other components necessary to prepare and deliver a pharmaceutically effective dose of the Pooled Compound and any other therapeutically active component together with any delivery device.

1.13 “Commercial Conflict” means a situation where Theravance determines that GSK’s decision related to Development or Commercialization of a Collaboration Product is likely to result in a [***], and that such decision is not based on the technical profile of the Collaboration Product but primarily on commercial factors whereby GSK is likely to achieve [***].

1.14 “Commercial Failure” means failure of a Collaboration Product for reasons other than Technical Failure, based on the determination that such product will result in a [***] that is materially worse than the [***], based on GSK’s normal and customary procedures for determining [***]. The [***] of a Collaboration Product will be based on [***] from such product not taking into account the [***].

1.15 “Commercialization” means any and all activities directed to marketing, promoting, distributing, offering for sale and selling a Collaboration Product, importing a Collaboration Product (to the extent applicable) and conducting Phase IV Studies. When used as a verb, “Commercialize” means to engage in Commercialization.

1.16 “Competing Product” means a product that is intended for the treatment and/or prophylaxis of respiratory diseases.

1.17 “Confidential Information” means all secret, confidential or proprietary information, data or Know-How (including GSK Know-How and Theravance Know-How) whether provided in written, oral, graphic, video, computer or other form, provided by one Party (the “Disclosing Party”) to the other Party (the “Receiving Party”) pursuant to this Agreement or generated pursuant to this Agreement, including but not limited to, information relating to the Disclosing Party’s existing or proposed research, development efforts, patent applications, business or products, the terms of this Agreement and any other materials that have not been made available by the Disclosing Party to the general public. Confidential Information shall not include any information or materials that the Receiving Party can document with competent written proof:

1.17.1 were already known to the Receiving Party (other than under an obligation of confidentiality), at the time of disclosure by the Disclosing Party;

1.17.2 were generally available to the public or otherwise part of the public domain at the time of its disclosure to the Receiving Party;

1.17.3 became generally available to the public or otherwise part of the public domain after its disclosure or development, as the case may be, and other than through any act or omission of a Party in breach of such Party’s confidentiality obligations under this Agreement;

1.17.4 were disclosed to a Party, other than under an obligation of confidentiality, by a Third Party who had no obligation to the Disclosing Party not to disclose such information to others; or

1.17.5 were independently discovered or developed by or on behalf of the Receiving Party without the use of the Confidential Information belonging to the other Party.

1.18 "Country" means any generally recognized sovereign entity.

1.19 "Criteria" means the requirements set forth in Schedule 1.19 that the Replacement Compounds and Theravance New Compounds must meet to become a Pooled Compound. These requirements may be amended after the Effective Date by written agreement of the Parties (such agreement not to be unreasonably withheld by either Party) to take account of any newly established data or knowledge that has or have arisen since the Effective Date that affect or is likely to affect same.

1.20 "Designated Foreign Filing" shall have the meaning set forth in Section 13.1.2(b).

1.21 "Development" or "Develop" means preclinical and clinical drug development activities, including, among other things: test method development and stability testing, toxicology, formulation, process development, manufacturing scale-up, development-stage manufacturing, current Good Manufacturing Practices audits, current Good Clinical Practices audits, current Good Laboratory Practices audits, analytical method validation, manufacturing process validation, cleaning validation, scale-up and post approval changes, quality assurance/quality control development, statistical analysis and report writing, preclinical and clinical studies, regulatory filing submission and approval, and regulatory affairs related to the foregoing. When used as a verb, "Develop" means to engage in Development.

1.22 "Development Expenses" means the cost of all studies or activities performed by or on behalf of GSK or any of its Affiliates pursuant to this Agreement.

1.23 "Development Milestone" shall have the meaning set forth in Section 6.2.1.

1.24 "Development Plan" means the outline plan for each Collaboration Product designed to achieve the Development for such Collaboration Product, including, without limitation, the nature, number and schedule of Development activities as well as the estimated resources necessary to implement such activities as such may be amended in accordance with the terms of this Agreement.

1.25 "Diligent Efforts" means the carrying out of obligations in a sustained manner consistent with the efforts a Party devotes to [***], based on conditions then prevailing and [***], with the objective of [***]. Diligent Efforts requires that: (i) each Party [***] and monitor such progress on an on-going basis, (ii) each Party [***] for carrying out such obligations, and (iii) each Party [***] designed to advance progress with respect to such objectives.

1.26 "Disclosing Party" shall have the meaning set forth in Section 1.17.

1.27 "Effective Date" means the first business day following the date on which the last of the conditions contained in Section 16.15 of this Agreement has been satisfied.

1.28 "Exchange Act" shall have the meaning set forth in Section 15.1.1.

1.29 "FDA" means the United States Food and Drug Administration and any successor agency thereto.

1.30 "Field" means human pharmaceutical use of Long-Acting β2 Adrenoceptor Agonists for the treatment and/or prophylaxis of respiratory diseases.

1.31 "First Commercial Sale" means the first shipment of commercial quantities of any Collaboration Product sold to a Third Party by a Party or its sublicensees in any Country after receipt of Marketing Authorization Approval for such Collaboration Product in such Country. Sales for test marketing, sampling and promotional uses, clinical trial purposes or compassionate or similar uses shall not be considered to constitute a First Commercial Sale.

1.32 "Force Majeure Event" shall have the meaning set forth in Section 16.3.

1.33 "Governmental Authority" means any court, tribunal, arbitrator, agency, legislative body, commission, official or other instrumentality of (i) any government of any Country, (ii) a federal, state, province, county, city or other political subdivision thereof or (iii) any supranational body, including without limitation the European Agency for the Evaluation of Medicinal Products.

1.34 "GSK Compound" means a GSK Initially Pooled Compound, any Replacement Compound offered up to the collaboration by GSK or a GSK non-LABA Compound utilised by GSK for Development purposes in relation to combination product activity under this Agreement currently owned or subsequently discovered by GSK and/or its predecessors in title or in-licensed from a Third Party by GSK and/or its predecessors in title.

1.35 "GSK Initially Pooled Compound" shall mean the chemical entities individually identified as [***] and all pharmaceutically acceptable salts and solvates thereof.

1.36 "GSK Invention" means an Invention that is invented by an employee or agent of GSK solely or jointly with a Third Party.

1.37 "GSK Know-How" means all present and future information directly relating to the Collaboration Products, a GSK Compound or the GSK Inventions, including without limitation all data, records, and regulatory filings relating to Collaboration Products, that is required for Theravance to perform its obligations or exercise it rights under this Agreement, and which during the Term are in GSK's or any of its Affiliates' possession or control and are or

become owned by, or otherwise may be licensed to (provided there is no restriction on GSK thereof), GSK. GSK Know-How does not include any GSK Patents.

1.38 "GSK non-LABA Compound" means any other compound contributed to the collaboration by GSK pursuant to Section 4.2.1 for the purpose of developing a combination product.

1.39 "GSK Patents" means all present and future patents and patent applications including United States provisional applications and any continuations, continuations-in-part, divisionals, registrations, confirmations, revalidations, reissues, Patent Cooperation Treaty applications, certificates of addition, utility models, design patents, petty patents as well as all other intellectual property related to the application or patent including extensions or restorations of terms thereof, pediatric use extensions, supplementary protection certificates or any other such right covering the Pooled Compounds, Collaboration Products, a GSK Compound or the GSK Inventions which are or become owned by GSK or GSK's Affiliates, or as to which GSK or

GSK's Affiliates otherwise are or become licensed, now or in the future, where GSK has the right to grant the sublicense rights granted to Theravance under this Agreement, which such patent rights cover the making, having made, use, offer for sale, sale or importation of the Collaboration Products.

1.40 "Hatch-Waxman Certification" shall have the meaning set forth in Section 13.3.

1.41 "Hostile Tender Offer" shall have the meaning set forth in Section 15.2.6.

1.42 "Indemnified Party" shall have the meaning set forth in Section 12.3.1.

1.43 "Indemnifying Party" shall have the meaning set forth in Section 12.3.1.

1.44 "Invention" means any discovery (whether patentable or not) invented during the Term as a result of research, Development or manufacturing activities and specifically related to a Pooled Compound or Collaboration Product hereunder.

1.45 "Investigational Authorization" means, with respect to a Country, the regulatory authorization required to investigate a Collaboration Product in such Country as granted by the relevant Governmental Authority.

1.46 "Joint Invention" means an Invention that is invented jointly by employees and/or agents of both Theravance and GSK hereunder and the patent rights in such Invention.

1.47 "Joint Project Committee" shall have the meaning set forth in Section 3.2.

1.48 "Joint Steering Committee" shall have the meaning set forth in Section 3.1.

1.49 "LABA/ICS Combination Product" means a product that contains a Pooled Compound and a Long-Acting Inhaled Corticosteroid for the treatment and/or prophylaxis of respiratory diseases. A LABA/ICS Combination Product shall also be considered a Collaboration Product.

1.50 "Laws" means all laws, statutes, rules, regulations (including, without limitation, current Good Manufacturing Practice Regulations as specified in 21 C.F.R. (S)(S) 210 and 211; Investigational New Drug Application regulations at 21 C.F.R. (S) 312; NDA regulations at 21 C.F.R. (S) 314, relevant provisions of the Federal Food, Drug and Cosmetic Act, and other laws and regulations enforced by the FDA), ordinances and other pronouncements having the binding effect of law of any Governmental Authority.

1.51 "Litigation Condition" shall have the meaning set forth in Section 12.3.2.

1.52 "Long-Acting β_2 Adrenoceptor Agonist" or "LABA" means a chemical entity that (i) selectively binds to human β_2 adrenoceptors and activates human β_2 adrenoceptors [***] and (ii) has significantly longer activity than [***] a guinea pig acetylcholine bronchoprotection model or similar animal model.

1.53 "Long-Acting Inhaled Corticosteroid" or "ICS" means a corticosteroid that has duration of action of at least 24 hours demonstrated in clinical testing.

1.54 "Losses" means any and all damages (including all incidental, consequential, statutory an treble damages), awards, deficiencies, settlement amounts, defaults, assessments, fines, dues, penalties, costs, fees, liabilities, obligations, taxes, liens, losses, lost profits and expenses (including without limitation court costs, interest and reasonable fees of attorneys, accountants and other experts) incurred by or awarded to Third Parties and required to be paid to Third Parties with respect to a Claim by reason of any judgment, order, decree, stipulation or injunction, or any settlement entered into in accordance with the provisions of this Agreement, together with all documented out-of-pocket costs and expenses incurred in complying with any judgments, orders, decrees, stipulations and injunctions that arise from or relate to a Claim of a Third Party.

1.55 "Major Market Country" means each of the United States, Canada, Japan, France, United Kingdom, Italy, Germany and Spain.

1.56 “Marketing Authorization” means, with respect to a Country, the regulatory authorization required to market and sell a Collaboration Product in such Country as granted by the relevant Governmental Authority.

1.57 “Marketing Authorization Approval” shall mean approval by a Governmental Authority for sale of a Collaboration Product, including any applicable pricing, final labeling or reimbursement approvals.

1.58 “Marketing Plan” means for each relevant Collaboration Product the global plan prepared by GSK identifying the core strategic, commercial and promotional claims and objectives for the specific Collaboration Product as reviewed and approved under Section 5.1.1.

1.59 “NDA” means a new drug application or supplemental new drug application or any amendments thereto submitted to the FDA in the United States.

1.60 “NDA Acceptance” shall mean the written notification by the FDA that the NDA has met all the criteria for filing acceptance pursuant to 21 C.F.R.(S)314.101.

1.61 “Net Sales” means the [***] GSK, its Affiliates or their licensees (or such licensees’ Affiliates) to a Third Party, less the following to the extent borne by the seller and not taken into account in determining [***]: (a) [***]; (b) [***] including [***]; and (c) [***]. Net Sales shall exclude Samples distributed in the usual course of business.

1.62 “Net Sales Report” shall have the meaning set forth in Section 6.4.2.

1.63 “Officers” shall have the meaning set forth in Section 3.1.5(b).

1.64 “Other Combination Product” means any product developed pursuant to this Agreement for the treatment and/or prophylaxis of respiratory disease that contains a Long-Acting β_2 Adrenoceptor Agonist and another active agent which is a GSK Compound other than a Long-Acting Inhaled Corticosteroid.

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1.65 “Patent Infringement Claim” shall have the meaning set forth in Section 13.2.1.

1.66 “Patent Infringement Notice” shall have the meaning set forth in Section 13.2.2.

1.67 “Person” means any natural person, corporation, general partnership, limited partnership, limited liability company, joint venture, proprietorship or other business organization.

1.68 “Phase I Studies” means that portion of the Development Plan or Development relating to each Collaboration Product which provides for the first introduction into humans of such Collaboration Product including small scale clinical studies conducted in normal volunteers to obtain information on such Collaboration Product’s safety, tolerability, pharmacological activity, pharmacokinetics, drug metabolism and mechanism of action, as well as early evidence of effectiveness, as more fully defined in 21 C.F.R. (S) 312.21(a).

1.69 “Phase II Studies” means, subject to Section 6.2.2, that portion of the Development Plan or Development relating to each Collaboration Product which provides for well controlled clinical trials of such Collaboration Product in patients, including clinical studies conducted in patients with the condition, and designed to evaluate clinical efficacy and safety for such Collaboration Product for one or more indications, as well as to obtain an indication of the dosage regimen required, as more fully defined in 21 C.F.R. (S) 312.21(b).

1.70 “Phase III Studies” means that portion of the Development Plan or Development relating to each Collaboration Product which provides for large scale, pivotal, clinical studies conducted in a sufficient number of patients and whose primary objective is to obtain a definitive evaluation of the therapeutic efficacy and safety of the Collaboration Product in patients for the particular indication in question that is needed to evaluate the overall risk-benefit profile of the Collaboration Product and to provide adequate basis for obtaining requisite regulatory approval(s) and product labeling, as more fully defined in 21 C.F.R. (S) 312.21(c).

1.71 “Phase IV Studies” means a study for a Collaboration Product that is initiated after receipt of a Marketing Authorization for a Collaboration Product and is principally intended to support the marketing and Commercialization of such Collaboration Product, including without limitation investigator initiated trials, clinical experience trials and studies conducted to fulfill local commitments made as a condition of any Marketing Authorization.

1.72 “Pooled Compounds” means (i) the four Long-Acting Beta-2 Adrenoceptor Agonists provided by GSK as of the Effective Date (identified [***]), (ii) the two Long-Acting Beta-2 Adrenoceptor Agonists provided by Theravance as of the Effective Date (identified as TD-3327 and AMI-15471), (iii) the Theravance New Compounds provided by Theravance pursuant to Section 4.1, and any Replacement Compounds provided by Theravance or GSK.

1.73 “Product Supplier” means any manufacturer, packager or processor of a Collaboration Product for development, marketing and sale.

1.74 “Promotional Materials” means the core written, printed, video or graphic advertising, promotional, educational and communication materials (other than Collaboration Product labeling) for marketing, advertising and promotion of the Collaboration Products.

1.75 “Receiving Party” shall have the meaning set forth in Section 1.17.

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1.76 "Replacement Compound" means a Long-Acting β2 Adrenoceptor Agonist that meets the Criteria and is provided by Theravance or GSK, as applicable, (and "GSK Replacement Compound" and "Theravance Replacement Compound" shall be interpreted accordingly) after the Effective Date to replace a Pooled Compound for which Development has been discontinued due to Technical Failure.

1.77 "ROW" means Countries other than the Major Market Countries.

1.78 "Samples" means Collaboration Product packaged and distributed as a complimentary trial for use by patients in the Territory.

1.79 "SEC" shall have the meaning set forth in Section 15.1.2.

1.80 "Selectively" means the chemical entity binds human β_2 adrenoceptors (a) [***] as determined by receptor binding, radioligand displacement or functional *in vitro* assays, and (b) [***].

1.81 "TD-3327" means the Long-Acting β2 Adrenoceptor Agonist so designated by Theravance and all pharmaceutically acceptable salts and solvates thereof contributed to the collaboration by Theravance.

1.82 "Taxes" shall have the meaning set forth in Section 6.9.1.

1.83 "Technical Failure" means the discontinuation of Development of a Collaboration Product for technical, scientific, medical or regulatory reasons, such as but not limited to unacceptable preclinical toxicity, or the inability to demonstrate sufficient Long-Acting β_2 Adrenoceptor Agonist effect in humans, or demonstration of a side effect profile significantly worse than currently marketed products, or inability to manufacture API in an acceptable purity or crystalline form, or inability to produce a metered dose inhaler or dry powder inhaler formulation with acceptable aerosol performance and stability.

1.84 "Term" means, on a Country-by-Country and Collaboration Product-by-Collaboration Product basis, the period from the Effective Date until the later of (a) the expiration or termination of the last Valid Claim of a Patent Right covering the Pooled Compound in such Collaboration Product in such Country, and (b) fifteen (15) years from First Commercial Sale in such Country, unless this Agreement is terminated earlier in accordance with Article 14.

1.85 "Terminated Collaboration Product" shall mean a Terminated Development Collaboration Product or a Terminated Commercialized Collaboration Product.

1.86 "Terminated Commercialized Collaboration Product" shall have the meaning set forth in Section 14.4.

1.87 "Terminated Development Collaboration Product" shall have the meaning set forth in Section 14.3.

1.88 "Territory" means worldwide.

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1.89 "Theravance Compound" means TD-3327 and AMI-15471, (together the "Theravance Initially Pooled Compounds"), the two Theravance New Compounds and any Replacement Compound that is offered up to the collaboration by Theravance.

1.90 "Theravance New Compound" means each of the two chemical entities meeting the Criteria and provided by Theravance to the collaboration as Pooled Compounds after the Effective Date pursuant to Section 4.1.

1.91 "Housemark" means the name and logo of GSK or Theravance or any of their respective Affiliates as identified by one Party to the other from time to time.

1.92 "Theravance Invention" means an Invention that is invented by an employee or agent of Theravance solely or jointly with a Third Party.

1.93 "Theravance Know-How" means all present and future information directly relating to the Collaboration Products, a Theravance Compound or the Theravance Inventions that is required for GSK to perform its obligations or exercise its rights under this Agreement, and which during the Term are in Theravance's or any of its Affiliates' possession or control and are or become owned by, or otherwise may be licensed (provided there are no restrictions on Theravance thereof) by, Theravance. Theravance Know-How does not include any Theravance Patents.

1.94 "Theravance Patents" means all present and future patents and patent applications including United States provisional applications and any continuations, continuations-in-part, divisionals, registrations, confirmations, revalidations, reissues, Patent Cooperation Treaty applications, certificates of addition, utility models, design patents, petty patents as well as all other intellectual property related to the application or patent including extensions or restorations of terms thereof, pediatric use extensions, supplementary protection certificates or any other such right covering the Pooled Compounds, the Collaboration Products, a Theravance Compound or the Theravance Inventions which are or become owned by Theravance or Theravance's Affiliates, or as to which Theravance or Theravance's Affiliates are or become licensed, now or in the future, with the right to grant the sublicense rights granted to GSK under this Agreement, which patent rights cover the making, having made, use, offer for sale, sale or importation of Collaboration Products.

1.95 "Third Party" means a Person who is not a Party or an Affiliate of a Party.

1.96 "Third Party Claim" shall have the meaning set forth in Section 12.3.1.

1.97 "United States" means the United States, its territories and possessions.

1.98 "Valid Claim" means any claim(s) pending in a patent application or in an unexpired patent which has not been held unenforceable, unpatentable or invalid by a decision of a court or other governmental agency of competent jurisdiction, unappealable or unappealed within the time allowed for appeal, and which has not has been admitted to be invalid or unenforceable through reissue or disclaimer. If in any country there should be two or more such decisions conflicting with respect to the validity of the same claim, the decision of the higher or highest tribunal shall thereafter control; however, should the tribunals be of equal rank, then the decision or decisions upholding the claim shall prevail when the decisions are equal in number, and the majority of decisions shall prevail when the conflicting decisions are unequal in number.

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1.99 "Withholding Party" shall have the meaning set forth in Section 6.9.1.

ARTICLE 2
RIGHTS AND OBLIGATIONS

2.l License Grants from Theravance to GSK.

2.1.1 Development License. Subject to the terms of this Agreement, including without limitation Section 2.2, Theravance grants to GSK, and GSK accepts, an exclusive (except as to Theravance and its Affiliates) license in the Field under the Theravance Patents, Theravance Know-How and Theravance's rights in the Joint Inventions to make, have made, use and Develop Collaboration Products for Commercialization in the Territory.

2.1.2 Commercialization License. Subject to the terms of this Agreement, including without limitation Section 2.2, Theravance hereby grants to GSK, and GSK accepts, an exclusive license in the Field under the Theravance Patents, Theravance Know-How and Theravance's rights in the Joint Inventions to make, have made use, sell, offer for sale and import Collaboration Products in the Territory.

2.1.3 Manufacturing License. Subject to the terms of this Agreement, including without limitation Section 2.2, Theravance grants to GSK an exclusive license in the Field under the Theravance Patents, Theravance Know-How and Theravance's rights in the Joint Inventions to make and have made API Compound or formulated Collaboration Product in the Territory.

2.2 Sublicensing and Subcontracting. GSK may sublicense or subcontract its rights to Develop, Manufacture or Commercialize the Collaboration Products in whole or in part to one or more of its Affiliates, provided that the rights sublicensed or subcontracted to such Affiliate shall automatically terminate upon a change of control of such Affiliate in connection with which such Affiliate ceases to be an Affiliate of GSK. GSK may also sublicense or subcontract any of GSK's rights to Develop or Manufacture the Collaboration Products, in whole or in part, to one or more Third Parties. In the event GSK wishes to sublicense or subcontract any of GSK's rights to Commercialize the Collaboration Products, in whole or in part, to one or more Third Parties, GSK shall obtain the prior written consent of Theravance, such consent not to be unreasonably withheld, provided always that no such restriction shall apply in respect of those countries of the Territory wherein GSK is or has been required under applicable local laws to appoint a Third Party as its distributor or marketing partner. GSK shall secure all appropriate covenants, obligations and rights from any such sublicensee or subcontractor granted by it under this Agreement, including, but not limited to, intellectual property rights and confidentiality obligations in any such agreement or other relationship, to ensure that such sublicensee can comply with all of GSK's covenants and obligations to Theravance under this Agreement. GSK's rights to sublicense, subcontract or otherwise transfer its rights granted under Section 2.1 are limited to those expressly set forth in this Section 2.2.

2.3 Trademarks and Housemarks.

2.3.1 Trademarks. The Collaboration Products shall be Commercialized under trademarks (the "Trademarks") and trade dress selected by the Joint Project Committee and approved by the Joint Steering Committee. Prior to any such proposed Trademark(s) being submitted to the Joint Project Committee, GSK shall be responsible for undertaking their preliminary selection. GSK shall exclusively own all Trademarks, and shall be responsible for the

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procurement, filing and maintenance of trademark registrations for such Trademarks and all costs and expenses related thereto. GSK shall also exclusively own all trade dress and copyrights associated with the Collaboration Products. Nothing herein shall create any ownership rights of Theravance in and to the Trademarks or the copyrights and trade dress associated with the Collaboration Products.

2.3.2 Housemarks. Each Party acknowledges the goodwill and reputation that has been associated with the other Party's Housemarks over the years, and shall use such Housemarks in a manner that maintains and promotes such goodwill and reputation and is consistent with trademark guidelines. Each Party shall take all reasonable precautions and actions to protect the goodwill and reputation that has inured to the other Party's Housemarks, shall refrain from doing any act that is reasonably likely to impair the reputation of such Housemarks, and shall cooperate fully to protect such Housemarks.

2.3.3 Ownership of Inventions. Each Party shall promptly disclose to the other Party all Inventions made by it during the Term; provided that GSK will be allowed a reasonable time to file patent applications covering GSK Inventions prior to disclosing the GSK Invention to Theravance, and Theravance will be allowed a reasonable time to file patent applications covering Theravance Inventions prior to disclosing the Theravance Invention to GSK. Theravance shall own all Theravance Inventions and GSK shall own all GSK Inventions. All Joint Inventions shall be owned jointly by Theravance and GSK, and each Party hereby consents to the assignment or license or other disposition by the other Party of its joint interests in Joint Inventions without the need to seek the consent of the other Party to such assignment or license or other disposition; provided that any such assignment, license or other disposition shall at all times be subject to the grant of rights and accompanying conditions under Sections 2.1 and 2.2 and Article 14. The determination of inventorship for

Inventions shall be made in accordance with applicable laws relating to inventorship set forth in the patent laws of the United States (Title 35, United States Code).

ARTICLE 3
GOVERNANCE OF DEVELOPMENT AND COMMERCIALIZATION OF PRODUCTS

3.1 Joint Steering Committee.

3.1.1 Purpose. The purposes of the Joint Steering Committee shall be (i) to determine the overall strategy for this collaboration between the Parties and (ii) to coordinate the Parties' activities hereunder. The Parties intend that their respective organizations will work together and will use Diligent Efforts to assure success of the collaboration.

3.1.2 Members; Officers. Within thirty (30) days after the Effective Date, the Parties shall establish a joint steering committee (the "Joint Steering Committee"), which shall consist of four (4) members, two (2) of whom shall be designated by each of GSK and Theravance and shall have appropriate expertise, with at least one (1) member from each Party being at least at a vice president level or higher. Each of GSK and Theravance may replace any or all of its representatives on the Joint Steering Committee at any time upon written notice to the other Party. A Party may designate a substitute to temporarily attend and perform the functions of such Party's designee at any meeting of the Joint Steering Committee. GSK and Theravance each may, on advance written notice to the other Party, invite non-member representatives of such Party to attend meetings of the Joint Steering Committee. The Joint Steering Committee shall be

chaired on an annual rotating basis by a representative of either Theravance or GSK, as applicable, on the Joint Steering Committee, with Theravance providing the first such chairperson. The chairperson shall appoint a secretary of the Joint Steering Committee, who shall be a representative of the other Party and who shall serve for the same annual term as such chairperson.

3.1.3 Responsibilities. The Joint Steering Committee shall perform the following functions:

(a) Manage and oversee the Development and Commercialization of the Collaboration Products pursuant to the terms of this Agreement;

(b) Review and approve the Development Plans and the Marketing Plans for Collaboration Products and any material amendments to the Development Plans and Marketing Plans;

(c) At each meeting of the Joint Steering Committee, review Net Sales for the year-to-date as available;

(d) Review and approve the progress of the Joint Project Committee;

(e) Review and approve the Trademarks selected under Section 2.3;

(f) Review and approve "go/no-go" decisions and other matters referred to the Joint Steering Committee, including, without limitation, the continued Development of a particular Collaboration Product or the inclusion of Replacement Compounds;

(g) Life cycle management of, and intellectual property protection for, the Collaboration Products;

(h) In accordance with the procedures established in Section 3.1.5, resolve disputes, disagreements and deadlocks unresolved by the Joint Project Committee; and

(i) Have such other responsibilities as may be assigned to the Joint Steering Committee pursuant to this Agreement or as may be mutually agreed upon by the Parties from time to time.

3.1.4 Meetings. The Joint Steering Committee shall meet in person at least once during every Calendar Year, and more frequently (i) as mutually agreed by the Parties or (ii) as required to resolve disputes, disagreements or deadlocks in the Joint Project Committee, on such dates, and at such places and times, as such Parties shall agree; provided that the Parties shall endeavor to have the first meeting of the Joint Steering Committee within thirty (30) days after the establishment of the Joint Steering Committee. The Joint Steering Committee shall arrange to meet in person or convene otherwise to assess and approve any Development Plans or Marketing Plans, if any, submitted to the Joint Steering Committee in each Calendar Year so that such plans will be reviewed and approved within thirty (30) days following submission to the Joint Steering Committee. To the extent any such Development Plans or Marketing Plans are not approved and need to be reformulated by the Joint Project Committee, such plans shall be reviewed by the Joint Steering Committee as soon as reasonably practicable after resubmission of same. Meetings of the Joint Steering Committee that are held in person shall alternate between offices of GSK and Theravance, or such other place as the Parties may agree. In addition to the annual face to face

meetings the Joint Steering Committee may also be held by means of telecommunications or, video conferences as deemed appropriate by the Parties.

3.1.5 Decision-Making.

(a) The Joint Steering Committee may make decisions with respect to any subject matter that is subject to the Joint Steering Committee's decision-making authority and functions as set forth in Section 3.1.3. Except as specified in Section 3.1.5(b), all decisions of the Joint Steering Committee shall be made by consensus, with the representatives from each Party presenting a unified position on behalf of such Party. The Joint Steering Committee shall use Diligent Efforts to resolve the matters within its roles and functions or otherwise referred to it.

(b) With respect to any issue, if the Joint Steering Committee cannot reach consensus within ten (10) Business Days after the matter has been brought to the Joint Steering Committee's attention, then such issue shall be referred to the Chief Executive Officer of Theravance and the Chairman of R&D of GSK (collectively, the "Officers") for resolution. The Parties accept that the use of the Officers for resolution of any unresolved issues will be on an exceptional basis. In the event that the use of the Officers occurs on more than two occasions in any consecutive twelve (12) month period and such disputes are not related to [***], then GSK will from then on retain the final vote within the Joint Steering Committee for all issues [***]. If the Officers are unable to reach consensus within thirty (30) days after the matter has been referred to them, the final decision on such disputed issue will reside with GSK; provided, however, that if the disputed issue involves [***], then the final decision will be made by a mutually acceptable Third Party mediator. Either Party can initiate such mediation on 30 days written notice to the other Party. The Parties will use best efforts to agree on a mediator within such 30-day period. Such mediation will occur as promptly as practicable following selection of the mediator and will be held in New York, New York. The decision of the mediator will be final and binding on the Parties; provided that either party shall retain all rights to bring an action against the other for damages and other monetary relief related to or arising out of the issue decided by the mediator.

3.2 Joint Project Committee.

3.2.1 Purpose. The purposes of the Joint Project Committee shall be to manage the Parties' day-to-day activities hereunder.

3.2.2 Members; Officers. Within thirty (30) days after the Effective Date, the Parties shall establish a Project Committee (the "Joint Project Committee"), and GSK and Theravance shall designate an equal number of representatives, up to a maximum total of eight (8) members on such Joint Project Committee, with a maximum of four (4) from each Party. Each of GSK and Theravance may replace any or all of its representatives on the Joint Project Committee at any time upon written notice to the other Party. Such representatives shall include individuals who have the relevant experience and expertise for the next twelve months as included in the Development Plan for the Collaboration Products. A Party may designate a substitute to temporarily attend and perform the functions of such Party's designee at any meeting of the Joint Project Committee. GSK and Theravance each may, on advance written notice to the other Party, invite non-member representatives of such Party to attend meetings of the Joint Project Committee. The Joint Project Committee shall be chaired by a representative of GSK. The chairperson shall appoint a secretary of the Joint Project Committee, who shall be a representative of Theravance.

3.2.3 Responsibilities. The Joint Project Committee shall perform the following functions:

(a) Review the Development Plans as prepared by GSK;

(b) On an annual rolling basis beginning within six months of the Effective Date, update and amend any initial Development Plan and review the Development Plan for each Collaboration Product for the following Calendar Year so that it can immediately thereafter submit such proposed Development Plan to the Joint Steering Committee for review and approval;

(c) At each meeting of the Joint Project Committee, review the Development strategy for the Collaboration Products in the Territory;

(d) At each meeting of the Joint Project Committee, review and recommend to the Joint Steering Committee any material amendments or modifications to the Development Plans;

(e) Coordinate and monitor regulatory strategy and activities for the Collaboration Products in accordance with Article 8;

(f) Review and recommend to the Joint Steering Committee "go/no-go" decisions for the Development of Collaboration Products;

(g) Review the Marketing Plans where appropriate;

(h) Review and recommend to the Joint Steering Committee any material amendments or modifications to the Marketing Plans;

(j) Discuss the state of the markets for Collaboration Products and opportunities and issues concerning the Commercialization of the Collaboration Products, including consideration of marketing and promotional strategy, marketing research plans, labeling, Collaboration Product positioning and Collaboration Product profile issues;

(k) At each meeting of the Joint Project Committee, review the status of all Studies conducted on Collaboration Products and any results therefrom;

(l) At each meeting of the Joint Project Committee, review Net Sales for the year-to-date, as available; and

(m) Have such other responsibilities as may be assigned to the Joint Project Committee pursuant to this Agreement or as may be mutually agreed upon by the Parties through the Joint Steering Committee from time to time.

3.2.4 Meetings. The Joint Project Committee shall meet at least once during every Calendar Quarter, and more frequently as GSK and Theravance mutually agree on such dates, and at such places and times, as such Parties shall agree; provided that the Parties shall endeavor to have the first meeting of the Joint Project Committee as a face to face meeting within thirty (30) days after the establishment of the Joint Project Committee. Meetings of the Joint Project Committee that are held in person shall alternate between the offices of GSK and Theravance, or such other place as the Parties may agree and such face to face meetings shall

occur no less than twice a year. The remaining meetings may be held by means of telecommunications or video conferences as deemed appropriate. Following Commercialization of a Collaboration Product in the first Major Market, the Joint Project Committee shall meet twice a year with only one annual face to face meeting required.

3.2.5 Decision-Making. The Joint Project Committee may make decisions with respect to any subject matter that is subject to the Joint Project Committee's decision-making authority and functions as set forth in Section 3.2.3. All decisions of the Joint Project Committee shall be made by consensus, with the representatives from each Party presenting a unified position on behalf of such Party. If the Joint Project Committee cannot reach consensus within ten (10) Business Days after it has first met and attempted to reach such consensus, the matter shall be referred on the eleventh (11^{th}) Business Day to the Joint Steering Committee for resolution.

3.3 Minutes of Committee Meetings. Definitive minutes of all committee meetings shall be finalized no later than thirty (30) days after the meeting to which the minutes pertain as follows:

3.3.1 Distribution of Minutes. Within ten (10) days after a committee meeting, the secretary of such committee shall prepare and distribute to all members of such committee draft minutes of the meeting. Such minutes shall provide a list of any issues yet to be resolved, either within such committee or through the relevant resolution process.

3.3.2 Review of Minutes. The Party members of each committee shall have ten (10) days after receiving such draft minutes to collect comments thereon and provide them to the secretary of such committee.

3.3.3 Discussion of Comments. Upon the expiration of such second ten (10) day period, the Parties shall have an additional ten (10) days to discuss each other's comments and finalize the minutes. The secretary and chairperson(s) of such committee shall each sign and date the final minutes. The signature of such chairperson(s) and secretary upon the final minutes shall indicate each Party's assent to the minutes.

3.4 Expenses. Each Party shall be responsible for all travel and related costs and expenses for its members and other representatives to attend meetings of, and otherwise participate on, a committee.

3.5 General Guidelines and Initial Coordination Efforts. In all matters related to the collaboration established by this Agreement, the Parties shall strive to balance as best they can the legitimate interests and concerns of the Parties and to realize the economic potential of Collaboration Products. In all matters relating to this Agreement, the Parties shall seek to comply with good pharmaceutical and environmental practices. The Parties intend, following the Effective Date, to organize meetings of internal staff to communicate and explain the provisions of this Agreement to ensure the efficient and timely Development and Commercialization of the Collaboration Products.

ARTICLE 4
DEVELOPMENT OF PRODUCTS

4.1. Pooling of Compounds. Subject to and consistent with the further Development principles outlined herein, each Party will offer a minimum of four (4) identified LABA

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compounds to this collaboration, with the intention of commercializing at least one Long-Acting β2 Adrenoceptor Agonist as a single agent and/or as a LABA/ICS Combination Product. Upon commencement of the collaboration pursuant to this Agreement, GSK and Theravance will contribute the following LABA compounds as Pooled Compounds to the collaboration:

GSK Compounds [***] and Theravance Compounds [***].

For the avoidance of doubt, it is agreed and hereby acknowledged by both Parties that the compounds [***] are hereby accepted as Pooled Compounds.

Theravance will provide two (2) Theravance New Compounds to the collaboration within eighteen (18) months of the Effective Date in order to meet the requirement that Theravance contribute a total of four (4) LABA compounds to the Pooled Compounds. Without prejudice to the foregoing, GSK will endeavor to provide Theravance, upon Theravance's request and at GSK's expense and discretion, such assistance as may be reasonably required by Theravance to achieve this objective, including providing directly or through GSK's vendors, assistance in (i) chemical process development, (ii) salt selection, (iii) pharmaceutical formulation, (iv) toxicological evaluation, and (v) API preparation.

4.2 Obligations for Development.

4.2.1 General; GSK. Under the direction of the Joint Project Committee, specific Pooled Compounds will be identified from time to time and, as applicable, selected for Development as a Collaboration Product. The Joint Project Committee will determine the number and extent of Development of the Pooled Compounds and the criteria to be used for selecting among the eight Pooled Compounds and, subject to the other terms of this Agreement, will endeavor to move one or more such Collaboration Products forward in Development. In relation to the foregoing, GSK shall have the overall responsibility for, and use Diligent Efforts in, the performance of all such Development activities which shall include, where applicable, relevant regulatory filings (as contemplated under Article 8) for any such Collaboration Product moved forward in Development. Further, GSK shall use Diligent Efforts to advance such

Collaboration Product through Development in accordance with the Go/No-Go checkpoints identified in the then current Development Plan for such Collaboration Product. GSK shall also use Diligent Efforts to contribute at least one ICS and/or other non-LABA compound to the collaboration for the purpose of developing a combination product and Diligent Efforts to develop an optimal inhaled formulation of Collaboration Product in a device which may be either/or a dry powder inhaler formulation and/or a metered dose inhaler formulation of the Collaboration Compound and Development activities of such may continue in parallel.

4.2.2 GSK Funding Responsibility. GSK shall bear all costs and expenses associated with the Development of Collaboration Products for Commercialization including those incurred by Theravance (or to which it has become obligated) after the signature date of this Agreement and which previously have been discussed with and agreed to by GSK and, so far as the aforementioned Theravance costs are concerned, for the avoidance of doubt, the maximum amount shall not exceed U.S. $2,940,000.

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4.2.3 Decisions with Respect to Products.

(a) GSK shall have the sole discretion with respect to Development decisions for Collaboration Products subject to and in accordance with Sections 3.1.5, 3.2.5, and 4.3 .

(b) Notwithstanding the foregoing, the Parties acknowledge that Theravance is about to initiate a Phase I Study in two parts, on TD-3327. The initiation of this study will be approved via the Joint Project Committee in accordance with all other Development activities. Theravance shall be responsible for the routine monitoring of this study and will transfer remaining clinical development responsibility for TD-3327 to the Joint Project Committee on completion of the TD-3327 Phase Ia and Phase Ib Studies.

(c) GSK shall provide the Joint Project Committee with an update report within thirty days of (i) the initiation (i.e., first person dosed) of any Study involving a Collaboration Product, and (ii) the last person dosed/last visit in any Study relating to a Collaboration Product. GSK will provide the Joint Project Committee with a reasonably detailed “top line results” report within sixty days following the last person dosed/last visit in any Study involving a Collaboration Product.

4.2.4 Development Timelines. It is hereby acknowledged that GSK’s strategic objective is to move one or more of the Collaboration Products into Development at the earliest opportunity. GSK will consult with the Joint Project Committee and will share, modify and further develop all applicable Development Plans and timelines in that forum. It is recognised that success can be optimised by pursuing a number of Collaboration Products through various phases of clinical Development up to the point of Technical or Commercial Failure, and/or until the first Collaboration Product for both single agent and combination therapy achieves regulatory agency approval. At a strategic level, GSK is committed to this objective. However, at an operational level it is recognised that internal and external resources will be constrained from time to time, resulting in the need to prioritise individual studies and activities relating to Collaboration Products. GSK will use Diligent Efforts to secure the necessary resource and will keep the Joint Project Committee informed on the progress of individual studies and activities relating to Collaboration Products as part of any changes to Development Plans and timelines. The current objective of the Collaboration is to achieve Marketing Authorization Approval in the US and other Major Markets for a Collaboration Product from one of the eight Pooled Compounds which can be used as a single agent and/or in combination with other therapeutically active components (including but not limited to a Long Acting Inhaled Corticosteroid) for the treatment and/or prophylaxis of one or more respiratory diseases [***] and Development Plans and timelines will be developed and/or refined in an effort to achieve this objective.

4.3 Replacement Compounds. If within two years after the Effective Date, the Development of Collaboration Products containing any two of the Pooled Compounds contributed by a Party is discontinued due to Technical Failure, it will be the option of the Party who contributed the discontinued compounds to discover and offer up to the collaboration two Replacement Compounds as replacements for the discontinued compounds within twelve months following the discontinuation of the second failed compound. For the avoidance of doubt, any such new compound that satisfies the Criteria will automatically be accepted as a Pooled Compound in place of the relevant Party’s discontinued compound, subject to Joint Steering Committee approval pursuant to Section 3.1.3(f). Nothing in the foregoing shall preclude either Party from having the option of offering up a Replacement Compound for a Pooled Compound at any time during the period referred to in Section 14.5 (subject to the Criteria being met and Joint Steering Committee approval pursuant to Section 3.1.3(f)).

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4.4 Transfer of Data. As soon as practicable but in no event more than thirty (30) days after the Effective Date, the Parties shall determine what data and materials relating to TD-3327 and AMI-15471 are necessary for GSK’s Development obligations pursuant to this Article 4, including any technology transfer required for API Compound manufacturing activities contemplated by Article 9, and establish a process for transferring copies of such data and material to GSK (including, to the extent available, in appropriate electronic format) or provide means of access thereto reasonably acceptable to GSK.

4.5 LABA Activity Inside and Outside of the Collaboration.

4.5.1 The intent of the Parties in respect of the Pooled Compounds is that such Pooled Compounds remain exclusive to this Collaboration and, subject to Sections 4.5.2 — 4.5.4 and Article 14 below, no activity in respect of such Pooled Compounds shall be permitted outside of this Agreement.

4.5.2 Subject to Article 14 and to Section 4.5.4, if prior to First Commercial Sale of a GSK Initially Pooled Compound or a GSK Replacement Compound, Development of such compound is discontinued under this Agreement (“GSK Discontinued Compound”), all rights in respect of such GSK Discontinued Compound shall revert in full to GSK and such GSK Discontinued Compound shall automatically fall outside of this Agreement except that (i) GSK shall thereafter be prohibited from carrying out any further clinical Development work or clinical activity in respect of such GSK Discontinued

Compound inside the Field for at least [***] after the termination of this Agreement, and (ii) for the avoidance of doubt, GSK shall pay to Theravance a royalty on Net Sales of any such GSK Discontinued Compound in accordance with Section 14.9.

4.5.3 Subject to Article 14 and Section 4.5.4, if prior to First Commercial Sale of a Theravance Compound, Development of such compound is discontinued under this Agreement ("Theravance Discontinued Compound"), all rights in respect of such Theravance Discontinued Compound shall revert in full to Theravance and such Theravance Discontinued Compound shall automatically fall outside of this Agreement except that (i) Theravance thereafter shall be prohibited from carrying out any further clinical Development work or clinical activity in respect of such Theravance Discontinued Compound inside the Field until after the termination of this Agreement, and (ii) for the avoidance of doubt, Theravance shall pay to GSK a royalty on Net Sales of any such Theravance Discontinued Compound in accordance with Section 14.9.

4.5.4 Notwithstanding Sections 4.5.2 and 4.5.3, for so long as there is one Collaboration Product being Developed under this Agreement, neither Party shall carry out clinical Development inside the Field with any Long Acting B2 Adrenoceptor Agonist that is not a Pooled Compound under this Agreement; provided, however, that this restriction shall not apply to any compound or product (including new product line extensions and/or re-formulation work) where the original compound or product is, as of the date of signature of this Agreement, already Commercialized.

ARTICLE 5
COMMERCIALIZATION

5.1 Global Marketing Plans.

5.1.1 General. The Joint Project Committee shall be responsible for reviewing and approving a Global Marketing Plan for each Collaboration Product ("Marketing Plan"). Each

Marketing Plan shall define the goals and objectives for Commercializing the Collaboration Products in the pertinent Calendar Year consistent with the applicable Development Plan.

5.1.2 Contents of Each Marketing Plan. The Marketing Plan for each Collaboration Product shall be prepared during the Calendar Year wherein, and where applicable, Phase III Studies for such Collaboration Product have commenced and shall be a rolling, three year plan, updated annually and shall contain at a minimum and as appropriate to current knowledge:

(a) Results of market research and strategy, including market size, dynamics, growth, customer segmentation, customer targeting, competitive analysis and global Collaboration Product positioning;

(b) Annual sales forecasts for Major Market Countries;

(c) For each major Market Country (as available): sales plans which will include target number of sales representatives, detail order and target number of details

(d) Core, global advertising and promotion programs and strategies, including literature, media plans, symposia and speaker programs; and

(e) Core Phase III/Phase IV Studies to be conducted

5.2 Obligations for Commercialization. GSK shall use Diligent Efforts to Commercialize the Collaboration Products.

5.3 Commercialization.

5.3.1 GSK Responsibility. GSK shall have the sole right and responsibility for Commercialization of Collaboration Products for distribution and sale. GSK shall bear all costs and expenses associated with the Commercialization of Collaboration Products for sale or distribution.

(a) GSK shall have the sole right and responsibility to distribute, sell, record sales and collect payments for Collaboration Products.

(b) GSK shall have the sole right and responsibility for establishing and modifying the terms and conditions with respect to the sale of Collaboration Products, including, without limitation, the price or prices at which the Collaboration Products will be sold, any discount applicable to payments or receivables, and similar matters.

(c) GSK will be responsible for storage, order receipt, order fulfillment, shipping and invoicing of Collaboration Products.

5.3.2 Semi-Annual Reports.

GSK shall provide the Joint Project Committee reports semi-annually. Such reports shall set forth in summary form the results of GSK's Commercialization activities performed during such semi-annual period in the Major Markets.

5.3.3 Exports to the United States. To the extent permitted by Law, the Parties shall use Diligent Efforts to prevent the Collaboration Products distributed for sale in a particular Country other than the United States from being exported to the United States for sale.

ARTICLE 6
FINANCIAL PROVISIONS

6.1 Signing Payment; Equity Investment; One-Time Fee.

6.1.1 Signing Payment. In partial consideration for the acquisition of license rights under the Theravance Patents and the Theravance Know-How by GSK under this Agreement, GSK shall on the Effective Date, pay to Theravance a non-creditable, non-refundable amount of Ten Million United States Dollars (U.S. $10,000,000).

6.1.2 Stock Purchase. On the Effective Date, GSK will purchase 4,000,000 shares of Theravance Series E Preferred Stock at a price of U.S.$10.00 per share for total consideration of Forty Million United States Dollars (U.S. $40,000,000). Such purchase will be made pursuant to the Preferred Stock Purchase Agreement attached hereto as Schedule 6.1.2.

6.1.3 One-Time Fee for AMI-15471. Within thirty days following receipt by GSK of Theravance's written notification of the decision by Theravance to nominate AMI-15471 as a "development candidate," and in further partial consideration for the acquisition of license rights under the Theravance Patents and the Theravance Know-How by GSK under this Agreement, GSK shall pay to Theravance a non-creditable, non-refundable amount of Five Million United States Dollars (U.S.$5,000,000). AMI-15471 will be declared a development candidate when Theravance (a) completes a study demonstrating [***] (as per the Criteria in Schedule 1.19), and (b) establishes AMI-15471 in a stable crystalline form.

6.1.4 One-Time Fee for Each Theravance New Compound. Within thirty days following the acceptance by the Joint Project Committee or the Joint Steering Committee of each of the two Theravance New Compounds to be contributed to the collaboration pursuant to Section 4.1, and in further partial consideration for the acquisition of license rights under the Theravance Patents and the Theravance Know-How by GSK under this Agreement, GSK shall pay to Theravance a non-creditable, non-refundable amount of Five Million United States Dollars (U.S.$5,000,000) for each such Theravance New Compound.

6.2 Milestone Payments.

6.2.1 General. In further consideration of the covenants and agreements contained herein, the Parties shall also pay to each other the payments set forth below for each such Development milestone referred to therein (each, a "Development Milestone"); provided always that each such payment shall be made only one time for each Collaboration Product regardless of how many times such Development Milestones are achieved for such Collaboration Product, and no payment shall be owed for a Development Milestone which is not reached (except that, upon achievement of a Development Milestone for a particular Collaboration Product, any previous Development Milestone for that Collaboration Product for which payment was not made shall be deemed achieved and payment therefore shall be made); provided further that, in the event that more than one Development Milestone is achieved with respect to the same Collaboration Product at one time, then all applicable payments under Section 6.2 shall be made. For example, if TD-3327 as a single-agent Collaboration Product and a LABA/ICS Combination

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Product that contains TD-3327 are approved in the same Marketing Authorization Approval, then in addition to the relevant milestone for the single-agent TD-3327 Collaboration Product, the relevant milestone for the LABA/ICS Combination Product shall be paid simultaneously. In the event of termination of development of a particular Collaboration Product and an alternative Collaboration Product replaces such Terminated Collaboration Product then milestone payments for such replacement compound shall not be paid in respect of milestones already achieved by the Terminated Collaboration Product. For example, if development of TD-3327 is terminated and TD-3327 is replaced by a another Collaboration Product which contains a Theravance compound, milestone payments for such replacement compound will only commence for milestones achieved that have not already been achieved by TD-3327.

6.2.2 GSK to Theravance. GSK shall make the following milestone payments to Theravance upon the achievement of the indicated Development Milestone for the first Collaboration Product in which the Long-Acting β2 Adrenoceptor Agonist is [***], and for the first LABA/ICS Combination Product in which the Long-Acting β2 Adrenoceptor Agonist is [***]:

Milestone	Amount
Initiation of Phase I *	U.S.$10 Million
Initiation of Phase IIa**	U.S.$10 Million
Initiation of Phase IIb**	U.S.$5 Million
[***]	[***]
Registration	
[***]	[***]
Launch	
[***]	[***]
Annual Worldwide Net Sales over [***] Collaboration Product	[***]
Annual Worldwide Net Sales over [***] Combination Product	[***]

* GSK will make a Phase I milestone payment for both TD-3327 and AMI-15471. The Phase I milestone for TD-3327 is defined as initiation of the methacholine challenge portion of the Phase I Study in normal volunteers and will trigger a payment of U.S. $10 Million. The Phase I milestone for AMI-15471 is defined as initiation of the first Phase I Study in normal volunteers and will trigger a payment of U.S. $10 Million.

**Phase IIa is defined as initiation of the first single dose study in patients where such study is statistically powered for efficacy based on FEV_1. Phase IIb is defined as initiation of the first four (4) week dosing, safety and efficacy study in patients.

Other Combination Products that contain a Long-Acting β2 Adrenoceptor Agonist that is a Theravance Compound are not subject to milestone payments by GSK only if [***]. The Parties

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intend that if the collaboration is successful [***] Collaboration Products that contain a Theravance Compound, Theravance be paid the applicable milestones [***].

If GSK, either individually or as a member of the Joint Steering Committee or Joint Project Committee, discontinues the Development of a [***] Collaboration Product that is a Theravance Compound for reasons other than [***], and such compound is the [***], it will [***].

6.2.3 Theravance to GSK. Theravance shall make the following milestone payments to GSK upon the achievement of the indicated Development Milestone for the first Collaboration Product in which the Long-Acting β2 Adrenoceptor Agonist is a GSK Compound and for the first LABA/ICS Combination Product in which the Long-Acting β2 Adrenoceptor Agonist is a GSK Compound:

Milestone	Amount
Registration	
US	U.S.$30 Million
Europe	U.S.$15 Million
Japan	U.S.$10 Million
Launch	
US	U.S.$30 Million
Europe	U.S.$15 Million
Japan	U.S.$10 Million

Other Combination Products that contain a Long-Acting β2 Adrenoceptor Agonist that is a GSK Compound are not subject to milestone payments by Theravance only if all milestone payments through launch have otherwise been made to GSK from any Collaboration Product as both a single-agent and as a combination product. The Parties intend that if the collaboration is successful in launching at least two Collaboration Products that contain a GSK Compound, GSK be paid the applicable milestones through launch for two products.

6.2.4 Notification and Payment. In the event a Party achieves a Development Milestone, such Party shall promptly, but in no event more than ten (10) days after the achievement of each such Development Milestone, notify the other Party in writing of the achievement of same. For all Development Milestones achieved, each Party shall promptly, but in no event more than thirty (30) days after notification of the achievement of each such Development Milestone, remit payment to the other Party for such Development Milestone.

6.3 Payment of Royalties on Net Sales.

6.3.1 Royalty on Single-Agent Collaboration Products and LABA/ICS Combination Products.

Within twenty (20) days after the end of each Calendar Quarter , GSK shall pay Theravance royalty payments based on Net Sales in such Calendar Quarter during the Term as follows:

On total Annual Worldwide Net Sales up to and including U.S. $3 Billion:	15%
On total Annual Worldwide Net Sales greater than U.S. $3 Billion:	5%

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it being understood that Net Sales of a single agent Collaboration Product will be combined with Net Sales of a LABA/ICS Combination Product for purposes of the foregoing royalty calculation.

The quarterly royalty payments made under this Section 6.3.1 may be based on estimated Net Sales. Within thirty (30) days after the end of each Calendar Quarter, GSK shall calculate the actual amount of Net Sales for the previous Calendar Quarter and either credit or debit the difference between such actual and projected amount on the succeeding Calendar Quarter's royalty payment to Theravance. As soon as practical following the end of each Calendar Month, but in no event later than the 10th business day of the following month, GSK will provide Theravance with an estimate of Net Sales for such Calendar Month.

The royalties payable under this Section 6.3 shall be paid on a Country-by-Country basis from the date of first commercial sale of each Collaboration Product in a particular Country for the Term of the Collaboration.

6.3.2 Royalty Adjustment. The 15% royalty payable on the first U.S. $3 Billion of total annual worldwide Net Sales under this Section 6.3 shall be reduced to 12% if all of the following occur: (i) all Theravance Compounds are discontinued by the collaboration for Technical Failure; (ii) Theravance only contributes one Theravance New Compound to the collaboration within 18 months following the Effective Date; and (iii) the Collaboration Product upon which the royalty is payable contains a LABA that is one of the GSK Initially Pooled Compounds. The 15% royalty payable on the first U.S. $3 Billion of total annual worldwide Net Sales under this Section 6.3 shall be reduced to 10% if all of the following occur: (i) all Theravance Compounds are discontinued by the collaboration for Technical Failure; (ii) Theravance fails to contribute any Theravance New Compound to the collaboration within 18 months following the Effective Date; and (iii) the Collaboration Product upon which the royalty is payable contains a LABA that is one of the GSK Initially Pooled Compounds. Nothing in the foregoing shall affect other royalties owed under this Agreement.

6.3.3 Royalties on Other Collaboration Products Launched After the LABA/ICS Combination Product. For any Other Collaboration Product launched after the LABA/ICS Combination Product, GSK shall within twenty (20) days after the end of each Calendar Quarter, pay Theravance royalty payments based on Net Sales in such Calendar Quarter during the Term as follows:

Annual Net Sales	Percentage Royalty
[***]	6.5%
[***]	[***]
[***]	[***]
Net Sales exceeding U.S.$2.25 Billion	10.0%

For the avoidance of doubt, the Parties agree that the royalty set forth in this Section 6.3.3 shall only be effective if GSK has launched and is selling a LABA/ICS Combination Product that is subject to the royalties under Section 6.3.1. If GSK is not selling a LABA/ICS Combination Product, then the royalty set forth in Section 6.3.1 shall apply to the first Other Combination Product launched by GSK, provided such Other Combination Product does not contain a product

in-licensed by GSK; if such Other Combination Product contains a product in-licensed by GSK, then the royalty payable to Theravance will be reduced by 50% of any running royalties paid to a Third Party, provided that in no case will the royalty payable to Theravance be less than set forth in this Section 6.3.3.

6.4 Royalty Responsibilities; Net Sales Reports.

6.4.1 Payments to Third Parties.

(a) If, as a result of a settlement approved by both Parties or as a result of a final non-appealable judgment, GSK is required to pay any amounts to a Third Party directly because using or selling a Theravance Compound is found to infringe the rights of such Third Party, GSK shall deduct [***] of any such amount paid to such Third Party from the royalties otherwise due Theravance for the Collaboration Product containing such Theravance Compound, provided in no event shall such reduction reduce the royalties otherwise payable to Theravance during any Calendar Year by more than [***]; provided, further, that any excess deduction shall be carried over into subsequent years of this Agreement until the full deduction is taken.

(b) GSK shall pay any amounts owed to a Third Party as a result of the use of GSK Patents or GSK Know-How with respect to sales of Collaboration Products and shall not deduct any of such amounts from the royalties due Theravance. The foregoing is subject to Section 6.3.3.

6.4.2 Net Sales Report. Within thirty (30) days after the end of each Calendar Quarter, GSK shall submit to Theravance a written report setting forth Net Sales in the Territory on a Country-by-Country and Collaboration Product-by-Collaboration Product basis during such Calendar Quarter, total royalty payments due Theravance, relevant market share data and any payments made to any Third Party pursuant to Section 6.4.1(a) (each a “Net Sales Report”).

6.5 GAAP. All financial terms and standards defined or used in this Agreement for sales or activities occurring in the United States shall be governed by and determined in accordance with United States generally accepted accounting principles, consistently applied. Except as otherwise set forth herein, all financial terms and standards defined or used in this Agreement for sales or activities occurring outside the United States shall be governed by and determined in accordance with United Kingdom generally accepted accounting principles, consistently applied.

6.6 Currencies. Monetary conversion from the currency of a foreign country in which Collaboration Product is sold into US Dollars shall be calculated in accordance with either (a) the methodology referred to in GSK’s then current Corporate Finance Reporting Policy or (b) as otherwise may be mutually agreed by the Parties. The following summarizes GSK’s current methodology applied in accordance with its current Corporate Finance Reporting System: the cumulative year-to-date Average Rates are calculated by determining the average of (i) the preceding 31st December Spot Rate plus (ii) the Closing Spot Rates of the relevant months to date using the exact figures provided by the Reuters 2000 download. (By way of example, the Average Rate for the five months from January, 2002 to May, 2002 would be computed by taking the sum of the Spot Rates for the preceding 31st December, 2001, plus the month-end Spot Rates for the five months to May, 2002, divided by six).

6.7 Manner of Payments. All sums due to either Party under this Section 6 shall be payable in United States Dollars by bank wire transfer in immediately available funds to such

bank account(s) as each of GSK and Theravance shall designate. GSK shall notify Theravance as to the date and amount of any such wire transfer to Theravance at least five (5) Business Days prior to such transfer. Theravance shall notify GSK as to the date and amount of any such wire transfer to GSK at least five (5) Business Days prior to such transfer.

6.8 Interest on Late Payments. If either Theravance or GSK shall fail to make a timely payment pursuant to this Article 6, any such payment that is not paid on or before the date such payment is due under this Agreement shall bear interest, to the extent permitted by applicable law, at the average one-month London Inter-Bank Offering Rate (LIBOR) for the United States Dollar as reported from time to time in The Wall Street Journal, effective for the first date on which payment was delinquent and calculated on the number of days such payment is overdue or, if such rate is not regularly published, as published in such source as the Joint Steering Committee agrees.

6.9 Tax Withholding.

6.9.1 Any taxes, levies or other duties ("Taxes") paid or required to be withheld under the appropriate local tax laws by one of the Parties ("Withholding Party") on account of monies payable to the other Party under this Agreement shall, subject to Sections 6.9.2 and 6.9.3, be deducted from the amount of monies otherwise payable to the other Party under this Agreement. The Withholding Party shall secure and send to the other Party within a reasonable period of time proof of any such Taxes paid or required to be withheld by Withholding Party for the benefit of the other Party.

6.9.2 If GSK or any GSK Affiliate is or becomes liable to withhold any taxes from payments made to Theravance under Sections 6.1 and 6.2 of this Agreement, then GSK shall pay to Theravance an amount equal to the amount GSK or the applicable GSK Affiliate owes to the relevant tax authority provided always that if Theravance is able to obtain credit for any taxes withheld ("Creditable Taxes") against any liability to tax either in the year in which the receipt is taxable or any preceding years, Theravance shall reimburse to GSK an amount equivalent to the Creditable Taxes. Theravance shall provide GSK with such reasonable evidence as GSK may reasonably request to determine whether the taxes are creditable against taxes payable by Theravance.

6.9.3 If GSK or any GSK Affiliate is or becomes liable to withhold any taxes from payments made to Theravance under Section 6.3, then such taxes may be withheld by GSK or the applicable GSK Affiliate up to a limit of five percent (5%) of the relevant payment. GSK shall pay to Theravance an amount equal to the amount GSK owes to the relevant tax authority in excess of such five percent (5%) provided always that if Theravance is able to obtain credit for any taxes withheld ("Creditable Taxes") against any liability to tax either in the year in which the receipt is taxable or any preceding years, Theravance shall reimburse to GSK an amount equivalent to the Creditable Taxes. Theravance shall provide GSK with such reasonable evidence as GSK may reasonably request to determine whether the taxes are creditable against taxes payable by Theravance.

6.10 Financial Records; Audits. GSK shall keep, and shall cause its Affiliates and sublicensees to keep, such accurate and complete records of Net Sales as are necessary to determine the amounts due to Theravance under this Agreement and such records shall be retained by GSK or any of its Affiliates or sublicensees (in such capacity, the "Recording Party") for at least the three preceding Calendar Years to which the Net Sales relate. During normal business hours and with reasonable advance notice to the Recording Party, such records shall be

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made available for inspection, review and audit, at the request and expense of Theravance, by an independent certified public accountant, or the local equivalent, appointed by Theravance and reasonably acceptable to the Recording Party for the sole purpose of verifying the accuracy of the Recording Party's accounting reports and payments made or to be made pursuant to this Agreement; provided, however that such audits may not be performed by Theravance more than once per Calendar Year. Such accountants shall be instructed not to reveal to Theravance the details of its review, except for (i) such information as is required to be disclosed under this Agreement and (ii) such information presented in a summary fashion as is necessary to report the accountants' conclusions to Theravance, and all such information shall be deemed Confidential Information of the Recording Party; provided, however, that in any event such information may be presented to Theravance in a summary fashion as is necessary to report the accountants' conclusions. All costs and expenses incurred in connection with performing any such audit shall be paid by Theravance unless the audit discloses at least a five percent (5%) shortfall, in which case the Recording Party will bear the full cost of the audit for such Calendar Year. Theravance will be entitled to recover any shortfall in payments due to it as determined by such audit, plus interest thereon calculated in accordance with Section 6.8, or alternatively shall have the right to offset and deduct any such shortfall in payments due to it against payments Theravance is otherwise required to make to the Reporting Party under this Agreement. The documents from which were calculated the sums due under this Article 6 shall be retained by the relevant Party during the Term.

ARTICLE 7
PROMOTIONAL MATERIALS AND SAMPLES

7.1 Promotional Materials.

7.1.1 Review of Core Promotional Materials. Subject to applicable Law, in accordance with the direction of the Joint Project Committee, the Parties will jointly, through consultation and with the assistance of each other, review the core Promotional Materials. The relevant legal or regulatory personnel of each Party shall have the opportunity to review and comment on all such core Promotional Materials prior to use and such comments shall be considered by the Joint Project Committee in the review of such core Promotional Materials.

7.1.2 Markings of Promotional Materials. To the extent required by applicable Law, and further to the extent reasonably practicable, all Promotional Materials will indicate the contribution of the license from Theravance for the Collaboration Products. Subject to the foregoing, the Theravance

Housemark and the GSK Housemark shall both be given exposure and prominence on all promotional materials, labelling, package inserts or outserts and packaging for the Collaboration Products.

7.2 Samples. Packaging, package inserts and outserts, Sample labels and labeling shall each contain reference to Theravance and GSK indicating, in the case of Theravance, the contribution of the license from Theravance for the Collaboration Products, if appropriate, and as may be required under applicable FDA rules and regulations.

7.3 Statements Consistent with Labeling. GSK shall ensure that its sales representatives detail the Collaboration Products in a fair and balanced manner and consistent with the requirements of the Federal Food, Drug and Cosmetic Act of the United States, as amended, including, but not limited to, the regulations at 21 C.F.R. (S) 202 in the United States.

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7.4 Implications of Change in Control in Theravance. In the event that there is a Change in Control of Theravance and the references contemplated in Sections 7.1.2 and 7.2 are no longer made to "Theravance,", then other than to the extent required by applicable Law, GSK shall have the right, not to be unreasonably exercised, to terminate its obligations under Sections 7.1 and 7.2.

ARTICLE 8
REGULATORY MATTERS

8.1 Governmental Authorities. GSK shall be solely responsible for communicating with Governmental Authorities and will keep Theravance informed, through the Joint Project Committee and Joint Steering Committee, of any significant issue or issues arising therefrom.

8.2 Filings. GSK shall also be solely responsible for filing drug approval applications for Collaboration Products and will use Diligent Efforts in seeking appropriate approvals in those Countries of the Territory for Collaboration Products as GSK reasonably determines and sees fit. Such regulatory documents for each filing shall be centralized and held at the offices of GSK. Theravance shall provide such reasonable assistance as may be required by GSK where liaison between the Parties is, or may be, necessary to enable GSK to fulfill its responsibilities hereunder. GSK shall be responsible for maintaining the Approvals obtained under this Section and shall solely own all such Approvals in the Territory. GSK shall be fully responsible for bearing all costs and expense associated with undertaking and completing said registration activities in the Territory, including but not limited to the costs of preparing and prosecuting applications for such Approvals and fees payable to regulatory agencies in obtaining and maintaining same.

8.3 Exchange of Drug Safety Information. Subject to the second sentence of this Section 8.3, GSK shall be responsible for recording, investigating, summarizing, notifying, reporting and reviewing all Adverse Drug Experiences in accordance with Law and shall require that its Affiliates (i) adhere to all requirements of applicable Laws which relate to the reporting and investigation of Adverse Drug Experiences, and (ii) keep the Joint Project Committee apprised on a regular basis of such matters arising therefrom. The foregoing shall be subject to any of Theravance's own clinical safety obligations mandated by Law as a result of its ongoing Development activity related to TD-3327 (as such activity is more specifically referred to in Article 4) and, in acknowledgement of this, it is thereby contemplated that the Parties' respective clinical safety groups may need to discuss and agree, at the appropriate time after the Effective Date, appropriate safety data exchange procedures related to same.

8.4 Recalls or Other Corrective Action. Each Party shall, as soon as practicable, notify the other Party of any recall information received by it in sufficient detail to allow the Parties to comply with any and all applicable Laws. GSK shall promptly notify Theravance of any material actions to be taken by GSK with respect to any recall or market withdrawal or other corrective action related to a Collaboration Product prior to such action to permit Theravance a reasonable opportunity to consult with GSK with respect thereto. All costs and expenses with respect to a recall, market withdrawal or other corrective action shall be borne by GSK unless such recall, market withdrawal or other corrective action was due solely to the negligence, willful misconduct or breach of this Agreement by Theravance. GSK shall have sole responsibility for and shall make all decisions with respect to any recall, market withdrawals or any other corrective action related to the Collaboration Products.

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8.5 Events Affecting Integrity or Reputation. During the Term, the Parties shall notify each other immediately of any circumstances of which they are aware and which could impair the integrity and reputation of the Collaboration Products or if a Party is threatened by the unlawful activity of any Third Party in relation to the Collaboration Products, which circumstances shall include, by way of illustration, deliberate tampering with or contamination of the Collaboration Products by any Third Party as a means of extorting payment from the Parties or another Third Party. In any such circumstances, the Parties shall use Diligent Efforts to limit any damage to the Parties and/or to the Collaboration Products. The Parties shall promptly call a Joint Steering Committee meeting to discuss and resolve such circumstances.

ARTICLE 9
ORDERS; SUPPLY AND RETURNS

9.1 Orders and Terms of Sale. Except as otherwise expressly stated in this Agreement, GSK shall have the sole right to (i) receive, accept and fill orders for the Collaboration Products, (ii) control invoicing, order processing and collection of accounts receivable for the Collaboration Products sales, (iii) record the Collaboration Products sales in its books of account, and (iv) establish and modify the commercial terms and conditions with respect to the sale and distribution of the Collaboration Products, including without limitation matters such as the price at which the Collaboration Products will be sold and whether any discounts, rebates or other deductions should be made, paid or allowed.

9.2 Supply of API Compound and Formulated Collaboration Product for Development.

9.2.1 Supply of API Compound for Development. Subject to the terms and conditions of this Agreement, GSK shall conduct or have conducted any chemical process development required to develop a commercially acceptable process for making API Compound and obtain supply for worldwide requirements of API Compound. Notwithstanding the foregoing, Theravance may transfer to GSK, at cost, whatever supply it has on hand of TD-3327 API and/or AMI-15471 API and/or intermediate materials for API manufacture, within specification as of the Effective Date, such cost not to exceed U.S. $1,230,000. API Compound requirements for Development activities shall be set forth in the relevant Development Plan and shall be periodically updated by the Joint Project Committee.

9.2.2 Supply of Formulated Collaboration Products for Development. Subject to the terms and conditions of this Agreement, GSK shall obtain supply for worldwide requirements of formulated Collaboration Products. Notwithstanding the foregoing, Theravance agrees to transfer to GSK whatever supply it has on hand of formulated TD-3327, within specification, at cost as of the Effective Date, such cost not to exceed U.S. $175,000. Formulated Collaboration Product requirements for Development activities shall be set forth in the relevant Development Plan and shall be periodically updated by the Joint Project Committee.

9.3 Supply of API Compound for Commercial Requirements. Subject to the terms and conditions of this Agreement, GSK shall obtain supply of API Compound. A forecast for API Compound requirements for Commercialization of the Collaboration Products shall be prepared and periodically updated by the Joint Project Committee and coordinated with the applicable Marketing Plans for Collaboration Products.

9.4 Supply of Collaboration Products for Commercialization. Subject to the terms and conditions of this Agreement, GSK shall obtain supply of the commercial requirements of formulated, packaged and labeled Collaboration Products. Such formulated, packaged and labeled Collaboration Products shall be manufactured and supplied in accordance with all applicable Laws and current Good Manufacturing Practices. GSK shall be solely responsible for secondary manufacture, packaging and labeling of the Collaboration Product.

9.5 Inventories. GSK and its Product Suppliers shall maintain an inventory of API Compound and Collaboration Products in accordance with their normal practices and so as to ensure fulfillment of its respective supply obligations herein.

ARTICLE 10
CONFIDENTIAL INFORMATION

10.1 Confidential Information. Each of GSK and Theravance shall keep all Confidential Information received from the other Party with the same degree of care it maintains the confidentiality of its own Confidential Information. Neither Party shall use such Confidential Information for any purpose other than in performance of this Agreement or disclose the same to any other Person other than to such of its agents who have a need to know such Confidential Information to implement the terms of this Agreement or enforce its rights under this Agreement. A Receiving Party shall advise any agent who receives such Confidential Information of the confidential nature thereof and of the obligations contained in this Agreement relating thereto, and the Receiving Party shall ensure that all such agents comply with such obligations as if they had been a Party hereto. Upon termination of this Agreement, the Receiving Party shall return or destroy all documents, tapes or other media containing Confidential Information of the Disclosing Party that remain in the Receiving Party's or its agents' possession, except that the Receiving Party may keep one copy of the Confidential Information in the legal department files of the Receiving Party, solely for archival purposes. Such archival copy shall be deemed to be the property of the Disclosing Party, and shall continue to be subject to the provisions of this Article 10. Notwithstanding anything to the contrary in this Agreement, the Receiving Party shall have the right to disclose this Agreement or Confidential Information provided hereunder if, in the reasonable opinion of the Receiving Party's legal counsel, such disclosure is necessary to comply with the terms of this Agreement, or the requirements of any Law. Where possible, the Receiving Party shall notify the Disclosing Party of the Receiving Party's intent to make such disclosure pursuant to the provision of the preceding sentence sufficiently prior to making such disclosure so as to allow the Disclosing Party adequate time to take whatever action the Disclosing Party may deem to be appropriate to protect the confidentiality of the information. The Receiving Party will cooperate reasonably with the Disclosing Party's efforts to protect the confidentiality of the information. Each Party will be liable for breach of this Article 10 by any of its Affiliates.

10.2 Permitted Disclosure and Use. Notwithstanding Section 10.1, a Party may disclose Confidential Information belonging to the other Party only to the extent such disclosure is reasonably necessary to: (a) obtain Marketing Authorization of a Collaboration Product; (b) enforce the provisions of this Agreement; or (c) comply with Laws. If a Party deems it necessary to disclose Confidential Information of the other Party pursuant to this Section 10.2, such Party shall give reasonable advance notice of such disclosure to the other Party to permit such other Party sufficient opportunity to object to such disclosure or to take measures to ensure confidential treatment of such information. The Receiving Party will cooperate reasonably with the Disclosing Party's efforts to protect the confidentiality of the information.

10.3 Publications. Subject to any Third Party rights existing as of the Effective Date, each Party shall submit to the Joint Project Committee for review and approval all proposed academic, scientific and medical publications and public presentations relating to a Collaboration Product or any research or Development activities under this Agreement for review in connection with preservation of Patent Rights, and trade secrets and/or to determine whether Confidential Information should be modified or deleted from the proposed publication or public presentation. Written copies of such proposed publications and presentations shall be submitted to the Joint Project Committee no later than sixty (60) days before submission for publication or presentation and the Joint Project Committee shall provide its comments with respect to such publications and presentations within ten (10) Business Days of its receipt of such written copy. The review period may be extended for an additional sixty (60) days if a representative of the non-publishing Party on the Joint Project Committee can demonstrate a reasonable need for such extension including, but not limited to, the preparation and filing of patent applications. By mutual agreement of the Parties, this period may be further extended. The Parties will each comply with standard academic practice regarding authorship of scientific

publications and recognition of contribution of other parties in any publications relating to the Collaboration Products or any research or Development activities under this Agreement.

10.4 Public Announcements. Except as may be expressly permitted under Section 10.3 or required by applicable Laws and subject to the final two sentences of this Section 10.4, neither Party will make any public announcement of any information regarding this Agreement, the Collaboration Products or any research or Development activities under this Agreement without the prior written approval of the other Party, which approval shall not be withheld unreasonably. Once any statement is approved for disclosure by the Parties or information is otherwise made public in accordance with the preceding sentence, either Party may make a subsequent public disclosure of the contents of such statement without further approval of the other Party. Notwithstanding the foregoing, within sixty (60) days following the Effective Date, appropriate representatives of the Parties will meet and agree upon a process and principles for reaching timely consensus on how the Parties will make public disclosure concerning this Agreement, the Collaboration Products or any research and Development activities under this Agreement.

10.5 Confidentiality of This Agreement. The terms of this Agreement shall be Confidential Information of each Party and, as such, shall be subject to the provisions of this Article 10. Either party may disclose the terms of this Agreement if, in the opinion of its counsel, such disclosure is required by Law. In such event, the disclosing Party will seek appropriate confidentiality of those portions of the Agreement for which confidential treatment is typically permitted by the relevant Governmental Authority.

10.6 Termination of Prior Confidentiality Agreements. Except as expressly provided in this Section 10.6, this Agreement supercedes the Mutual Confidential Disclosure Agreement (the "MCDA") between the Parties dated April 10, 2002. Except as expressly provided in this Section 10.6 and in Paragraph 8 of the Confidentiality Agreement between the Parties dated October 2, 2002 (the "Patent CDA"), this Agreement supersedes the Patent CDA. Except as set forth in Paragraph 8 of the Patent CDA, all information disclosed pursuant to the MCDA and the Patent CDA shall be subject to the provisions of this Article 10.

10.7 Survival. The obligations and prohibitions contained in this Article 10 shall survive the expiration or termination of this Agreement for a period of ten (10) years.

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ARTICLE 11
REPRESENTATIONS AND WARRANTIES; COVENANTS

11.1 Mutual Representations and Warranties. Theravance and GSK each represents and warrants to the other as of the Effective Date that:

11.1.1 Such Party (a) is a company duly organized, validly existing, and in good standing under the Laws of its incorporation; (b) is duly qualified as a corporation and in good standing under the Laws of each jurisdiction where its ownership or lease of property or the conduct of its business requires such qualification, where the failure to be so qualified would have a material adverse effect on its financial condition or its ability to perform its obligations hereunder; (c) has the requisite corporate power and authority and the legal right to conduct its business as now conducted and hereafter contemplated to be conducted; (d) has or will obtain all necessary licenses, permits, consents, or approvals from or by, and has made or will make all necessary notices to, all Governmental Authorities having jurisdiction over such Party, to the extent required for the ownership and operation of its business, where the failure to obtain such licenses, permits, consents or approvals, or to make such notices, would have a material adverse effect on its financial condition or its ability to perform its obligations hereunder; and (e) is in compliance with its charter documents;

11.1.2 The execution, delivery and performance of this Agreement by such Party and all instruments and documents to be delivered by such Party hereunder (a) are within the corporate power of such Party; (b) have been duly authorized by all necessary or proper corporate action; (c) do not conflict with any provision of the charter documents of such Party; (d) will not, to the best of such Party's knowledge, violate any law or regulation or any order or decree of any court of governmental instrumentality; (e) will not violate or conflict with any terms of any indenture, mortgage, deed of trust, lease, agreement, or other instrument to which such Party is a party, or by which such Party or any of its property is bound, which violation would have a material adverse effect on its financial condition or on its ability to perform its obligations hereunder;

11.1.3 This Agreement has been duly executed and delivered by such Party and constitutes a legal, valid and binding obligation of such Party, enforceable against such Party in accordance with its terms, except as such enforceability may be limited by applicable insolvency and other Laws affecting creditors' rights generally, or by the availability of equitable remedies; and

11.1.4 All of its employees, officers, and consultants have executed agreements or have existing obligations under law requiring assignment to such Party of all Inventions made by such individuals during the course of and as the result of their association with such Party, and obligating such individuals to maintain as confidential such Party's Confidential Information.

11.1.5 Nothing contained in this Agreement shall give a Party the right to use the Confidential Information received from the other Party in connection with any activity other than Development and Commercialization of a Pooled Compound or Collaboration Product consistent with this Agreement.

11.1.6 As soon as practicably possible after the Effective Date, the Parties will each deliver to each other a schedule listing (i) in the case of GSK, GSK Patents as of the date of signature of this Agreement and (ii) in the case of Theravance, Theravance Patents as of the date of signature of this Agreement.

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11.2 Additional GSK Representations and Warranties. GSK further represents, warrants and covenants to Theravance that:

11.2.1 It has utilized its own scientific, marketing and distribution expertise and experience to analyze and evaluate both the scientific and commercial value of this collaboration and has solely relied on such analysis and evaluations in deciding to enter into this Agreement;

11.2.2 Neither GSK nor any of its Affiliates is a party to or otherwise bound by any oral or written contract or agreement that will result in any Person obtaining any interest in, or that would give to any Person any right to assert any claim in or with respect to, any of GSK's rights granted under this Agreement;

11.2.3 There is no claim or demand of any person or entity pertaining to, or any proceeding which is pending or, to the knowledge of GSK, threatened, that challenges the rights of Theravance in respect of any GSK Know-How or GSK Patents, or that claims that any default exists under any license with respect to any GSK Know-How or GSK Patents to which GSK is a party, except where such claim, demand or proceeding would not materially and adversely affect the ability of GSK to carry out its obligations under this Agreement; and

11.2.4 Having carried out and completed diligent searches in relation to the GSK Patents, and other than as disclosed to Theravance's counsel by GSK's counsel, GSK is not aware, nor has been made aware, of any conflict or likely future conflict with the intellectual property rights of any Third Party with respect to GSK Patents.

11.3 Additional Theravance Representations and Warranties. Theravance further represents and warrants to GSK as of the Effective Date that:

11.3.1 Having carried out and completed diligent searches in relation to the Theravance Patents, and other than as disclosed to GSK's counsel by Theravance's counsel, Theravance is not aware, nor has been made aware, of any conflict or likely future conflict with the intellectual property rights of any Third Party with respect to Theravance Patents.

Theravance has not received notice from any Third Party of a claim that an issued patent of such Third Party would be infringed by the manufacture, distribution, marketing or sale of the Collaboration Products under this Agreement;

11.3.2 To Theravance's knowledge, the Theravance Patents are not subject to any pending or any threatened re-examination, opposition, interference or litigation proceedings;

11.3.3 Theravance has not received notice from any Third Party of a claim asserting the invalidity, misuse, unregisterability or unenforceability of any of the Theravance Patents, or challenging its right to use or ownership of any of the Theravance Patents or the Theravance Know-How, or making any adverse claim of ownership thereof;

11.3.4 Theravance has not received notice from any Third Party that any trade secrets or other intellectual property rights of such Third Party would be misappropriated by the development and reduction to practice of the Theravance Patents and Theravance Know-How; and

11.3.5 Theravance has, up to and including the Effective Date, furnished GSK with all material information requested by GSK concerning the quality, toxicity, safety and/or efficacy concerns that may materially impair the utility and/or safety of the Compound or Collaboration Products.

11.4 Covenants. Each Party hereby covenants and agrees during the Term that it shall carry out its obligations or activities hereunder in accordance with (i) the terms of this Agreement and (ii) all applicable Laws.

11.5 Disclaimer of Warranty. Subject to the specific warranties and representations given under Sections 11.1 through and including 11.3, nothing in this Agreement shall be construed as a warranty or representation by either Party (i) that any Collaboration Product made, used, sold or otherwise disposed of under this Agreement is or will be free from infringement of patents, copyrights, trademarks, industrial design or other intellectual property rights of any Third Party, (ii) regarding the effectiveness, value, safety, non-toxicity, patentability, or non-infringement of any patent technology, the Collaboration Products or any information or results provided by either Party pursuant to this Agreement or (iii) that any Collaboration Product will obtain Marketing Authorization or appropriate pricing approval. Each Party explicitly accepts all of the same as experimental and for development purposes, and without any express or implied warranty from the other Party. EXCEPT AS OTHERWISE EXPRESSLY SET FORTH IN THIS AGREEMENT, EACH PARTY EXPRESSLY DISCLAIMS, WAIVES, RELEASES, AND RENOUNCES ANY WARRANTY, EXPRESS OR IMPLIED, INCLUDING, WITHOUT LIMITATION, ANY WARRANTY OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE.

ARTICLE 12
INDEMNIFICATION

12.1 Indemnification by GSK. Subject to Sections 12.4 and 13.2, GSK shall defend, indemnify and hold harmless Theravance and its Affiliates and each of their officers, directors, shareholders, employees, successors and assigns from and against all Claims of Third Parties, and all associated Losses, to the extent arising out of (a) GSK's negligence or willful misconduct in performing any of its obligations under this Agreement, (b) a breach by GSK of any of its representations, warranties, covenants or agreements under this Agreement, or (c) the manufacture, use, handling, storage, marketing, sale, distribution or other disposition of Collaboration Products by GSK, its Affiliates, agents or sublicensees, except to the extent such losses result from the negligence or willful misconduct of Theravance.

12.2 Indemnification by Theravance. Subject to Sections 12.4 and 13.2, Theravance shall defend, indemnify and hold harmless GSK and its Affiliates and each of their officers, directors, shareholders, employees, successors and assigns from and against all Claims of Third Parties, and all associated Losses, to the extent arising out of (a) Theravance's negligence or willful misconduct in performing any of its obligations under this Agreement, or (b) a breach by Theravance of any of its representations, warranties, covenants or agreements under this Agreement.

12.3 Procedure for Indemnification.

12.3.1 Notice. Each Party will notify promptly the other in writing if it becomes aware of a Claim (actual or potential) by any Third Party (a "Third Party Claim") for which indemnification may be sought by that Party and will give such information with respect thereto as the other Party shall reasonably request. If any proceeding (including any governmental investigation) is instituted involving any Party for which such Party may seek an indemnity under Section 12.1 or 12.2, as the case may be (the "Indemnified Party"), the Indemnified Party shall not make any admission or statement concerning such Third Party Claim, but shall promptly notify the other Party (the "Indemnifying Party") orally and in writing and the Indemnifying Party and Indemnified Party shall meet to discuss how to respond to any Third Party Claims that are the subject matter of such proceeding. The Indemnifying Party shall not be obligated to indemnify the Indemnified Party to the extent any admission or statement made by the Indemnified Party or any failure by such Party to notify the Indemnifying Party of the claim materially prejudices the defense of such claim.

12.3.2 Defense of Claim. If the Indemnifying Party elects to defend or, if local procedural rules or laws do not permit the same, elects to control the defense of a Third Party Claim, it shall be entitled to do so provided it gives notice to the Indemnified Party of its intention to do so within forty-five (45) days after the receipt of the written notice from the Indemnified Party of the potentially indemnifiable Third Party Claim (the "Litigation Condition"). The Indemnifying Party expressly agrees the Indemnifying Party shall be responsible for satisfying and discharging any award made to or settlement reached with the Third Party pursuant to the terms of this Agreement without prejudice to any provision in this Agreement or right at law which will allow the Indemnifying Party subsequently to recover any amount from the Indemnified Party to the extent the liability under such settlement or award was attributable to the Indemnified Party. Subject to compliance with the Litigation Condition, the Indemnifying Party shall retain counsel reasonably acceptable to the Indemnified Party (such acceptance not to be unreasonably withheld, refused, conditioned or delayed) to represent the Indemnified Party and shall pay the reasonable fees and expenses of such counsel related to such proceeding. In any such proceeding, the Indemnified Party shall have the right to retain its own counsel, but the fees and expenses of such counsel shall be at the expense of the Indemnified Party. The Indemnified Party shall not settle any claim for which it is seeking indemnification without the prior written consent of the Indemnifying Party which consent shall not be unreasonably withheld, refused, conditioned or delayed. The Indemnified Party shall, if requested by the Indemnifying Party, cooperate in all reasonable respects in the defense of such claim that is being managed and/or controlled by the Indemnifying Party. The Indemnifying Party shall not, without the written consent of the Indemnified Party (which consent shall not be unreasonably withheld, refused, conditioned or delayed), effect any settlement of any pending or threatened proceeding in which the Indemnified Party is, or based on the same set of facts could have been, a party and indemnity could have been sought hereunder by the Indemnified Party, unless such settlement includes an unconditional release of the Indemnified Party from all liability on claims that are the subject matter of such proceeding. If the Litigation Condition is not met, then neither Party shall have the right to control the defense of such Third Party Claim and the Parties shall cooperate in and be consulted on the material aspects of such defense at each Party's own expense; provided that if the Indemnifying Party does not satisfy the Litigation Condition, the Indemnifying Party may at any subsequent time during the pendency of the relevant Third Party Claim irrevocably elect, if permitted by local procedural rules or laws, to defend and/or to control the defense of the relevant Third Party Claim so long as the Indemnifying Party also agrees to pay the reasonable fees and costs incurred by the Indemnified Party in relation to the defense of such Third Party Claim from

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the inception of the Third Party Claim until the date the Indemnifying Party assumes the defense or control thereof.

12.4 Assumption of Defense. Notwithstanding anything to the contrary contained herein, an Indemnified Party shall be entitled to assume the defense of any Third Party Claim with respect to the Indemnified Party, upon written notice to the Indemnifying Party pursuant to this Section 12.4, in which case the Indemnifying Party shall be relieved of liability under Section 12.1 or 12.2, as applicable, solely for such Third Party Claim and related Losses.

12.5 Insurance. During the Term of this Agreement and for a period of [***] after the termination or expiration of this Agreement, GSK shall obtain and/or maintain at its sole cost and expense, product liability insurance (including any self-insured arrangements) in amounts which are reasonable and customary in the U.S. pharmaceutical industry for companies of comparable size and activities. Such product liability insurance or self-insured arrangements shall insure against all liability, including without limitation personal injury, physical injury, or property damage arising out of the manufacture, sale, distribution, or marketing of the Collaboration Products. GSK shall provide written proof of the existence of such insurance to Theravance upon request.

ARTICLE 13
PATENTS

13.1 Prosecution and Maintenance of Patents.

13.1.1 Prosecution and Maintenance of Theravance Patents. Theravance shall have the exclusive right and the obligation to (subject to Theravance's election not to file, prosecute, or maintain pursuant to Section 13.1.4) or to cause its licensors to, prepare, file, prosecute in a diligent manner (including without limitation by conducting interferences, oppositions and reexaminations or other similar proceedings), maintain (by timely paying all maintenance fees, renewal fees, and other such fees and costs required under applicable Laws) and extend all Theravance Patents and related applications. Theravance shall consult with GSK prior to abandoning any Theravance Patents or related applications that are material to the matters contemplated in this Agreement. Theravance shall regularly advise GSK of the status of all pending applications, including with respect to any hearings or other proceedings before any Governmental Authority, and, at GSK's request, shall provide GSK with copies of all documentation concerning such applications, including all correspondence to and from any Governmental Authority. Subject to Section 2.3.3, Theravance shall solicit GSK's advice and review of the nature and text of such patent applications and important prosecution matters related thereto in reasonably sufficient time prior to filing thereof, and Theravance shall take into account GSK's reasonable comments related thereto; provided, however, Theravance shall have the final decision authority with respect to any action relating to any Theravance Patent. Within the priority period, Theravance shall agree with GSK regarding the countries outside the United States in which

corresponding applications should be filed ("OUS Filings"). It is presumed that a corresponding Patent Cooperation Treaty ("PCT") application will be filed unless otherwise agreed by the Parties. Theravance shall effect filing of all such applications within the priority period.

Subject to Section 13.1.4, Theravance shall be responsible for all costs incurred in the United States in connection with procuring Theravance Patents, including applications preparation, filing fees, prosecution, maintenance and all costs associated with reexamination and

interference proceedings in the United States Patent and Trademark Office and United States Courts. GSK shall be responsible for all out-of-pocket costs and expenses incurred by Theravance after the Effective Date that are associated with procuring corresponding OUS patents, including without limitation PCT and individual country filing fees, translations, maintenance, annuities, and protest proceedings. For all such OUS patent applications, Theravance will invoice GSK on a quarterly basis beginning April 1, 2003, setting forth all such expenses incurred. Reimbursement will be made to Theravance in United States Dollars within thirty (30) days of receipt of the invoice by GSK. GSK will within thirty (30) days following the Effective Date identify the GSK representative that should receive such invoices from Theravance. GSK's obligations hereunder are in addition to any obligations of GSK under Section 13.1.2(b)

13.1.2 Prosecution and Maintenance of Patents Covering Joint Inventions.

(a) For Patents covering Joint Inventions, the Parties shall agree, without prejudice to ownership, which Party shall have the right to prepare and file a priority patent application, and prosecute such application(s) and maintain any patents derived therefrom, with the Parties equally sharing the reasonable out-of-pocket costs for the preparation, filing, prosecution and maintenance of such priority patent application. The Parties will reasonably cooperate to obtain any export licenses that might be required for such activities. Should the agreed upon Party elect not to prepare and/or file any such priority patent application, it shall (i) provide the other Party with written notice as soon as reasonably possible after making such election but in any event no later than sixty (60) days before the other Party would be faced with a possible loss of rights, (ii) give the other Party the right, at the other Party's discretion and sole expense, to prepare and file the priority application(s), and (iii) offer reasonable assistance in connection with such preparation and filing at no cost to the other Party except for reimbursement of reasonable out-of-pocket expenses incurred by the agreed upon Party in rendering such assistance. The other Party, at its discretion and cost, shall prosecute such application(s) and maintain sole ownership of any patents derived therefrom.

(b) Within nine (9) months after the filing date of a priority application directed to an Invention, the Party filing the priority application shall request that the other Party identify those non-priority, non-PCT ("foreign") Countries in which the other Party desires that the Party filing the priority application file corresponding patent applications. Within thirty (30) days after receipt by the other Party of such request from the Party filing the priority application, the other Party shall provide to the Party filing the priority application a written list of such foreign countries in which the other Party wishes to effect corresponding foreign patent applications filings. The Parties will then attempt to agree on the particular countries in which such applications will be filed, provided that in the event agreement is not reached, the application will be filed in the disputed as well as the non-disputed countries (all such filings referred to hereinafter as "Designated Foreign Filings"). Thereafter, within twelve (12) months after the filing date of the priority application, the Party filing the priority application shall effect all such Designated Foreign Filings. It is presumed unless otherwise agreed in writing by the Parties, that a corresponding PCT application will be filed designating all PCT member countries. As to each Designated Foreign Filing and PCT application, GSK shall bear the costs for the filing and prosecutions of such Designated Foreign Filing and PCT application (including entering national phase in all agreed countries). Should the Party filing the priority application not agree to file or cause to be filed a Designated Foreign Filing, the other Party will have the right to effect such Designated Foreign Filing in its name.

(c) Should the filing Party pursuant to Section 13.1.2(a) or 13.1.2(b) no longer wish to prosecute and/or maintain any patent application or patent resulting from such application, the filing Party shall (i) provide the non-filing Party with written notice of its wish no later than sixty (60) days before the patent or patent applications would otherwise become abandoned, (ii) give the non-filing Party the right, at the non-filing Party's election and sole expense, to prosecute and/or maintain such patent or patent application, and (iii) offer reasonable assistance to the non-filing Party in connection with such prosecution and/or maintenance at no cost to the non-filing Party except for reimbursement of the filing Party's reasonable out-of-pocket expenses incurred by the filing Party in rendering such assistance.

(d) Should the non-filing Party pursuant to Section 13.1.2(c) not wish to incur its share of preparation, filing, prosecution and/or maintenance costs for a patent application filed pursuant to Section 13.1.2(a) or 13.1.2(b) or patents derived therefrom, it shall (i) provide the filing Party with written notice of its wish, and (ii) continue to offer reasonable assistance to the filing Party in connection with such prosecution or maintenance at no cost to the filing Party except for reimbursement of the non-filing Party's reasonable out-of-pocket expenses incurred by the non-filing Party in rendering such assistance.

(e) The Parties agree to cooperate in the preparation and prosecution of all patent applications filed under Section 13.1.2(a) and 13.1.2(b), including obtaining and executing necessary powers of attorney and assignments by the named inventors, providing relevant technical reports to the filing Party concerning the invention disclosed in such patent application, obtaining execution of such other documents which shall be needed in the filing and prosecution of such patent applications, and, as requested, updating each other regarding the status of such patent applications.

13.1.3 Prosecution and Maintenance of GSK Patents. GSK shall have the exclusive right and obligation to (subject to GSK's election not to file, prosecute or maintain pursuant to Section 13.1.5) or to cause its licensors to, prepare, file and prosecute in a diligent manner (including without limitation by conducting interferences, oppositions and reexaminations or other similar proceedings), maintain (by timely paying all maintenance fees, renewal fees, and other such fees and costs required under applicable Laws) and extend all GSK Patents and related applications. Consistent with Section 2.3.3, GSK will consult with Theravance within the priority period for any patent application that is material to this Agreement concerning Countries in which corresponding

applications will be filed. In the event the Parties can not agree, GSK shall make the final decision. GSK shall consult with Theravance prior to abandoning any GSK Patents or related applications that are material to the matters contemplated in this Agreement. GSK shall regularly advise Theravance of the status of all pending applications, including with respect to any hearings or other proceedings before any Governmental Authority, and, at Theravance's request, shall provide Theravance with copies of documentation relating to such applications, including all correspondence to and from any Governmental Authority. Subject to Section 2.3.3, GSK shall solicit Theravance's advice and review of the nature and text of such patent applications and important prosecution matters related thereto in reasonably sufficient time prior to filing thereof, and GSK shall take into account Theravance's reasonable comments relating thereto; provided that GSK shall have the final decision authority with respect to any action relating to a GSK Patent.

13.1.4 GSK Step-In Rights. If Theravance elects not to file, prosecute or maintain the Theravance Patents or claims encompassed by such Theravance Patents necessary for GSK to exercise its rights hereunder in any Country, Theravance shall give GSK notice thereof within a reasonable period prior to allowing such Theravance Patents, or such claims encompassed by

such Theravance Patents, to lapse or become abandoned or unenforceable, and GSK shall thereafter have the right, at its sole expense, to prepare, file, prosecute and maintain such Theravance Patents in such Country.

13.1.5 Theravance Step-In Rights. If GSK elects not to file, prosecute or maintain the GSK Patents or claims encompassed by such GSK Patents necessary for Theravance to exercise its license rights hereunder in any Country, GSK shall give Theravance notice thereof within a reasonable period prior to allowing such GSK Patents, or such claims encompassed by such GSK Patents, to lapse or become abandoned or unenforceable, and Theravance shall thereafter have the right, at its sole expense, to prepare, file, prosecute and maintain such GSK Patents in such Country. In the event that GSK elects not to file, prosecute or maintain GSK Patents or claims that would affect the royalty owed Theravance pursuant to Section 6.3, GSK shall reimburse Theravance for all out-of-pocket expenses incurred by Theravance in connection with Theravance exercising its Step-In Rights under this Section.

13.1.6 Execution of Documents by Agents. Each of the Parties shall execute or have executed by its appropriate agents such documents as may be necessary to obtain, perfect or maintain any Patent Rights filed or to be filed pursuant to this Agreement, and shall cooperate with the other Party so far as reasonably necessary with respect to furnishing all information and data in its possession reasonably necessary to obtain or maintain such Patent Rights.

13.1.7 Patent Term Extensions. The Parties shall cooperate with each other in gaining patent term extension where applicable to Collaboration Products. The Joint Steering Committee shall determine which patents the Parties shall endeavor to have extended. All filings for such extension will be made by the Party to whom the patent is assigned after consultation with the other Party. In the event the Joint Steering Committee can not agree, the Party who is assigned the compound patent covering the LABA in the Collaboration Product will make the decision.

13.2 Patent Infringement.

13.2.1 Infringement Claims. With respect to any and all Claims instituted by Third Parties against Theravance or GSK or any of their respective Affiliates for patent infringement involving the manufacture, use, license, marketing or sale of a Collaboration Product in the United States during the Term (each, a "Patent Infringement Claim") as applicable, Theravance and GSK will assist one another and cooperate in the defense and settlement of such Patent Infringement Claims at the other Party's request.

13.2.2 Infringement of Theravance Patents. In the event that Theravance or GSK becomes aware of actual or threatened infringement of a Theravance Patent during the Term, that Party will promptly notify the other Party in writing (a "Patent Infringement Notice"). Theravance will have the right but not the obligation to bring an infringement action against any Third Party. If Theravance elects to pursue such infringement action, Theravance shall be solely responsible for the costs and expenses associated with such action and retain all recoveries. During the Term, in the event that Theravance does not undertake such an infringement action, upon Theravance's written consent, which shall not be unreasonably withheld, refused, conditioned or delayed, GSK shall be permitted to do so in Theravance's or the relevant Theravance Affiliate's name and on Theravance's or the relevant Theravance Affiliate's behalf. If Theravance has consented to an infringement action but GSK is not recognized by the applicable court or other relevant body as having the requisite standing to pursue such action, then GSK may join Theravance as party-plaintiff. If GSK elects to pursue such infringement action, Theravance may be represented in

such action by attorneys of its own choice and its own expense with GSK taking the lead in such action.

13.2.3 Infringement of GSK Patents. In the event that GSK or Theravance becomes aware of actual or threatened infringement of a GSK Patent during the Term, that Party will promptly notify the other Party in writing. GSK will have the right but not the obligation to bring an infringement action against any Third Party. If GSK elects to pursue such infringement action, GSK shall be solely responsible for the costs and expenses associated with such action and retain all recoveries. During the Term, in the event that GSK does not undertake such an infringement action, upon GSK's written consent, which shall not be unreasonably withheld, refused, conditioned or delayed, Theravance shall be permitted to do so in GSK's or the relevant GSK Affiliate's name and on GSK's or the relevant GSK Affiliate's behalf. If GSK has consented to an infringement action but Theravance is not recognized by the applicable court or other relevant body as having the requisite standing to pursue such action, then Theravance may join GSK as a party-plaintiff. If Theravance elects to pursue such infringement action, GSK may be represented in such action by attorneys of its own choice and at its own expense, with Theravance taking the lead in such action.

13.3 Notice of Certification. GSK and Theravance each shall immediately give notice to the other of any certification filed under the "U.S. Drug Price Competition and Patent Term Restoration Act of 1984" (or its foreign equivalent) claiming that a GSK Patent or a Theravance Patent is invalid or that infringement will not arise from the manufacture, use or sale of any Collaboration Product by a Third Party ("Hatch-Waxman Certification").

13.3.1 Notice. If a Party decides not to bring infringement proceedings against the entity making such a certification, such Party shall give notice to the other Party of its decision not to bring suit within twenty-one (21) days after receipt of notice of such certification.

13.3.2 Option. Such other Party then may, but is not required to, bring suit against the entity that filed the certification.

13.3.3 Name of Party. Any suit by Theravance or GSK shall either be in the name of Theravance or in the name of GSK, (or any Affiliate) or jointly in the name of Theravance and GSK (or any Affiliate) , as may be required by law.

13.4 Assistance. For purposes of this Article 13, the Party not bringing suit shall execute such legal papers necessary for the prosecution of such suit as may be reasonably requested by the Party bringing suit. The out-of-pocket costs and expenses of the Party bringing suit shall be reimbursed first out of any damages or other monetary awards recovered in favor of GSK or Theravance. The documented out-of-pocket costs and expenses of the other Party shall then be reimbursed out of any remaining damages or other monetary awards. The Party initiating and prosecuting the action to completion will retain any remaining damages or other monetary awards following such reimbursements.

13.5 Settlement. No settlement or consent judgment or other voluntary final disposition of a suit under this Article may be entered into without the joint written consent of GSK and Theravance (which consent will not be withheld unreasonably).

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ARTICLE 14
TERM AND TERMINATION

14.1 Term and Expiration of Term. Unless otherwise mutually agreed to by the Parties, this Agreement shall commence on the Effective Date and shall end upon expiration of the Term, unless terminated early as contemplated hereunder. Unless terminated early under this Article 14, the licenses granted by Theravance to GSK pursuant to Section 2.1 with respect to the Collaboration Products shall be considered fully-paid and shall become non-exclusive upon expiration of the Term.

14.2 Termination for Material Breach. Either Party may, without prejudice to any other remedies available to it at law or in equity, terminate this Agreement subject to Section 14.10 in the event that the other Party (as used in this subsection, the "Breaching Party") shall have materially breached or defaulted in the performance of any of its obligations. The Breaching Party shall, if such breach can be cured, have sixty (60) days after written notice thereof was provided to the Breaching Party by the non-breaching Party to remedy such default (or, if such default cannot be cured within such 60-day period, the Breaching Party must commence and diligently continue actions to cure such default during such 60-day period). Any such termination shall become effective at the end of such 60-day period unless the Breaching Party has cured any such breach or default prior to the expiration of such 60-day period (or, if such default is capable of being cured but cannot be cured within such 60-day period, the Breaching Party has commenced and diligently continued actions to cure such default provided always that, in such instance, such cure must have occurred within one hundred twenty (120) days after written notice thereof was provided to the Breaching Party by the non-breaching Party to remedy such default).

14.3 GSK Right to Terminate Development of a Collaboration Product. On a Collaboration Product-by-Collaboration Product basis, and at any time during Development and prior to First Commercial Sale of the applicable Collaboration Product, GSK shall have the right to terminate Development of such Collaboration Product (upon the provision of ninety (90) days written notice) for reasons of Technical Failure or Commercial Failure following communication to, and assessment of such proposed termination by, the Joint Project Committee and Joint Steering Committee (in which case such Collaboration Product shall be referred to as a "Terminated Development Collaboration Product"). For the avoidance of doubt, a "Terminated Development Collaboration Product" can be any of the following: (i) a Pooled Compound and/or (ii) a Replacement Compound and/or (iii) a single agent LABA Collaboration Product and/or (iv) a LABA/ICS Combination Product and/or (v) an Other Combination Product.

14.4 GSK Right to Terminate Commercialization of a Collaboration Product Following First Commercial Sale. On a Collaboration Product-by-Collaboration Product basis, and on a Country-by-Country basis, at any time after First Commercial Sale of the applicable Collaboration Product in such country, GSK shall have the right to terminate Commercialization of such Collaboration Product (upon the provision of one hundred and eighty (180) days written notice) for reasons of Commercial Failure or Technical Failure and following communication to, and assessment of such proposed termination by, the Joint Project Committee and Joint Steering Committee (in which case, such Collaboration Product shall be referred to as a "Terminated Commercialized Collaboration Product"). For the avoidance of doubt, a Terminated Commercialized Collaboration Product can be any of the following: (i) a single agent LABA Collaboration Product and/or (ii) a LABA/ICS Combination Product and/or (iii) an Other Combination Product.

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14.5 Termination of the Agreement Due to Discontinuation of Development of All Collaboration Products and All Pooled Compounds . Any time following the third anniversary of the Effective Date, either Party may terminate this Agreement, subject to Section 14.10, upon the provision of ninety (90) days written notice if Development of all Collaboration Products and all Pooled Compounds have been discontinued for Technical Failure and/or Commercial Failure. Notwithstanding the foregoing, in the event that (i) Development of all Collaboration Products and all Pooled Compounds (including any Replacement Compounds) has ceased for at least three (3) months, (ii) all such termination and/or discontinuance decisions have been validly approved by the Joint Steering Committee, and (iii) both parties have provided written notice to the other that such party does not intend to contribute any additional Replacement Compounds to the collaboration, then either Party shall be entitled to terminate this Agreement, subject to Section 14.10, upon the provision of ninety (90) days written notice.

14.6 Effects of Termination.

14.6.1 Effect of Termination for Material Breach.

(a) Material Breach by Theravance. In the event this Agreement is terminated by GSK pursuant to Section 14.2 for material breach by Theravance, all licenses granted by Theravance to GSK under this Agreement shall survive, subject to GSK's continued obligation to pay milestones and royalties to Theravance hereunder. In such event, GSK shall retain all of its rights to bring an action against Theravance for damages and any other available remedies in law or equity, and shall be entitled to set-off against any monies payable to Theravance hereunder all amounts GSK reasonably believes constitute its damages incurred by such breach, subject to final judicial resolution or settlement. Also, Theravance shall, at its sole expense, promptly transfer to GSK copies of all data, reports, records and materials in its possession or control that relate to the Collaboration Products that contain a GSK Compound and return to GSK, or destroy at GSK's request, all relevant records and materials in its possession or control containing Confidential Information of GSK (provided that Theravance may keep one copy of such Confidential Information of GSK for archival purposes only in accordance with Section 10.1).

(b) Material Breach By GSK. In the event that this Agreement is terminated by Theravance pursuant to Section 14.2 for material breach by GSK:

(i) GSK shall [***] promptly transfer to Theravance copies of all data, reports, records and materials in its possession or control that relate to the Theravance Compounds and return to Theravance, or destroy at Theravance's request, all relevant records and materials in its possession or control containing Confidential Information of Theravance (provided that GSK may keep one copy of such Confidential Information of Theravance for archival purposes only in accordance with Section 10.1).
(ii) GSK shall [***] transfer to Theravance, or shall cause its designee(s) to transfer to Theravance, ownership of all regulatory filings made or filed for any Collaboration Product that contains a LABA as a single agent (to the extent that any are held in GSK's or such designee(s)'s name), and such transfer to be as permitted by applicable Laws and regulations; otherwise GSK shall cooperate as necessary to permit Theravance to exercise its rights hereunder.
(iii) Theravance shall have the non-exclusive right to access, use and cite in any regulatory filing any data relating to formulation of a LABA/ICS Combination Product or Other Combination Product.

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(iv) All of the provisions of Section [***] shall apply for the benefit of Theravance for any Collaboration Product for which [***] at the effective date of such termination, subject to the limitations set forth in Section [***].
(v) All the provisions of Section [***] shall apply for any Collaboration Product that has been Commercialized at the effective date of such termination.
(vi) All licenses granted by Theravance to GSK with respect to the applicable Theravance Compounds under this Agreement shall terminate.
(vii) Theravance shall retain all of its rights to bring an action against GSK for damages and any other available remedies in law or equity, and shall be entitled to set-off against any monies payable to GSK hereunder all amounts Theravance reasonably believes constitute its damages incurred by such breach, subject to final judicial resolution or settlement.

14.6.2 Effect of Termination by GSK of Certain Terminated Development Collaboration Product(s). If GSK terminates a Collaboration Product at any time after initiation of the first Phase III Study concerning such Collaboration Product, and Development of all other Collaboration Products and Pooled Compounds have been discontinued for Technical Failure and/or Commercial Failure, then at the sole election of Theravance, the following shall apply:

(a) GSK shall [***] promptly transfer to Theravance copies of all data, reports, records and materials in its possession or control that relate to the Theravance Compounds and return to Theravance, or destroy at Theravance's request, all relevant records and materials in its possession or control containing Confidential Information of Theravance (provided that GSK may keep one copy of such Confidential Information of Theravance for archival purposes only in accordance with Section 10.1).

(b) GSK shall [***] transfer to Theravance, or shall cause its designee(s) to transfer to Theravance, ownership of all regulatory filings made or filed for the Terminated Development Collaboration Product that contains a LABA as a single agent (to the extent that any are held in GSK's or such designee(s)'s name), such transfer to be as permitted by any Third Party licenses or other such prior rights and applicable Laws and regulations, otherwise GSK shall cooperate as necessary to permit Theravance to exercise its rights hereunder.

(c) Theravance shall have the non-exclusive right to access, use and cite in any regulatory filing any data relating to formulation of a LABA/ICS Combination Product or Other Combination Product.

(d) For such Terminated Development Collaboration Product (excluding the non-LABA component of a LABA/ICS Combination Product and/or Other Combination Product [***] GSK shall grant to Theravance the appropriate licenses in the Territory under the GSK Patents, GSK Inventions and GSK Know-How related to the LABA compound, dry powder inhaler formulation, metered dose inhaler formulation, [***] to enable Theravance to Develop and Commercialize the Terminated Development Collaboration Product in the Field.

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(e) In the event of a Change in Control of Theravance prior to termination by GSK under Section 14.3, none of the provisions under this Section 14.6.2 shall survive as they pertain to any Collaboration Product other than a Theravance compound as a single agent LABA.

14.6.3 Effect of Termination by GSK of a Terminated Commercialized Collaboration Product. The provisions of this Section 14.6.3 shall apply only where a Terminated Commercialised Collaboration Product is not being or has not been replaced by an alternative Collaboration Product under this Agreement and provided that, in GSK's reasonable good faith judgment, exercise by Theravance alone or with a Third Party of any of the rights or activities contemplated by this Section 14.6.3 [***] will not materially damage GSK's continued development, regulatory or commercial use of such GSK Property. GSK will use reasonable efforts to assist Theravance in locating a mutually acceptable Third Party to carry out the rights and activities contemplated by this Section 14.6.3. Subject to the foregoing:

(a) If GSK terminates a Collaboration Product after First Commercial Sale of such Collaboration Product in one or more of the Major Market Countries, Theravance shall have the right in its sole discretion and at its sole expense, for its own benefit or together with a Third Party, to commercialize such Terminated Commercialized Collaboration Product in any of such Major Market Countries where it has been terminated.

(b) If GSK terminates Commercialization of a Collaboration Product in all Countries of the Territory following the first commercial sale in any Country of the Territory, Theravance shall have the right in its sole discretion and at it sole expense, for its own benefit or together with a Third Party, to Commercialise such Terminated Commercialized Collaboration Product in the Territory.

(c) Subject to Section 14.6.3(a), GSK shall grant to Theravance the appropriate licenses in the Territory (or in the case of a Country-by-Country termination, in the relevant Countries) under the GSK Patents, GSK Inventions and GSK Know-How to enable Theravance by itself and/or through one or more Third Party sublicensees, to Commercialize the Terminated Commercialized Collaboration Product. GSK shall also provide Theravance with all such information and data which GSK, or its sublicensees reasonably have available in such Country, for example access to drug master file, clinical data and the like, and shall execute such instruments as Theravance reasonably requests, to enable Theravance to obtain the appropriate regulatory approvals to market such Terminated Commercialized Collaboration Product in such Country and for any other lawful purpose related to Commercialization of such Terminated Commercialized Collaboration Product in such Country.

(d) In the event Theravance exercises its rights under Section 14.6.3(a) and (b) above, the Parties shall negotiate in good faith a separate commercialization and supply agreement for such Terminated Commercialized Collaboration Product which shall ensure that, based on commercially reasonable terms (recognizing the Commercialized status of the Terminated Commercialized Collaboration Product), Theravance has a continuous and uninterrupted

supply of such Terminated Commercialized Collaboration Product, for a suitable period of time to enable Theravance to secure Third Party supply.

(e) In the event of a Change in Control of Theravance, prior to termination by GSK under Section 14.4, none of the provisions under this Section 14.6.3 shall survive as they pertain to any Collaboration Product other than to a single agent LABA, its [***] formulation, [***]; and the Parties will meet in good faith to explore other potential commercial options e.g. use of one or more Third Parties for possible continued Commercialisation of such Terminated Commercialised Collaboration Product if it is a LABA/ICS Combination Product or Other Combination Product.

(f) If GSK, in the exercise of its reasonable good faith judgment, determines that exercise by Theravance alone or with a Third Party of any of the rights or activities contemplated by this Section 14.6.3 will materially damage GSK's continued development, regulatory or commercial use of GSK Property, then GSK shall grant to Theravance, for such Terminated Commercialized Collaboration Product (excluding the non-LABA component of a Combination Product and/or Other Combination Product [***]) the appropriate licenses in the Territory under the GSK Patents, GSK Inventions and GSK Know-How related to the LABA compound, [***] formulation, [***] as applicable, to enable Theravance to Commercialize a product containing the LABA Compound in the Field.

14.6.4 Effect of Termination of the Agreement Due to Discontinuation of Development Prior to First Commercial Sale of All Collaboration Products and All Pooled Compounds. In the event that the Agreement is terminated pursuant to Section 14.5, the following shall occur:

(i) Return of Materials. GSK shall [***] promptly transfer to Theravance copies of all data, reports, records and materials in its possession or control that relate to the Theravance Compounds and return to Theravance, or destroy at Theravance's request, all relevant records and materials in its possession or control containing Confidential Information of Theravance (provided that GSK may keep one copy of such Confidential Information of Theravance for archival purposes only in accordance with Section 10.1). Theravance shall, at its sole expense, promptly transfer to GSK copies of all data, reports, records and materials in its possession or control that relate to the GSK Compounds and return to GSK, or destroy at GSK's request, all relevant records and materials in its possession or control containing Confidential Information of GSK (provided that Theravance may keep one copy of such Confidential Information of GSK for archival purposes only in accordance with Section 10.1).

(ii) Transfer of Regulatory Filings. GSK shall [***] transfer to Theravance, or shall cause its designee(s) to transfer to Theravance, ownership of all regulatory filings made or filed for any Terminated Development Collaboration Product (to the extent that any are held in GSK's or such designee(s)'s name), but only where [***] and such transfer to be as permitted by applicable Laws and regulations. GSK, at its sole discretion, shall also give due consideration to transferring to Theravance any additional regulatory filings for a Terminated Development Collaboration Product which contains a [***].

(iii) License Rights. All licenses granted by Theravance to GSK with respect to the Collaboration Products under this Agreement shall terminate.

(iv) Stock Return. GSK shall return to Theravance all available formulated and API stocks that contain a Theravance Compound and which are then held by GSK or cause

such API stocks to be provided to Theravance if held by a vendor or other Third Party on behalf of GSK.

(v) Limitations on Further Development by GSK. GSK shall not be permitted to continue or re-initiate clinical Development of any GSK Compound that is both a Terminated Collaboration Product and a LABA in the Field for a period of [***]after the date of such termination.

14.7 License Rights. Except as otherwise provided herein in, all licenses granted hereunder relating to Terminated Collaboration Products shall terminate. Also the Parties accept that nothing provided for in this Article 14 or elsewhere in this Agreement, grants any licenses (whether exclusive, semi-exclusive or otherwise) from GSK to Theravance for any (i) GSK Compound (ii) GSK Invention (ii) GSK Know How and (iv) GSK Patents, except for those rights essential and specific to enable Theravance to exercise those rights and carry out those activities contemplated under Section 14.6 above.

14.8 Milestone Payments. Neither Party shall be obligated to make a Development Milestone payment under Section 6.2 which is triggered by an event occurring after the effective date of termination of this Agreement with respect to a Collaboration Product.

14.9 Subsequent Royalties. If after termination of this Agreement either Party subsequently Develops and Commercializes any [***] for the treatment / prophylaxis of respiratory diseases which (i) was [***] or (ii) was [***], it will pay to the other Party a royalty on Net Sales of any such products at the rate of [***] for a single-agent product and [***] for the first combination product for a period of [***] from the date of launch on a Country-by-Country basis; provided, however, that this royalty shall not apply to any compound or product (including new product line extensions and/or re-formulation work) where the original compound or product is, as of the date of signature of this Agreement, already Commercialized.

14.10 Accrued Rights; Surviving Obligations. Termination, relinquishment or expiration of this Agreement for any reason shall be without prejudice to any rights that shall have accrued to the benefit of any Party prior to such termination, relinquishment or expiration. Such termination, relinquishment or expiration shall not relieve any Party from obligations which are expressly or by implication intended to survive termination, relinquishment or expiration of this Agreement, including without limitation Article 10, and shall not affect or prejudice any provision of this Agreement which is expressly or by implication provided to come into effect on, or continue in effect after, such termination, relinquishment or expiration.

ARTICLE 15
LIMITATIONS RELATING TO THERAVANCE EQUITY SECURITIES

15.1 Purchases of Equity Securities. So long as this Agreement remains in effect and for a period of one (1) year thereafter, except as permitted by Section 15.2, or as otherwise agreed in writing by Theravance, GSK and its Affiliates will not (and will not assist or encourage others to) directly or indirectly in any manner:

15.1.1 acquire, or agree to acquire, directly or indirectly, alone or in concert with others, by purchase, gift or otherwise, any direct or indirect beneficial ownership (within the meaning of Rule l3d-3 under the Securities Exchange Act of 1934, as amended (the “Exchange

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Act”)) or interest in any securities or direct or indirect rights, warrants or options to acquire, or securities convertible into or exchangeable for, any securities of Theravance;

15.1.2 make, or in any way participate in, directly or indirectly, alone or in concert with others, any “solicitation” of “proxies” to vote (as such terms are used in the proxy rules of the Securities and Exchange Commission (the “SEC”) promulgated pursuant to Section 14 of the Exchange Act); provided, however, that the prohibition in this Section 15.1.2 shall not apply to solicitations exempted from the proxy solicitation rules by Rule 14a-2 under the Exchange Act as such Rule 14a-2 is in effect as of the date hereof;

15.1.3 form, join or in any way participate in a “group” within the meaning of Section 13(d)(3) of the Exchange Act with respect to any voting securities of Theravance;

15.1.4 acquire or agree to acquire, directly or indirectly, alone or in concert with others, by purchase, exchange or otherwise, (i) any of the assets, tangible or intangible, of Theravance or (ii) direct or indirect rights, warrants or options to acquire any assets of Theravance, except for such assets as are then being offered for sale by Theravance;

15.1.5 enter into any arrangement or understanding with others to do any of the actions restricted or prohibited under Sections 15.1.1, 15.1.2, 15.1.3, or 15.1.4.

15.1.6 otherwise act in concert with others, to seek to offer to Theravance or any of its stockholders any business combination, restructuring, recapitalization or similar transaction to or with Theravance or otherwise seek in concert with others, to control, change or influence the management, board of directors or policies of Theravance or nominate any person as a director of Theravance who is not nominated by the then incumbent directors, or propose any matter to be voted upon by the stockholders of Theravance.

15.2 Exceptions for Purchasing Securities of Theravance. Nothing herein shall prevent GSK or its Affiliates (or in the case of Section 15.2.4, their employees) from:

15.2.1 purchasing the Series E Preferred Stock of Theravance on the Effective Date as contemplated herein.

15.2.2 purchasing additional equity securities of Theravance after the Effective Date if after such purchase GSK and its Affiliates would own in the aggregate no greater percent of the total voting power of all voting securities of Theravance then outstanding than GSK together with its Affiliates owned immediately after purchase of the Series E Preferred Stock on the Effective Date.

15.2.3 acquiring securities of Theravance issued in connection with stock splits or recapitalizations or on exercise of pre-emptive rights afforded to Theravance stockholders generally.

15.2.4 purchasing securities of Theravance pursuant to (i) a pension plan established for the benefit of GSK's employees, (ii) any employee benefit plan of GSK, (iii) any stock portfolios not controlled by GSK or any of its Affiliates that invest in Theravance among other companies, or (iv) following an initial public offering of Theravance common stock, for the account of a GSK employee in such employee's personal capacity.

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15.2.5 acquiring securities of another biotechnology or pharmaceutical company that beneficially owns any of Theravance's securities.

15.2.6 acquiring equity securities of Theravance without any limitation following initiation by a third party of an unsolicited tender offer to purchase twenty percent (20%) or more of any class or service of Theravance's publicly traded voting securities (a "Hostile Tender Offer"); provided that the exception provided by this Section 15.2.6 shall be limited to the classes or series of Theravance's securities that are the subject of the Hostile Tender Offer; provided, further, that, in the event that either (a) such Hostile Tender Offer is terminated or expires without the purchase of at least ten percent (10%) of any class or series of Theravance's publicly traded voting securities by such third party, or (b) the Theravance Board of Directors subsequently recommends that such offer be accepted, then following the date of such termination, expiration or recommendation the acquisitions by GSK and/or its Affiliates under this Section 15.2.6 prior to the events described in clauses (a) and (b) above shall not be considered a breach by GSK of the provisions of Section 15.2 as long as GSK, at its option, either:

(i) divests (or cause to be divested) in one or more open-market transactions such number of shares of Theravance's securities acquired by it and its Affiliates pursuant to this Section 15.2.6 such that after such divestiture GSK and its Affiliates would own in the aggregate no greater percent of the total voting power of all voting securities of Theravance then outstanding than GSK together with its Affiliates owned immediately prior to the commencement of such Hostile Tender Offer, any such divestiture to be completed as expeditiously as possible consistent with applicable securities laws and regulations and in a manner intended to shield GSK and its Affiliates from liability for recovery of short swing profits under Section 16 of the Exchange Act and the rules promulgated thereunder; or

(ii) enters into a voting agreement, proxy or similar arrangement pursuant to which (A) all Theravance voting securities acquired pursuant to this Section 15.2.6 are voted on all matters to be voted on by holders of Theravance voting securities, including, but not limited to, in favor of any transaction involving a proposed Change in Control (as defined below) of Theravance in the same proportion as the outstanding Theravance voting securities not held by GSK or any GSK Affiliate are voted, (B) no Theravance voting securities beneficially owned by GSK and/or any Affiliate abstain from such a vote, and (C) no dissenter or appraisal or similar rights are exercised with respect to any vote relating to a Change in Control of Theravance.

15.3 Voting. Until the date of an initial public offering of Theravance common stock, GSK shall ensure that all outstanding Theravance voting securities beneficially owned by GSK and/or any GSK Affiliate are voted for management's nominees to the Board of Directors of Theravance to the extent not inconsistent with Section 2.8 of the Investors' Rights Agreement.

15.4 Theravance Voting Securities Transfer Restrictions.

15.4.1 So long as this Agreement remains in effect and for a period of one (1) year thereafter, neither GSK nor any of its Affiliates shall dispose of beneficial ownership of Theravance voting securities except (i) pursuant to a bona fide public offering registered under the Securities Act of either Theravance voting securities or securities exchangeable or exercisable for Theravance voting securities (in which the securities are broadly distributed and GSK does not select the purchasers); or (ii) pursuant to Rule 144 under the Securities Act (provided that if Rule 144(k) is available, such transfer nevertheless is within the volume limits and manner of sale requirements applicable to non-144(k) transfers under Rule 144); or (iii) in transactions that to the knowledge of GSK do not, directly or indirectly, result in any person or group owning or having

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the right to acquire or intent to acquire beneficial ownership of Theravance voting securities with aggregate voting power of five percent or more of the aggregate voting power of all outstanding Theravance voting securities.

15.4.2 Notwithstanding the foregoing, the restrictions on disposition under Section 15.4.1 shall not apply if, as a result of such disposition, (A) no filing by any Person (including, but not limited to GSK or any of its Affiliates) shall be required under any Law (including but not limited to the Exchange Act) that would identify GSK or any of its Affiliates as the seller of the securities, and (B) neither GSK nor any of its Affiliates (or any transferee thereof) would be required by Law (including without limitation the disclosure requirements of the Securities Act of 1933, as amended (the "Securities Act"), and the Exchange Act) to make any public announcement of the transfer or disposition.

15.4.3 So long as this Agreement remains in effect and for a period of one (1) year thereafter, neither GSK nor any of its Affiliates may make any public disclosure of any holdings of or disposition of beneficial ownership of Theravance voting securities unless such disclosure is approved in advance in writing by Theravance, such approval not to be unreasonably withheld or delayed. Notwithstanding the foregoing, no consent of Theravance shall be required for any filing that GSK or any of its Affiliates is required to make under applicable Law in any jurisdiction, including without limitation any

Form 144 under the Securities Act, any Form 4 under the Exchange Act, or any Schedule 13D or 13G or any amendments thereto under the Exchange Act; provided that, prior to making any such filings, GSK shall use reasonable efforts to (i) to provide Theravance notice and a copy of such proposed filings and (ii) consult with Theravance on the content of such filings.

15.5 Termination of Purchase Restrictions. The limitations on purchase of equity securities set forth in Section 15.1 shall terminate immediately upon a transaction or series of related transactions following a Change in Control of Theravance.

ARTICLE 16
MISCELLANEOUS

16.1 Relationship of the Parties. Each Party shall bear its own costs incurred in the performance of its obligations hereunder without charge or expense to the other except as expressly provided in this Agreement. Neither Party shall have any responsibility for the hiring, termination or compensation of the other Party's employees or for any employee benefits of such employee. No employee or representative of a Party shall have any authority to bind or obligate the other Party to this Agreement for any sum or in any manner whatsoever, or to create or impose any contractual or other liability on the other Party without said Party's approval. For all purposes, and notwithstanding any other provision of this Agreement to the contrary, GSK's legal relationship under this Agreement to Theravance shall be that of independent contractor. This Agreement is not a partnership agreement and nothing in this Agreement shall be construed to establish a relationship of co-partners or joint venturers between the Parties.

16.2 Registration and Filing of This Agreement. To the extent, if any, that either Party concludes in good faith that it or the other Party is required to file or register this Agreement or a notification thereof with any Governmental Authority, including without limitation the U.S. Securities and Exchange Commission, the Competition Directorate of the Commission of the European Communities or the U.S. Federal Trade Commission, in accordance with Law, such Party shall inform the other Party thereof. Should both Parties jointly agree that either of them is

required to submit or obtain any such filing, registration or notification, they shall cooperate, each at its own expense, in such filing, registration or notification and shall execute all documents reasonably required in connection therewith. In such filing, registration or notification, the Parties shall request confidential treatment of sensitive provisions of this Agreement, to the extent permitted by Law. The Parties shall promptly inform each other as to the activities or inquiries of any such Governmental Authority relating to this Agreement, and shall reasonably cooperate to respond to any request for further information there from on a timely basis.

16.3 Force Majeure. The occurrence of an event which materially interferes with the ability of a Party to perform its obligations or duties hereunder which is not within the reasonable control of the Party affected or any of its Affiliates, not due to malfeasance by such Party or its Affiliates, and which could not with the exercise of due diligence have been avoided (each, a "Force Majeure Event"), including, but not limited to, an injunction, order or action by a Governmental Authority, fire, accident, labor difficulty, strike, riot, civil commotion, act of God, inability to obtain raw materials, delay or errors by shipping companies or change in law, shall not excuse such Party from the performance of its obligations or duties under this Agreement, but shall merely suspend such performance during the continuation of the Force Majeure. The Party prevented from performing its obligations or duties because of a Force Majeure Event shall promptly notify the other Party of the occurrence and particulars of such Force Majeure and shall provide the other Party, from time to time, with its best estimate of the duration of such Force Majeure Event and with notice of the termination thereof. The Party so affected shall use Diligent Efforts to avoid or remove such causes of nonperformance as soon as is reasonably practicable. Upon termination of the Force Majeure Event, the performance of any suspended obligation or duty shall promptly recommence. The Party subject to the Force Majeure Event shall not be liable to the other Party for any direct, indirect, consequential, incidental, special, punitive, exemplary or other damages arising out of or relating to the suspension or termination of any of its obligations or duties under this Agreement by reason of the occurrence of a Force Majeure Event, provided such Party complies in all material respects with its obligations under this Section 16.3.

16.4 Governing Law. This Agreement shall be construed, and the respective rights of the Parties determined, according to the substantive law of the State of Delaware notwithstanding the provisions governing conflict of laws under such Delaware law to the contrary, except matters of intellectual property law which shall be determined in accordance with the intellectual property laws relevant to the intellectual property in question.

16.5 Attorneys' Fees and Related Costs. In the event that any legal proceeding is brought to enforce or interpret any of the provisions of this Agreement, the prevailing party shall be entitled to recover its reasonable attorneys' fees, court costs and expenses of litigation whether or not the action or proceeding proceeds to final judgment.

16.6 Assignment. This Agreement may not be assigned by either Party without the prior written consent of the other Party; provided, however that either Party may assign this Agreement, in whole or in part, to any of its Affiliates if such Party guarantees the performance of this Agreement by such Affiliate; and provided further that either Party may assign this Agreement to a successor to all or substantially all of the assets of such Party whether by merger, sale of stock, sale of assets or other similar transaction. This Agreement shall be binding upon, and subject to the terms of the foregoing sentence, inure to the benefit of the Parties hereto, their permitted successors, legal representatives and assigns.

16.7 Notices. All demands, notices, consents, approvals, reports, requests and other communications hereunder must be in writing and will be deemed to have been duly given only if

delivered personally, by facsimile with confirmation of receipt, by mail (first class, postage prepaid), or by overnight delivery using a globally-recognized carrier, to the Parties at the following addresses:

Theravance: Theravance, Inc.
901 Gateway Boulevard
South San Francisco, CA 94080
Facsimile: 650-827-8683
Attn: Senior Vice President, Commercial Development

GSK: Glaxo Group Limited
Glaxo Wellcome House
Berkeley Avenue
Greenford
Middlesex UB6 0NN
United Kingdom
Attn: Company Secretary
Facsimile: 011 44 208-047-6912

With a copy to: GlaxoSmithKline plc
980 Great West Road
Brentford
Middlesex
TW8 9GS
United Kingdom
Attn: Corporate Law
Facsimile: 011 44 208-047-6912

and with a copy to: Brentford
Middlesex
TW8 9GS
United Kingdom
Attn: Vice President, Worldwide Business Development
Facsimile: 011 44 208-990-8142

or to such other address as the addressee shall have last furnished in writing in accord with this provision to the addressor. All notices shall be deemed effective upon receipt by the addressee.

16.8 Severability. In the event of the invalidity of any provisions of this Agreement or if this Agreement contains any gaps, the Parties agree that such invalidity or gap shall not affect the validity of the remaining provisions of this Agreement. The Parties will replace an invalid provision or fill any gap with valid provisions which most closely approximate the purpose and economic effect of the invalid provision or, in case of a gap, the Parties' presumed intentions. In the event that the terms and conditions of this Agreement are materially altered as a result of the preceding sentences, the Parties shall renegotiate the terms and conditions of this Agreement in order to resolve any inequities. Nothing in this Agreement shall be interpreted so as to require either Party to violate any applicable laws, rules or regulations.

16.9 Headings. The headings used in this Agreement have been inserted for convenience of reference only and do not define or limit the provisions hereof.

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16.10 Waiver. Any term or condition of this Agreement may be waived at any time by the Party that is entitled to the benefit thereof, but no such waiver shall be effective unless set forth in a written instrument duly executed by or on behalf of the Party waiving such term or condition. No waiver by any Party of any term or condition of this Agreement, in any one or more instances, shall be deemed to be or construed as a waiver of the same or any other term or condition of this Agreement on any future occasion. Except as expressly set forth in this Agreement, all rights and remedies available to a Party, whether under this Agreement or afforded by law or otherwise, will be cumulative and not in the alternative to any other rights or remedies that may be available to such Party.

16.11 Entire Agreement. This Agreement (including the exhibits and schedules hereto) constitutes the entire agreement between the Parties hereto with respect to the within subject matter and supersedes all previous agreements and understandings between the Parties, whether written or oral. This Agreement may be altered, amended or changed only by a writing making specific reference to this Agreement and signed by duly authorized representatives of Theravance and GSK.

16.12 No License. Nothing in this Agreement shall be deemed to constitute the grant of any license or other right in either Party, to or in respect of any Collaboration Product, patent, trademark, Confidential Information, trade secret or other data or any other intellectual property of the other Party, except as expressly set forth herein.

16.13 Third Party Beneficiaries. None of the provisions of this Agreement shall be for the benefit of or enforceable by any Third Party, including without limitation any creditor of either Party hereto. No such Third Party shall obtain any right under any provision of this Agreement or shall by reasons of any such provision make any Claim in respect of any debt, liability or obligation (or otherwise) against either Party hereto.

16.14 Counterparts. This Agreement may be executed in any two counterparts, each of which, when executed, shall be deemed to be an original and both of which together shall constitute one and the same document.

16.15 Single Closing Condition. The obligation of each Party to consummate the transaction contemplated hereby is subject to the satisfaction of the following condition (the "Closing Condition"): All filings under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 and any other similar competition or merger control laws that are necessary in any jurisdiction with respect to the transaction contemplated hereby shall have been made and any required waiting period under such laws shall have expired or been terminated and any Governmental Authority that has power under or authority to enforce such laws shall have, if applicable, approved, cleared or decided neither to initiate proceedings or otherwise intervene in respect of the transaction contemplated hereby nor to refer the transaction to any other competent Governmental Authority. Each Party shall use good faith efforts to take, or cause to be taken, all actions, and to do, or cause to be done, and to assist and cooperate with the other party in doing, all things necessary, proper or advisable to consummate and make effective the transaction contemplated by this Agreement, including, but not limited to satisfaction of the Closing Condition and each Party shall keep the other Party reasonably apprised of the status of matters relating to the completion of same. In connection with the foregoing, the Parties hereby agree to negotiate in good faith to make as soon as practicable any modification or amendment to this Agreement or any agreement related hereto that is required by the United States Federal Trade Commission, Department of Justice or equivalent Governmental Authority, provided that no Party shall be required to agree to any modification or amendment that, in the reasonable opinion of such Party's external legal or financial counsel, would be adverse to such Party. This Agreement may be terminated by either Party upon written notice any time after June 1, 2003 if the transactions contemplated by this Agreement shall not have been consummated by June 1, 2003 due to failure to satisfy the Closing Condition; provided, however, that the terminating Party shall not have breached in any material respect its obligations under this Agreement in any manner that shall have been the proximate cause of, or resulted in, the failure to satisfy the Closing Condition or otherwise to consummate the transactions contemplated by this Agreement by such date.

IN WITNESS WHEREOF, Theravance and GSK, by their duly authorized officers, have executed this Agreement on November 14, 2002.

THERAVANCE, INC.	GLAXO GROUP LIMITED
By: /s/ Rick E Winningham	By: /s/ Jean-Pierre Garnier
Rick E Winningham	Jean-Pierre Garnier
Chief Executive Officer	Chief Executive Officer

Schedule 1.19

Criteria for Theravance New Compounds and Replacement Compounds

1. [***] patentable.
2. Potency [***].
3. [***] activity [***].
4. Selectivity [***].
5. Selectivity at [***].
6. No significant inhibition of [***].
7. Duration of agonist activity *[***]*.
8. Stable compound [***].
9. Oral bioavailability [***].
10. No significant generation [***].
11. Irritation [***].

Schedule 6.1.2

Preferred Stock Purchase Agreement

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.

November 1, 2013
(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.

November 1, 2013
(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 September 30, 2013 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.

November 1, 2013 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 September 30, 2013 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.

November 1, 2013 By: **/s/ Michael W. Aguiar**
(Date) **Name: Michael W. Aguiar**
Title: Senior Vice President, Finance and Chief Financial Officer