

TARGACEPT, INC.

CORPORATE GOVERNANCE GUIDELINES

The Board of Directors (the “**Board**”) of Targacept, Inc. (the “**Company**”) has adopted the following Corporate Governance Guidelines (the “**Guidelines**”) to assist it in the exercise of its duties and responsibilities and to serve the best interests of the Company and its stockholders. The Guidelines should be applied in a manner consistent with the Company’s certificate of incorporation and bylaws, each as amended and in effect from time to time, and applicable law. The Board may modify or make exceptions to the Guidelines from time to time in its discretion and consistent with its duties to the Company and its stockholders.

I. Director Responsibilities

- a. Oversee Management of the Company. The principal responsibility of the directors is to oversee the management of the Company. In fulfilling this responsibility, the Board shall, among other things:
 - i. review and approve fundamental operating, financial and other corporate plans, strategies and objectives;
 - ii. provide advice and assistance to the Company’s senior management;
 - iii. evaluate the performance of the Company and its senior management and take appropriate action based on such evaluations;
 - iv. through the Board’s Compensation Committee, evaluate the Company’s compensation programs periodically and determine the compensation of its senior management; and
 - v. promote a corporate environment conducive to fiscal accountability, high ethical standards and compliance with applicable laws and regulations.
- b. Exercise Business Judgment. Directors are expected to exercise their business judgment to act in a manner they reasonably believe to be the best interest of the Company and its stockholders.
- c. Understand the Company and its Business. Directors are expected to become and remain informed about the Company and its business, including the Company’s principal operational and financial objectives, strategies, plans and results and the material risks and uncertainties that affect the Company’s business and prospects.
- d. Board, Stockholder and Committee Meetings. Directors are expected to attend Board meetings, meetings of committees on which they serve and the annual meetings of stockholders and to devote the time necessary to fulfill their responsibilities.

II. Director Qualification Standards

- a. Independence. Subject to any exception permitted by NASDAQ rules, a majority of the members of the Board shall qualify as independent directors as defined under NASDAQ rules. The Board shall be responsible for determining the independence of directors.
- b. Size of the Board. The Governance and Nominating Committee shall be responsible for considering and recommending changes to the size of the Board from time to time.
- c. Other Directorships. Directors are expected to advise the Chairman of the Board and the Chairman of the Governance and Nominating Committee prior to accepting an invitation to serve on another public company board or prior to changing principal occupation. Service on boards and/or committees of, and employment by, other organizations shall comply with the conflict of interest provisions of the Company's Code of Business Conduct and Ethics.
- d. Retirement Age. Generally, a director will retire from the Board following his or her 72nd birthday as of the end of his or her then-current term. The Board may make exceptions to this requirement under special circumstances.
- e. Tenure. The Board does not believe it should establish term limits. Term limits could result in the loss of service of directors who have developed increasingly valuable insight into the Company and its operations that benefits the full Board, as well as the Company and its stockholders.
- f. Lead Director. In the event that the Chairman of the Board is not an independent director, the Governance and Nominating Committee may nominate an independent director to serve as "Lead Director," who, if nominated, shall be approved by a majority of the independent directors.

The Lead Director, if appointed, shall:

- i. chair any meeting of the independent directors in executive session;
- ii. facilitate communications between other members of the Board and the Chairman of the Board and the Chief Executive Officer; provided that each director may communicate directly with the Chairman of the Board and with the Chief Executive Officer;
- iii. work with the Chairman of the Board in the preparation of the agenda for each Board meeting and in determining the need for special meetings of the Board; and
- iv. otherwise consult with the Chairman of the Board and/or the Chief Executive Officer on matters relating to corporate governance and Board performance.

Unless the Governance and Nominating Committee or the Board determines otherwise, an individual will serve as Lead Director for no more than three consecutive years.

- g. Separation of the Offices of Chairman and Chief Executive Officer. Currently, the Board's policy is that the offices of Chairman of the Board and Chief Executive Officer should be separate.

- h. Selection of New Director Candidates. Except where the Company is legally required by law, contract or otherwise to provide a third party with the ability to nominate a director or directors, the Governance and Nominating Committee shall be responsible for (i) identifying individuals qualified to become directors, consistent with criteria approved by the Board, and (ii) recommending to the Board the persons to be nominated for election as directors at any meeting of stockholders and the persons to be elected by the Board to fill any vacancies on the Board. Director nominees shall be considered for recommendation by the Governance and Nominating Committee in accordance with these Guidelines (including, without limitation, the criteria set forth in Attachment A) and the policies and principles in its charter. It is expected that the Governance and Nominating Committee will have direct input in the fulfillment of its duties from the Chairman of the Board, the Chief Executive Officer and, if appointed, the Lead Director.
- i. Extending the Invitation to a New Director Candidate to Join the Board. An invitation to join the Board or to be nominated to join the Board should be extended by the Chairman of the Board, on behalf of the Board, and the Chairman of the Governance and Nominating Committee, on behalf of that Committee. Unauthorized approaches to prospective directors can be premature, embarrassing and harmful.

III. Board Meetings

- a. Selection of Agenda Items. The Chairman of the Board shall establish the agenda for each Board meeting in consultation with the Chief Executive Officer. Any director may suggest the inclusion of agenda items or may raise a matter at any Board meeting that is not on the agenda for that meeting.
- b. Frequency and Length of Meetings. The Chairman of the Board, in consultation with the other members of the Board, shall determine the frequency and length of Board meetings; provided that the Board shall meet at least four (4) times annually. Management presentations should be scheduled in a manner that ensures sufficient time for the Board to discuss and, if applicable, take action on agenda items.
- c. Advance Distribution of Materials. Information that is important to the Board's understanding of the business to be conducted at a Board or committee meeting should generally be distributed in writing to the directors, and directors are expected to review these materials, in advance of the meeting. The Board acknowledges that certain items to be discussed at a Board or committee meeting may be of an extremely confidential or time-sensitive nature and that the distribution of materials on these matters prior to meetings may not be appropriate or practicable.
- d. Executive Sessions. Generally, the agenda for each regularly scheduled Board meeting should include a meeting of the independent directors in executive session. In any event, the independent directors shall meet in executive session at least twice a year to consider the performance of the Chief Executive Officer and other matters. The independent directors will meet in executive session at other times at the request of any independent director. The director who presides at these meetings shall be the Chairman of the Board or, if appointed, the Lead Director.

- e. Attendance of Non-Directors at Board Meetings. Senior management of the Company is welcomed at Board meetings. In addition, the Board encourages senior management of the Company from time to time to bring other Company personnel into Board meetings who, based on personal knowledge or involvement, can provide additional insight into the matters being considered. However, the Board reserves the right to exclude any or all non-directors from any meeting at any time.

IV. Board Committees

- a. Key Committees. The Board shall have an Audit Committee, a Compensation Committee and a Governance and Nominating Committee. Each such committee shall have a charter that has been approved by the Board. The Board may, from time to time, establish or maintain additional committees as it considers necessary or appropriate.
- b. Assignment and Rotation of Committee Members. The Governance and Nominating Committee shall be responsible for recommending to the Board the directors to be appointed to each committee. The Board shall appoint members to its committees and fill vacancies in such committees.
- c. Committee Charters. In accordance with NASDAQ rules, the respective charters of the Audit Committee, the Compensation Committee and the Governance and Nominating Committee shall set forth the purposes and responsibilities of the committees as well as qualifications for committee membership, procedures for member appointment and removal, structure and operations and reporting to the Board. The Board shall, from time to time as it considers appropriate, review and reassess the adequacy of each charter and make appropriate changes.
- d. Selection of Agenda Items. The chairman of each committee, in consultation with the committee members, the Chief Executive Officer or other members of senior management, shall develop the committee's agenda for its meetings. The agenda for each committee meeting shall be furnished to all directors.
- e. Frequency and Length of Committee Meetings. The chairman of each committee, in consultation with the committee members, shall determine the frequency and length of the committee meetings consistent with any requirements set forth in the committee's charter.

V. Director Access to Management and Independent Advisors

- a. Access to Officers and Employees. Directors have full access to officers and other employees of the Company. Each director shall use his or her judgment to ensure that any contact with officers or other employees is not disruptive to the business operations of the Company.
- b. Access to Independent Advisors. The Board and each committee have the power to hire and consult with independent legal, financial or other advisors for the benefit of the Board or such committee, as they may deem necessary, without the need to obtain the approval of any officer of the Company in advance. Such independent advisors may but need not be the regular advisors to the Company. The Board or any such committee is empowered, without

further action by the Company, to cause the Company to pay the compensation of such advisors as established by the Board or any such committee.

VI. Director Compensation

- a. Role of Board and Governance and Nominating Committee. The form and amount of director compensation shall be determined by the Board in accordance with the policies and principles set forth below and upon the recommendation of the Governance and Nominating Committee. The Governance and Nominating Committee shall periodically conduct a review of the compensation of the Company's directors.
- b. Form of Compensation. The Board believes that directors should be incentivized to focus on long-term stockholder value and that including an equity component as part of director compensation helps align the interest of directors with those of the Company's stockholders.
- c. Amount of Consideration. The Company seeks to attract exceptional talent to its Board, and should provide competitive compensation to its directors for Board and committee service. The Board believes that it is appropriate for the Chairman of the Board, the Lead Director, if appointed, and the chairmen and members of the committees to receive additional compensation for their services in those positions.
- d. Employee Directors. Directors who are also employees of the Company shall generally not receive additional compensation for Board or committee service.

VII. Director Orientation and Continuing Education

- a. Director Orientation. The Board and the Company's management shall conduct a mandatory orientation program for new directors that includes meetings with key personnel.
- b. Continuing Education. The Board believes that ongoing director education is important for maintaining an effective board of directors. Accordingly, the Board encourages each director to participate in education programs, including, from time to time, more formal director education programs as may be necessary to enable him or her to better fulfill his or her duties.

VIII. Management Evaluation and Succession

- a. Evaluation of Senior Management. The Compensation Committee shall oversee the evaluation of the Company's senior management. The Compensation Committee shall determine the nature and frequency of the evaluation and the persons subject to the evaluation, shall supervise the conduct of the evaluation and shall discuss its assessments with the full Board periodically.
- b. Succession of Senior Management. The Board shall plan for succession to the position of Chief Executive Officer as well as certain other senior management positions as appropriate for the Company's size and stage of development. The Chief Executive Officer should make available upon request his or her recommendations and evaluations of potential successors, along with a review of any development plans recommended for such individuals. The Board

shall identify, and periodically review and assess, the qualities and characteristics necessary for an effective chief executive officer.

IX. Annual Performance Evaluation of the Board

The Governance and Nominating Committee shall oversee an annual self-evaluation of the Board to determine whether it and its committees are functioning effectively. The Governance and Nominating Committee shall determine the nature of the evaluation, conduct or supervise the conduct of the evaluation and report to the full Board. The Board shall then discuss the results of the evaluation and take appropriate action based on such results. The purpose of this process will be to improve the effectiveness of the Board and its committees.

X. Board Interaction with Stockholders, Institutional Investors, the Press, Customers, Etc.

The Board believes that the Chief Executive Officer, the Chief Financial Officer and their respective designees speak for the Company. Individual directors may, from time to time, meet or otherwise communicate with various constituencies that are involved with the Company. It is, however, expected that Board members would do so with the knowledge of and, absent unusual circumstances or as contemplated by the committee charters, only at the request of senior management.

The Board will give appropriate attention to written communications on important substantive issues that are submitted by stockholders, and will respond if and as appropriate. Absent unusual circumstances or as contemplated by the committee charters, the Chairman of the Board, the Lead Director, if appointed, or the Chairman of the Governance and Nominating Committee (i) shall be primarily responsible for monitoring communications from stockholders as necessary or appropriate and in reviewing, analyzing and advising with regard to such communications, and (ii) shall provide copies or summaries of such communications to the other directors and the Chief Executive Officer as he or she considers appropriate.

XI. Periodic Review of the Corporate Governance Guidelines

The Board shall, from time to time as it deems appropriate, review and reassess the adequacy of these Guidelines.

Adopted: June 16, 2004
Last modified: October 1, 2008

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Attachment A to Corporate Governance Guidelines

Criteria for Nomination as a Director

- a. General Criteria.
 - i. Nominees should have a reputation for integrity, honesty and adherence to high ethical standards.
 - ii. Nominees should have demonstrated sound judgment and should be willing and able to contribute positively to decision-making processes.
 - iii. Nominees should have a commitment to understand the Company and its industry and to regularly attend and participate in meetings of the Board and, as applicable, its committees.
 - iv. Nominees should have the interest and ability to understand sometimes conflicting interests of various constituencies, such as stockholders, employees, customers, governmental or regulatory bodies, creditors and the general public, and to act in the interests of all stockholders.
 - v. Nominees should not have, nor appear to have, a conflict of interest that would impair the nominee's ability to represent the interests of all the Company's stockholders and to fulfill the responsibilities of a director.
 - vi. Nominees shall not be discriminated against on the basis of race, religion, national origin, sex, sexual orientation, disability or any other basis proscribed by law.
- b. Application of Criteria to Existing Directors. The re-nomination of existing directors should not be viewed as automatic, but should be based on continuing qualification with these criteria and historical performance and contribution to the Board and, as applicable, its committees.
- c. Criteria for Composition of the Board. The backgrounds and qualifications of the directors considered as a group should provide a significant breadth of experience, knowledge and abilities.