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

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): November 12, 2012

TARGACEPT, INC.

(Exact name of registrant as specified in its charter)

Delaware	**000-51173**	**56-2020050**
(State or other jurisdiction of incorporation)	**(Commission File Number)**	**(IRS Employer Identification No.)**

200 East First Street, Suite 300 **Winston-Salem, North Carolina** **(Address of principal executive offices)**	**27101** **(Zip Code)**

(336) 480–2100
Registrant's telephone number, including area code

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 5.02 Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers.

(b)(c)(d) On November 12, 2012, the Board of Directors of Targacept, Inc. approved the appointment of Stephen A. Hill, M.D., as Targacept's President and Chief Executive Officer. The appointment becomes effective upon the commencement of Dr. Hill's employment with Targacept, which is expected to be on or about December 1, 2012. In addition, subject to and effective upon the commencement of Dr. Hill's employment, the Board of Directors elected Dr. Hill to the Board of Directors, to fill a current vacancy in Class II and hold office until the 2014 annual meeting of stockholders and his successor is duly elected and qualified. Dr. Hill is not expected to serve on any committee of the Board of Directors and will receive no compensation for his service on the Board of Directors. Dr. Hill's executive role with Targacept, together with his extensive experience in a broad range of senior management positions with life science companies, led to the Board of Directors' conclusion that he should join the Board of Directors when his appointment as President and Chief Executive Officer begins.

On November 14, 2012, Targacept and Dr. Hill entered into an employment agreement. By the terms of the agreement, Dr. Hill is to receive an annual base salary of not less than $500,000 and has a target bonus opportunity of up to 50% of his annual base salary or such higher amount as the compensation committee of the Board of Directors or the full Board of Directors may determine. Targacept has also granted to Dr. Hill, effective as of his first day of employment with Targacept (or, if the NASDAQ Stock Market is closed for trading on his first day, as of the first day thereafter on which the NASDAQ Stock Market is open), a nonqualified stock option to purchase 400,000 shares of Targacept's common stock at an exercise price per share equal to the closing price of Targacept's common stock on the grant date as reported by NASDAQ. The stock option, which will have a 10-year term, will vest and become exercisable as to 25% of the underlying shares on December 31, 2013 and as to the remaining underlying shares ratably thereafter on the last day of twelve (12) consecutive calendar quarters, subject in each case to Dr. Hill's continuous service with Targacept through the applicable vesting date.

The agreement also provides that, if Dr. Hill's employment is terminated by Targacept without "just cause" or if he terminates his employment for "good reason" (as such terms are defined in the agreement), he is entitled to receive cash severance, payable monthly, equal to his then current base salary for 12 months. If a termination by Targacept without just cause or if a termination by Dr. Hill for good reason occurs within 12 months after, or in connection with but prior to, a "change in control" (as defined in the agreement) of Targacept, he is instead entitled to receive cash severance, payable monthly, equal to the sum of his then current base salary and a prorated portion of his then current target annual bonus for 18 months, as well as acceleration of vesting for all unvested stock options (or restricted stock or other equity-based awards) held by him at the time of termination. In addition, in either case, he is entitled to continuation for a specified period of certain employee benefits, as well as outplacement services. Receipt of any of these payments and benefits is contingent on the delivery by Dr. Hill of a release and waiver of legal claims related to the employment relationship.

The description of Dr. Hill's employment agreement with Targacept included in this Current Report on Form 8-K is qualified in its entirety by reference to the full text of the

agreement, which is attached as Exhibit 10.1 (and includes as an exhibit thereto the form of agreement evidencing the stock option described above) and incorporated herein by reference.

Dr. Hill, age 54, previously served as president and chief executive officer of Solvay Pharmaceuticals, Inc., a pharmaceutical company, from April 2008 until its acquisition by Abbott Laboratories in December 2010. Prior to Solvay, he served as president, chief executive officer and director of ArQule, Inc., a pharmaceutical company, from April 1999 to March 2008. Previously, he held several leadership positions with F. Hoffmann-La Roche Ltd., including Global Head of Clinical Development, and served for seven years with the National Health Service in the United Kingdom in General and Orthopedic Surgery. Most recently, Dr. Hill served as president and chief executive officer of QUE Oncology, an unincorporated initiative among academic institutions, from March 2012 to November 2012 and as president and chief executive officer of 21st Century Biodefense, a biodefense company, from March 2011 to December 2011. He currently serves as non-executive Chairman of the Board of Directors of each of Novelos Therapeutics, Inc. and Audeo Oncology Inc. Dr. Hill is a Fellow of the Royal College of Surgeons of England and holds degrees in medicine and surgery from St. Catherine's College at Oxford University.

There are no arrangements or understandings between Dr. Hill and any other persons pursuant to which he was appointed as the President and Chief Executive Officer and to the Board of Directors of Targacept. There are no family relationships between Dr. Hill and any director, executive officer or person nominated or chosen by Targacept to become a director or an executive officer. There is no information with respect to Dr. Hill required to be disclosed pursuant to Item 404(a) of Regulation S-K.

Upon Dr. Hill joining Targacept, the Office of the Chairman, comprised of Mark Skaletsky, Chairman of Targacept's Board of Directors, Jeffrey P. Brennan, Targacept's Senior Vice President, Business and Commercial Development and Chief Business Officer, Alan A. Musso, C.P.A., C.M.A., Targacept's Senior Vice President, Finance and Administration, Chief Financial Officer and Treasurer, and Peter A. Zorn, Esq., Targacept's Senior Vice President, Legal Affairs, General Counsel and Secretary, which was formed in May 2012 upon the departure of Targacept's former President and Chief Executive Officer, will be dissolved.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits

Exhibit Number	Description
10.1	Employment Agreement dated November 14, 2012 by and between Targacept, Inc. and Dr. Stephen A. Hill, including the form of nonqualified stock option agreement attached as an exhibit thereto

SIGNATURES

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

TARGACEPT, INC.

Date: November 16, 2012

/s/ Peter A. Zorn

Peter A. Zorn
Senior Vice President, Legal Affairs, General Counsel and Secretary

EXHIBIT INDEX

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Exhibit 10.1

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (this "**Agreement**") is made effective as of November 14, 2012 (the "**Effective Date**") by and between Targacept, Inc., a Delaware corporation ("**Employer**"), and Dr. Stephen A. Hill, an individual resident of Georgia ("**Employee**");

RECITALS:

WHEREAS, Employer considers the availability of Employee's services to be important to the management and conduct of Employer's business and desires to secure the continued availability of Employee's services; and

WHEREAS, Employee is willing to make his services available to Employer on the terms and subject to the conditions set forth herein;

NOW, THEREFORE, in consideration of the mutual covenants contained herein, the parties hereto agree as follows:

1. Employment. For the Term (as defined in Section 2), Employee shall be employed as President and Chief Executive Officer of Employer. Employee will be located at Employer's principal executive offices in Winston-Salem, North Carolina or such other location as may be approved by Employer's Board of Directors (the "**Board**"). Employee hereby accepts and agrees to such employment, subject to the general supervision of the Board. Employee shall perform such duties and shall have such powers, authority and responsibilities as are customary for one holding the position of President and Chief Executive Officer of a business similar to Employer and shall additionally render such other services and duties as may be reasonably assigned to him from time to time by the Board.

2. Term of Employment. Employee's employment with Employer shall commence as of December 1, 2012 (the "**Start Date**") and continue until terminated as provided in Section 6 or Section 7 (such period, the "**Term**"). Any termination of Employee's employment with Employer or this Agreement shall not affect the parties' continuing obligations under Section 5, which shall survive any such termination.

3. Compensation.

(a) For all services rendered by Employee to Employer under this Agreement, Employer shall pay to Employee, during the Term, an annual base salary of not less than $500,000 ($41,666.66 per month), payable in arrears in accordance with the customary payroll practices of Employer. During the Term, Employee's annual base salary shall be reviewed and subject to increase in accordance with Employer's standard policies and procedures.

(b) Employee shall be eligible to earn an annual bonus during the Term of up to 50% of Employee's annual base salary or such higher amount as may be determined by the Board (or a compensation committee thereof) from time to time (Employee's "**Target Annual Bonus**"). Eligibility for the Target Annual Bonus shall be based upon the achievement of performance objectives established by the Board (or a compensation committee thereof) and shall be payable in the normal course after the end of each fiscal year, but in no event to exceed ninety (90) days after the end of each fiscal year.

(c) All amounts payable hereunder shall be subject to such deductions and withholdings as shall be required by law, if any.

(d) On or as soon as practicable after the Start Date, Employee shall be granted a nonqualified stock option to purchase 400,000 shares of Employer's common stock (the "**Option**") pursuant to an agreement substantially in the form attached hereto as Exhibit A (the "**Option Agreement**"). The Option shall: (i) have a term of ten years; (ii) an exercise price equal to the closing price of Employer's common stock on the NASDAQ Stock Market on the date of grant (or, if the NASDAQ Stock Market is closed for trading on the Start Date, on the first day thereafter on which the NASDAQ Stock Market is open); (iii) vest 25% on December 31, 2013 and ratably thereafter on the last day of twelve (12) consecutive calendar quarters beginning with March 31, 2014; and (iv) otherwise be on the terms and conditions set forth in the Option Agreement. Employee shall be eligible to receive additional awards under Employer's 2006 Stock Incentive Plan, as amended and restated from time to time (the "**2006 Plan**"), or any successor plan thereto, in the discretion of the Board (or a compensation committee thereof).

(e) Employee shall also be entitled during the Term to holidays, sick leave and other time off and to participate in those life, health or other insurance plans and other employee retirement and welfare benefit programs, plans, practices and benefits generally made available from time to time to similarly situated executives of Employer; provided that nothing herein shall obligate Employer to continue any of such programs, plans, practices or benefits for Employee if discontinued for all other similarly situated executives of Employer. Without limiting the foregoing, Employee shall be entitled to paid vacation during each fiscal year of the Term of twenty (20) days.

4. Reimbursement of Expenses. Employer shall pay or reimburse Employee for all reasonable travel and other expenses incurred by Employee in performing the duties of his employment under this Agreement and also, to the extent consistent with Employer's policy, for any dues and costs of membership for appropriate professional organizations and continuing professional education, in each case subject to such reasonable documentation and substantiation as Employer shall require.

5. Covenants of Employee.

(a) Covenant Not to Compete. Employee covenants that during the Noncompetition Period (as defined in Section 5(g)) and within the Noncompetition Area (as defined in Section 5(h)), he shall not, directly or indirectly, as principal, agent, officer, director, shareholder, member, employee, consultant or trustee, or through the agency of any person, firm, corporation, partnership, limited liability company, association or other entity (collectively, "**Entity**"), engage in the Business (as defined in Section 5(i)). Without limiting the generality of the foregoing, Employee agrees that during the Noncompetition Period and within the Noncompetition Area, he shall not be (i) the owner of the outstanding capital stock or other equity interests of any Entity (other than Employer or its affiliates) that, directly or indirectly, engages in the Business; or (ii) an officer, director, partner, manager, member, consultant or employee of any Entity that, directly or indirectly, engages in the Business; provided that this Section 5(a) shall not prevent Employee from (A) being

an executive or otherwise work in the same or similar capacity for any area or division of any Entity to the extent that such area or division does not, directly or indirectly, engage in the Business or (B) beneficially owning less than 1% of the stock of a corporation traded on a national securities exchange (including, without limitation, the NASDAQ Stock Market).

(b) Nondisclosure Covenant. The parties acknowledge that Employer and its affiliates are enterprises the success of which is attributable largely to the ownership, use and development of certain valuable confidential and proprietary information ("**Proprietary Information**") and that Employee's employment with Employer will involve access to and work with Proprietary Information. Employee acknowledges that his relationship with Employer is a confidential relationship and agrees that he shall: (i) keep and maintain all Proprietary Information in strictest confidence; (ii) not, either directly or indirectly, use any Proprietary Information for his own benefit; and (iii) not, either directly or indirectly, divulge, disclose or communicate any Proprietary Information in any manner whatsoever to any person or Entity, other than to employees or agents of Employer having a need to know such Proprietary Information to perform their responsibilities on behalf of Employer or to other persons or Entities in the normal course of Employer's business. This nondisclosure obligation shall apply to all Proprietary Information, whether or not Employee participated in the development thereof. Upon termination of his employment with Employer for any reason, Employee will return to Employer all Proprietary Information in any medium and all other documents, data, materials or property of Employer (including any copies thereof) in his possession. For purposes of this Agreement, the term "Proprietary Information" shall include any and all information related to the business of Employer, any of its affiliates or any third party whose information Employee had access to by virtue of his employment with Employer, or to any of their respective products, services, sales or operations, that is not generally known to the public, specifically including, but without limitation: trade secrets; processes; formulae; compounds and properties thereof; data; files; research results; computer programs or related source codes or object codes; improvements; inventions; techniques; business, operating, marketing, partnering or merger and acquisition plans; strategies; forecasts; copyrightable material; suppliers; vendors; methods and manner of operations; information relating to the identity, needs and location of all past, present and prospective customers; and information with respect to the internal affairs of Employer and its affiliates. Such Proprietary Information may or may not contain legends or other written notice that it is of a confidential or proprietary nature. The parties stipulate that, as between them, the above-described matters are important and confidential and gravely affect the successful conduct of the business of Employer and its affiliates and that any breach of the terms of this Section 5(b) shall be a material breach of this Agreement.

(c) Nonsolicitation Covenant. Employee covenants that during the Noncompetition Period he shall not, directly or indirectly, on behalf of himself or any Entity, call upon any of the customers or clients of Employer or potential customers or clients of Employer for the purpose of soliciting or providing any product or service similar to that provided by Employer, nor will he, in any way, directly or indirectly, on behalf of himself or any Entity solicit, divert or take away, or attempt to solicit, divert, or take away any of the customers, clients, business or patrons of Employer (or potential customers or clients whose business Employee solicited on behalf of Employer or about whose needs Employee gained information during his employment with Employer); provided that the restrictions of this Section 5(c) shall apply only to those customers, clients, patrons or prospective customers, clients or patrons that Employee solicited, called upon, or contacted on Employer's behalf during the two (2) year period immediately preceding the

termination of Employee's employment with Employer. Employee further covenants that during the Noncompetition Period he shall not, directly or indirectly, on behalf of himself or any Entity, solicit, induce or encourage any person to leave the employ of Employer.

(d) Inventions. All inventions, designs, formulae, processes, discoveries, drawings, improvements and developments made by Employee, either solely or in collaboration with others, during his employment with Employer, whether or not during working hours, and relating to any methods, apparatus, products, compounds, services or deliverables that are made, furnished, sold, leased, used or developed by Employer or its affiliates or that pertain to the business of Employer (the "**Developments**") shall become and remain the sole property of Employer. Employee shall disclose promptly in writing to Employer all such Developments. Employee acknowledges and agrees that all Developments shall be deemed "works made for hire" within the meaning of the United States Copyright Act, as amended. If, for any reason, such Developments are not deemed works made for hire, Employee hereby assigns to Employer all of his right, title and interest (including, but not limited to, copyright and all rights of inventorship) in and to such Developments. At the request and expense of Employer, whether during or after employment with Employer, Employee shall make, execute and deliver all application papers, assignments or instruments, and perform or cause to be performed such other lawful acts as Employer may deem necessary or desirable in making or prosecuting applications, domestic or foreign, for patents (including reissues, continuations and extensions thereof) and copyrights related to such Developments or in vesting in Employer full legal title to such Developments. Employee shall assist and cooperate with Employer or its representatives in any controversy or legal proceeding relating to such Developments or any patents, copyrights or trade secrets with respect thereto. If for any reason Employee refuses or is unable to assist Employer in obtaining or enforcing its rights with respect to such Developments, he hereby irrevocably designates and appoints Employer and its duly authorized agents as his agents and attorneys-in-fact to execute and file any documents and to do all other lawful acts necessary to protect Employer's rights in the Developments. Employee expressly acknowledges that the special foregoing power of attorney is coupled with an interest and is therefore irrevocable and shall survive (i) his death or incompetency, (ii) the termination of his employment with Employer and (iii) the termination of this Agreement.

(e) Independent Covenants. Each of the covenants on the part of Employee contained in Sections 5(a), (b), (c) and (d) shall be construed as an agreement independent of each other such covenant. The existence of any claim or cause of action of Employee against Employer, whether predicated on this Agreement or otherwise, shall not constitute a defense to the enforcement by Employer of any such covenant.

(f) Reasonableness; Injunction. Employee acknowledges that his covenants contained in this Section 5 are reasonably necessary for the protection of Employer, its affiliates and their respective businesses and that such covenants are reasonably limited with respect to the activities prohibited, the duration thereof, the geographic area thereof, the scope thereof and the effect thereof on Employee and the general public. Employee further acknowledges that violation of the covenants would immeasurably and irreparably damage Employer and its affiliates and, by reason thereof, Employee agrees that for violation or threatened violation of any of the provisions of this Agreement, Employer shall, in addition to any other rights and remedies available to it at law or otherwise, be entitled to an injunction to be issued by any court of competent jurisdiction enjoining and restraining Employee from committing any violation or threatened violation of this Agreement.

Employee consents to the issuance of such injunction. Furthermore, Employer shall, in addition to any other rights or remedies available to it, at law or otherwise, be entitled to reimbursement of court costs, attorneys' fees and other expenses incurred as a result of a breach of this Agreement. Employee agrees to reimburse Employer for such expenses promptly following a final determination that he has breached this Agreement.

(g) Noncompetition Period. "**Noncompetition Period**" shall mean the period commencing on the Effective Date and continuing until one year following termination of Employee's employment with Employer.

(h) Noncompetition Area. The "**Noncompetition Area**" shall consist of the entire world, North America, the United States and Europe.

(i) Business. For the purposes of this Agreement, the "**Business**" shall mean the business of developing, manufacturing, marketing or selling any therapeutic product: (i) that contains or is comprised of, in whole or in part, a chemical compound that modulates or otherwise affects any nicotinic acetylcholine receptor in humans; or (ii) that is substantially similar to, or competitive with, any product candidate in development, or any product manufactured, marketed or sold, by Employer during Employee's employment with Employer; provided, however, that during the portion of the Noncompetition Period after termination of Employee's employment, no product or product candidate will be considered competitive with the Company's products or product candidates unless it is substantially similar to, or competitive with, a product candidate in development, or a product manufactured, marketed or sold, by Employer during the five (5)-year period ending on the date of termination of Employee's employment.

6. Disability. Upon the "disability" of Employee, this Agreement and the employment relationship hereunder may be terminated by action of the Board upon thirty (30) days prior written notice (the "**Disability Notice**"), such termination to become effective only if such disability continues. If, prior to the effective time of the Disability Notice, Employee shall recover from such disability and return to the full-time active discharge of his duties, then the Disability Notice shall be of no further force and effect and Employee's employment shall continue as if the same had been uninterrupted. If Employee shall not so recover from his disability and return to his duties, then his employment with Employer and this Agreement shall terminate at the effective time of the Disability Notice. Such termination shall not prejudice any benefits payable to Employee that are fully vested as of the date of such termination. Prior to the effective time of the Disability Notice, Employee shall continue to earn all compensation to which Employee would have been entitled as if he had not been disabled, such compensation to be paid at the time, in the amounts, and in the manner provided in Section 3(a). A "disability" of Employee shall be deemed to exist at all times that Employee is considered by the insurer which has issued any policy of disability insurance owned by Employer or for which premiums are paid by Employer (the "**Employer Policy**") to be totally disabled under the terms of such policy. In the event there is no Employer Policy, "disability" shall mean the inability, by reason of physical or mental incapacity, impairment or infirmity, of Employee to perform, upon request, his regular duties for six (6) consecutive months and the determination of the existence or nonexistence of disability shall be made by a medical doctor who is licensed to practice medicine in the State of North Carolina mutually acceptable to the Board and to Employee (or, if Employee is incapacitated, his spouse).

7. Termination.

(a) If Employee shall die during the Term, this Agreement and the employment relationship hereunder will automatically terminate on the date of death, which date shall be the last day of the Term; provided that such termination shall not prejudice any benefits payable to Employee or Employee's beneficiaries that are fully vested as of the date of death.

(b) Employer may terminate this Agreement and the employment relationship hereunder at any time, with or without Just Cause, effective at such time as may be determined by the Board; provided that any termination with Just Cause shall require written notice to Employee. "**Just Cause**" shall mean: (i) Employee's willful and material breach of this Agreement and his continued failure to cure such breach to the reasonable satisfaction of the Board within thirty (30) days following written notice of such breach to Employee from the Board; (ii) Employee's conviction of, or entry of a plea of guilty or nolo contendere to a felony or a misdemeanor involving moral turpitude; (iii) Employee's willful commission of an act of fraud, breach of trust, or dishonesty including, without limitation, embezzlement, that results in material damage or harm to the business, financial condition or assets of Employer; (iv) Employee's intentional damage or destruction of substantial property of Employer; (v) Employee's violation of Employer's policies prohibiting employment discrimination or workplace harassment; and (vi) Employee's commission of any act (or omission) contrary to the ethical or professional standards generally expected of Employer or Employee's profession. Just Cause shall be determined by the Board in its reasonable discretion and the particulars of any determination shall be provided to Employee in writing. At any time within ninety (90) days of receipt by Employee in writing of such determination, Employee may object to such determination in writing and submit the determination to arbitration in accordance with Section 9(j). If such determination is overturned in arbitration, Employee will be treated as having been terminated without Just Cause and shall be entitled to the benefits of Section 7(d).

(c) Employee may voluntarily terminate his employment with Employer on thirty (30) days prior written notice to Employer.

(d) Upon any termination pursuant to this Section 7, Employee shall be entitled to receive a lump sum equal to any salary, bonus and other compensation earned and due but not yet paid through the effective date of termination, such amount to be payable within thirty (30) days after such effective date of termination. In addition, if this Agreement and Employee's employment hereunder is terminated by (i) Employer (or its successor) other than for Just Cause (and other than for death) or (ii) Employee within one (1) year following the first occurrence of Good Reason, Employee shall be entitled to the following:

(A) severance, payable monthly, in an amount and for a period as follows: (1) if such termination occurs concurrent with or within twelve (12) months following, or in connection with but prior to, a Change in Control, the sum of Employee's then current monthly base salary plus one-twelfth (1/12th) of Employee's Target Annual Bonus, for eighteen (18) months following such termination; or (2) if otherwise, Employee's then current monthly base salary for twelve (12) months following such termination (the time period in clause (1) or clause (2), whichever is applicable, the "**Severance Period**"); provided that, in the event the aggregate amount payable in the Severance Period based on the foregoing would exceed the greater of:

(x) two times the lesser of:

(aa) the sum of Employee's annualized compensation based upon his annual base salary for his taxable year preceding his taxable year in which his employment hereunder terminates (adjusted for any increase during that year that was expected to continue indefinitely if Employee's employment had not terminated); or

(bb) the maximum amount that may be taken into account under a qualified plan pursuant to Section 401(a)(17) of the Internal Revenue Code of 1986, as amended (the "**Code**"), for the year in which Employee's employment hereunder is terminated; or

(y) the maximum amount that would be exempt under Section 409A of the Code;

then, Employer (or its successor) shall pay the amount of such excess to Employee in a lump sum on the date that is two and one-half months following the end of Employer's (or its successor's) taxable year during which the termination of Employee's employment occurs.

(B) if such termination occurs concurrent with or within twelve (12) months following, or in connection with but prior to, a Change in Control, acceleration of vesting for all unvested options to purchase capital stock, and all restricted stock or other equity-based awards (if any), of Employer (or its successor) held by Employee and outstanding as of the effective date of termination. The terms of clause (B) shall be deemed incorporated into any option or similar agreement evidencing an award made to Employee after the Effective Date.

(C) continuation of the health care (including medical and dental) and life insurance benefits coverage provided to Employee at his date of termination at the same level and in the same manner as if his employment had not terminated (subject to the customary changes in such coverages if Employee reaches age 65 or similar events), for the Severance Period, followed by COBRA election rights. Any additional coverages Employee had at termination, including dependent coverage, will also be continued for such period on the same terms. Any costs Employee was paying for such coverages at the time of termination shall continue to be paid by Employee. If the terms of any benefit plan referred to in this section do not permit continued participation by Employee or if permitting such continued participation would result in the imposition of an excise tax against Employer under Section 4980D (or any successor section) of the Code, then Employer will arrange for other coverage providing substantially similar benefits at the same contribution level of Employee.

(D) outplacement counseling services selected by Employee, up to a maximum of $10,000 and provided that (1) such expense is incurred by Employee on or before the second anniversary of December 31 of the year during which the termination of Employee's employment occurs and (2) such amount is paid by Employer on or before the third anniversary of December 31 of the year during which the termination of Employee's employment occurs.

(e) If Employer (or its successor) terminates Employee's employment for Just Cause, Employee shall forfeit any unexercised vested or unvested stock options (and other equity-based awards, to the extent unvested, if any) at the date of termination. If Employee terminates his employment or if Employer (or its successor) terminates Employee's employment without Just Cause, Employee shall have, with respect to each vested stock option, until the earlier of (i) three (3) months from the date of termination or (ii) the last day of the applicable option period/term to exercise such vested stock option.

(f) For purposes of this Agreement:

"**Change in Control**" shall be deemed to have occurred on the earliest of the following dates:

(i) The date any entity or person shall have become the beneficial owner of, or shall have obtained voting control over, more than fifty percent (50%) of the outstanding Common Stock of Employer;

(ii) The date of the consummation of: (A) a merger, consolidation, reorganization or similar business transaction of Employer with or into another corporation or other business entity (each, a "corporation"), in which Employer is not the continuing or surviving entity or pursuant to which any shares of Common Stock of Employer would be converted into cash, securities or other property of another entity, other than a transaction of Employer in which holders of Common Stock immediately prior to the transaction continue to own at least 50% of the outstanding Common Stock, or if Employer is not the surviving entity, the common stock (or other voting securities) of the surviving entity immediately after the transaction as immediately before; or (B) the sale or other disposition of all or substantially all of the assets of Employer; or

(iii) The date on which the Continuing Directors (as defined below) do not constitute a majority of the Board (or, if applicable, the Board of Directors of a successor corporation to the Company), where the term "Continuing Director" means at any date a member of the Board (A) who was a member of the Board on the date of this Agreement, or (B) who was nominated or elected subsequent to such date by at least a majority of the directors who were Continuing Directors at the time of such nomination or election or whose election to the Board was recommended or endorsed by at least a majority of the directors who were Continuing Directors at the time of such nomination or election; provided, however, that there shall be excluded from this clause (B) any individual whose initial assumption of office occurred as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents, by or on behalf of a person other than the Board.

(For the purposes herein, the term "person" shall mean any individual, corporation, partnership, group, association or other person, as such term is defined in Section 13(d)(3) or Section 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), other than Employer, a subsidiary of Employer or any employee benefit plan(s) sponsored or maintained by Employer or any subsidiary thereof, and the term "beneficial owner" shall have the meaning given the term in Rule 13d-3 under the Exchange Act.)

The Board shall have full and final authority, in its discretion, to determine whether a Change in Control of Employer has occurred pursuant to the above definition, the date of the occurrence of such Change in Control and any incidental matters relating thereto.

"**Good Reason**" shall mean the occurrence of any of the following events without Employee's express written consent:

(i) the material breach by Employer (or its successor) of any material provision of this Agreement;

(ii) any purported termination of the employment of Employee by Employer (or its successor) that is not effected in accordance with this Agreement;

(iii) any failure of Employer (or its successor) to pay Employee any amounts of salary or bonus compensation that have become due and payable to Employee within thirty (30) days after Employee has given Employer (or its successor) notice of demand therefor;

(iv) a reduction in Employee's annual base salary unless the reduction is part of, and at the same percentage as, an across-the-board salary reduction for all similarly-situated executives;

(v) any material diminution in Employee's duties, responsibilities, authority, reporting structure, status or title, unless approved in writing by Employee; or

(vi) being required by Employer to relocate to a location more than fifty (50) miles from Employee's worksite as of the Start Date (Winston-Salem, North Carolina);

provided that Good Reason pursuant to any of clauses (i), (ii), (iii), (iv), (v) or (vi) above shall be conditional on (A) Employee having provided written notice to Employer (or its successor) of the initial existence of any or all of the foregoing events within ninety (90) days of the initial existence of such event and (B) such event continuing to exist thirty (30) days after the date of such written notice from Employee; and provided further that, notwithstanding anything herein to the contrary, the appointment or hiring by Employer of a different President shall not constitute Good Reason if Employee retains the office of Chief Executive Officer.

(g) Except as otherwise provided in this Section 7, upon termination of this Agreement for any reason, Employee shall not be entitled to any form of severance benefits, including benefits otherwise payable under any of Employer's regular severance plans or policies, or any other payment whatsoever. Employee agrees that (i) the payment of any severance or other benefits pursuant to this Section 7 shall be contingent on the delivery by Employee to Employer of a release and waiver of legal claims related to the employment relationship between Employee and Employer in a form reasonably acceptable to Employer and (ii) the payments and benefits provided hereunder, subject to the terms and conditions hereof, shall be in full satisfaction of any rights which he might otherwise have or claim by operation of law, by implied contract or otherwise, except for

rights which he may have under any employee benefit plan of Employer. Notwithstanding anything to the contrary in this Section 7, any release referenced in this Section 7(g) must be executed and provided to Employer, and the period for revoking same must have expired, before the forty-fifth (45th) day following the effective date of termination of employment (or shall otherwise be structured in a manner so that all payments under this Section 7 are exempt from or made in compliance with Section 409A of the Code). Specifically but without limitation, if any payments made under this Section 7 are not exempt from Section 409A of the Code and if the forty-five (45) day period described in the preceding sentence begins in one tax year and extends into a second tax year, such payments shall commence during the second tax year.

(h) To the extent applicable, Employer and Employee intend that this Agreement comply with Section 409A of the Code. The parties hereby agree that this Agreement shall at all times be construed in a manner to comply with Section 409A and that should any provision be found not in compliance with Section 409A, the parties are hereby contractually obligated to execute any and all amendments to this Agreement deemed necessary and required by legal counsel to achieve compliance with Section 409A. In the event amendments are required to be made to this Agreement to comply with Section 409A, Employer shall use its best efforts to provide Employee with substantially the same payments he would have been entitled to pursuant to this Agreement had Section 409A not applied, but in a manner that is compliant with Section 409A. The manner in which the immediately preceding sentence shall be implemented shall be the subject of good faith negotiations of the parties. The parties also agree that in no event shall any payment required to be made pursuant to this Agreement that is considered deferred compensation within the meaning of Section 409A be accelerated in violation of Code Section 409A.

(i) Notwithstanding anything in this Agreement to the contrary, in the event it shall be determined that (i) any payment, award, benefit or distribution (or any acceleration of any payment, award, benefit or distribution) by Employer (or its successor) or any entity which effectuates a Change in Control (or any of its affiliated entities) to or for the benefit of Employee (whether pursuant to the terms of this Agreement or otherwise) (the "**Payments**") would be subject to the excise tax imposed by Section 4999 of the Code (the "**Excise Tax**"), and (ii) the reduction of the amounts payable to Employee under this Agreement to the maximum amount that could be paid to Employee without giving rise to the Excise Tax (the "**Safe Harbor Cap**") would provide Employee with a greater after-tax amount than if such amounts were not reduced, then the amounts payable to Employee under this Agreement shall be reduced (but not below zero) to the Safe Harbor Cap. Unless Employer (or its successor) and Employee agree otherwise, the reduction of the amounts payable hereunder, if applicable, shall be made to the extent necessary in the following order: (i) first, any such Payments that became fully vested prior to the Change in Control and that pursuant to paragraph (b) of Treas. Reg. § 1.280G-1, Q/A 24, are treated as contingent compensation payments solely by reason of the acceleration of their originally scheduled dates of payment will be reduced, by cancellation of the acceleration of their vesting; (ii) second, any severance payments or benefits, performance-based cash or equity incentive awards, or other contingent compensation payments the full amounts of which are treated as contingent on the Change in Control where paragraphs (b) and (c) of Treas. Reg. § 1.280G-1, Q/A 24 do not apply, will be reduced; and (iii) third, any cash or equity incentive awards, or nonqualified deferred compensation amounts, that vest solely based on Employee's continued service with Employer (or its successor), and that pursuant to paragraph (c) of Treas. Reg. § 1.280G-1, Q/A 24, are treated as contingent on the Change in Control because they become vested as a result of the Change in Control, will be reduced, first by

cancellation of any acceleration of their originally scheduled dates of payment (if payment with respect to such items is not treated as automatically occurring upon the vesting of such items for purposes of Section 280G of the Code) and then, if necessary, by canceling the acceleration of their vesting. In each case, the amounts of the contingent compensation payments will be reduced in the inverse order of their originally scheduled dates of payment or vesting, as applicable, and will be so reduced only to the extent necessary to achieve the required reduction. For purposes of reducing the Payments to the Safe Harbor Cap, only amounts payable under this Agreement (and no other Payments) shall be reduced. If the reduction of the amounts payable hereunder would not result in a greater after-tax result to Employee, no amounts payable under this Agreement shall be reduced pursuant to this provision.

(A) All determinations required to be made under this Section 7(i) shall be made by the public accounting firm that is retained by Employer (or its successor) as of the date immediately prior to the Change in Control (the "**Accounting Firm**"), which shall provide detailed supporting calculations both to Employer (or its successor) and Employee within fifteen (15) business days of the receipt of notice from Employer (or its successor) or Employee that there has been a Payment, or such earlier time as is requested by Employer (or its successor). Notwithstanding the foregoing, in the event (i) the Board shall determine prior to the Change in Control that the Accounting Firm is precluded from performing such services under applicable auditor independence rules or (ii) the Audit Committee of the Board determines that it does not want the Accounting Firm to perform such services because of auditor independence concerns or (iii) the Accounting Firm is serving as accountant or auditor for the person(s) effecting the Change in Control, the Board shall appoint another nationally recognized public accounting firm to make the determinations required hereunder (which accounting firm shall then be referred to as the Accounting Firm hereunder). All fees, costs and expenses (including, but not limited to, the costs of retaining experts) of the Accounting Firm shall be borne by Employer (or its successor). If payments are reduced to the Safe Harbor Cap or the Accounting Firm determines that no Excise Tax is payable by Employee without a reduction in payments, the Accounting Firm shall provide a written opinion to Employee to such effect, that Employee is not required to report any Excise Tax on Employee's federal income tax return, and that the failure to report the Excise Tax, if any, on Employee's applicable federal income tax return will not result in the imposition of a negligence or similar penalty. The determination by the Accounting Firm shall be binding upon Employer (or its successor) and Employee (except as provided in Section 7(i)(B) below).

(B) If it is established pursuant to a final determination of a court or an Internal Revenue Service (the "**IRS**") proceeding, which has been finally and conclusively resolved, that Payments have been made to, or provided for the benefit of, Employee by Employer (or its successor), which are in excess of the limitations provided in this Section 7(i) (referred to hereinafter as an "**Excess Payment**"), Employee shall repay the Excess Payment to Employer (or its successor) on demand, together with interest on the Excess Payment at the applicable federal rate (as defined in Section 1274(d) of the Code) from the date of Employee's receipt of such Excess Payment until the date of such repayment. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the determination, it is possible that Payments which will not have been made by Employer (or its successor) should have been made (an "**Underpayment**"), consistent with the calculations required to be made under this Section 7(i). In the event that it is determined (i) by the Accounting Firm, Employer (or its successor) (which shall include the position taken by Employer (or its successor), or together with their consolidated group, on their federal income tax returns) or

the IRS or (ii) pursuant to a determination by a court, that an Underpayment has occurred, Employer (or its successor) shall pay an amount equal to such Underpayment to Employee within ten (10) days of such determination together with interest on such amount at the applicable federal rate from the date such amount would have been paid to Employee until the date of payment. Employee shall cooperate, to the extent Employee's expenses are reimbursed by Employer (or its successor), with any reasonable requests by Employer (or its successor) in connection with any contests or disputes with the IRS in connection with the Excise Tax or the determination of the Excess Payment. Notwithstanding the foregoing, in the event that amounts payable under this Agreement were reduced pursuant to Section 7(i) and the value of stock options is subsequently re-determined by the Accounting Firm within the context of Treasury Regulation §1.280G-1 Q/A 33 that reduces the value of the Payments attributable to such options, Employer (or its successor) shall promptly pay to Employee any amounts payable under this Agreement that were not previously paid solely as a result of Section 7(i), subject to the Safe Harbor Cap.

(j) To the extent required by law or by any policy, plan or agreement (as each may be in effect from time to time) of Employer, Employer may require Employee to repay to Employer any bonus or other incentive-based or equity-based compensation paid to Employee and to comply with any equity retention policy, stock ownership guidelines or similar guidelines or policies as may be established by Employer, and Employee hereby expressly agrees to comply with any such requirements.

8. Best Efforts of Employee. Employee agrees that he will at all times faithfully, industriously and to the best of his ability, experience and talents perform all the duties that may be required of him pursuant to the express and implicit terms hereof to the reasonable satisfaction of Employer, commensurate with his position. Such duties shall be rendered at such place as Employer designates and Employee acknowledges that he may be required to travel as shall reasonably be required to promote the business of Employer. To the extent reasonably required by the duties assigned to him, Employee shall devote substantially all his time, attention, knowledge and skills to the business and interest of Employer and shall be entitled to all the benefits, profits and other issue arising from or incident to all work, service and advice of Employee. During the Term, Employee shall not be interested, directly or indirectly, in any manner as partner, manager, officer, director, shareholder, member, adviser, consultant, employee or in any other capacity in any other business; provided, that nothing herein contained shall be deemed to prevent or limit the right of Employee to (a) beneficially own less than 1% of the stock of a corporation traded on a national securities exchange (including, without limitation, the NASDAQ Stock Market) as long as such passive investment does not interfere with or conflict with the performance of services to be rendered hereunder or (b) serve as chairman of the board of directors of either or both of Novelos Therapeutics, Inc. and Audeo Oncology Inc.

9. Miscellaneous.

(a) This Agreement shall be governed by and construed in accordance with the laws of the State of North Carolina, without regard to conflicts of law principles thereof.

(b) This Agreement, together with the Option Agreement, constitutes the entire Agreement between Employee and Employer with respect to the subject matter hereof and supersedes in their entirety any and all prior oral or written agreements, understandings or

arrangements between Employee and Employer or any of its affiliates relating to the terms of Employee's employment by Employer. Any and all such agreements, understandings and arrangements are hereby terminated and of no force or effect, and Employee hereby expressly disclaims any rights under any and all such agreements, understandings and arrangements. This Agreement may not be amended or terminated except by an agreement in writing signed by both parties.

(c) This Agreement may be executed in two counterparts, each of which shall be deemed and original and both of which, taken together, shall constitute one and the same instrument.

(d) Any notice or other communication required or permitted under this Agreement shall be effective only if it is in writing and delivered in person or by nationally recognized overnight courier service or deposited in the mails, postage prepaid, return receipt requested, addressed as follows:

To Employer:

Targacept, Inc.
200 East First Street, Suite 300
Winston-Salem, North Carolina 27101
Attn: General Counsel
Attn: Chief Financial Officer

To Employee:

Dr. Stephen A. Hill
[ADDRESS]

Notices given in person or by overnight courier service shall be deemed given when delivered in person or the day after delivery to the courier addressed to the address required by this Section 9(d), and notices given by mail shall be deemed given three (3) days after deposit in the mails. Either party may designate by written notice to the other party in accordance herewith any other address to which notices addressed to such designating party shall be sent.

(e) The provisions of this Agreement shall be deemed severable and the invalidity or unenforceability of any provision shall not affect the validity or enforceability of the other provisions hereof. It is understood and agreed that no failure or delay by Employer or Employee in exercising any right, power or privilege under this Agreement shall operate as a waiver thereof, nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege hereunder.

(f) This Agreement may not be assigned by Employee without the written consent of Employer. This Agreement shall be binding on any heirs, representatives, successors or assigns of either party.

(g) For purposes of this Agreement, employment of Employee by any affiliate of Employer shall be deemed to be employment by Employer hereunder, and a transfer of employment of Employee from one such affiliate to another shall not be deemed to be a termination of employment of Employee by Employer or a cessation of the Term, it being the intention of the parties hereto that employment of Employee by any affiliate of Employer shall be treated as employment by Employer and that the provisions of this Agreement shall continue to be fully applicable following any such transfer.

(h) The respective rights and obligations of the parties hereunder shall survive any termination of the Term or Employee's employment with Employer to the extent necessary to preserve such rights and obligations for their stated durations.

(i) In the event that it shall become necessary for either party to retain the services of an attorney to enforce any terms under this Agreement, the prevailing party, in addition to all other rights and remedies hereunder or as provided by law, shall be entitled to reasonable attorneys' fees and costs of suit. Employer shall reimburse Employee for the reasonable fees and expenses of counsel to Employee for the original negotiation of this Agreement.

(j) Except as otherwise provided in this Section 9(j), any controversy or claim arising out of or relating to this Agreement shall be settled by arbitration in accordance with Commercial Arbitration Rules of the American Arbitration Association then in effect, and judgment upon the award rendered by the arbitration panel, which shall consist of three members, may be entered in any court having jurisdiction. Any arbitration shall be held in Winston-Salem, North Carolina, unless otherwise agreed in writing by the parties. One arbitrator shall be selected by Employee, one arbitrator shall be selected by Employer, and the third arbitrator shall be selected by the two arbitrators selected by Employee and Employer. Notwithstanding the foregoing, any claim or dispute with respect to or arising out of any of the covenants in Section 5 or the covenant in Section 8 related to Employee's interest in other businesses, or any statutory or common law claim of patent infringement, misappropriation of trade secrets, unfair competition, unfair or deceptive trade practices, interference with contract, or interference with actual or prospective economic or business relations, shall be excluded from this Section 9(j).

[*remainder of page intentionally left blank*]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement effective as of the Effective Date.

Targacept, Inc.

By: /s/ Mark Skaletsky
Name: Mark Skaletsky
Title: Chairman of the Board

Date: 11/14/2012

/s/ Dr. Stephen A. Hill
Dr. Stephen A. Hill

Date: 11/14/2012

EXHIBIT A

OPTION AGREEMENT

TARGACEPT, INC.

NONQUALIFIED STOCK OPTION AGREEMENT

THIS NONQUALIFIED STOCK OPTION AGREEMENT (together with Schedule A, attached hereto, the "Agreement"), effective as of the date specified as the "Grant Date" on Schedule A attached hereto, between TARGACEPT, INC., a Delaware corporation (the "Corporation"), and the individual identified on Schedule A attached hereto, an Employee of the Corporation or an Affiliate (the "Executive"). This Agreement shall be administered by the Compensation Committee (the "Administrator") of the Board of Directors (the "Board") of the Corporation or, to the extent permitted by applicable laws, rules and regulations ("Applicable Law"), a designee of the Compensation Committee.

R E C I T A L S :

In consideration of the services of the Executive and such other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Corporation and the Executive, intending to be legally bound, hereby agree as follows:

1. Nature of Award. In connection with the Corporation's hiring of the Executive as the President and Chief Executive Officer of the Corporation as provided in the Employment Agreement between Executive and the Corporation dated on or about the date hereof (the "Employment Agreement"), the Administrator has agreed to grant the Executive a nonqualified stock option (as defined below, the "Option") pursuant to the terms of the Agreement. The Option is intended to serve as an inducement grant as described under Rule 5635(c)(4) of the NASDAQ Listing Rules. For purposes of clarity, the Executive has not previously been an employee or director of the Corporation, and the Option is intended to serve as an inducement material to the Executive's entering into employment with the Corporation.

2. Grant of Option; Term of Option. The Corporation hereby grants to the Executive, as a matter of separate inducement and agreement in connection with his employment or service to the Corporation, and not in lieu of any salary or other compensation for his services, the right and Option (the "Option") to purchase all or any part of such aggregate number of shares (the "Shares") of common stock of the Corporation (the "Common Stock") at a purchase price (the "Option Price") as specified on Schedule A, attached hereto, and subject to such other terms and conditions as may be stated herein or on Schedule A. The Executive expressly acknowledges that the terms of Schedule A shall be incorporated herein by reference and shall constitute part of this Agreement. The Corporation and the Executive further acknowledge and agree that the signatures of the Corporation and the Executive on the Grant Notice contained in Schedule A shall constitute their acceptance of all of the terms of this Agreement and their agreement to be bound by the terms of this Agreement. The Option (or any portion thereof) shall be designated as a nonqualified stock option, as stated on Schedule A, and shall not be intended to qualify as an incentive stock option under Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"). The Option is a stand-alone option and is not granted under the Corporation's 2006 Stock Incentive Plan (as amended and restated through March 9, 2011) or any other stock incentive plan of the Corporation. Except as otherwise provided in the Agreement, this Option will expire if not exercised in full by the Expiration Date specified on Schedule A.

3. Exercise of Option. Subject to the terms of the Agreement, the Option shall become exercisable on the date or dates, and subject to such conditions, as are set forth on Schedule A attached hereto. To the extent that the Option is exercisable but is not exercised, the Option shall accumulate and be exercisable by the Executive in whole or in part at any time prior to expiration of the Option, subject to the terms of the Agreement. The Executive expressly acknowledges that the Option may vest and be exercisable only upon such terms and conditions as are provided in the Agreement. Upon the exercise of an Option in whole or in part and payment of the Option Price in accordance with the provisions of this Agreement, the Corporation shall, as soon thereafter as practicable, deliver to the Executive a certificate or certificates for the Shares purchased. Payment of the Option Price may be made (a) in cash or by cash equivalent; and, unless prohibited by Applicable Law or the Administrator, payment may also be made (b) by delivery (by either actual delivery or attestation) of shares of Common Stock owned by the Executive (subject to such terms and conditions, if any, as may be determined by the Administrator); (c) by shares of Common Stock withheld upon exercise but only if and to the extent that payment by such method does not result in variable accounting or other accounting consequences deemed unacceptable to the Corporation; (d) as long as a Public Market for the Common Stock exists, by delivery of written notice of exercise to the Corporation and delivery to a broker of written notice of exercise and irrevocable instructions to promptly deliver to the Corporation the amount of sale or loan proceeds to pay the Option Price; (e) by such other payment methods as may be approved by the Administrator and which are acceptable under Applicable Law; or (f) by any combination of the foregoing methods. Shares delivered or withheld in payment of the Option Price shall be valued at their Fair Market Value on the date of exercise, as determined in accordance with the terms of the Agreement.

4. No Right of Employment or Service; Forfeiture of Option. Neither the Agreement nor any other action related to the grant of the Option shall confer upon the Executive any right to continue in the employment or service of the Corporation or an Affiliate or interfere with the right of the Corporation or an Affiliate to terminate the Executive's employment or service at any time. Except as otherwise expressly provided in the Agreement or as determined by the Administrator, all rights of the Executive with respect to the Option shall terminate upon termination of the employment of the Executive with the Corporation or an Affiliate. The grant of the Option does not create any obligation of the Corporation to grant further awards.

5. Termination of Employment. Unless the Administrator, in its sole discretion, determines otherwise, the Option shall not be exercised unless the Executive is, at the time of exercise, an Employee and has been an Employee continuously since the date the Option was granted, subject to the following:

(a) The employment relationship of the Executive shall be treated as continuing intact for any period that the Executive is on military or sick leave or other bona fide leave of absence, provided that the period of such leave does not exceed ninety (90) days, or, if longer, as long as the Executive's right to reemployment is guaranteed either by statute or by contract. The employment relationship of the Executive shall also be treated as continuing intact while the Executive is not in active service because of Disability (as defined in Section 5(b)). The Administrator shall have sole authority to determine whether the Executive has terminated employment or service, the basis for such termination and the date of the Executive's termination of employment or service for any reason (the "Termination Date").

(b) If the employment of the Executive is terminated because of Disability or death, the Option may be exercised only to the extent vested and exercisable on the Executive's Termination Date, and any portion of the Option that is not vested and exercisable as of the Executive's Termination Date shall terminate as of such date. The Option, to the extent vested and exercisable, must be exercised, if at all, prior to the first to occur of the following, whichever shall be applicable (after which time the Option shall terminate): (i) the close of the period of one year next succeeding the Termination Date; or (ii) the close of the Option Period. In the event of the Executive's death, the Option shall be exercisable by such person or persons as shall have acquired the right to exercise the Option by will or by the laws of intestate succession. For purposes herein, "Disability" shall have the meaning given in the Employment Agreement or, if the Employment Agreement ceases to be in effect, "Disability" shall mean the inability to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death, or which has lasted or can be expected to last for a continuous period of not less than twelve (12) months. The determination of "Disability" shall be made by the Administrator and its determination shall be final and conclusive.

(c) If the employment of the Executive is terminated for any reason other than Disability, death or for Cause, the Option may be exercised to the extent vested and exercisable on his Termination Date, and any portion of the Option that is not vested and exercisable as of the Executive's Termination Date shall terminate as of such date. The Option, to the extent vested and exercisable, must be exercised, if at all, prior to the first to occur of the following, whichever shall be applicable (after which time the Option shall terminate): (i) the close of the period of three (3) months next succeeding the Termination Date; or (ii) the close of the Option period. If the Executive dies following such termination of employment and prior to the date specified in clause (i) of this Section 5(c), the Executive shall be treated as having died while employed under Section 5(b) immediately preceding (treating for this purpose the Executive's date of termination of employment as the Termination Date). In the event of the Executive's death, the Option shall be exercisable by such person or persons as shall have acquired the right to exercise the Option by will or by the laws of intestate succession.

(d) If the employment of the Executive is terminated for Cause, the Option shall lapse and no longer be exercisable as of 5:00 p.m. Eastern Standard Time on his Termination Date, as determined by the Administrator. For the purposes herein, "Cause" shall mean the Executive's termination of employment or service resulting from the Executive's termination for "Just Cause" as defined in the Employment Agreement or, if the Employment Agreement ceases to be in effect, then the Executive's termination shall be for "Cause" if termination results due to the Executive's: (i) dishonesty; (ii) refusal to perform his duties for the Corporation; (iii) engaging in fraudulent conduct; or (iv) engaging in any conduct that could be materially damaging to the Corporation without a reasonable good faith belief that such conduct was in the best interest of the Corporation. The determination of "Cause" shall be made by the Administrator and its determination shall be final and conclusive.

6. Effect of Change in Control. Subject to the terms of Section 7(d) of the Employment Agreement, the Administrator shall (taking into account any Code Section 409A considerations) have sole discretion to determine the effect, if any, on the Option, including but not limited to the vesting, earning or exercisability of the Option, in the event of a Change in Control (as defined in Section 22(b)). Without limiting the generality of the foregoing, in the event of a Change in Control, the Administrator's discretion shall include, but shall not be limited to, the discretion to determine that the Option shall vest, be earned or become exercisable in whole or in part, shall be assumed or substituted for another award, shall be cancelled without the payment of consideration or that other actions (or no action) shall be taken with respect to the Option. The Administrator also has discretion to determine that acceleration or any other effect of a Change in Control on the Option shall be subject to both the occurrence of a Change in Control event and termination of employment or service of the Participant.

7. Nontransferability of Option. The Option shall not be transferable (including by sale, assignment, pledge or hypothecation) other than by will or the laws of intestate succession, except as may be permitted by the Administrator in its sole discretion in a manner consistent with the registration provisions of the Securities Act of 1933, as amended (the "Securities Act"). Except as may be permitted by the preceding, the Option shall be exercisable during the Executive's lifetime only by him or by his guardian or legal representative. The designation of a beneficiary in accordance with procedures implemented by the Administrator or its designee does not constitute a transfer.

8. Superseding Agreement; Successors and Assigns. This Agreement supersedes any statements, representations or agreements of the Corporation with respect to the grant of the Option or any related rights, and the Executive hereby waives any rights or claims related to any such statements, representations or agreements. This Agreement does not supersede or amend the Employment Agreement or any existing (or future) confidentiality agreement, nonsolicitation agreement, noncompetition agreement or other similar agreement between the Executive and the Corporation, including, but not limited to, any restrictive covenants contained in such agreements. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective executors, administrators, heirs, successors and assigns.

9. Governing Law. The Agreement shall be construed and enforced according to the laws of the State of North Carolina, without regard to the conflict of laws provisions of any state, and in accordance with applicable federal laws of the United States.

10. Amendment and Termination; Waiver. The Agreement may be modified or amended only by the written agreement of the parties hereto. Notwithstanding the foregoing, the Administrator shall have unilateral authority to amend the Agreement (without Executive consent) to the extent necessary to comply with Applicable Law or changes to Applicable Law (including but in no way limited to Code Section 409A and federal securities laws). The waiver by the Corporation of a breach of any provision of the Agreement by the Executive shall not operate or be construed as a waiver of any subsequent breach by the Executive.

11. No Rights as Stockholder. The Executive and his or her legal representatives, legatees and distributees shall not be deemed to be the holder of any Shares subject to the Option and shall not have any rights of a stockholder unless and until (and then only to the extent that) certificates for such Shares have been issued and delivered to him or them (or, in the case of uncertified shares, other written evidence of ownership in accordance with Applicable Law shall have been provided).

12. Withholding; Tax Matters.

(a) The Executive acknowledges that the Corporation shall require the Executive to pay the Corporation in cash the amount of any tax or other amount required by any governmental authority to be withheld and paid over by the Corporation to such authority for the account of the Executive, and the Executive agrees, as a condition to the grant of the Option and delivery of the Shares or any other benefit, to satisfy such obligations. Notwithstanding the foregoing, the Administrator may establish procedures to permit the Executive to satisfy such obligations in whole or in part, and any other local, state, federal, foreign or other income tax obligations relating to the Option, by electing (the "election") to have the Corporation withhold shares of Common Stock from the Shares to which the Executive is entitled. The number of Shares to be withheld shall have a Fair Market Value as of the date that the amount of tax to be withheld is determined as nearly equal as possible to (but not exceeding) the amount of such obligations being satisfied. Each election must be made in writing to the Administrator in accordance with election procedures established by the Administrator.

(b) The Executive acknowledges that the Corporation has made no warranties or representations to the Executive with respect to the tax consequences (including, but not limited to, income tax consequences) related to the transactions contemplated by this Agreement, and the Executive is in no manner relying on the Corporation or its representatives for an assessment of such tax consequences. The Executive acknowledges that there may be adverse tax consequences upon acquisition or disposition of the Shares subject to the Option and that the Executive should consult a tax advisor prior to such exercise or disposition. The Executive acknowledges that he has been advised that he should consult with his own attorney, accountant or tax advisor regarding the decision to enter into this Agreement and the consequences thereof. The Executive also acknowledges that the Corporation has no responsibility to take or refrain from taking any actions in order to achieve a certain tax result for the Executive.

13. Administration. The authority to construe and interpret this Agreement shall be vested in the Administrator. Any interpretation of the Agreement by the Administrator and any decision made by it with respect to the Agreement is final and binding.

14. Notices. Any written notices provided for in this Agreement shall be in writing and shall be deemed sufficiently given if either hand delivered or if sent by fax or overnight courier, or by postage paid first class mail. Notices sent by mail shall be deemed received three (3) business days after mailed but in no event later than the date of actual receipt. Notices shall be directed, if to the Executive, at the Executive's address indicated on Schedule A (or such other address as may be designated by the Executive in a manner acceptable to the Administrator), or, if to the Corporation, at the Corporation's principal office, attention Chief Financial Officer, Targacept, Inc. Notice may also be provided by electronic submission, if and to the extent permitted by the Administrator.

15. Severability. The provisions of this Agreement are severable and if any one or more provisions may be determined to be illegal or otherwise unenforceable, in whole or in part, the remaining provisions shall nevertheless be binding and enforceable.

16. Restrictions on Option and Shares. The Corporation may impose such restrictions on the Option, the Shares and any other benefits underlying the Option as it may deem advisable, including without limitation restrictions under the federal securities laws, the requirements of any stock exchange or similar organization and any blue sky, state or foreign securities laws applicable to such Option or Shares. Notwithstanding any other provision in the Agreement to the contrary, the Corporation shall not be obligated to issue, deliver or transfer shares of Common Stock, make any other distribution of benefits, or to take any other action, unless such delivery, distribution or action is in compliance with all Applicable Law (including but not limited to the requirements of the Securities Act). The Corporation will be under no obligation to register the Shares with the Securities and Exchange Commission (the "SEC") or to effect compliance with the exemption, registration, qualification or listing requirements of any state securities laws, stock exchange or similar organization, and the Corporation will have no liability for any inability or failure to do so. As a condition to the exercise of the Option, the Corporation may require the Executive or other person exercising the Option to represent and warrant at the time of any such exercise that the Shares are being purchased only for investment and without any present intention to sell or distribution such Shares, if, in the opinion of legal counsel for the Corporation, such a representation is required. The Corporation may cause a restrictive legend to be placed on any certificate for Shares issued pursuant to the exercise of the Option in such form as may be prescribed from time to time by Applicable Law or as may be advised by legal counsel.

17. Effect of Changes in Status. Unless the Administrator, in its sole discretion, determines otherwise, the Option shall not be affected by any change in the terms, conditions or status of the Executive's employment, provided that the Executive continues to be in the employ of the Corporation or an Affiliate. Without limiting the foregoing, the Administrator has sole discretion to determine, at the time of grant of the Option or at any time thereafter, the effect, if any, on the Option if the Executive's status as an Employee changes, including but not limited to a change from full-time to part-time, or vice versa, or if other similar changes in the nature or scope of the Executive's employment occur.

18. Right of Offset. Notwithstanding any other provision of the Agreement, the Corporation may (subject to any Code Section 409A considerations) at any time reduce the amount of any payment otherwise payable to or on behalf of the Executive by the amount of any obligation of the Executive to the Corporation that is or becomes due and payable and, by entering into this Agreement, the Executive shall be deemed to have consented to such reduction.

19. Counterparts; Further Instruments. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. The parties hereto agree to execute such further instruments and to take such further action as may be reasonably necessary to carry out the purposes and intent of this Agreement.

20. Compliance with Recoupment, Ownership and Other Policies or Agreements. As a condition to receiving the Option, the Executive agrees that he shall abide by all provisions of any equity retention policy, compensation recovery policy, stock ownership guidelines and other similar policies maintained by the Corporation, each as in effect from time to time and to the extent applicable to Executive from time to time. In addition, the Executive agrees that he shall be subject to such compensation recovery, recoupment, forfeiture or other similar provisions as may apply at any time to the Executive under Applicable Law.

21. Adjustments. If there is any change in the outstanding shares of Common Stock because of a merger, consolidation or reorganization involving the Corporation or an Affiliate, or if the Board declares a stock dividend, stock split distributable in shares of Common Stock, reverse stock split, combination or reclassification of the Common Stock, or if there is a similar change in the capital stock structure of the Corporation or an Affiliate affecting the Common Stock, the number of Shares of Common Stock subject to the Option (to the extent unexercised) shall be correspondingly adjusted, and the Administrator shall make such adjustments to the Option, the Option Price and to any provisions of the Agreement as the Administrator deems equitable to prevent dilution or enlargement of the Option or as may be otherwise advisable.

22. Certain Definitions. In addition to other terms defined herein, the following terms shall have the meanings given below:

(a) "Affiliate" means any business entity which is controlled by, under common control with or controls the Corporation, including but not limited to any "parent" or "subsidiary" corporation as defined under Code Section 424.

(b) "Change in Control" shall be deemed to have occurred if and as provided in the Employment Agreement (and as defined therein) or, if the Employment Agreement ceases to be in effect, "Change in Control" shall be deemed to have occurred on the earliest of the following dates:

(i) The date any entity or person shall have become the beneficial owner of, or shall have obtained voting control over, more than thirty percent (30%) of the outstanding Common Stock of the Corporation;

(ii) The date of the consummation of: (A) a merger, consolidation, reorganization or similar business transaction of the Corporation with or into another corporation or other business entity (each, a "corporation"), in which the Corporation is not the continuing or surviving entity or pursuant to which any shares of Common Stock of the Corporation would be converted into cash, securities or other property of another entity, other than a transaction of the Corporation in which holders of Common Stock immediately prior to the transaction continue to own at least 50% of the outstanding Common Stock, or if the Corporation is not the surviving entity, the common stock (or other voting securities) of the surviving entity immediately after the transaction as immediately before; or (B) the sale or other disposition of all or substantially all of the assets of the Corporation; or

(iii) The date on which the Continuing Directors (as defined below) do not constitute a majority of the Board (or, if applicable, the Board of Directors of a successor corporation to the Corporation), where the term "Continuing Director" means at any date a member of the Board (A) who was a member of the Board on the date of this Agreement, or (B) who was nominated or elected subsequent to such date by at least a majority of the directors who were Continuing Directors at the time of such nomination or election or whose election to the Board was recommended or endorsed by at least a majority of the directors who were Continuing Directors at the time of such nomination or election; provided, however, that there shall be excluded from

this clause (B) any individual whose initial assumption of office occurred as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents, by or on behalf of a person other than the Board.

(For the purposes herein, the term "person" shall mean any individual, corporation, partnership, group, association or other person, as such term is defined in Section 13(d)(3) or Section 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), other than the Corporation, a subsidiary of the Corporation or any employee benefit plan(s) sponsored or maintained by the Corporation or any subsidiary thereof, and the term "beneficial owner" shall have the meaning given the term in Rule 13d-3 under the Exchange Act.)

The Administrator shall have full and final authority, in its discretion, to determine whether a Change in Control of the Corporation has occurred pursuant to the above definition, the date of the occurrence of such Change in Control and any incidental matters relating thereto.

(c) "Employee" means any person who is an employee of the Corporation or any Affiliate. For this purpose, an individual shall be considered to be an Employee only if there exists between the individual and the Corporation or an Affiliate the legal and bona fide relationship of employer and employee.

(d) "Fair Market Value" per share of the Common Stock shall be established in good faith by the Administrator and, unless otherwise determined by the Administrator, the Fair Market Value shall be determined in accordance with the following provisions: (i) if the shares of Common Stock are listed for trading on the New York Stock Exchange, the American Stock Exchange or the NASDAQ Stock Market, the Fair Market Value shall be the closing sales price per share of the shares on the New York Stock Exchange, the American Stock Exchange or the NASDAQ Stock Market (as applicable) on the date the Option is granted or other determination is made (such date of determination being referred to herein as a "valuation date"), or, if there is no transaction on such date, then on the trading date nearest preceding the valuation date for which closing price information is available, and, provided further, if the shares are not listed for trading on the New York Stock Exchange, the American Stock Exchange or the NASDAQ Stock Market, the Fair Market Value shall be the average between the highest bid and lowest asked prices for such stock on the date of grant or other valuation date as reported on the NASDAQ OTC Bulletin Board Service or by the National Quotation Bureau, Incorporated or a comparable service; or (ii) if the shares of Common Stock are not listed or reported in any of the foregoing, then the Fair Market Value shall be determined by the Administrator based on such valuation measures or other factors as it deems appropriate. Notwithstanding the foregoing, Fair Market Value shall be determined in accordance with Code Section 409A if and to the extent required.

(e) A "Public Market" for the Common Stock shall be deemed to exist (i) upon consummation of a firm commitment underwritten public offering of the Common Stock pursuant to an effective registration statement under the Securities Act, or (ii) if the Administrator otherwise determines that there is an established public market for the Common Stock.

[Signatures of the Corporation and the Executive follow on Schedule A/Grant Notice.]

TARGACEPT, INC.

NONQUALIFIED STOCK OPTION AGREEMENT

Schedule A/Grant Notice

1. Pursuant to the terms and conditions of that certain Nonqualified Stock Option Agreement (the "Agreement") dated by and between Targacept, Inc. (the "Corporation") and Dr. Stephen A. Hill (the "Executive"), you, the Executive, have been granted a stock option (the "Option") to purchase 400,000 shares (the "Shares") of the Common Stock as outlined below.

Name of Executive:	Dr. Stephen A. Hill
Address:	[ADDRESS]
Grant Date:	, 2012
Number of Shares Subject to Option:	400,000
Option Price:	
Type of Option:	Nonqualified Stock Option
Expiration Date (Last day of Option Period):	, 2022
Vesting Schedule/Conditions:	25% on December 31, 2013 and ratably thereafter on the last day of twelve (12) consecutive calendar quarters beginning with March 31, 2014

2. By my signature below, I, the Executive, hereby acknowledge receipt of this Grant Notice and the Agreement which is attached to this Grant Notice. I understand that the Grant Notice and other provisions of Schedule A herein are incorporated by reference into the Agreement and constitute a part of the Agreement. By my signature below, I further agree to be bound by the terms of the Agreement, including but not limited to the terms of this Grant Notice and the other provisions of Schedule A contained herein. The Corporation reserves the right to treat the Option and the Agreement as cancelled, void and of no effect if the Executive fails to return a signed copy of the Grant Notice within thirty (30) days of grant date stated above.

Signature: _____ Date: _____

Agreed to by:

TARGACEPT, INC.

By: _____

Name: _____

Title: _____

Attest:

_____

Peter A. Zorn
Senior Vice President, Legal Affairs, General Counsel and Secretary

Note: If there are any discrepancies in the name or address shown above, please make the appropriate corrections on this form. Please retain a copy of the Agreement, including this Grant Notice, for your files.