

Part II Organizational Action (continued)

17 List the applicable Internal Revenue Code section(s) and subsection(s) upon which the tax treatment is based ▶ **See Attachment**

Blank lined area for listing applicable Internal Revenue Code sections.

18 Can any resulting loss be recognized? ▶ **See Attachment**

Blank lined area for indicating if a resulting loss can be recognized.

19 Provide any other information necessary to implement the adjustment, such as the reportable tax year ▶ **See Attachment**

Blank lined area for providing other necessary information.

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than officer) is based on all information of which preparer has any knowledge.

Sign Here
Signature ▶ *Mike Aguilar* Date ▶ *7/15/14*
Print your name ▶ *Mike Aguilar* Title ▶ *CFO*

Paid Preparer Use Only	Print/Type preparer's name	Preparer's signature	Date	Check <input type="checkbox"/> if self-employed	PTIN
	Firm's name ▶	Firm's EIN ▶			
	Firm's address ▶	Phone no.			

THERAVANCE, INC.

EIN: 94-3265960

**ATTACHMENT TO FORM 8937, REPORT OF ORGANIZATIONAL ACTIONS
AFFECTING BASIS IN SECURITIES**

July 11, 2014

Part II, Question 14

At 5:00 P.M. Eastern Time on June 2, 2014, Theravance, Inc. (“Theravance”) distributed the ordinary shares of Theravance Biopharma, Inc. (“Biopharma”) to the stockholders of Theravance (the “Distribution”). Under the terms of the Distribution, each Theravance stockholder at 5:00 p.m. Eastern Time on May 15, 2014 (the record date for the Distribution) received one ordinary share of Biopharma for every 3.5 shares of Theravance common stock held by such stockholder. The Biopharma ordinary shares began trading on the NASDAQ Stock Market on June 3, 2014.

Part II, Question 15

The portion of the Distribution that is treated as a return of capital (as described in Question 16 below) will reduce a stockholder’s basis in their Theravance common stock.

Part II, Question 16

The Distribution will be treated as a dividend (the “Dividend Portion”) for U.S. federal income tax purposes to the extent of the portion of Theravance’s earnings and profits for the 2014 taxable year allocable to the Distribution. Theravance will not be able to calculate its earnings and profits for the 2014 taxable year prior to the conclusion of the 2014 taxable year. Theravance will inform stockholders of its 2014 earnings and profits when such calculation is completed in 2015.

The portion of the Distribution that exceeds the Dividend Portion will be treated as a non-taxable return of capital to the extent of a stockholder’s tax basis in Theravance common stock and any remaining excess treated as a capital gain. The portion treated as a non-taxable return of capital will reduce a stockholder’s basis in its Theravance common stock.

A Theravance stockholder that receives an ordinary share of Biopharma in the Distribution will have an adjusted tax basis in such ordinary share of Biopharma equal to the fair market value of such share at the time of the Distribution.

For purposes of this calculation, the amount of the Distribution will be determined based upon the fair market value of the ordinary shares of Biopharma. However, there is no definitive guidance under existing U.S. federal income tax law as to the proper method or approach for determining the fair market value of stock for such purposes. In general, for U.S. federal income tax purposes, fair market value is the price at which property would change hands between a

willing buyer and willing seller, neither being under any compulsion to buy or sell and both having reasonable knowledge of the facts.

The approach used by Theravance was to look to the adjusted trading price of Biopharma ordinary shares as of the close of the first trading day immediately following the Distribution. Given that the Distribution occurred after market close on June 2, 2013, the June 3, 2014 adjusted closing price was used to determine the fair market value of the Biopharma ordinary shares distributed. Under this approach, the fair market value of one ordinary share of Biopharma at the time of the Distribution was \$23.51.

Please note that some brokerage houses might not use the information provided in this document, and the information contained herein is only provided as an example of one potential approach. There are various ways in which brokerage houses may calculate the fair market value of the Distribution, and hence a stockholder's tax basis in its Biopharma shares and thus the amount of the reduction, if any, in the tax basis in its Theravance shares. Such approaches include, but are not limited to the use of the June 3, 2014 opening, closing, mean or weighted-average prices. Please contact your individual brokerage house to determine which calculation it may use and contact your own tax advisor for additional information and clarification.

Part II, Question 17

The tax treatment of the tax basis of the Theravance common stock is based on Sections 301 and 316 of the Internal Revenue Code of 1986, as amended.

Part II, Question 18

Theravance stockholders will not be permitted to recognize losses for U.S. federal income tax purposes upon the Distribution. Notwithstanding the foregoing, gain or loss will be recognized by Theravance stockholders with respect to any cash received in lieu of fractional ordinary shares of Biopharma.

Part II, Question 19

The Distribution took place on June 2, 2014. Therefore, the adjustments to tax basis in the common stock of Theravance will be reported in calendar year 2014.