

# TARGACEPT, INC.

## **Audit Committee Procedures For Handling Complaints Regarding Accounting, Internal Accounting Controls and Auditing Matters**

**Adopted: June 16, 2004  
Last Modified: July 27, 2011**

The Audit Committee of the Board of Directors of Targacept, Inc. (the “**Company**”) encourages any employee of the Company who has a complaint or concern regarding accounting internal accounting controls or auditing matters to bring such complaint or concern to its attention without fear of dismissal or retaliation of any kind. Accordingly, the Audit Committee has established the following procedures for:

- the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters; and
- the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.

### **I. Submission**

Any employee, shareholder, officer, director or other interested party who has any complaint or concern regarding any accounting, internal accounting controls or auditing matter relating to the Company (a “**Reporting Individual**”) may report such complaint or concern directly to the Audit Committee of the Board of Directors as follows:

Charles A. Blixt  
Targacept Audit Committee Chairman  
Phone: (336) 403-5913  
Email: chuckblixt@hotmail.com

Any such complaint or concern also may be reported anonymously by contacting an independent company that will forward complaints or concerns received to a designated Company representative and to the Chairman of the Audit Committee. A Reporting Individual may contact the independent company (i) by phone (1-877-679-7132), (ii) by fax (1-866-332-2699), (iii) via the web ([www.thecompliancepartners.com/targacept](http://www.thecompliancepartners.com/targacept)), (iv) by email ([targacept@signius.com](mailto:targacept@signius.com)) or (v) by U.S. mail addressed to The Compliance Partners, 8915 Knight Road, Houston, Texas 77054.

Reporting Individuals may submit a complaint or concern anonymously if they so choose. The identity of a Reporting Individual who submits a complaint or concern and does not remain anonymous will be maintained confidentially, except that his or her identity may be reported to members of the Board of Directors, members of the Company’s Executive Committee and other Company personnel who are or become responsible for investigating, evaluating, addressing or resolving the complaint or concern. Under certain circumstances, the matter that forms the basis for such complaint or concern may be required to be reported to law enforcement officials or to a Federal or state governmental or regulatory authority or disclosed to stockholders or the public. In such cases, the identity of the Reporting Individual will not be disclosed without his or her consent unless required by law, regulation or court order.

## II. Matters Covered by these Procedures

These procedures relate to complaints and concerns relating to any questionable accounting, internal accounting controls or auditing matter involving the Company. By way of example, and without limitation, these may include:

- fraud or deliberate error in the preparation, evaluation, review or audit of any financial statement of the Company;
- fraud or deliberate error in the recording and maintaining of financial records of the Company;
- weakness or deficiency in, or noncompliance with, the Company's internal accounting controls;
- misrepresentation or false statement to or by an officer or accountant regarding a matter contained in, or required to be contained in, the financial records, financial reports or audit reports of the Company;
- deviation from full and fair reporting of the Company's financial condition, results of operations or cash flow; or
- effort to mislead, deceive, coerce or fraudulently influence any internal or external accountant or auditor in connection with the preparation, examination, audit or review of any financial statement or records of the Company.

## III. Handling of Complaints

Upon receipt of any complaint or concern, the Chairman of the Audit Committee will report the matter to, and consult with, the Chief Financial Officer or such other officer of the Company as the Audit Committee may designate either generally or with respect to a particular matter (as the case may be, the "**Responsible Officer**") and the Company's general counsel or, if the Company does not have a general counsel, the Company's highest-ranking corporate counsel (as the case may be, the "**Chief Legal Officer**"). Under the oversight of the Audit Committee, the Responsible Officer will conduct a thorough investigation of the matter, summarize his or her findings and conclusions in a written report to the Audit Committee and Chief Legal Officer and promptly take, or cause to be taken, action that may be required, if any, to properly resolve the matter underlying the complaint or concern.

If the complaint or concern relates to:

- a weakness or deficiency in any of the Company's internal controls or accounting systems, the Chief Financial Officer (or other Company personnel designated by the Audit Committee) will oversee any necessary strengthening and/or correction of such weakness or deficiency;
- a misstatement, error or omission in any of the Company's financial statements, or in any report or other document filed by the Company with the Securities and Exchange Commission or other federal or state governmental or regulatory authority, the Chief Financial Officer or other Company personnel designated by the Audit Committee (in conjunction with the Chief Legal Officer, if appropriate) will oversee the prompt

correction or restatement of such financial statement, report or document and, if necessary, will cause to be filed with the Securities and Exchange Commission, or other federal or state governmental or regulatory authority, any and all amendments to any previously filed reports or documents which may be necessary to correct any such misstatement, error or omission;

- any other matter, such matter will be addressed and resolved appropriately in accordance with applicable law, regulation and accounting or auditing standards.

The Responsible Officer will keep the Chairman of the Audit Committee and the Chief Legal Officer informed of his or her findings and progress throughout this process.

Upon completion of the investigation and any necessary corrective action, the Responsible Officer will prepare and submit to the Audit Committee a final report on the matter. The report will describe in reasonable detail the complaint or concern reported, the results of the ensuing investigation, the conclusions reached and any corrective action taken. If no corrective action was taken, the report will include an explanation as to why. Unless the Reporting Individual has chosen to remain anonymous, the Responsible Officer will respond in writing to the Reporting Individual, advising such individual of the results of the investigation and of any corrective action taken or, if no such action was taken, an explanation as to why. A copy of the final report, including all related materials, and the written response to the Reporting Individual will be delivered to the Chief Legal Officer.

#### **IV. Retention of Complaints and Reports of Resulting Action**

The Chief Legal Officer will maintain a file of all complaints and concerns reported pursuant to these procedures, tracking their receipt, investigation, evaluation and resolution and the related reports issued in connection with such complaints and concerns. Except to the extent a different period is contained in any document retention policy adopted by the Company, copies of all such materials will be retained for a period of at least five years from the date on which the related complaint or concern was initially reported to the Audit Committee in accordance these procedures.

#### **V. Legal Counsel and Other Experts**

In discharging their responsibilities under these procedures, the Audit Committee and the Responsible Officer may request and obtain assistance from members of the Company's accounting, finance or legal department and may retain such independent accountants, independent legal counsel or other experts as it may deem appropriate to assist in the investigation of the complaint or reported concern, the evaluation of the matter under investigation or the determination and implementation of the appropriate remedial or corrective action. The cost of retaining any such expert will be borne by the Company.

#### **VI. Protection of Reporting Individual**

The Company will not discharge, demote, suspend, threaten, harass or in any other manner discriminate or retaliate, and it will be a violation of Company policy for any person to take any such action, against any Reporting Individual by reason of his or her having made a complaint, or having reported a concern, in good faith pursuant to and in accordance with these procedures.