

Vanda Pharmaceuticals Inc.  
Form DEF 14A  
April 26, 2013  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**  
**SCHEDULE 14A**  
**(Rule 14a-101)**

**Proxy Statement Pursuant to Section 14(a) of**  
**the Securities Exchange Act of 1934 (Amendment No.    )**

Filed by the Registrant ☒

Filed by a Party other than the Registrant ☐

Check the appropriate box:

- ☐ Preliminary Proxy Statement
- ☐ **Confidential, for Use of the Commission Only** (as permitted by Rule 14a-6(e)(2))
- ☒ Definitive Proxy Statement
- ☐ Definitive Additional Materials
- ☐ Soliciting Material Pursuant to §240.14a-12

**Vanda Pharmaceuticals Inc.**  
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- ☒ No fee required.
- ☐ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
- (1) Title of each class of securities to which transaction applies:

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:



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**Vanda Pharmaceuticals Inc.**

**2200 Pennsylvania Avenue, Suite 300E**

**Washington, D.C. 20037**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

**To Be Held On June 20, 2013**

Dear Stockholder:

You are cordially invited to attend the Annual Meeting of Stockholders (the "Annual Meeting") of Vanda Pharmaceuticals Inc., a Delaware corporation (the "Company"). The Annual Meeting will be held on June 20, 2013, at 9:00 a.m. local time at the Washington Marriott, located at 1221 22<sup>nd</sup> Street NW, Washington, D.C. 20037 for the following purposes:

*Proposal 1:* To elect Michael F. Cola, Howard H. Pien and H. Thomas Watkins to serve as Class I directors until the 2016 annual meeting of stockholders;

*Proposal 2:* To ratify the selection by the Audit Committee of our Board of Directors of PricewaterhouseCoopers LLP as the independent registered public accounting firm of the Company for the year ending December 31, 2013;

*Proposal 3:* To approve on an advisory basis the named executive officer compensation; and

To conduct any other business properly brought before the Annual Meeting or any adjournments or postponements thereof. The record date for the Annual Meeting is April 23, 2013. Only stockholders of record at the close of business on that date may vote at the Annual Meeting or any adjournment thereof. A complete list of such stockholders will be available for examination at our offices in Washington, D.C. during normal business hours for a period of ten days prior to the Annual Meeting.

**YOUR VOTE IS IMPORTANT!**

**Your vote is important. Please vote by using the internet or by telephone or, if you received a paper copy of the proxy card by mail, by signing and returning the enclosed proxy card. Instructions for your voting options are described on the Notice of Internet Availability of Proxy Materials or proxy card.**

**Important Notice Regarding the Availability of Proxy Materials for the Stockholders Meeting to be held on June 20, 2013. The proxy statement and annual report are available at [www.proxyvote.com](http://www.proxyvote.com).**

Your Board of Directors unanimously recommends you vote the proxy card **FOR** the Company's three director nominees, Michael F. Cola, Howard H. Pien and H. Thomas Watkins; **FOR** Proposal 2 and **FOR** Proposal 3.

By Order of the Board of Directors,

James P. Kelly

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*Senior Vice President, Chief Financial Officer, Treasurer  
and Secretary*

Washington, D.C.

April 26, 2013

This notice of Annual Meeting and accompanying proxy statement are being distributed or made available to stockholders on or about April 26, 2013.

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**Vanda Pharmaceuticals Inc.**

**2200 Pennsylvania Avenue, Suite 300E**

**Washington, D.C. 20037**

**PROXY STATEMENT**

**FOR THE 2013 ANNUAL MEETING OF STOCKHOLDERS**

**June 20, 2013**

This proxy statement and proxy card are furnished in connection with the solicitation of proxies to be voted at the 2013 Annual Meeting of Stockholders (the "Annual Meeting") of Vanda Pharmaceuticals Inc. (sometimes referred to as "we", the "Company" or "Vanda"), which will be held on June 20, 2013, at 9:00 a.m. local time at the Washington Marriott, located at 1221 22nd Street NW, Washington, D.C. 20037.

We are making this proxy statement and our annual report available to stockholders at [www.proxyvote.com](http://www.proxyvote.com). On or about April 26, 2013, we will begin mailing to certain of our stockholders a notice (the "Notice") containing instructions on how to access and review this proxy statement and our annual report at that website. The Notice also instructs you how you may submit your proxy over the internet or via telephone. If you would like to receive a printed copy of our proxy materials, you should follow the instructions for requesting those materials included in the Notice.

**QUESTIONS AND ANSWERS ABOUT THIS PROXY MATERIAL AND VOTING**

**Why am I receiving this proxy statement and proxy card?**

You have received these proxy materials because you owned shares of Vanda common stock as of April 23, 2013, the record date for the Annual Meeting, and our Board of Directors is soliciting your proxy to vote at the Annual Meeting. This proxy statement describes issues on which we would like you to vote at the Annual Meeting. It also gives you information on these issues so that you can make an informed decision.

**Why did I receive a Notice of Internet Availability of Proxy Materials in the mail instead of a printed set of proxy materials?**

Pursuant to rules adopted by the Securities and Exchange Commission, we are permitted to furnish our proxy materials over the internet to our stockholders by delivering a Notice in the mail. As a result, only stockholders that specifically request a printed copy of the proxy statement will receive one. Instead, the Notice instructs stockholders on how to access and review the proxy statement and annual report over the internet at [www.proxyvote.com](http://www.proxyvote.com). The Notice also instructs stockholders on how they may submit their proxy over the internet. If a stockholder who received a Notice would like to receive a printed copy of our proxy materials, such stockholder should follow the instructions for requesting these materials contained in the Notice.

**How may I vote at the Annual Meeting?**

You are invited to attend the Annual Meeting to vote on the proposals described in this proxy statement. However, you do not need to attend the meeting to vote your shares. Instead, you may simply follow the instructions below to submit your proxy via telephone or on the internet. If you received a printed set of materials, you may also vote by mail by signing, dating and returning the proxy card.

When you vote by using the internet or by telephone or by signing and returning the proxy card, you appoint Dr. Mihael H. Polymeropoulos and Mr. James P. Kelly as your representatives (or proxyholders) at the Annual Meeting. They will vote your shares at the Annual Meeting as you have instructed them or, if an issue that is not on the proxy card comes up for vote, in accordance with their best judgment. This way, your shares will be voted whether or not you attend the Annual Meeting.

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### **Who is entitled to vote at the Annual Meeting?**

Only stockholders of record at the close of business on April 23, 2013, the record date for the Annual Meeting, will be entitled to vote at the Annual Meeting. On the record date, there were 28,346,782 shares of the Company's common stock outstanding. All of these outstanding shares are entitled to vote at the Annual Meeting (one vote per share of common stock) in connection with the matters set forth in this proxy statement.

In accordance with Delaware law, a list of stockholders entitled to vote at the meeting will be available at the place of the Annual Meeting on June 20, 2013 and will be accessible for ten days prior to the meeting at our principal place of business, 2200 Pennsylvania Avenue, Suite 300E, Washington, D.C. 20037, between the hours of 9:00 a.m. and 5:00 p.m. local time.

### **How do I vote?**

If on April 23, 2013, your shares were registered directly in your name with our transfer agent, American Stock Transfer & Trust Company, then you are a stockholder of record. Stockholders of record may vote by using the internet, by telephone or (if you received a proxy card by mail) by mail as described below. Stockholders also may attend the meeting and vote in person. If you hold shares through a bank, broker or other nominee, please refer to your proxy card, Notice or other information forwarded by your bank, broker or other nominee to see which voting options are available to you.

*You may vote by using the internet.* The address of the website for internet voting is [www.proxyvote.com](http://www.proxyvote.com). Internet voting is available 24 hours a day and will be accessible until 11:59 p.m. Eastern Time on June 19, 2013. Easy-to-follow instructions allow you to vote your shares and confirm that your instructions have been properly recorded.

*You may vote by telephone.* The toll-free telephone number is noted on Notice and your proxy card. Telephone voting is available 24 hours a day and will be accessible until 11:59 p.m. Eastern Time on June 19, 2013. Easy-to-follow voice prompts allow you to vote your shares and confirm that your instructions have been properly recorded.

*You may vote by mail.* If you received a proxy card by mail and choose to vote by mail, simply mark your proxy card, date and sign it, and return it in the postage-paid envelope.

The method you use to vote will not limit your right to vote at the Annual Meeting if you decide to attend in person. Written ballots will be passed out to anyone who wants to vote at the Annual Meeting. If you hold your shares in street name, you must obtain a proxy, executed in your favor, from the holder of record to be able to vote in person at the Annual Meeting.

### **Can I change my vote after submitting my proxy?**

Yes. You can revoke your proxy at any time before the final vote at the Annual Meeting. If you are the record holder of your shares, you may revoke your proxy in any one of three ways:

You may submit a subsequent proxy by using the internet, by telephone or by mail with a later date;

You may deliver a written notice that you are revoking your proxy to the Secretary of the Company at 2200 Pennsylvania Avenue, Suite 300E, Washington, D.C. 20037; or

You may attend the Annual Meeting and vote your shares in person. Simply attending the Annual Meeting without affirmatively voting will not, by itself, revoke your proxy.

If you are a beneficial owner of your shares, you must contact the bank, broker or other nominee holding your shares and follow their instructions for changing your vote.





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### **How many votes do you need to hold the Annual Meeting?**

A quorum of stockholders is necessary to conduct business at the Annual Meeting. Pursuant to our bylaws, a quorum will be present if a majority of the voting power of outstanding shares of the Company entitled to vote generally in the election of directors is represented in person or by proxy at the Annual Meeting. On the record date, there were 28,346,782 shares of common stock outstanding and entitled to vote. Thus 14,173,392 shares must be represented by stockholders present at the Annual Meeting or represented by proxy to have a quorum.

Your shares will be counted towards the quorum only if you submit a valid proxy (or one is submitted on your behalf by your broker, bank or other nominee) or if you attend the Annual Meeting and vote in person. Abstentions and broker non-votes will be counted for the purpose of determining whether a quorum is present for the transaction of business. If a quorum is not present, the holders of a majority of the votes present at the Annual Meeting may adjourn the Annual Meeting to another date.

### **What matters will be voted on at the Annual Meeting?**

The following matters are scheduled to be voted on at the Annual Meeting:

*Proposal 1:* To elect Michael F. Cola, Howard H. Pien and H. Thomas Watkins to serve as Class I directors until the 2016 annual meeting of stockholders;

*Proposal 2:* To ratify the selection of PricewaterhouseCoopers LLP as our independent registered public accountants for the year ending December 31, 2013; and

*Proposal 3:* To approve on an advisory basis the named executive officer compensation.

No cumulative voting rights are authorized, and dissenters' rights are not applicable to these matters.

### **Could other matters be decided at the Annual Meeting?**

Vanda does not know of any other matters that may be presented for action at the Annual Meeting. Should any other business come before the Annual Meeting, the persons named on the proxy card will have discretionary authority to vote the shares represented by proxies in accordance with their best judgment. If you hold shares through a broker, bank or other nominee as described above, they will not be able to vote your shares on any other business that comes before the Annual Meeting unless they receive instructions from you with respect to such other business.

### **What will happen if I do not vote my shares?**

*Stockholder of Record: Shares Registered in Your Name.* If you are the stockholder of record of your shares and you do not vote by proxy card, by telephone, via the internet or in person at the Annual Meeting, your shares will not be voted at the Annual Meeting.

*Beneficial Owner: Shares Registered in the Name of Broker, Bank or other Nominee.* Banks, brokers or other nominees who hold shares of our common stock for a beneficial owner have the discretion to vote on routine proposals when they have not received voting instructions from the beneficial owner at least ten days prior to the Annual Meeting. A broker non-vote occurs when a broker or other nominee does not receive voting instructions from the beneficial owner and does not have the discretion to direct the voting of the shares. Under the rules that govern brokers who are voting shares held in street name, brokers have the discretion to vote those shares on routine matters but not on non-routine matters. Proposal 2 is the only routine matter in this proxy statement. As such, your broker does not have discretion to vote your shares with respect to Proposals 1 or 3.

We encourage you to provide instructions to your bank, brokerage firm or other nominee by voting your shares pursuant to the instructions they have provided to you. This action ensures your shares will be voted at the meeting in accordance with your wishes.



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### **How may I vote for each proposal and what is the vote required for each proposal?**

#### ***Proposal 1: Election of three Class I directors.***

With respect to the election of nominees for director, you may:

vote **FOR** the election of the three nominees for director;

**WITHHOLD** your vote for one or two of the nominees and vote **FOR** the remaining nominee(s); or

**WITHHOLD** your vote for the three nominees.

Directors will be elected by a plurality of the votes cast at the Annual Meeting, meaning the three nominees who are properly nominated in accordance with our bylaws, and receive the most **FOR** votes will be elected. Only votes cast **FOR** a nominee will be counted. An instruction to

**WITHHOLD** authority to vote for one or more of the nominees will result in those nominees receiving fewer votes, but will not count as a vote against the nominees. Abstentions and broker non-votes will have no effect on the outcome of the election of directors. Because the election of directors is not a matter on which a bank, broker or other nominee is generally empowered to vote, broker non-votes are expected to exist in connection with this matter.

#### ***Proposal 2: Ratification of the selection of PricewaterhouseCoopers LLP as our independent registered public accountants for the year ending December 31, 2013.***

You may vote **FOR** or **AGAINST** or abstain from voting. To ratify the selection by the audit committee of our Board of Directors of PricewaterhouseCoopers LLP as the independent registered public accounting firm of the Company for the year ending December 31, 2013, the Company must receive a **FOR** vote from a majority of all those outstanding shares that are present in person, or represented by proxy, and that are cast either affirmatively or negatively on the proposal at the Annual Meeting. Abstentions and broker non-votes will not be counted **FOR** or

**AGAINST** the proposal and will have no effect on the proposal. Because the ratification of the appointment of the independent registered public accounting firm is a matter on which a bank, broker or other nominee is generally empowered to vote, no broker non-votes are expected to exist in connection with this matter.

#### ***Proposal 3: Advisory vote on executive compensation.***

You may vote **FOR** or **AGAINST** or abstain from voting. To approve the compensation of the Company's named executive officers on an advisory non-binding basis as set forth in this proxy statement, the Company must receive a **FOR** vote from a majority of all those outstanding shares that are present in person, or represented by proxy, and that are cast either affirmatively or negatively on the proposal at the Annual Meeting. Abstentions and broker non-votes will not be counted **FOR** or **AGAINST** the proposal and will have no effect on the proposal. Because Proposal 3 is a non-routine matter, broker non-votes are expected to exist in connection with this matter.

### **What happens if a director nominee is unable to stand for election?**

If a nominee is unable to stand for election, our Board of Directors may either:

reduce the number of directors that serve on the board, or

designate a substitute nominee.

If our Board of Directors designates a substitute nominee, shares represented by proxies voted for the nominee who is unable to stand for election will be voted for the substitute nominee.



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### **How does the Board of Directors recommend that I vote?**

The Board of Directors recommends a vote:

*Proposal 1:*     **FOR** the election of each of Michael F. Cola, Howard H. Pien and H. Thomas Watkins as Class I directors to serve a term of three years until our 2016 annual meeting of stockholders;

*Proposal 2:*     **FOR** the ratification of PricewaterhouseCoopers LLP as the independent registered public accounting firm of the Company for the year ending December 31, 2013; and

*Proposal 3:*     **FOR** the approval of, in an advisory manner, the compensation of our named executive officers as set forth in this proxy statement.

### **What happens if I sign and return my proxy card but do not provide voting instructions?**

If you return a signed and dated proxy card without marking any voting selections, your shares will be voted:

*Proposal 1:*     **FOR** the election of each of Michael F. Cola, Howard H. Pien and H. Thomas Watkins as Class I directors;

*Proposal 2:*     **FOR** the ratification of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the year ending December 31, 2013; and

*Proposal 3:*     **FOR** the approval, in an advisory manner, of the compensation of our named executive officers as set forth in this proxy statement.

If any other matter is properly presented at the Annual Meeting, the proxyholders for shares voted on the proxy card (i.e. one of the individuals named as proxies on your proxy card) will vote your shares using their best judgment.

### **What do I need to show to attend the Annual Meeting in person?**

You will need proof of your share ownership (such as a recent brokerage statement or letter from your broker showing that you owned shares of our common stock as of April 23, 2013) and a form of photo identification. If you do not have proof of ownership and valid photo identification, you may not be admitted to the Annual Meeting. All bags, briefcases and packages will be held at registration and will not be allowed in the meeting. We will not permit the use of cameras (including cell phones with photographic capabilities) and other recording devices in the meeting room.

### **Who is paying for this proxy solicitation?**

The accompanying proxy is being solicited by the Board of Directors of the Company. In addition to this solicitation, directors and employees of the Company may solicit proxies in person, by telephone, or by other means of communication. Directors and employees will not be paid any additional compensation for soliciting proxies. In addition, the Company may also retain one or more third parties to aid in the solicitation of brokers, banks and institutional and other stockholders. We will pay for the entire cost of soliciting proxies. We may reimburse brokerage firms, banks and other agents for the cost of forwarding proxy materials to beneficial owners.

### **What happens if the Annual Meeting is postponed or adjourned?**

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Unless the polls have closed or you have revoked your proxy, your proxy will still be in effect and may be voted once the Annual Meeting is reconvened. However, you will still be able to change or revoke your proxy with respect to any proposal until the polls have closed for voting on such proposal.

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### **How can I find out the results of the voting at the Annual Meeting?**

Preliminary voting results are expected to be announced at the Annual Meeting. Final voting results will be reported on a Current Report on Form 8-K filed with the SEC no later than the fourth business day after the Annual Meeting.

### **How can I find Vanda's proxy materials and annual report on the internet?**

This proxy statement and the 2012 annual report are available at our corporate website at [www.vandapharma.com](http://www.vandapharma.com). You also can obtain copies without charge at the SEC's website at [www.sec.gov](http://www.sec.gov). Additionally, in accordance with SEC rules, you may access these materials at [www.proxyvote.com](http://www.proxyvote.com) which does not have cookies that identify visitors to the site.

### **How do I obtain a separate set of Vanda's proxy materials if I share an address with other stockholders?**

In some cases, stockholders holding their shares in a brokerage or bank account who share the same surname and address receive only one copy of the Notice. This practice, called "housekeeping", is designed to reduce duplicate mailings and save printing and postage costs as well as natural resources. If you would like to have a separate copy of the Notice or our annual report and/or proxy statement mailed to you or to receive separate copies of future mailings, please submit your request to the address or phone number that appears on your Notice or proxy card. We will deliver such additional copies promptly upon receipt of such request.

In other cases, stockholders receiving multiple copies at the same address may wish to receive only one. If you would like to receive only one copy if you now receive more than one, please submit your request to the address or phone number that appears on your Notice or proxy card.

### **Can I receive future proxy materials and annual reports electronically?**

Yes. This proxy statement and the 2012 annual report are available on our investor relations website located at [www.vandapharma.com](http://www.vandapharma.com). Instead of receiving paper copies in the mail, stockholders can elect to receive an email that provides a link to our future annual reports and proxy materials on the internet. Opting to receive your proxy materials electronically will save us the cost of producing and mailing documents to your home or business, will reduce the environmental impact of our annual meetings and will give you an automatic link to the proxy voting site.

### **May I propose actions for consideration at next year's annual meeting or nominate individuals to serve as directors?**

Yes. The following requirements apply to stockholder proposals, including director nominations, for the 2014 annual meeting of stockholders.

#### ***Requirements for Stockholder Proposals to be Considered for Inclusion in Vanda's Proxy Materials:***

Stockholders interested in submitting a proposal (other than the nomination of directors) for inclusion in the proxy materials to be distributed by us for the 2014 annual meeting of stockholders may do so by following the procedures prescribed in Rule 14a-8 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). To be eligible for inclusion in Vanda's proxy materials, stockholder proposals must be received at our principal executive offices no later than the close of business on December 27, 2013 which is the 120th day prior to the first anniversary of the date that we released this Proxy Statement to our stockholders for the Annual Meeting. To be included in our proxy materials, your proposal also must comply with the Company's bylaws and Rule 14a-8 promulgated under the Exchange Act regarding the inclusion of stockholder proposals in company-sponsored proxy materials. If we change the date of the 2014 annual



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meeting of stockholders by more than 30 days from the anniversary of this year's Annual Meeting, stockholder proposals must be received a reasonable time before we begin to print and mail our proxy materials for the 2014 annual meeting of stockholders. Proposals should be sent to Vanda Pharmaceuticals Inc., 2200 Pennsylvania Avenue, Suite 300E, Washington, D.C. 20037 Attn: Secretary.

### ***Requirements for Stockholder Nomination of Director Candidates and Stockholder Proposals Not Intended for Inclusion in Vanda's Proxy Materials:***

Stockholders who wish to nominate persons for election to the Board of Directors at the 2014 annual meeting of stockholders or who wish to present a proposal at the 2014 annual meeting of stockholders, but who do not intend for such proposal to be included in Vanda's proxy materials for such meeting, must deliver written notice of the nomination or proposal to our Corporate Secretary at 2200 Pennsylvania Avenue, Suite 300E, Washington, D.C. 20037 no earlier than February 10, 2014 and no later than March 12, 2014. However, if the 2014 annual meeting of stockholders is held earlier than May 21, 2014 or later than July 20, 2014, nominations and proposals must be received no later than the close of business on the later of (a) the 90<sup>th</sup> day prior to the 2014 annual meeting of stockholders and (b) the 10th day following the day we first publicly announce the date of the 2014 annual meeting. The stockholder's written notice must include certain information concerning the stockholder and each nominee and proposal, as specified in Vanda's bylaws.

### ***Copy of Bylaws:***

You may request a copy of the Company's bylaws at no charge by writing to Vanda's Secretary at 2200 Pennsylvania Avenue, Suite 300E, Washington, D.C. 20037. A current copy of our bylaws also is available at our corporate website at [www.vandapharma.com](http://www.vandapharma.com). To access our bylaws from the main page of our website, click on "Investor Relations" at the top of the page, then click on "Corporate Governance," and then click on "Amended and Restated Bylaws."

### **Whom should I call if I have any questions?**

If you have any questions, would like additional Vanda proxy materials or proxy cards, or need assistance in voting your shares, please contact Investor Relations, Vanda Pharmaceuticals Inc., 2200 Pennsylvania Avenue, Suite 300E, Washington, D.C. 20037 or by telephone at (202) 734-3400.

### **Important Notice Regarding the Availability of Proxy Materials**

**for the Meeting to be Held on Thursday, June 20, 2013**

This proxy statement and our annual report are available on-line at [www.proxyvote.com](http://www.proxyvote.com).

**Table of Contents****PROPOSAL 1****ELECTION OF DIRECTORS**

Under our bylaws, our Board of Directors is divided into three classes of roughly equal size. The members of each class are elected to serve a 3-year term with the term of office of each of the three classes ending in successive years. Pursuant to our bylaws, the Board of Directors has fixed the current number of directors at seven. Michael F. Cola, Howard H. Pien and H. Thomas Watkins are the three Class I directors whose terms expire at this Annual Meeting. Messrs. Cola, Pien and Watkins have been nominated for election by our Board of Directors to serve until the 2016 annual meeting of stockholders or until their successors are elected (or until their earlier death, resignation or removal). It is our policy to encourage nominees for director to attend the Annual Meeting. Michael F. Cola's, Howard H. Pien's and H. Thomas Watkins's ages as of April 23, 2013 and certain additional biographical information are set forth below.

Directors are elected by a plurality of the votes cast at the Annual Meeting. The three nominees receiving the highest number of **FOR** votes will be elected. Abstentions and broker non-votes will have no effect on the outcome of the election of directors at the Annual Meeting.

Shares represented by signed proxy cards will be voted on Proposal 1 **FOR** the election of Messrs. Cola, Pien and Watkins to the Board of Directors at the Annual Meeting, unless otherwise marked on the card. If any Vanda director nominee becomes unavailable for election as a result of an unexpected occurrence, shares represented by proxy will be voted for the election of a substitute nominee designated by our current Board of Directors, unless otherwise marked on the card. Messrs. Cola, Pien and Watkins, Vanda's three director nominees, have each agreed to serve as a director if elected. We have no reason to believe that any of the Vanda nominees will be unable to serve if elected.

**Nominees for Election as Class I Directors at the Annual Meeting**

This year's nominees for election to the Board of Directors as our Class I directors to serve for a term of three years expiring at the 2016 annual meeting of stockholders, or until their successors have been duly elected and qualified or until their earlier death, resignation or removal, are provided below. The age of each director as of April 23, 2013 is set forth below.

<b>Name</b>	<b>Age</b>	<b>Positions and Offices Held with Company</b>	<b>Director Since</b>
Michael F. Cola	53	Director	2012
Howard H. Pien	55	Director, Chairman of the Board	2007
H. Thomas Watkins	60	Director	2006

The following is additional information about each of the nominees as of the date of this proxy statement, including their business experience, public company director positions held currently or at any time during the last five years, involvement in certain legal or administrative proceedings, if applicable, and the experiences, qualifications, attributes or skills that caused the nominating/corporate governance committee and our Board of Directors to determine that the nominees should serve as one of our directors.

*Michael F. Cola* served as President of Shire plc's Specialty Pharmaceuticals business from 2007 until April 2012. Mr. Cola joined Shire in July 2005 as Executive Vice President for Global Therapeutic Business Units and Portfolio Management prior to being named President of the Specialty Pharmaceuticals business. Prior to joining Shire, Mr. Cola spent more than five years at Safeguard Scientifics, where he served as President of the Life Sciences Group. As part of his role with Safeguard Scientifics, Cola served as Chairman and CEO of Clarient, a cancer diagnostics company, and Chairman of Laureate Pharma, a full service contract manufacturing organization serving research based biologics companies. Prior to joining Safeguard Scientifics, Mr. Cola held progressively senior positions in product development and commercialization at AstraMerck, and later with AstraZeneca. Mr. Cola currently serves on the Board of Directors of NuPathe Pharmaceuticals Inc., is a member

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of the Board of Trustees of Ursinus College, and a member of the Board of Directors of Pennsylvania Bio, the statewide association representing the biosciences community. Mr. Cola received his Bachelor of Arts degree in biology and physics from Ursinus College and his Master of Science degree in biomedical science from Drexel University. We believe that Mr. Cola's qualifications to sit on our Board of Directors include his executive experience in the pharmaceutical industry, his experience with product development and commercialization and his experience on other public company boards.

*Other public directorships held by Mr. Cola within the past five years:* NuPathe Pharmaceuticals Inc.

*Howard H. Pien* has served as Chairman of the Board since December 2010. Mr. Pien served as President and Chief Executive Officer and a director of Medarex, Inc from June 2007 until it was acquired by Bristol-Myers Squibb Co. in September 2009. Prior to his tenure at Medarex, Mr. Pien served as President and Chief Executive Officer of Chiron Corporation until April 2006 when it was acquired by Novartis. He joined Chiron from GlaxoSmithKline (formerly SmithKline Beecham), where he served as President, Pharmaceuticals for SmithKline Beecham and later as President of GlaxoSmithKline's International Pharmaceuticals business. Mr. Pien has also held positions in sales, market research, licensing and product management at Abbott Laboratories and Merck & Co. Mr. Pien currently serves as a director of ViroPharma Incorporated, ImmunoGen, Inc. and Talon Therapeutics, Inc., all of which are public companies engaged in drug development as well as Ikaria, a private company engaged in life sciences. Mr. Pien previously served on the boards of Oakland Children's Hospital, Chiron, and Medarex. Mr. Pien earned a B.S. from the Massachusetts Institute of Technology and an M.B.A. from Carnegie-Mellon University. We believe that Mr. Pien's qualifications to sit on our Board of Directors include his executive experience in the pharmaceutical business, his knowledge of product licensing and management, his business degree and his experience on other public company boards.

*Other public directorships held by Mr. Pien within the past five years:* Medarex, ViroPharma Incorporated, ImmunoGen, Inc. and Talon Therapeutics, Inc.

*H. Thomas Watkins* has served as the President and Chief Executive Officer of Human Genome Sciences, Inc. and as a member of its Board of Directors from 2005 until August 2012, when Human Genome Sciences, Inc. was acquired by GlaxoSmithKline. Prior to his tenure at Human Genome Sciences, Inc., Mr. Watkins served as President of TAP Pharmaceutical Products, Inc. Mr. Watkins previously held a series of executive positions over the course of nearly twenty years with Abbott Laboratories. Mr. Watkins also serves on the Board of Directors of the Biotechnology Industry Organization ( BIO ), and has served as Chair of the BIO Board of Directors since June, 2011. He holds a B.B.A. from the College of William and Mary and an M.B.A from the University of Chicago Graduate School of Business. We believe that Mr. Watkins' qualifications to sit on our Board of Directors include his executive experience in the pharmaceutical business, his experience with late-stage product development, his knowledge of in-licensing and other partnering strategies, his business degree and his experience on other public company boards.

*Other public directorships held by Mr. Watkins within the past five years:* Human Genome Sciences, Inc.

**YOUR BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT YOU VOTE THE PROXY CARD FOR THE ELECTION OF MICHAEL F. COLA, HOWARD H. PIEN AND H. THOMAS WATKINS**

**Table of Contents****Continuing Directors Not Standing for Election**

Certain information about those directors whose terms do not expire at the Annual Meeting is furnished below, including their business experience, public company director positions held currently or at any time during the last five years, involvement in certain legal or administrative proceedings, if applicable, and the experiences, qualifications, attributes or skills that caused the nominating/corporate governance committee and our Board of Directors to determine that the directors should serve as one of our directors. The age of each director as of April 23, 2013 is set forth below.

Name	Age	Positions and Offices Held with Company	Director Since
Richard W. Dugan	71	Director	2005
Steven K. Galson, M.D., M.P.H.	56	Director	2010
Vincent J. Milano	49	Director	2010
Mihael H. Polymeropoulos, M.D.	53	Director, President, Chief Executive Officer	2003

**Class II Directors (Terms Expire in 2014)**

*Richard W. Dugan* served as a Partner with Ernst & Young, LLP from 1976 to September 2002, where he served in a variety of managing and senior partner positions, including Mid-Atlantic Area Senior Partner from 2001 to 2002, Mid-Atlantic Area Managing Partner from 1989 to 2001 and Pittsburgh Office Managing Partner from 1979 to 1989. Mr. Dugan retired from Ernst & Young, LLP in September 2002. Mr. Dugan previously served as a director of two publicly traded pharmaceutical companies, Middlebrook Pharmaceuticals, Inc. and Critical Therapeutics, Inc., and a privately-owned pharmaceutical company, Xanthus Pharmaceuticals. Mr. Dugan holds a B.S.B.A. from Pennsylvania State University. We believe that Mr. Dugan's qualifications to sit on our Board of Directors include his more than 25 years as a Partner with Ernst & Young, LLP, his long history with the Company, his status as a financial expert under The Sarbanes-Oxley Act of 2002 and his experience on other public company boards.

*Other public directorships held by Mr. Dugan within the past five years:* Middlebrook Pharmaceuticals, Inc. (formerly known as Advancis Pharmaceutical Corporation) and Critical Therapeutics, Inc.

*Vincent J. Milano* has served as President and Chief Executive Officer of ViroPharma Incorporated since March 2008. Mr. Milano served as Chief Operating Officer from January 2006 to March 2008, and as Vice President, Chief Financial Officer of ViroPharma from November 1997 to March 2008. Mr. Milano also previously served as Vice President, Finance & Administration, Treasurer, and as Executive Director, Finance & Administration of ViroPharma. Prior to joining ViroPharma, Mr. Milano was with KPMG LLP, independent certified public accountants, where he was a Senior Manager from 1991 to 1996. Mr. Milano received his Bachelor of Science degree in Accounting from Rider College. We believe that Mr. Milano's qualifications to sit on our Board of Directors include his executive experience in the pharmaceutical business, his knowledge of finance and accounting, and his experience on other public company boards.

*Other public directorships held by Mr. Milano within the past five years:* ViroPharma Incorporated.

**Class III Directors (Terms Expire in 2015)**

*Mihael H. Polymeropoulos, M.D.* co-founded Vanda and has served as President, Chief Executive Officer and a Director since May of 2003. Prior to joining Vanda, Dr. Polymeropoulos was Vice President and Head of the Pharmacogenetics Department at Novartis AG from 1998 to 2003. Prior to his tenure at Novartis, he served as Chief of the Gene Mapping Section, Laboratory of Genetic Disease Research, National Human Genome Research Institute, from 1992 to 1998. Dr. Polymeropoulos is the co-founder of the Integrated Molecular Analysis of Genome Expression (IMAGE) Consortium. Dr. Polymeropoulos holds a degree in Medicine from

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the University of Patras. We believe that Dr. Polymeropoulos' qualifications to sit on our Board of Directors include his executive experience at Novartis, his expertise in the fields of psychology and pharmacogenetics, his extensive knowledge of central nervous system disorders and his long history with the Company.

*Other public directorships held by Dr. Polymeropoulos within the past five years:* None.

*Steven K. Galson, M.D, M.P.H.* is the Vice President for Global Regulatory Affairs at Amgen, a biopharmaceuticals company. Prior to Amgen, Dr. Galson was Senior Vice President for Civilian Health Operations at Science Applications International Corporation ( SAIC ), a scientific, engineering and technology applications company. Prior to joining SAIC, Dr. Galson was the Acting U.S. Surgeon General. Prior to that, Dr. Galson was the Director of the Food and Drug Administration's Center for Drug Evaluation and Research. Dr. Galson also held executive positions in the U.S. Environmental Protection Agency, U.S. Department of Energy and the Centers for Disease Control and Prevention's National Institute for Occupational Safety and Health. Dr. Galson received his Bachelor of Science degree in biochemistry from the State University of New York at Stony Brook, his Doctor of Medicine degree from the Mt. Sinai School of Medicine and his Master of Public Health degree from the Harvard School of Public Health. We believe that Dr. Galson's qualifications to sit on our Board include his experiences as the Acting U.S. Surgeon General and Deputy Director and Director of the Food and Drug Administration's Center for Drug Evaluation and Research, as well as his degrees in medicine and public health and board certification in general preventative medicine, public health and occupational medicine.

*Other public directorships held by Dr. Galson within the past five years:* None.

**Table of Contents****CORPORATE GOVERNANCE****Independence of the Board of Directors**

As required under Nasdaq listing standards, a majority of the members of a listed company's board of directors must qualify as independent, as affirmatively determined by the board of directors. Consistent with these regulations, after review of all relevant transactions or relationships between each director, or any of his family members, and the Company, its senior management and its independent registered public accounting firm, the Board of Directors has determined that all of our directors are independent directors within the meaning of applicable Nasdaq listing standards, except for Dr. Mihael H. Polymeropoulos, our Chief Executive Officer.

**Information Regarding the Board of Directors and its Committees**

As required under Nasdaq listing standards, our independent directors meet in regularly scheduled executive sessions at which only independent directors are present. Mr. Pien, Chairman of the Board of Directors, presides over these executive sessions.

The Board of Directors has an Audit Committee, a Compensation Committee and a Nominating/Corporate Governance Committee. The following table provides membership and meeting information for each of the Board committees during 2012:

<b>Committee</b>	<b>Chairman</b>	<b>Members</b>	<b>Number of Committee Meetings in 2012</b>
Audit Committee	Richard W. Dugan	Howard H. Pien(1)  Vincent J. Milano Michael F. Cola(1)	9
Compensation Committee	Argeris N. Karabelas, Ph.D.(2)	Howard H. Pien  Vincent J. Milano(3)  H. Thomas Watkins  Vincent J. Milano(3)	2
Nominating/Corporate Governance Committee	Richard W. Dugan	Argeris N. Karabelas, Ph.D.(2) Steven K. Galson, M.D., M.P.H.  Howard H. Pien	3

(1) Mr. Cola replaced Mr. Pien upon Mr. Cola's election to the board, effective as of June 14, 2012.

(2) Argeris N. Karabelas, Ph.D. resigned from the Board of Directors, effective as of January 18, 2012.

(3) Mr. Milano was appointed Chairman of the Compensation Committee on January 18, 2012 following the resignation of Dr. Karabelas. Below is a description of each committee of the Board of Directors. The Board of Directors has determined that each member of the Audit, Compensation and Nominating/Corporate Governance Committees meets applicable rules and regulations regarding independence and that each such member is free of any relationship that would interfere with his individual exercise of independent judgment with regard to the Company.

**Audit Committee**

The Audit Committee of the Board of Directors oversees the quality and integrity of the Company's financial statements and other financial information provided to the Company's stockholders, the retention and performance of the Company's independent accountants, the effectiveness of the Company's internal controls and disclosure controls, and the Company's compliance with ethics policies and SEC and related regulatory

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requirements. For these purposes, the Audit Committee, among other duties and powers, (1) approves audit fees for, and selects and reviews the performance of, the Company's independent accountants, (2) reviews reports

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prepared by management, and attested by the Company's independent accountants with respect to the financial statements contained therein, assessing the adequacy and effectiveness of the Company's internal controls and procedures, prior to the inclusion of such reports in the Company's periodic filings as required under the rules of the SEC, (3) reviews the Company's annual and quarterly reports, and associated consolidated financial statements, with management and the independent accountants prior to the first public release of the Company's financial results for such year or quarter, (4) reviews with external counsel any legal matters that could have a significant impact on the Company's financial statements, (5) establishes and maintains procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls and auditing matters and business conduct or ethics violations, and (6) reviews the Company's compliance with its Code of Ethics and Business Conduct. Our Audit Committee charter can be found in the corporate governance section of our corporate website at [www.vandapharma.com](http://www.vandapharma.com). Three directors comprised the Audit Committee in 2012: Mr. Dugan (the Chairman of the Audit Committee), Mr. Cola and Mr. Milano. Mr. Cola replaced Mr. Pien on the Audit Committee effective as of June 14, 2012. The Audit Committee met nine times during 2012.

The Board of Directors annually reviews the Nasdaq listing standards definition of independence for Audit Committee members and has determined that all members of our Audit Committee are independent (as independence is currently defined in applicable Nasdaq listing standards and Rule 10A-3 promulgated under the Exchange Act).

## **Compensation Committee**

The Compensation Committee of the Board of Directors reviews and approves the design of, assesses the effectiveness of, and administers executive compensation programs, including our equity incentive plans. For these purposes, the Compensation Committee, among other duties and powers, (1) reviews and approves corporate goals and objectives relevant to the compensation of our Chief Executive Officer and other Company executives, (2) reviews and approves the terms of offer letters, employment agreements, severance agreements, change-in-control agreements, and other material agreements between the Company and its executive officers, (3) approves material changes to the Company's 401(k) plan and oversees its implementation, (4) reviews and approves the Compensation Discussion and Analysis included in this Proxy Statement, and (5) conducts reviews of executive officer succession planning. In accordance with recently adopted Nasdaq listing standards, our Board of Directors has granted our Compensation Committee the authority and responsibility required under Rule 10C-1(b)(2), (3) and (4) of the Securities Exchange Act of 1934, as amended, relating to the authority to retain or obtain the advice of compensation consultants, legal counsel and other compensation advisers, the authority to fund such advisers, and the responsibility to consider the independence factors specified under Rule 10C-1(b)(4)(i)-(vi) and any additional factors the compensation committee deems relevant. Our Compensation Committee charter can be found in the corporate governance section of our website at [www.vandapharma.com](http://www.vandapharma.com). We expect to amend the Compensation Committee charter prior to our 2014 annual meeting of stockholders to include the authority and responsibility required under Rule 10C-1(b)(2), (3) and (4) of the Securities Exchange Act of 1934, as amended, and other provisions required by the recently adopted Nasdaq listing rules.

Three directors comprised the Compensation Committee of the Board of Directors in 2012: Mr. Milano (the Chairman of the Compensation Committee), Mr. Pien and Mr. Watkins. The Compensation Committee met two times during 2012. Effective January 18, 2012, Dr. Karabelas resigned as a member of the Board of Directors and Compensation Committee. Following Dr. Karabelas' resignation, Mr. Milano was appointed Chairman of the Compensation Committee.

The Board of Directors has determined that all members of the Compensation Committee are independent (as independence is currently defined in the Nasdaq listing standards). Although we are not currently subject to the enhanced compensation committee independence listing standards recently adopted by Nasdaq, we currently believe each of the directors serving on our compensation committee will satisfy these more stringent independence standards. In addition each member of this committee is a non-employee director, as defined



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pursuant to Rule 16b-3 promulgated under the Securities Exchange Act of 1934, as amended, and an outside director, as defined pursuant to Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code").

Dr. Polymeropoulos, our Chief Executive Officer, and Mr. Kelly, our Chief Financial Officer, often participate in the Compensation Committee's meetings. Neither of them participates in the determination of their own respective compensation or the compensation of directors. However, Dr. Polymeropoulos does make recommendations to the Compensation Committee regarding the amount and form of the compensation of the other executive officers and key employees, and he often participates in the Compensation Committee's deliberations about their compensation. No other executive officers participate in the determination of the amount or form of the compensation of executive officers or directors.

The Compensation Committee has retained Towers Watson, a well-known consulting firm, since November 2006. In December 2011 and 2012, Towers Watson presented a new executive compensation report to the Compensation Committee. Towers Watson provided the Compensation Committee with data about the compensation paid by our peer group of companies and other employers who compete with the Company for executives, updated the Compensation Committee on new developments in areas that fall within the Compensation Committee's jurisdiction and was available to advise the Compensation Committee regarding all of its responsibilities. The consultant serves at the pleasure of the Compensation Committee rather than the Company, and the consultant's fees are approved by the Compensation Committee. Our Compensation Committee assessed the independence of Towers Watson pursuant to applicable SEC rules and Nasdaq listing standards and concluded that the work of Towers Watson has not raised any conflict of interest. Our Compensation Committee intends to annually review whether the engagement or work of any of its compensation consultants raises any conflict of interest.

### **Compensation Committee Interlocks and Insider Participation**

None of the members of the Compensation Committee is or has ever been an officer or employee of the Company. No executive officer of the Company serves as a member of the Board of Directors or compensation committee of any other entity that has one or more executive officers serving as a member of our Board of Directors or our Compensation Committee.

### **Nominating/Corporate Governance Committee**

Our Nominating/Corporate Governance Committee identifies, evaluates and recommends nominees to our Board of Directors and committees of our Board of Directors, conducts searches for appropriate directors, and evaluates the performance of our Board of Directors and of individual directors. Our Nominating/Corporate Governance Committee is also responsible for reviewing developments in corporate governance practices, evaluating the adequacy of our corporate governance practices and reporting and making recommendations to the Board of Directors concerning corporate governance matters. Our Nominating/Corporate Governance Committee charter can be found in the corporate governance section of our corporate website at [www.vandapharma.com](http://www.vandapharma.com). Three directors comprised the Nominating/Corporate Governance Committee in 2012: Mr. Dugan (the Chairman of the Nominating/Governance Committee), Dr. Galson and Mr. Pien. The Nominating/Corporate Governance Committee met three times during 2012. Dr. Karabelas resigned as a member of the Board of Directors and Nominating/Corporate Governance Committee effective January 18, 2012.

The Nominating/Corporate Governance Committee believes that candidates for director should have certain minimum qualifications, including being able to read and understand basic financial statements and having a general understanding of the Company's industry. The Nominating/Corporate Governance Committee also considers other factors it deems appropriate, including, but not limited to:

the candidate's relevant expertise and experience upon which to offer advice and guidance to management;

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the candidate having sufficient time to devote to the affairs of the Company;

the candidate having a proven track record in his or her field;

the candidate's ability to exercise sound business judgment;

the candidate's commitment to vigorously represent the long-term interests of our stockholders;

whether or not a conflict of interest exists between the candidate and our business;

whether the candidate would be considered independent under applicable Nasdaq and SEC standards;

the current composition of the Board of Directors; and

the operating requirements of the Company.

In conducting this assessment, the committee considers diversity, age, skills, and such other factors as it deems appropriate given the then-current needs of the Board of Directors and the Company, to maintain a balance of knowledge, experience and capability. While diversity and variety of experiences and viewpoints represented on the Board of Directors should always be considered, the Nominating/Corporate Governance Committee believes that a director nominee should not be chosen nor excluded solely or largely because of race, color, gender, national origin or sexual orientation or identity.

In the case of incumbent directors whose terms of office are set to expire, the Nominating/Corporate Governance Committee reviews such directors' overall service to the Company during their term, including the number of meetings attended, level of participation, quality of performance, and any other relationships and transactions that might impair such directors' independence.

When there is a vacancy on the Board of Directors, the Nominating/Corporate Governance Committee uses its network of contacts to compile a list of potential candidates, but may also engage, if it deems it appropriate, a professional search firm. The Nominating/Corporate Governance Committee conducts any appropriate and necessary inquiries into the backgrounds and qualifications of possible candidates after considering the function and needs of the Board of Directors. The Nominating/Corporate Governance Committee meets to discuss and consider such candidates' qualifications and then selects a nominee for recommendation to the Board of Directors by majority vote.

The Nominating/Corporate Governance Committee will consider director candidates recommended by stockholders and evaluate them using the same criteria as candidates identified by the Board of Directors or the Nominating/Corporate Governance Committee for consideration. If a stockholder of the Company wishes to recommend a director candidate for consideration by the Nominating/Corporate Governance Committee, the stockholder recommendation should be delivered to the Secretary of the Company at the principal executive offices of the Company pursuant to the terms and conditions of our bylaws. The stockholder recommendation must, among other things, set forth

for each person whom the stockholder proposes to nominate for election or reelection as a director all information relating to such person as would be required to be disclosed in solicitations of proxies for the election of such nominees as directors pursuant to Regulation 14A under the Exchange Act, and such person's written consent to serve as a director if elected;

as to the stockholder giving the notice and the beneficial owner, if any, on whose behalf the nomination or proposal is made (1) the name and address of such stockholder, as they appear on the Company's books, and of such beneficial owner, (2) the class and number of shares of the Company that are owned beneficially and of record by such stockholder and such beneficial owner and a representation

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that the stockholder will notify the Company in writing of the class and number of such shares owned beneficially and of record as of the record date for the meeting promptly following the later of the record date or the date notice of the record date is first publicly disclosed, (3) whether either such stockholder or beneficial

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owner intends to deliver a proxy statement and form of proxy to holders of, in the case of a proposal, at least the percentage of the Company's voting shares required under applicable law to carry the proposal or, in the case of a nomination or nominations, a sufficient number of holders of the Company's voting shares to elect such nominee or nominees and (4) whether and the extent to which any derivative instrument, swap, option, warrant, short interest, hedge or profit interest or other transaction has been entered into by or on behalf of such stockholder with respect to stock of the Company and whether any other agreement, arrangement or understanding (including any short position or any borrowing or lending of shares of stock) has been made by or on behalf of such stockholder, the effect or intent of any of the foregoing being to mitigate loss to, or to manage risk of stock price changes for, such stockholder or to increase or decrease the voting power or pecuniary or economic interest of such stockholder with respect to stock of the Company;

any option, warrant, convertible security, stock appreciation right, or similar right with an exercise or conversion privilege or a settlement payment or mechanism at a price related to any class or series of shares of the Company or with a value derived in whole or in part from the value of any class or series of shares of the Company, whether or not such instrument or right shall be subject to settlement in the underlying class or series of capital stock of the Company or otherwise (a Derivative Instrument) directly or indirectly owned beneficially by such stockholder and any other direct or indirect opportunity to profit or share in any profit derived from any increase or decrease in the value of shares of the Company and a representation that the stockholder will notify the Company in writing of any such Derivative Instrument in effect as of the record date for the meeting promptly following the later of the record date or the date notice of the record date is first publicly disclosed;

a description of any agreement, arrangement or understanding with respect to the proposal of business between or among such stockholder and the beneficial owner, if any, on whose behalf the proposal is made, any of their respective affiliates or associates, and any others acting in concert with any of the foregoing and a representation that the stockholder will notify the Company in writing of any such agreements, arrangements or understandings in effect as of the record date for the meeting promptly following the later of the record date or the date notice of the record date is first publicly disclosed;

a representation that the stockholder is a holder of record of stock of the Company entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to propose such business; and

any other information that is required to be provided by the stockholder pursuant to Section 14 of the Exchange Act and the rules and regulations promulgated thereunder in such stockholder's capacity as a proponent of a stockholder proposal.

In addition, our bylaws require that the stockholder recommendation shall set forth as to each person whom the stockholder proposes to nominate for election or reelection as a director (1) the name, age, business address and residence address of the person; (2) the principal occupation or employment of the person; (3) the class, series and number of shares of capital stock of the Company that are owned beneficially and of record by the person; (4) a statement as to the person's citizenship; (5) the completed and signed representation and agreement described above; (6) any other information relating to the person that is required to be disclosed in solicitations for proxies for election of directors pursuant to Section 14 of the Exchange Act; (7) such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected; and (8) whether and the extent to which any derivative instrument, swap, option, warrant, short interest, hedge or profit interest or other transaction has been entered into by or on behalf of such person with respect to stock of the Company and whether any other agreement, arrangement or understanding (including any short position or any borrowing or lending of shares of stock) has been made by or on behalf of such person, the effect or intent of any of the foregoing being to mitigate loss to, or to manage risk of stock price changes for, such person or to increase or decrease the voting power or pecuniary or economic interest of such person with respect to stock of the Company.

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We believe that each of our directors and nominees brings a strong background and set of skills to our Board of Directors, giving the Board of Directors, as a whole, an appropriate balance of the knowledge, experience, attributes, skills and expertise. In addition, six of our seven directors are independent under Nasdaq standards (Dr. Polymeropoulos, our Chief Executive Officer, being the only exception as he is an employee) and our Nominating/Corporate Governance Committee believes that all seven directors are independent of the influence of any particular stockholder or group of stockholders whose interests may diverge from the interests of our stockholders as a whole. We believe that our directors have a broad range of personal characteristics including leadership, management, pharmaceutical, business, marketing and financial experience and abilities to act with integrity, with sound judgment and collegially, to consider strategic proposals, to assist with the development of our strategic plan and oversee its implementation, to oversee our risk management efforts and executive compensation and to provide leadership, to commit the requisite time for preparation and attendance at board and committee meetings and to provide required expertise on our board committees. As described above, the Nominating/Corporate Governance Committee has recommended the members of our Board of Directors for their directorships. In evaluating such directors, our Nominating/Corporate Governance Committee has reviewed the experience, qualifications, attributes and skills of our directors and nominees, including those identified in the biographical information set forth above in the section entitled Election of Directors . The Nominating/Corporate Governance Committee believes that the members of our Board of Directors offer insightful and creative views and solutions with respect to issues facing the Company. In addition, the Nominating/Corporate Governance Committee also believes that the members of our Board of Directors function well together as a group. The Nominating/Corporate Governance Committee believes that the above-mentioned attributes and qualifications, along with the leadership skills and other experiences of the members of the Board of Directors described in further detail above under the section entitled Election of Directors , provide the Company with the perspectives and judgment necessary to guide the Company's strategies and monitor their execution.

### **Separation of CEO and Chairman of the Board Roles**

Our Board of Directors separates the positions of Chairman of the Board and Chief Executive Officer. Separating these positions allows our Chief Executive Officer to focus on our day-to-day business, while allowing the Chairman of the Board to lead the Board of Directors in its fundamental role of providing advice to and independent oversight of management. The Board of Directors recognizes the time, effort, and energy that the Chief Executive Officer is required to devote to his position in the current business environment, as well as the commitment required to serve as our Chairman of the Board, particularly as the Board of Directors' oversight responsibilities continue to grow. We believe that having separate positions and having an independent outside director serve as Chairman of the Board is the appropriate leadership structure for the Company at this time.

### **Meetings of the Board of Directors**

The Board of Directors met eight times during 2012. Each director attended 75% or more of the aggregate of the meetings of the Board of Directors and of the committees on which he served, held during the period for which he was a director or committee member.

### **Director Attendance at Annual Meetings of Stockholders**

Directors are encouraged, but not required, to attend our annual stockholder meetings. All of the then-serving directors attended our 2012 annual meeting of stockholders.

### **Stockholder Communications with the Board of Directors**

Stockholders may communicate with the Board of Directors, including the independent members of the Board of Directors, by sending a letter to the Secretary, Vanda Pharmaceuticals Inc., 2200 Pennsylvania Avenue, Suite 300E, Washington, D.C. 20037. Each such communication should set forth (1) the name and address of such stockholder, as they appear on the Company's books and, if the shares of the Company's stock are held by a

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nominee, the name and address of the beneficial owner of such shares, and (2) the number of shares of the Company's stock that are owned of record by such record holder and beneficially by such beneficial owner. The Secretary will review all communications from stockholders, but may, in his sole discretion, disregard any communication that he believes is not related to the duties and responsibilities of the Board of Directors. If deemed an appropriate communication, the Secretary will submit a stockholder communication to a chairman of a committee of the Board of Directors, or a particular director, as appropriate.

## **Code of Ethics and Business Conduct**

The Company has adopted the Vanda Pharmaceuticals Inc. Code of Ethics and Business Conduct that applies to all directors, officers and employees. This code is available at our website at [www.vandapharma.com](http://www.vandapharma.com). If we make any substantive amendments to this code or grant any waiver from a provision of the code to any applicable executive officer or director, we will promptly disclose the nature of the amendment or waiver on our website.

## **Risk Oversight**

Our Board of Directors oversees the management of risks inherent in the operation of our business and the implementation of our business strategies. Our Board of Directors performs this oversight role by using several different levels of review. In connection with its reviews of the operations and corporate functions of our Company, our Board of Directors provides oversight to address the primary risks associated with those operations and corporate functions. In addition, our Board of Directors reviews the risks associated with the Company's business strategies periodically throughout the year as part of its consideration of undertaking any such business strategies.

Each committee of our Board of Directors also oversees the management of the Company's risk that falls within the committee's areas of responsibility. In performing this function, each committee has full access to management, as well as the ability to engage advisors. Our Senior Vice President, Chief Financial Officer reports to the Audit Committee and is responsible for identifying, evaluating and implementing risk management controls and methodologies to address any identified risks. In connection with its oversight role, our Audit Committee meets privately with representatives from our independent registered public accounting firm and our Senior Vice President, Chief Financial Officer.

The oversight of risk within the Company is an evolving process requiring the Company to continually look for opportunities to further embed systematic enterprise risk management into ongoing business processes within the Company. The Board of Directors encourages management to continue to drive this evolution.

## **Employee Compensation Risks**

As part of its oversight of the Company's executive compensation program, the Compensation Committee considers the impact of the Company's executive compensation program, and the incentives created by the compensation awards that it administers, on the Company's risk profile. In addition, the Compensation Committee reviews the compensation policies and procedures for all employees, including the incentives that they create and factors that may reduce the likelihood of excessive risk taking, to determine whether they present a significant risk to the Company. The Compensation Committee has determined that, for all employees, our Company's compensation programs are not reasonably likely to have a material adverse effect on the Company.

## **Compensation of Directors**

Pursuant to our non-employee director compensation program, each member of our Board of Directors who is not our employee receives a \$25,000 annual fee as well as \$2,500 for each board meeting attended in person (\$1,250 for meetings attended by telephone). The Chairman of the Board of Directors receives an additional

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annual fee of \$10,000, the chair of the Audit Committee receives an additional \$10,000 annual fee and the chair of the other committees receives an additional \$5,000 annual fee. Each director receives \$1,000 for each meeting of any committee of the Board of Directors attended in person or by telephone other than committee meetings that are held concurrently with a Board of Directors meeting.

Under the director compensation program, each new non-employee director member of our Board of Directors receives an option to purchase 35,000 shares of our common stock upon election, and each member of our Board of Directors who is not our employee will also receive, upon the conclusion of each annual meeting of our stockholders, an option to purchase 15,000 shares of our common stock. The stock option granted upon election vests and becomes exercisable in equal monthly installments over a period of four years from the date of the grant, except that in the event of a change in control or a director's death or disability, the option will accelerate and become immediately exercisable. Each annual stock option vests and becomes exercisable in equal monthly installments over a period of one year from the date of grant, except that in the event of a change in control or a director's death or disability, the option will accelerate and become immediately exercisable. All of these options have an exercise price equal to the fair market value of our common stock on the date of the grant.

The Board of Directors did not make any changes to our non-employee director compensation program in 2012.

**2012 Director Compensation**

The following table shows the compensation earned by each of our non-employee directors for the year ended December 31, 2012:

<b>Name</b>	<b>Fees earned or paid in cash (\$)</b>	<b>Option awards \$(1)</b>	<b>Total (\$)</b>
Michael F. Cola	\$ 33,668	\$ 88,200	\$ 121,868
Richard W. Dugan	\$ 65,750	\$ 37,800	\$ 103,550
Steven K. Galson, M.D., M.P.H.	\$ 40,500	\$ 37,800	\$ 78,300
Argeris N. Karabelas, Ph.D.(2)			
Vincent J. Milano	\$ 54,750	\$ 37,800	\$ 92,550
Howard H. Pien (Chairman)	\$ 56,750	\$ 37,800	\$ 94,550
H. Thomas Watkins	\$ 40,750	\$ 37,800	\$ 78,550

(1) Reflects the aggregate grant date fair value of options granted during the fiscal year calculated in accordance with FASB ASC Topic 718. For a discussion of valuation assumptions, see Note 2 to our audited consolidated financial statements included in our annual report on Form 10-K for the year ended December 31, 2012.

(2) Dr. Karabelas did not receive any fees or equity awards in 2012 due to his resignation as a director in January 2012.

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The following table describes the options that we have granted to our non-employee directors that were outstanding as of December 31, 2012:

Name	Date of Grant	Number of Options Granted	Exercise Price per Share	Grant Date Fair Value per share(1)	Aggregate Number of Options Outstanding as of December 31, 2012
Michael F. Cola	June 14, 2012	35,000	\$ 4.15	\$ 2.52	35,000(2)
Richard W. Dugan	December 28, 2005	10,574	\$ 4.73	\$ 14.23	
	May 16, 2007	15,000	\$ 19.59	\$ 13.50	
	May 8, 2008	15,000	\$ 4.98	\$ 3.16	
	August 27, 2009	15,000	\$ 14.78	\$ 9.32	
	June 3, 2010	15,000	\$ 7.38	\$ 4.62	
	June 16, 2011	15,000	\$ 7.11	\$ 4.65	
	June 14, 2012	15,000	\$ 4.15	\$ 2.52	100,574(3)
Steven K. Galson, M.D., M.P.H.	July 1, 2010	35,000	\$ 6.41	\$ 3.98	
	June 16, 2011	15,000	\$ 7.11	\$ 4.65	
	June 14, 2012	15,000	\$ 4.15	\$ 2.52	65,000(4)
Argeris N. Karabelas, Ph.D.(5)					
Vincent J. Milano	April 21, 2010	35,000	\$ 10.89	\$ 6.87	
	June 3, 2010	15,000	\$ 7.38	\$ 4.62	
	June 16, 2011	15,000	\$ 7.11	\$ 4.65	
	June 14, 2012	15,000	\$ 4.15	\$ 2.52	80,000(6)
Howard H. Pien	December 5, 2006	2,500	\$ 15.35	\$ 14.57	
	June 5, 2007	35,000	\$ 21.39	\$ 14.57	
	May 8, 2008	15,000	\$ 4.98	\$ 3.16	
	August 27, 2009	15,000	\$ 14.78	\$ 9.32	
	June 3, 2010	15,000	\$ 7.38	\$ 4.62	
	June 16, 2011	15,000	\$ 7.11	\$ 4.65	
	June 14, 2012	15,000	\$ 4.15	\$ 2.52	112,500(7)
H. Thomas Watkins	September 8, 2006	35,000	\$ 9.40	\$ 6.08	125,000(8)
	May 16, 2007	15,000	\$ 19.59	\$ 13.50	



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May 8, 2008	15,000	\$ 4.98	\$ 3.16
August 27, 2009	15,000	\$ 14.78	\$ 9.32
June 3, 2010	15,000	\$ 7.38	\$ 4.62
June 16, 2011	15,000	\$ 7.11	\$ 4.65
June 14, 2012	15,000	\$ 4.15	\$ 2.52

- (1) Reflects the aggregate grant date fair value of the options calculated in accordance with FASB ASC Topic 718. For a discussion of valuation assumptions, see Note 2 to our audited consolidated financial statements included in our annual report on Form 10-K for the year ended December 31, 2012.
- (2) 4,375 options were vested as of December 31, 2012.
- (3) 93,074 options were vested as of December 31, 2012.
- (4) 43,645 options were vested as of December 31, 2012.
- (5) All options previously granted to Dr. Karabelas terminated unexercised in April 2012.
- (6) 60,833 options were vested as of December 31, 2012.
- (7) 105,000 options were vested as of December 31, 2012.
- (8) 117,500 options were vested as of December 31, 2012.

**Table of Contents****PROPOSAL 2****RATIFICATION OF SELECTION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Audit Committee of our Board of Directors has selected PricewaterhouseCoopers LLP, an independent registered public accounting firm, as our independent auditors for the year ending December 31, 2013, and has further directed that management submit the selection of independent auditors for ratification by our stockholders at the Annual Meeting. PricewaterhouseCoopers LLP has audited our financial statements and has attested to the effectiveness of our internal control over financial reporting since we commenced operations in March 2003. Representatives of PricewaterhouseCoopers LLP are expected to be present at the Annual Meeting. They will have an opportunity to make a statement if they so desire and will be available to respond to appropriate questions.

Neither our bylaws nor other governing documents or laws require stockholder ratification of the selection of PricewaterhouseCoopers LLP as our independent registered public accounting firm. However, the Audit Committee of the Board of Directors is submitting the selection of PricewaterhouseCoopers LLP to the stockholders for ratification as a matter of good corporate practice. If the stockholders fail to ratify the selection, the Audit Committee of the Board of Directors will reconsider whether or not to retain PricewaterhouseCoopers LLP. Even if the selection is ratified, the Audit Committee of our Board of Directors in its discretion may direct the appointment of different independent auditors at any time during the year if it determines that such a change would be in the best interests of the Company and our stockholders.

In order for Proposal 2 to pass, holders of a majority of all those outstanding shares present in person, or represented by proxy, and cast either affirmatively or negatively at the Annual Meeting must vote **FOR** Proposal 2. Abstentions and broker non-votes will be counted towards a quorum, however, they will not be counted either **FOR** or **AGAINST** the proposal and will have no effect on the proposal. Because the ratification of the appointment of the independent registered public accounting firm is a matter on which a bank, broker or other nominee is generally empowered to vote, no broker non-votes are expected to exist in connection with this matter.

**Independent Registered Public Accounting Firm's Fees**

The following table represents aggregate fees billed to Vanda for the years ended December 31, 2012, and December 31, 2011, by PricewaterhouseCoopers LLP, our principal accountant.

	<b>Year ended December 31,</b>	
	<b>2012</b>	<b>2011</b>
Audit fees(1)	\$ 348,800	\$ 340,635
Audit-related fees		
Tax fees(2)		51,173
All other fees(3)	3,600	3,600
<b>Total fees</b>	<b>\$ 352,400</b>	<b>\$ 395,408</b>

- (1) The fees billed or incurred by PricewaterhouseCoopers LLP for professional services rendered in connection with the annual audit of our consolidated financial statements and the effectiveness of internal control over financial reporting for the years ended December 31, 2012 and 2011 include the review of quarterly financial statements included in our quarterly reports on Form 10-Q and the consents issued for our registration statements.
- (2) Tax fees for 2011 include \$19,948 for international tax planning services, \$19,000 for a multistate credit and incentives analysis, and \$12,225 for the preparation of federal and state tax returns.

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- (3) All other fees consist of the subscription fee for two users for access to PricewaterhouseCoopers Comperio (an on-line tool for authoritative financial reporting and assurance literature).  
All fees described above were pre-approved by the Audit Committee in accordance with applicable SEC requirements.

**Pre-Approval Policies and Procedures**

The Audit Committee's policy is to pre-approve all audit and permissible non-audit services rendered by PricewaterhouseCoopers LLP, our independent registered public accounting firm. The Audit Committee can pre-approve specified services in defined categories of audit services, audit-related services and tax services up to specified amounts, as part of the Audit Committee's approval of the scope of the engagement of PricewaterhouseCoopers LLP or on an individual case-by-case basis before PricewaterhouseCoopers LLP is engaged to provide a service. The Audit Committee has determined that the rendering of tax-related services by PricewaterhouseCoopers LLP is compatible with maintaining the principal accountant's independence for audit purposes. PricewaterhouseCoopers LLP has not been engaged to perform any non-audit services other than tax-related services.

**YOUR BOARD OF DIRECTORS RECOMMENDS A *FOR* VOTE IN FAVOR OF PROPOSAL 2.**

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**REPORT OF THE AUDIT COMMITTEE<sup>1</sup>**

The Audit Committee of the Board of Directors consisted in 2012 of the three non-employee directors named below. The Board of Directors annually reviews the Nasdaq listing standards' definition of independence for Audit Committee members (including the requirements of Exchange Act Rule 10A-3) and has determined that each member of the Audit Committee meets that standard. Mr. Dugan serves as an audit committee financial expert in accordance with applicable SEC regulations.

The principal purpose of the Audit Committee is to assist the Board of Directors in its general oversight of our accounting and financial reporting processes and audits of our consolidated financial statements. The Audit Committee is responsible for selecting and engaging our independent auditor and approving the audit and non-audit services to be provided by the independent auditor. The Audit Committee's function is more fully described in its charter, which the Board of Directors has adopted and which the Audit Committee reviews and approves on an annual basis.

Our management is responsible for preparing our consolidated financial statements and our financial reporting process. PricewaterhouseCoopers LLP, our independent registered public accounting firm, is responsible for performing an independent integrated audit of our consolidated financial statements and expressing an opinion on the conformity of those consolidated financial statements with accounting principles generally accepted in the United States and attesting to the effectiveness of our internal control over financial reporting.

The Audit Committee has reviewed and discussed with our management the audited consolidated financial statements of the Company and Management's Report on Internal Control over Financial Reporting in Item 9A included in our annual report on Form 10-K for the year ended December 31, 2012 (the "10-K").

The Audit Committee has also reviewed and discussed with PricewaterhouseCoopers LLP the audited consolidated financial statements in the 10-K, including the report issued by PricewaterhouseCoopers LLP dated February 25, 2013 on the effectiveness of the Company's internal control over financial reporting as of December 31, 2012. In addition, the Audit Committee discussed with PricewaterhouseCoopers LLP those matters required to be discussed by Statement of Accounting Standards 114, as modified, as adopted by the Public Company Accounting Oversight Board, or "PCAOB", in Rule 3200T and by PCAOB Auditing Standard No. 16, Communications with Audit Committees, as may be further modified or supplemented. Additionally, PricewaterhouseCoopers LLP provided to the Audit Committee the written disclosures and the letter required by PCAOB Rule 3526 - Communication with Audit Committees concerning independence as adopted by the Public Company Accounting Oversight Board. The Audit Committee also discussed with PricewaterhouseCoopers LLP its independence from the Company.

Based upon the review and discussions described above, the Audit Committee recommended to the Board of Directors that the audited consolidated financial statements be included in the Company's annual report on Form 10-K for year ended December 31, 2012 for filing with the United States Securities and Exchange Commission. We have selected PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm for the year ended December 31, 2013, and have approved submitting the selection of the independent registered public accounting firm for ratification by the stockholders.

Submitted by the following members of the Audit Committee:

Richard W. Dugan, Chairman

Vincent J. Milano

Michael F. Cola

<sup>1</sup> The material in this report is not soliciting material, is not deemed filed with the SEC and is not to be incorporated by reference in any filing of Vanda under the Securities Act of 1933 or the Exchange Act of 1934, whether made before or after the date hereof and irrespective of any general incorporation language in any such filing.

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### **EXECUTIVE OFFICERS**

The names of the current executive officers of Vanda and certain information about each of them as of April 23, 2013, are set forth below:

#### **Executive Officers**

*Mihael H. Polymeropoulos, M.D.* For biographical information, see Proposal 1: Election of Directors Continuing Directors Not Standing for Election.

*James P. Kelly*, age 47, has served as Vanda's Senior Vice President, Chief Financial Officer, Treasurer and Secretary since December of 2010. Prior to joining Vanda, Mr. Kelly was Vice President and Controller at MedImmune, a biotechnology subsidiary of the AstraZeneca Group. Mr. Kelly joined MedImmune in 2006 as Director of Sales and Marketing Finance. From 2000 through 2005, Mr. Kelly was at Biogen Idec serving in research and development finance roles of increasing responsibility, most recently as the Director of Planning and Operations. From 1997-2000, Mr. Kelly was a member of the corporate finance team at Aetna Inc. which was responsible for mergers and acquisitions and treasury management. Mr. Kelly began his life sciences career in 1991 with Janssen Pharmaceutica, a division of Johnson & Johnson. Mr. Kelly is a CFA charterholder and a member of the Association of Bioscience Financial Officers (ABFO). He received his Master of Business Administration degree from Cornell University and his Bachelor of Sciences degree in Business Administration from the University of Vermont.

*Robert Repella*, age 54, has served as the Company's Senior Vice President, Chief Commercial Officer since October of 2011. Prior to joining Vanda, Mr. Repella served as Senior Vice President of Pharmaceutical Operations for the Americas Region at Cephalon, Inc. since October of 2009. Prior to Cephalon, and beginning in 2000, Mr. Repella was at Wyeth Pharmaceuticals in a number of roles, most recently as Executive Vice President and General Manager of the Biopharma business unit. In this position, Mr. Repella was responsible for the global portfolio of products that included Wyeth's biologic, Enbrel®. During his 16 years at Wyeth, Mr. Repella served in various roles in both marketing and sales including Executive Vice President Pharmaceutical Sales, Marketing and Operations; Senior Vice President of Pharmaceutical Sales; Vice President of Global Business Manager, Enbrel; Vice President of U. S. Marketing, Musculoskeletal Products; Vice President of U. S. Healthcare Systems Sales, and Assistant Vice President National Accounts. Earlier in his career, Mr. Repella held positions with Johnson & Johnson's McNeil Pharmaceutical Division, Merck & Co., Inc. and Eli Lilly & Co. Mr. Repella serves as a director at The Pennsylvania Biotechnology Association. Mr. Repella is a member of several boards including BIO, where he also serves on their Executive Committee, and Pennsylvania BIO. Mr. Repella holds a Bachelor's degree in Pharmacy from Rutgers University and a Masters in Business Administration from Temple University.

*Paolo Baroldi*, age 62, has served as the Company's Senior Vice President and Chief Medical Officer since April 15, 2013. Dr. Baroldi had previously been working in the role of acting Chief Medical Officer with Vanda since October 1, 2012. Dr. Baroldi previously served as the Vanda's Senior Vice President and Chief Medical Officer from July 2006 through January 2009. From March 2012 through April 2013, Dr. Baroldi served as Chief Executive Officer and Director of Galileo Research. Dr. Baroldi served as Senior Vice President and Chief Medical Officer from February 2009 to March 2012 at Supernus Pharmaceuticals. In addition, Dr. Baroldi has held senior clinical development positions at Chiesi Farmaceutici SpA and Novartis AG. Dr. Baroldi holds degrees in Medicine and Surgery and a Ph.D. in Clinical Pharmacology from the University of Milan, Italy and is a member of the board of directors of Galileo Research.

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**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following table sets forth certain information known to us regarding beneficial ownership of our common stock as of April 23, 2013, by:

each person known by us to be the beneficial owner of more than 5% of any class of our voting securities;

our named executive officers;

each of our directors; and

all current executive officers and directors as a group.

The table below is based upon information supplied by executive officers, directors and principal stockholders and Schedule 13Gs and 13Ds filed with the SEC through April 23, 2013.

Percentage of shares beneficially owned is based on 28,346,782 shares of common stock outstanding as of April 23, 2013.

For purposes of the table below, we deem shares of common stock subject to options or warrants that are currently exercisable or exercisable within 60 days of April 23, 2013 and common stock subject to restricted stock unit awards ( RSUs ) that will vest within 60 days of April 23, 2013 to be outstanding and to be beneficially owned by the person holding the options, warrants or RSUs for the purpose of computing the percentage ownership of that person, but we do not treat them as outstanding for the purpose of computing the percentage ownership of any other person. Except as otherwise noted, the persons or entities in this table have sole voting and investing power with respect to all of the shares of common stock beneficially owned by them, subject to community property laws, where applicable.

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Name and address of beneficial owner(1)	Number of shares beneficially owned	Percentage of shares beneficially owned
<b>5% Stockholders (other than our executive officers and directors)</b>		
Great Point Partners, LLC(2)	2,300,021	8.11%
165 Mason Street, 3 <sup>rd</sup> Floor		
Greenwich, CT 06830		
BlackRock, Inc.(3)	2,058,710	7.26%
40 East 52 <sup>nd</sup> Street		
New York, NY 10022		
First Eagle Investment Management, LLC(4)	1,911,452	6.74%
1345 Avenue of the Americas		
New York, NY 10105		
Tang Capital Partners, LP(5)	1,808,525	6.38%
4747 Executive Drive, Suite 510		
San Diego, CA 92121		
Palo Alto Investors, LLC(6)	1,429,462	5.04%
470 University Avenue		
Palo Alto, CA 94301		
<b>Named Executive Officers and Directors</b>		
Mihael H. Polymeropoulos, M.D.(7)	2,402,212	7.93%
James P. Kelly(8)	141,146	*
H. Thomas Watkins(9)	125,000	*
Howard H. Pien(10)	112,500	*
Robert Repella(11)	109,556	*
Richard W. Dugan(12)	100,574	*
Vincent J. Milano(13)	72,708	*
Steven K. Galson, M.D., M.P.H.(14)	55,520	*
John J. Feeney, M.D.(15)	11,942	*
Michael F. Cola(16)	8,750	*
Argeris N. Karabelas, Ph.D.(17)		
<b>All current directors and executive officers as a group (10 persons)(18)(19)</b>	<b>3,143,341</b>	<b>10.15%</b>

\* Represents beneficial ownership of less than one percent of our outstanding common stock.

(1) Unless otherwise indicated, the address for each beneficial owner is c/o Vanda Pharmaceuticals Inc., 2200 Pennsylvania Avenue, Suite 300E, Washington, D.C. 20037.

(2) Based on Schedule 13G/A filed on February 14, 2013 by Great Point Partners, LLC ( "Great Point" ), this amount represents 2,300,021 shares beneficially owned by Great Point. Biomedical Value Fund, L.P. ( "BVF" ) is the record owner of 1,127,015 shares (the "BVF Shares" ). Biomedical Offshore Value Fund, Ltd. ( "BOVF" ) is the record owner of 759,004 shares (the "BOVF Shares" ). Biomedical Institutional Value

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Fund, L.P. ( BIVF ) is the record owner of 414,002 shares (the BIVF Shares ). Great Point is the investment manager of BVF, BOVF and BIVF, and by virtue of such status may be deemed to be the beneficial owner of the BVF Shares, the BOVF Shares and the BIVF Shares. Each of Dr. Jeffrey R. Jay, M.D., as senior managing member of Great Point and Mr. David Kroin, as special managing member of Great Point, has voting and investment power with respect to the BVF Shares, the BOVF Shares and the BIVF Shares, and therefore may be deemed to be the beneficial owner of the BVF Shares, the BOVF Shares and the BIVF Shares. Notwithstanding the above, Great Point, Dr. Jay and Mr. Kroin disclaim beneficial ownership of the BVF Shares, the BOVF Shares and the BIVF Shares described above, except to the extent of their respective pecuniary interests.



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- (3) Based on Schedule 13G filed on February 8, 2013 by BlackRock, Inc., this amount represents 2,058,710 shares held of record by BlackRock, Inc., including such shares held by BlackRock, Inc. subsidiaries BlackRock Institutional Trust Company, BlackRock Fund Advisors, BlackRock Advisors, LLC, BlackRock Investment Management, LLC, and BlackRock Asset Management Canada Limited.
- (4) Based on Schedule 13G filed on February 11, 2013 by First Eagle Investment Management, LLC this amount represents 1,911,452 shares held of record by First Eagle Investment Management, LLC. First Eagle Investment Management, LLC is an investment advisor and may be deemed to beneficially own the shares owned by its various clients.
- (5) Based on Schedule 13G/A filed on February 14, 2013, this amount represents 1,808,525 shares held of record by Tang Capital Partners, LP ( Partners ). Tang Capital Management, LLC ( Management ) is the general partner of Partners and may be deemed to beneficially own the shares held by Partners. Kevin C. Tang, as the manager of Management, may be deemed to beneficially own the shares held by Partners. Mr. Tang disclaims beneficial ownership of all the shares held by Partners.
- (6) Based on Schedule 13G filed on February 14, 2013, this amount represents 1,429,462 shares held of record by Palo Alto Investors, LLC ( PAI ). PAI is a registered investment advisor and is the general partner and investment advisor of investment limited partnerships and is the investment advisor to other investment funds. Dr. Patrick Lee, M.D. and Dr. Anthony Joonkyoo Yun, M.D., as co-managers of PAI, may be deemed to beneficially own the shares held by PAI. Dr. Lee and Dr. Yun disclaim beneficial ownership of all the shares held by PAI.
- (7) Includes 1,946,648 shares subject to options exercisable within 60 days of April 23, 2013. Excludes 312,500 shares subject to options that are not exercisable within 60 days of April 23, 2013 and 131,250 shares of common stock underlying RSUs that do not vest within 60 days of April 23, 2013.
- (8) Includes 118,357 shares subject to options exercisable within 60 days of April 23, 2013. Excludes 144,143 shares subject to options that are not exercisable within 60 days of April 23, 2013 and 57,813 shares of common stock underlying RSUs that do not vest within 60 days of April 23, 2013.
- (9) Includes 125,000 shares subject to options exercisable within 60 days of April 23, 2013.
- (10) Includes 112,500 shares subject to options exercisable within 60 days of April 23, 2013.
- (11) Includes 94,556 shares subject to options exercisable within 60 days of April 23, 2013. Excludes 191,694 shares subject to options that are not exercisable within 60 days of April 23, 2013 and 63,750 shares of common stock underlying RSUs that do not vest within 60 days of April 23, 2013.
- (12) Includes 100,574 shares subject to options exercisable within 60 days of April 23, 2013.
- (13) Includes 72,708 shares subject to options exercisable within 60 days of April 23, 2013.
- (14) Includes 55,520 shares subject to options exercisable within 60 days of April 23, 2013.

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- (15) Dr. Feeney's employment with the Company was terminated effective September 12, 2012. Based on information provided by Dr. Feeney as of December 31, 2012.
- (16) Includes 8,750 shares subject to options exercisable within 60 days of April 23, 2013.
- (17) Dr. Karabelas resigned as a director effective January 18, 2012.
- (18) Includes 2,635,863 shares subject to options exercisable within 60 days of April 23, 2013 held by our current executive officers and directors. Excludes 850,109 shares subject to options that are not exercisable within 60 days of April 23, 2013 and 302,813 shares of common stock underlying RSUs that do not vest within 60 days of April 23, 2013.
- (19) Drs. Karabelas and Feeney are not current directors or executive officers and therefore are not included.

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**SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16(a) of the Exchange Act requires our directors, executive officers, and certain holders of more than 10% of our common stock to file reports regarding their ownership and changes in ownership of our securities with the SEC, and to furnish us with copies of all Section 16(a) reports that they file.

Based solely upon a review of Forms 3 and 4 and amendments thereto furnished to us and written representations provided to us by all of our directors and executive officers and certain of our greater than 10% stockholders, we believe that during the year ended December 31, 2012, our directors, executive officers, and greater than 10% stockholders complied with all applicable Section 16(a) filing requirements.

**Table of Contents****COMPENSATION OF EXECUTIVE OFFICERS****Compensation Discussion and Analysis**

This section discusses the principles underlying our executive compensation decisions related to fiscal year 2012 and the most important factors relevant to an analysis of these decisions. It provides information regarding the manner and context in which compensation is awarded to and earned by our executive officers who are named in the Summary Compensation Table below, referred to herein as our named executive officers, and places in perspective the data presented in the tables and other quantitative information that follows this section.

Our named executive officers for 2012 are:

<b>Named Executive Officer</b>	<b>Title</b>	<b>Relationship with Vanda</b>
Mihael H. Polymeropoulos, M.D.	President and Chief Executive Officer	President, Chief Executive Officer and a Director since co-founding Vanda in May 2003
James P. Kelly	Senior Vice President, Chief Financial Officer, Treasurer and Secretary	Senior Vice President, Chief Financial Officer, Treasurer and Secretary since December 2010
John J. Feeney III, M.D.	former Senior Vice President and Chief Medical Officer	Employment terminated in September 2012. Served as Chief Medical Officer from March 2010 to September 2012, Acting Chief Medical Officer from January 2009 to March 2010 and Senior Medical Officer from November 2007 until January 2009
Robert Repella	Senior Vice President, Chief Commercial Officer	Senior Vice President, Chief Commercial Officer since October 2011

**Executive Summary**

The following provides a brief overview of the more detailed disclosure set forth in this Compensation Discussion and Analysis.

*Business Performance Summary*

In 2012, our Company continued its progress towards the goal of building a leading central nervous system specialty pharmaceutical company. Key highlights of 2012 included:

reported positive results from our SET Phase III efficacy study for tasimelteon in the treatment of patients with Non-24-Hour Disorder (Non-24);

continued progression towards the goal of a projected mid-2013 New Drug Application (NDA) filing with the U.S. Food and Drug Administration (FDA) for tasimelteon in Non-24;

completed enrollment for the tasimelteon RESET and MAGELLAN studies; and

acquired an exclusive worldwide license to develop and commercialize an NK-1R antagonist, VLY-686, for all human indications.



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### *Summary of Compensation Program Elements*

The objective of our executive compensation program is to recruit, retain and motivate highly qualified executive officers who possess diverse skills and talents that can help us achieve our short- and long-term goals and strategies. The compensation elements we provide our named executive officers include:

*Base salary* positioned within range of a targeted market percentile of the base salary of similarly situated officers at our peer group companies to ensure we attract and retain the talent needed to continue to drive our business successfully. In December 2011, our Compensation Committee, as part of its annual review of our compensation programs, determined to increase the base salaries of Dr. Polymeropoulos, Mr. Kelly and Dr. Feeney by 3.1%, 5.3% and 3.2%, respectively. The base salary of Mr. Repella was not increased because he had only recently joined our Company in October 2011.

*Cash incentive awards* tied to the achievement of pre-determined quantitative and qualitative corporate and individual performance goals. Each of our named executive officers, other than Dr. Feeney, received an annual cash incentive award equal to 120% of their respective target amounts based on, among other things, the Company's accomplishments and their respective individual contributions to the Company in 2012.

*Equity awards* in the form of stock options and restricted stock unit (RSU) awards subject to vesting provisions, including double trigger equity vesting acceleration upon a change-in-control, designed to retain our executive officers and align their ownership interests with our long-term success and increased stockholder value. In December 2012, in connection with its annual review, our Compensation Committee granted options to purchase common stock and approved RSU awards to each of our named executive officers, other than Dr. Feeney, whose employment terminated in September 2012. These awards included performance-based vesting, as well as the service-based vesting historically utilized by our Company.

### *Compensation Program Philosophy Realignment*

Our 2012 executive compensation program targeted total cash compensation within 10% of the 25th percentile and common stock underlying equity incentive grants as a percentage of common stock outstanding within 10% of the 75th percentile of our Company's peer group of biopharmaceutical companies, which we believe is consistent with early development-stage biopharmaceutical companies that are focused on conserving cash while providing incentive value through equity awards.

In December 2012, our Compensation Committee commenced a review of our compensation programs given our Company's short and long-term internally prepared forecasted results and growth to ensure that they were designed to align with competitive market practice and would support our business and human capital strategies going forward. As a result of this review, our Compensation Committee determined to adjust the executive team's total cash compensation to a target aligned with the 50th percentile of similarly situated executive officers at our peer group companies and reduce the executive team's total equity compensation to roughly the 66th percentile of similarly situated executive officers at our peer group companies. Our Compensation Committee believes that these targets are better aligned with competitive market practice, thus enabling us to recruit and retain the talent needed within the organization to deliver on our business strategy. In addition, this competitive positioning allows for

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better alignment with a pay-for-performance philosophy with premium levels of cash compensation only awarded for performance that exceeds target levels for pre-determined business and individual goals and equity awards that remain a key component of the total rewards package.

### **Objectives of Compensation Program**

Our executive compensation program is designed to attract, as needed, individuals with the skills necessary for us to achieve our business plan, to reward those individuals fairly over time, and to retain those individuals who continue to perform at or above our expectations.

### **Compensation Components**

As, we believe, is the case with most companies of our size in the biopharmaceutical industry, our executive compensation program has three primary components – base salary, an annual cash incentive plan and equity awards.

*Base Salary.* We fix the base salary of each of our executive officers at a level we believe enables us to hire and retain individuals in a competitive environment and rewards satisfactory individual performance and a satisfactory level of contribution to our overall business goals. We take into account the base salaries paid by similarly situated companies in our peer group and the other factors discussed below.

*Cash Incentive Awards.* We provide annual cash incentive awards that are based upon the achievement of corporate and individual performance goals established by our Compensation Committee. These cash incentive awards are designed to focus our executive officers on achieving key clinical, regulatory, operational, strategic and/or financial objectives within a yearly time horizon, as described in more detail below.

*Stock Options and Restricted Stock Units.* We use stock options and RSUs to reward long-term performance. These equity awards are intended to provide significant incentive value for each executive officer if the Company's performance is outstanding and the executive officer remains with the Company, and align executive officer pay with long-term stockholder interests. In late 2012, we granted equity awards with performance-based vesting, in addition to the service-based vesting, including double trigger equity vesting acceleration upon a change-in-control.

We view these primary components of our executive compensation program as related but distinct. While our Compensation Committee reviews total combined cash and equity compensation, we do not believe that significant compensation derived from one component of compensation should negate or reduce compensation from other components. Historically we have utilized equity awards as the primary motivator in attracting and retaining executive officers, and salary and cash incentive awards as secondary considerations.

In addition to the primary components of compensation described above, we provide our named executive officers with benefits that are generally available to our salaried employees. These benefits include health and

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medical benefits, flexible spending plans, matching 401(k) contributions and group life and disability insurance. We have also entered into agreements with each of our executive officers under which they are provided certain benefits in the event their employment is terminated by the Company without cause or by the executive officer for good reason, including following a change-in-control of the Company. We provide these benefits to help keep members of our management team focused on the Company's business and strategic plans even if they eventually face the distraction of potential employment termination or acquisition of the Company.

### **Compensation Procedures**

Our Compensation Committee's current policy is to annually perform a strategic review of our named executive officers' cash compensation and equity holdings to determine whether they provide adequate incentives and motivation to our executive officers and whether they adequately compensate our executive officers relative to comparable officers in other companies. Compensation Committee meetings typically have included, for all or a portion of each meeting, not only the committee members but also our Chief Executive Officer and, from time to time, our Chief Financial Officer. Our Compensation Committee also regularly meets in executive session without any of our officers or other employees present. For compensation decisions, including decisions regarding the grant or award of equity compensation to executive officers (other than our Chief Executive Officer), our Compensation Committee typically considers the recommendations of our Chief Executive Officer.

Our Compensation Committee has the authority under its charter to select and retain, and is directly responsible for the appointment, compensation and oversight of, compensation consultants or any other third party it retains to assist in the evaluation of director and officer compensation as well as any other compensation matters. Our Compensation Committee has engaged Towers Watson, a consulting firm specializing in executive compensation, as its independent compensation consultant. Based upon information provided to our Compensation Committee by Towers Watson during the first quarter of 2013, our Compensation Committee has concluded that there was no conflict of interest within the meaning of Rule 10C-1(b)(4) under the Securities Exchange Act of 1934 affecting Towers Watson's independence in advising the committee. In connection with our Compensation Committee's 2012 executive officer compensation decisions, Towers Watson reviewed and advised on all principal aspects of our executive compensation program and performed the following services:

conducted a competitive assessment of the Company's then current executive compensation arrangements, including analyzing peer group proxy statements, compensation survey data, and other publicly available data;

provided recommendations regarding the composition of the Company's peer group; and

reviewed and advised on total compensation, including base salaries, and short- and long-term incentives, including equity awards. Prior to December 2012, our Compensation Committee historically targeted total target cash compensation (base salary plus target cash incentive award) within 10% of the amount paid to similarly situated officers at the 25th percentile of our peer group companies and common stock underlying long-term equity compensation as a percentage of common stock outstanding within 10% of the equity awards made to similarly situated officers at the 75th percentile of our peer group companies. Our Compensation Committee believes that the use of peer group data helps ensure that our overall compensation is competitive and consistent with our compensation philosophy. The peer group company compensation data is utilized as a starting point and from there, our Compensation Committee will adjust the applicable component of compensation based on numerous factors, including information it receives from management, its own judgment and experience, its view of internal equity and consistency, our Company's recent performance, our Company's short and long-term forecasted results, the contributions of our executive team, both as a group and individually, the small size of our executive team and the need to tailor each executive's compensation to retain and motivate that executive officer. As such, our Compensation Committee may provide a compensation package that is above one or more of the objective data points provided by the peer group company data based on its subjective assessments and input from management.



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In December 2012, our Compensation Committee, following consultation with Towers Watson, determined that the Company's historical compensation philosophy of targeting total cash compensation within 10% of the 25th percentile of the Company's peer group and equity compensation within 10% of the 75th percentile of the Company's peer group should be realigned to better support our Company's pay-for-performance philosophy and related executive compensation decisions going forward. Our Compensation Committee determined that migrating the executive team's total cash compensation to a market median approach, targeting total cash compensation within range of the median, and reducing the executive team's equity compensation as a percentage of shares outstanding to roughly the 66th percentile of similarly situated executive officers at our peer group companies, was the preferred approach going forward.

Our Compensation Committee determined that the best way to achieve this result was to migrate cash and equity compensation levels to the preferred targets in several steps rather than in a single step. However, our Compensation Committee expects to continue to adjust compensation components from the targeted peer group percentiles based on the subjective and objective factors historically considered and discussed herein. As part of its implementation of its new compensation philosophy, in March 2013, our Compensation Committee, following consultation with Towers Watson, determined to implement a cap on our executive officers' annual cash incentive awards of 150% of their respective target amounts.

### ***Peer Group***

As discussed above, in an effort to provide competitive total compensation to our executive officers, our Compensation Committee, in consultation with Towers Watson, annually modifies our executive compensation program, including base salary, total cash compensation and equity awards, in part, based on compensation paid or awarded by a peer group of biopharmaceutical companies recommended by Towers Watson and approved by our Compensation Committee. As it makes decisions with respect to compensation for individual executive officers and for the Company's compensation programs in general, our Compensation Committee uses the peer group data as a starting point in its decision making process. Our Compensation Committee believes this helps our executive compensation program stay current with market practices.

In identifying a peer group for us in December 2011 for purposes of providing data for use in connection with the development of our 2012 executive compensation program, Towers Watson considered such factors as stage of product development and commercialization, market capitalization, revenue, cash balance, product pipeline, employee headcount, strength of commercial partnerships and competition for executive talent. The following 15 organizations were identified as our peer group companies:

Acorda Therapeutics, Inc.	InterMune Inc.	SciClone Pharmaceuticals, Inc.
Acura Pharmaceuticals, Inc.	Medivation, Inc.	Targacept, Inc.
BioCryst Pharmaceuticals, Inc.	Oncothyreon Inc.	Theravance Inc.
Cubist Pharmaceuticals Inc.	Onyx Pharmaceuticals, Inc.	ViroPharma Incorporated
Immunomedics Inc.	Progenics Pharmaceuticals Inc.	XenoPort, Inc.

Other than the removal of Cypress Bioscience Inc. which was acquired by Ramius LLC and Royalty Pharma in January 2012, there was no change in our peer group from the companies used by our Compensation Committee to help establish our 2011 executive compensation program.

In identifying a peer group for us in December 2012 for purposes of providing data for use in connection with the development of our 2013 executive compensation program, including the equity grants made in December 2012, Towers Watson considered such factors as stage of product development and commercialization, product pipeline, location, market capitalization, revenue, employee headcount and

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therapeutic focus. The following 18 organizations, which are referred to herein as our 2013 peer group, were identified:

Arena Pharmaceuticals, Inc.	Dyax Corp.	Progenics Pharmaceuticals Inc.
Astex Pharmaceuticals, Inc.	GTX Inc.	Rigel Pharmaceuticals, Inc.
Auxilium Pharmaceuticals Inc.	Ironwood Pharmaceuticals, Inc.	Santarus, Inc.
Avanir Pharmaceuticals	Lexicon Pharmaceuticals, Inc.	Synageva BioPharma Corp.
BioCryst Pharmaceuticals, Inc.	MannKind Corp.	XenoPort, Inc.
DepoMed Inc.	Omeros Corporation	Zogenix, Inc.

The 2013 peer group differed substantially from the peer group utilized in connection with our 2012 compensation decisions due to the fact that our Compensation Committee determined to review and realign our peer group given our strategic focus on developing our late stage pipeline and the fact that the financial profile of many of the companies in the prior peer group significantly differed from our Company's as of the end of 2012.

### Base Salary

In December 2011, in connection with its annual compensation review, our Compensation Committee reviewed the peer group and market data presented by Towers Watson. Our Compensation Committee compared the base salaries of our named executive officers (other than Mr. Repella whose base salary was negotiated in connection with his hiring in October 2011) to the base salaries of similarly situated officers at our peer group companies and noted that the base salary of Dr. Polymeropoulos was within 10% above the base salary paid to similarly situated officers at the 25<sup>th</sup> percentile of our peer group companies, while Mr. Kelly's and Dr. Feeney's base salaries were below the 25<sup>th</sup> percentile of base salaries of similarly situated officers at our peer group companies, with Dr. Feeney's base salary being greater than 10% below.

Based on this review, our Compensation Committee decided that the base salaries of Mr. Kelly and Dr. Feeney should be increased to more closely align their respective base salaries with that paid to similarly situated officers at the 25<sup>th</sup> percentile of our peer group companies. However, our Compensation Committee decided that due to the large variance between Dr. Feeney's base salary from the base salary of chief medical officers at the 25<sup>th</sup> percentile at our peer group companies it would gradually move Dr. Feeney's base salary closer to the 25<sup>th</sup> percentile over the course of several years. Based on our Company's achievements in 2011, including continued progression towards a projected mid-2013 NDA filing with the FDA for tasimelteon in Non-24, the initiation of the tasimelteon efficacy study for Major Depressive Disorder (MDD) and Dr. Polymeropoulos' contributions with respect to our Company's continued progress towards the goal of building a leading central nervous system specialty pharmaceutical company, our Compensation Committee determined that, although his 2011 base salary was above the base salary paid to chief executive officers at the 25<sup>th</sup> percentile of our peer group companies, Dr. Polymeropoulos should receive a merit increase to his base salary of approximately 3%. As such, our Compensation Committee determined to increase the base salaries of our named executive officers, other than Mr. Repella, as set forth in the table below. Following these increases, the 2012 base salary of these executive officers were each within 10% of the base salary paid to similarly situated officers at the 25<sup>th</sup> percentile of our peer group companies.

Name	2011 Base Salary	2012 Base Salary	Percentage Increase
Mihael H. Polymeropoulos, M.D.	\$ 485,000	\$ 500,000	3.1%
James P. Kelly	\$ 285,000	\$ 300,000	5.3%
John J. Feeney III, M.D.	\$ 310,000	\$ 320,000	3.2%

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Our Compensation Committee did not make any adjustments to Mr. Repella's base salary of \$350,000 because his compensation was negotiated as part of his employment agreement entered into in late 2011. The employment agreement was negotiated by the Company's management in consultation with and subject to the approval of our Compensation Committee.

In December 2012, in connection with its annual compensation review for purposes of setting 2013 executive compensation and pursuant to its updated compensation philosophy discussed above, our Compensation Committee reviewed the market data from the 2013 peer group contained in a Towers Watson report and discussed with Dr. Polymeropoulos the Company's and each executive officer's performance during 2012 and his recommendation regarding the base salary of the Company's executive officers (other than himself). Based on the foregoing, our Compensation Committee determined to increase the 2013 base salaries of Dr. Polymeropoulos and Messrs. Kelly and Repella as follows:

Name	2012 Base Salary	2013 Base Salary	Percentage Increase
Mihael H. Polymeropoulos, M.D.	\$ 500,000	\$ 515,000	3.0%
James P. Kelly	\$ 300,000	\$ 315,000	5.0%
Robert Repella	\$ 350,000	\$ 368,000	5.1%

### Cash Incentive Awards

The target levels of the annual cash incentive awards for our executive officers were initially established as part of their respective individual employment agreements. Each of these employment agreements provide that the executive officer will receive an annual cash incentive award determined at the discretion of our Compensation Committee based on our Company's performance against its objectives and individualized objective and subjective criteria, with a target award amount equal to a percentage of their respective base salary. The award criteria are established by our Compensation Committee on an annual basis, and include specific objectives, relating to the achievement of clinical, regulatory, business and/or financial milestones. Our Compensation Committee annually reviews the target award percentage of each of our named executive officers.

At the end or following the conclusion of each fiscal year, our Compensation Committee evaluates the performance of each of our executive officers with respect to the attainment of the Company's corporate objectives and their individual objectives to determine the amount of their cash incentive awards for the year. The actual amount awarded is determined in the discretion of our Compensation Committee based on each executive officer's level of performance. Historically, the actual amount awarded has been between 0 and 200% of the target award amount.

In December 2011, in connection with its annual compensation review, our Compensation Committee reviewed the peer group and market data presented by Towers Watson and compared the total target cash compensation (base salary plus target cash incentive award) of our named executive officers (other than Mr. Repella whose compensation was negotiated in connection with his employment agreement in late 2011) with the target cash compensation of similarly situated officers at the 25<sup>th</sup> percentile of our peer group companies. Following this review, our Compensation Committee determined to increase Dr. Feeney's target award percentage to 40% of his base salary as part of its effort to gradually increase his total target cash compensation closer to that of chief medical officers at the 25<sup>th</sup> percentile of our peer group companies and to align his target award percentage with our other executive officers, other than Dr. Polymeropoulos. Our Compensation Committee did not adjust the target award percentages of Dr. Polymeropoulos or Mr. Kelly based on the fact that their total target cash compensation in 2011 was less than 5.0% greater than the total target cash compensation of similarly situated officers at the 25<sup>th</sup> percentile of our peer group companies. Our Compensation Committee did not make any adjustments to Mr. Repella's target award percentage of 40% of his base salary of

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\$350,000 because his compensation was determined as part of negotiations between the Company and himself in late 2011. As such, following the increases to our named executive officers' base salaries discussed above and the increase to Dr. Feeney's target award percentage, the 2012 target award amounts of our named executive officers set forth in the table below were within 10% of the target cash incentive award of similarly situated officers at our peer group companies.

Name	2011 Target Award Amount (\$)	2012 Target Award Amount (\$)	Percentage Increase
Mihael H. Polymeropoulos, M.D.	\$ 242,500	\$ 250,000	3.1%
James P. Kelly	\$ 114,000	\$ 120,000	5.3%
John J. Feeney III, M.D.	\$ 108,500	\$ 128,000	18.0%

As noted above, the actual incentive cash awards for our named executive officers are determined at the discretion of our Compensation Committee based on our Company's performance against its objectives and individualized objective and subjective criteria. For 2012, the corporate objectives approved by our Compensation Committee included:

the furtherance of our clinical program for tasimelteon in Non-24 and MDD;

continued progress towards the goal of a projected mid-2013 NDA filing with the FDA for tasimelteon in Non-24;

developing tasimelteon Non-24 U.S. commercial strategy and initiating pre-launch activities;

supporting Novartis with its Fanapt® commercial program in the U.S.;

continued pursuit of regulatory approval of Fanapt® outside the U.S. and Canada;

pursuing partnership or other commercial opportunities for Fanapt® outside the U.S. and Canada;

in-licensing a new product candidate; and

managing and budgeting our cash pursuant to a strategic plan to be approved by our board of directors in 2012.

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The 2012 individual objectives approved by our Compensation Committee for our named executive officers consisted of tasimelteon clinical and regulatory, financial, product development, Fanapt® commercialization, business development and personnel goals, which included:

Mihael H. Polymeropoulos, M.D., President and Chief Executive Officer

Ensure timely SEC filings and support analyst and investor relations

Maintain compliance with Company's 2012 budget

Develop a long-range business plan for the Company

Execute on clinical development plan for tasimelteon in Non-24 and MDD

Develop tasimelteon Non-24 regulatory path in the U.S.

Pursue regulatory approval of Fanapt® in the European Union

In-license new product candidate

Assist ex-U.S. strategic partners in obtaining regulatory approval of Fanapt®

Evaluate potential business development opportunities

Develop tasimelteon Non-24 U.S. commercial strategy and initiate pre-launch activities

Support Novartis with its Fanapt® commercial program in the U.S.

Define long-range business plan

James P. Kelly, Senior Vice President, Chief Financial Officer, Treasurer and Secretary

Ensure timely SEC filings

Support audit committee activities

Maintain effective financial controls and procedures

Maintain compliance with Company's 2012 budget and develop forward-looking forecasts

Manage Company cash within investment policy

Develop potential financing plans and review various scenarios for capital needs

Assist in the development of a long-range business plan for the Company

Support analyst and investor relations and relationships with financial

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institutions

Evaluate current and potential business development opportunities

Assess Company's enterprise resource planning and financial

operations

John J. Feeney III, M.D., former Senior Vice  
President and Chief Medical Officer

Ensure on time clinical trial reporting of SET and RESET Phase III

studies

Initiate preparations for NDA filing with the FDA for tasimelteon in Non-24

Support tasimelteon potential commercial launch

Complete enrollment in tasimelteon MAGELLAN MDD clinical study

Lead effort to pursue regulatory approval of Fanapt® outside the U.S.

and Canada

Support Novartis' Fanapt® partnership and clinical trials

Evaluate current and potential business development opportunities

Maintain professional accreditation

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Robert Repella, Senior Vice President, Chief Commercial Officer	Develop tasimelteon Non-24 U.S. commercial strategy and initiate pre-launch activities
	Build commercial team to support potential tasimelteon commercial launch
	Provide Fanapt® strategic support to Novartis in the U.S. and to partners outside the U.S.
	Evaluate current and potential business development opportunities
	Identify commercial options to support current and future product portfolio scenarios
Assist in the development of a long-range business plan for the Company	

Based on the Company's 2012 performance and the accomplishments of the Company and our named executive officers during the year, our Compensation Committee determined to award each of our named executive officers serving as of the end of the year annual cash incentive awards that were 1.2 times their respective target amounts. The cash incentive awards were above target due to the fact that the 2012 corporate objectives and the individual 2012 objectives of each of our named executive officers were satisfied in a manner that exceeded the expectations of our Compensation Committee, including without limitation the continued advancement of our tasimelteon clinical program towards a projected mid-2013 NDA filing with the FDA in Non-24, the positive results reported from our SET Phase III efficacy study for tasimelteon in the treatment of patients with Non-24, the in-licensing of VLY-686 and the receipt of regulatory approval for Fanapt® in Israel and Argentina. As a result and as further described in the Summary Compensation Table that follows this Compensation Discussion and Analysis, in December 2012 our then-serving named executive officers were awarded the following incentive cash awards:

Name	2012 Target Award Amount	2012 Actual Award	Percentage of Target Actually Awarded
Mihael H. Polymeropoulos, M.D.	\$ 250,000	\$ 300,000	120%
James P. Kelly	\$ 120,000	\$ 144,000	120%
Robert Repella	\$ 140,000	\$ 168,000	120%

In December 2012 when it undertook its review of our executive compensation arrangements, our Compensation Committee determined not to change the 2013 target award percentages for any of our named executive officers. However, in March 2013, in connection with implementing its revised executive officer compensation philosophy, our Compensation Committee resolved to increase Dr. Polymeropoulos' target award percentage to the 50<sup>th</sup> percentile of the target award percentage of chief executive officers at the 2013 peer group, resulting in a target award percentage of 55%, and to implement a cap on annual cash incentive awards equal to 150% of each executive officer's respective target award amounts.

**Equity Compensation**

Our Compensation Committee believes that equity compensation awards help align the interests of our executive officers with those of our stockholders because the value of the equity awards to the recipient increases only with the appreciation of the price of our common stock. The authority to make equity grants to executive officers rests with our Compensation Committee, although our Compensation Committee does consider the peer group data provided by Towers Watson and the recommendations of our Chief Executive Officer (other than for himself).

Generally, we have granted a stock option and/or awarded RSUs to our executive officers upon commencement of their employment with the Company. The size of these initial equity grants are negotiated in connection with the executive officer's employment agreement and generally vest over a four year period. The intent of the initial grants is to create a meaningful opportunity for stock ownership and to align the executive officer's interest with the long-term interests of our stockholders.

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At least annually, typically in December, our Compensation Committee considers replenishment equity awards of stock options and RSUs for our executive officers. We believe that the resulting overlapping vesting schedule from awards made in prior years, together with the number of shares of common stock underlying each award, helps ensure a meaningful incentive to remain in our employ and to enhance stockholder value over time. Our Compensation Committee historically, and in December 2011 in connection with its annual compensation review for purposes of determining the 2012 executive compensation program, determined the size of the grants based on, among other things, the number of shares of common stock underlying equity grants as percentage of common stock outstanding to similarly situated executive officers at the 75th percentile of our peer group companies, recommendations from our Chief Executive Officer (other than with regard to himself), our Compensation Committee's own judgment and experience, recommendations from its compensation consultant, our Company's recent and expected performance, the executive officer's potential for future responsibility and promotion, the executive officer's performance in the recent period and the amount of equity then held by such executive officer.

In December 2011, our Compensation Committee awarded RSUs and granted options to purchase shares of the Company's common stock to the Company's named executive officers, other than Mr. Repella who was awarded RSUs and granted options when he commenced employment with the Company in October 2011, as set forth in the table below. Each RSU vests in equal annual installments over four years beginning January 1, 2013, provided that the executive officer remains continuously employed by us through the applicable vesting date. Each option had an exercise price of \$4.88 per share, the closing price of the Company's common stock on the grant date, and becomes exercisable in equal monthly installments over four years of continuous service from the date of grant. The grants were intended to provide incentives for our executive officers to achieve the Company's 2012 goals, including, among other things, continuing the clinical development of tasimelteon in Non-24 and MDD, developing a tasimelteon Non-24 U.S. commercial strategy and initiating pre-launch activities, the pursuit of foreign regulatory approval and commercialization of Fanapt® and in-licensing a new product candidate.

To determine the size of these RSU awards and option grants, our Compensation Committee referenced the number of shares underlying equity grants as percentage of common stock outstanding to similarly situated officers at the 75<sup>th</sup> percentile of the peer group data as a starting point in determining the size of the awards. Our Compensation Committee then increased the size of the grants and awards based upon, among other factors, its conclusion in the judgment of its members of the appropriate equity incentive award size, our market capitalization and the price of our common stock, recommendations from Towers Watson and our Chief Executive Officer (other than with regard to himself), our Company's recent performance, our projected 2012 financial performance, the executive officer's current and future responsibility and the executive officer's performance in the recent period. As part of its determination, our Compensation Committee attempted to ensure that each named executive officer had a sufficient amount of unvested awards to properly motivate him to remain with the Company and achieve the Company's long-term goals.

Name	Granted in 2011	
	Number of Shares Underlying RSU Awards	Number of Shares Underlying Option Grant
Mihael H. Polymeropoulos, M.D.	50,000	150,000
James P. Kelly	18,750	56,250
John J. Feeney III, M.D.	18,750	56,250

In December 2012, in connection with its annual compensation review for purposes of setting 2013 executive compensation, our Compensation Committee awarded RSUs and granted options to purchase shares of the Company's common stock, which were subject to both service-based and performance-based vesting criteria, to our named executive officers (other than Dr. Feeney whose employment terminated in September of 2012) as set forth in the table below. The performance-based portion of the RSUs and the options consisted of 50% of the underlying shares of common stock and vests in full upon the acceptance by the FDA of an NDA for tasimelteon.



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in Non-24. The remaining portion of the RSUs was service-based and vests in equal annual installments over four years beginning January 1, 2014, provided that the executive officer remains continuously employed by us through the applicable vesting event or date. The service-based portion of the shares of common stock subject to the option grants vests in equal monthly installments over four years of continuous service from the date of grant. Each option had an exercise price of \$3.12 per share, the closing price of the Company's common stock on the grant date. These awards were granted to provide incentives for these executive officers to achieve Company milestones, including, among other things, progression towards the goal of a mid-2013 NDA filing for tasimelteon in Non-24, preparation for a potential tasimelteon commercial launch and the pursuit of foreign regulatory approval and commercialization of Fanapt®. Our Compensation Committee determined not to make any adjustments to the size of the awards from those granted in 2011 to Dr. Polymeropoulos and Mr. Kelly and to provide Mr. Repella with the same equity awards as that provided to Mr. Kelly. As such, the following equity grants were made:

Name	Granted in 2012			
	Number of Shares Underlying Performance-Based Portion of RSU Awards	Number of Shares Underlying Service-Based Portion of RSU Awards	Number of Shares Underlying Performance-Based Portion of Option Grant	Number of Shares Underlying Service-Based Portion of Option Grant
Mihael H. Polymeropoulos, M.D.	25,000	25,000	75,000	75,000
James P. Kelly	9,375	9,375	28,125	28,125
Robert Repella	9,375	9,375	28,125	28,125

***Severance and Change-in-Control Benefits***

Each of our executive officers has a provision in his employment agreement with the Company providing for certain severance benefits in the event of termination without cause, as well as a provision that provides for the acceleration of certain of his then unvested options in the event of termination without cause following a change-in-control of the Company. Following his termination of employment in September 2012, Dr. Feeney received certain payments and benefits pursuant to his employment agreement. In addition, Dr. Polymeropoulos is entitled to certain tax benefits upon a change-in-control of the Company pursuant to a tax indemnity agreement entered into in 2007 and amended in 2010. These severance and acceleration provisions are described in the Employment Agreements section below, and certain estimates of these severance and change-in-control benefits are provided in Estimated Payments and Benefits Upon Termination below. No material changes were made to these benefits in 2012.

***Other Benefits***

Our executive officers are eligible to participate in all of our employee benefit plans, such as medical, dental, vision, group life and disability insurance and our 401(k) plan, in each case on the same basis as our other employees. There were no material benefits or perquisites provided to any named executive officer in 2012. The Company provides matching contributions of up to 50% to the first 6% contribution of each employee's 401(k) contribution per pay period.

**Stockholder Advisory Vote on Executive Compensation**

At our 2012 annual meeting of stockholders, approximately 80.6% of the shares voted were in favor of the compensation of our named executive officers as disclosed in the proxy statement for the 2012 annual meeting of stockholders, including the Compensation Discussion and Analysis, the 2011 Summary Compensation Table and other related tables and disclosures. Our Compensation Committee considers this vote to be an endorsement of our compensation philosophy and practices, including our balance between cash and equity compensation. Based upon that stockholder vote, the compensation committee believed that significant modifications to our executive

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compensation program were not necessary for 2012 and, as such, it remained relatively unchanged from our 2011 program. However, as discussed above, our Compensation Committee determined to revise its compensation philosophy and practices for 2013 and beyond. Both our Compensation Committee and Board of Directors intend to periodically reevaluate our executive compensation philosophy and practices in light of the Company's performance, needs and developments, including the outcome of future non-binding advisory votes by the Company's stockholders.

### **Report of the Compensation Committee<sup>2</sup>**

The Compensation Committee has reviewed and discussed the foregoing Compensation Discussion and Analysis with management and, based on such review and discussions, the Compensation Committee has recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Proxy Statement.

Submitted by the following members of the Compensation Committee:

Vincent J. Milano (Chairman)

Howard H. Pien

H. Thomas Watkins

<sup>2</sup> The material in this report is not soliciting material, is not deemed filed with the SEC and is not to be incorporated by reference in any filing of Vanda under the Securities Act or the Exchange Act, whether made before or after the date hereof and irrespective of any general incorporation language in any such filing.

**Table of Contents****2012 Summary Compensation Table**

The following table summarizes the compensation that we paid to our Chief Executive Officer, Chief Financial Officer and each of our two other most highly compensated executive officers during the year ended December 31, 2012. We refer to these executive officers in this proxy statement as our named executive officers.

Name and Principal Position	Year	Salary \$(1)	Stock Awards \$(2)	Option Awards \$(2)	Non-Equity Incentive		Total \$(3)
					Plan Compensation \$(3)	All Other Compensation \$(4)	
Mihael H. Polymeropoulos, M.D.	2012	500,000	156,000	284,205	300,000	18,081(4)	1,258,286
President and Chief Executive Officer	2011	485,625	244,000	456,540	291,000	7,350	1,484,515
	2010	461,147	1,312,750	818,775	391,000	7,350	2,991,022
James P. Kelly(6)	2012	300,000	58,500	106,577	144,000	17,840(4)	626,917
Senior Vice President, Chief Financial Officer, Treasurer and Secretary	2011	285,625	91,500	171,203	136,800	7,350	692,478
	2010	15,163	413,500	773,865			1,202,528
John J. Feeney III, M.D.(7)	2012	224,205				496,183(4)(5)	720,388
former Senior Vice President and Chief Medical Officer	2011	310,416	91,500	171,203	130,200	7,350	710,669
	2010	281,273	514,163	307,041	117,600	7,350	1,227,427
Robert Repella(8)	2012	350,000	58,500	106,577	168,000	24,768(4)	707,845
Senior Vice President, Chief Commercial Officer	2011	66,410	354,000	848,769			1,269,179

- (1) The salary amount represents the salary earned from January 1 through December 31 of the applicable year; provided, however, Dr. Feeney's salary for 2012 includes his salary from January 1, 2012 through September 12, 2012, the date of the termination of his employment.
- (2) Reflects the aggregate grant date fair value of stock awards and option awards granted during the applicable year calculated in accordance with FASB ASC Topic 718. For a discussion of valuation assumptions, see Note 2 to our audited consolidated financial statements included in our annual report on Form 10-K for the year ended December 31, 2012. Our executive officers will not realize the estimated value of these awards until these awards are vested and sold.
- (3) Represents bonuses paid under our cash incentive bonus program.
- (4) Includes contributions made by the Company to match executive officers' respective 401(k) plan contributions and amounts paid by the Company for health care insurance coverage, group long term life insurance and parking and commuting expenses.

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- (5) Includes payments and benefits in the amount of \$480,369 provided to Dr. Feeney upon the termination of his employment, which consisted of: (i) cash payments equal to 12 months of base salary (\$320,000), (ii) a cash payment equal to Dr. Feeney's target cash incentive bonus (\$128,000), (iii) equity vesting acceleration (\$977), (iv) payment of COBRA health insurance premiums for up to 12 months (\$16,487) and (v) a cash payment for vacation accrued as of the date of termination of employment (\$14,905). Actual payments of the cash benefits may be paid over a period of twelve months from September 12, 2012, the date of the termination Dr. Feeney's employment. See Estimated Payments and Benefits Upon Termination below for additional information regarding these payments and benefits.
- (6) Mr. Kelly's employment with the Company commenced on December 13, 2010.
- (7) Dr. Feeney was appointed the Company's Chief Medical Officer on March 26, 2010 and previously served as Acting Chief Medical Officer from January 9, 2009 until such appointment. Dr. Feeney's employment with the Company was terminated as of September 12, 2012.
- (8) Mr. Repella's employment with the Company commenced on October 24, 2011.

**Table of Contents****2012 Grants of Plan-Based Awards**

The following table sets forth each plan-based award granted to the Company's named executive officers during the year ended December 31, 2012.

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards			All Other Stock Awards: Number of Shares of Stock or Units (#)	All Other Option Awards: Number of Securities Underlying Options (#)	Exercise of Base Price of Option Awards (\$/Sh)	Grant Date Fair Value of Stock and Option Awards (\$)(1)
		Threshold (\$)	Target (\$)	Maximum (\$)				
Mihael H. Polymeropoulos, M.D.		(2)	250,000	(3)				
	12/7/2012				25,000(4)			\$ 78,000
	12/7/2012				25,000(4)			\$ 78,000
	12/7/2012					75,000(5)		\$ 142,102
	12/7/2012					75,000(5)	3.12	\$ 142,103
James P. Kelly		(2)	120,000	(3)				
	12/7/2012				9,375(4)			\$ 29,250
	12/7/2012				9,375(4)			\$ 29,250
	12/7/2012					28,125(5)		\$ 53,289
	12/7/2012					28,125(5)	3.12	\$ 53,288
John J. Feeney III, M.D.		(2)	128,000(6)	(3)				
Robert Repella		(2)	140,000	(3)				
	12/7/2012				9,375(4)			\$ 29,250
	12/7/2012				9,375(4)			\$ 29,250
	12/7/2012					28,125(5)		\$ 53,289
	12/7/2012					28,125(5)	3.12	\$ 53,288

(1) Represents the fair value of each stock option grant or RSU as of the date it was granted in accordance with FASB ASC Topic 718. For a discussion of valuation assumptions, see Note 2 to our audited consolidated financial statements included in our annual report on Form 10-K for the year ended December 31, 2012. These amounts do not represent the actual amounts paid to or realized by the executive officer for these awards.

(2) No threshold amount is included because the plan does not provide for a minimum non-zero payout amount.

(3) The plan does not provide for a maximum amount based on achievement of performance goals.

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- (4) RSU of which 50% vest in equal annual installments over four years beginning January 1, 2014, provided that the executive officer remains employed by the Company as of the applicable vesting date and the other 50% vest upon the acceptance by the U.S. Food and Drug Administration of the Company's New Drug Application for filing for tasimelteon for the treatment of Non-24-Hour Disorder.
- (5) Option vests with respect to 50% of the shares as follows: shares vest in equal monthly installments after the executive officer completes each month of continuous service after December 7, 2012. Option vests with respect to the other 50% of the shares as follows: shares vest upon the acceptance by the U.S. Food and Drug Administration of the Company's New Drug Application for filing for tasimelteon for the treatment of Non-24-Hour Disorder.
- (6) Dr. Feeney ceased being eligible to receive this non-equity incentive plan award upon the termination of his employment in September 2012.

All options and RSUs listed above may be subject to acceleration upon the occurrence of certain events per the terms of the executive officer's employment agreement as described under "Employment Agreements" below.

**Table of Contents****Outstanding Equity Awards at 2012 Year-End**

The following table sets forth information regarding each unexercised option and unvested RSUs held by each of our named executive officers as of December 31, 2012.

Name	Date of Grant	Option awards				Stock awards	
		Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested \$(1)
Mihael H. Polymeropoulos, M.D.	02/10/2005			0.33	02/10/2015		
	09/28/2005	48,154		0.33	09/28/2015		
	12/29/2005	395,621		4.73	12/29/2015		
	01/30/2007	190,373					
	01/30/2007	500,000		30.65	01/30/2017		
	01/04/2008	250,000		5.76	01/03/2018		
	05/22/2009	223,958	26,042(2)	12.55	05/21/2019		
	12/17/2009	131,250	43,750(2)	10.65	12/16/2019		
	12/16/2010	75,000	75,000(2)	8.75	12/16/2020		
	12/06/2011	37,500	112,500(2)	4.88	12/05/2021		
	12/07/2012		75,000(3)	3.12	12/06/2022		
	12/07/2012		75,000(3)	3.12	12/06/2022		
	01/01/2010					37,500(4)	138,750
	12/16/2010					37,500(5)	138,750
	12/06/2011					50,000(6)	185,000
	12/07/2012					25,000(7)	92,500
	12/07/2012					25,000(7)	92,500
James P. Kelly	12/13/2010	75,000	75,000(8)	8.27	12/12/2020		
	12/06/2011	14,062	42,188(2)	4.88	12/05/2021		
	12/07/2012		28,125(3)	3.12	12/06/2022		

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	12/07/2012		28,125(3)	3.12	12/06/2022		
	12/13/2010					37,500(5)	138,750
	12/06/2011					18,750(6)	69,375
	12/07/2012					9,375(7)	34,688
	12/07/2012					9,375(7)	34,688
John J. Feeney III, M.D.(9)	11/29/2007	10,417		8.73	03/12/2013		
	01/04/2008	678		5.76	03/12/2013		
	09/19/2008	10,938		1.02	03/12/2013		
	05/22/2009	83,125		12.55	03/12/2013		
	12/17/2009	51,041		10.65	03/12/2013		
	12/16/2010	26,953		8.75	03/12/2013		
	12/06/2011	14,062		4.88	03/12/2013		
Robert Repella	10/24/2011	67,083	162,917(10)	5.90	10/23/2021		
	12/07/2012		28,125(3)	3.12	12/06/2022		
	12/07/2012		28,125(3)	3.12	12/06/2022		
	10/24/2011					60,000(6)	222,000
	12/07/2012					9,375(7)	34,688
	12/07/2012					9,375(7)	34,688



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- (1) Based on a per share price of \$3.70, which was the closing price per share of our common stock on the last business day of the 2012 fiscal year (December 31, 2012).
  - (2) The option vests with respect to 1/48<sup>th</sup> of the total number of shares granted for each month of continuous service of the Company completed by the executive officer following the date of grant.
  - (3) Option vests with respect to 50% of the shares as follows: shares vest in equal monthly installments after the executive officer completes each month of continuous service after December 7, 2012. Option vests with respect to the other 50% of the shares as follows: shares vest upon the acceptance by the U.S. Food and Drug Administration of the Company's New Drug Application for filing for tasimelteon for the treatment of Non-24-Hour Disorder.
  - (4) Remaining portion of service-based RSU that vests in equal annual installments over four years beginning on January 1, 2011, provided that the executive officer remains employed by the Company as of the applicable vesting date.
  - (5) Remaining portion of service-based RSU that vests in equal annual installments over four years beginning on January 1, 2012, provided that the executive officer remains employed by the Company as of the applicable vesting date.
  - (6) Service-based RSU that vests in equal annual installments over four years beginning on January 1, 2013, provided that the executive officer remains employed by the Company as of the applicable vesting date.
  - (7) RSU that has the following vesting schedule: 50% vest in equal annual installments over four years beginning January 1, 2014, provided that the executive officer remains employed by the Company as of the applicable vesting date and the other 50% vest upon the acceptance by the U.S. Food and Drug Administration of the Company's New Drug Application for filing for tasimelteon for the treatment of Non-24-Hour Disorder.
  - (8) Option vests with respect to 25% of the underlying shares after Mr. Kelly completes 12 months of continuous service with the Company after December 13, 2010, with the balance vesting in equal monthly installments over the next 36 months of continuous service thereafter.
  - (9) Dr. Feeney's employment with the Company was terminated effective September 12, 2012. Following such termination, pursuant to his employment agreement the vested portion of the shares of the Company's Common Stock subject to all options held by Dr. Feeney were subject to an additional three months of accelerated vesting, and such options were exercisable until March 12, 2013.
  - (10) Option vests with respect to 25% of the underlying shares after Mr. Repella completes 12 months of continuous service with the Company after October 24, 2011, with the balance vesting in equal monthly installments over the next 36 months of continuous service thereafter.
- All options and RSUs listed above may be subject to acceleration upon the occurrence of certain events per the terms of the executive officer's employment agreement as described under "Employment Agreements" below.

**Table of Contents****2012 Option Exercises and Stock Vested**

The following table shows the number of shares acquired upon option exercise and stock award vesting for each named executive officer during the year ended December 31, 2012. These amounts do not represent the actual amounts realized by the executive officer for these awards.

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise of Options (#)	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting \$(1)
Mihael H. Polymeropoulos, M.D.			31,250(2)	147,188(2)
James P. Kelly			12,500(2)	58,875(2)
John J. Feeney III, M.D.			12,187(2)	57,401(2)
Robert Repella				

- (1) Value realized on vesting is based on the closing price per share of our common stock on the vesting date.
- (2) The shares underlying RSUs held by the named executive officers vested on January 1, 2012, however the actual settlement of such RSUs occurred on February 14, 2012 pursuant to their terms. These amounts do not represent the actual amounts realized by the executive officer for these awards.

**Employment Agreements**

We entered into offer letters or employment agreements with each of Mihael H. Polymeropoulos, M.D., our President and Chief Executive Officer, James P. Kelly, our Senior Vice President, Chief Financial Officer, Treasurer and Secretary, John J. Feeney III, M.D., our former Senior Vice President and Chief Medical Officer and Robert Repella, our Senior Vice President and Chief Commercial Officer.

*Mihael H. Polymeropoulos, M.D.* We entered into an employment agreement in February 2005, which was amended and restated effective December 16, 2008 and amended on December 16, 2010, with Dr. Polymeropoulos, which provides for an annual base salary of not less than \$362,250 and the possibility of an annual target cash incentive bonus amount equal to 40% of his annual base salary upon achievement of certain performance goals (Dr. Polymeropoulos' current base salary for 2013 is \$515,000 and his target bonus amount is 55% of his annual base salary). If the Company terminates Dr. Polymeropoulos' employment for any reason other than cause or permanent disability, or, other than for item (4) below, Dr. Polymeropoulos terminates his employment within six months after the occurrence of any event constituting good reason, Dr. Polymeropoulos will receive the following severance benefits following termination: (1) a cash payment of his monthly base salary for 12 months (the Continuation Period), payable in accordance with the Company's standard payroll procedures; (2) a bonus, payable in a lump sum, in an amount equal to the greater of his most recent annual target bonus or the average annual target bonus awarded to him for the prior three years; (3) payment of his monthly COBRA health insurance premiums until the earliest of (a) the close of the Continuation Period, (b) the expiration of his continuation coverage under COBRA and (c) the date when he is offered substantially equivalent health insurance coverage in connection with new employment or self-employment; and (4) an additional three months of vesting under all options held by him and all such options shall be exercisable for six months following his termination. In addition, pursuant to the terms of his option agreements and RSU awards, if Dr. Polymeropoulos is terminated without cause, or he terminates his employment for good reason, within 24 months following a change in control of the Company, he will become vested in all of his then unvested options and RSUs. In addition to the benefits provided in his employment agreement, option agreements and RSU awards, the Company entered into a tax indemnity agreement with Dr. Polymeropoulos in November of 2007 that provides certain benefits to him in the event of a change in control of the Company, as described below in Severance and Change in Control Arrangements.

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*James P. Kelly.* We entered into an employment agreement in December 2010 with Mr. Kelly, which provides for an annual base salary of not less than \$285,000 and the possibility of an annual target cash incentive bonus amount equal to 40% of his annual base salary upon achievement of certain performance criteria (Mr. Kelly's current base salary for 2013 is \$315,000 and his target bonus amount is 40% of his base salary). If the Company terminates Mr. Kelly's employment for any reason other than cause or permanent disability, or, other than for item (4) below, if he terminates his employment within six months after the occurrence of any event constituting good reason, Mr. Kelly will receive the following severance benefits following termination: (1) a cash payment of his monthly base salary for 12 months (the "Continuation Period"), payable in accordance with the Company's standard payroll procedures; (2) an amount equal to his annual target bonus, payable in a lump sum; (3) payment of his monthly COBRA health insurance premiums until the earliest of (a) the close of the Continuation Period, (b) the expiration of his continuation coverage under COBRA and (c) the date when he is offered substantially equivalent health insurance coverage in connection with new employment or self-employment; and (4) an additional three months of vesting under all options held by him and all such options shall be exercisable for six months following his termination. In addition, pursuant to the terms of his option agreements and RSU awards, if Mr. Kelly is terminated without cause or if he terminates his employment for good reason, within 24 months following a change in control of the Company, he will become vested in all of his then unvested options and RSUs.

*John J. Feeney III, M.D.* We entered into an employment agreement in May 2009, which was amended effective December 16, 2010. Dr. Feeney's employment with the Company terminated as of September 12, 2012. Following such termination, pursuant to his employment agreement Dr. Feeney received the following severance benefits: (i) cash payment of his monthly base salary for 12 months (the "Continuation Period"); (ii) an amount equal to his annual target bonus at the rate in effect as of the termination of his employment; (iii) payment of his monthly COBRA premiums until the earliest of (a) the close of the Continuation Period, (b) the expiration of his continuation coverage under COBRA and (c) the date when Dr. Feeney is offered substantially equivalent health insurance coverage in connection with new employment or self-employment; and (iv) the vested portion of the shares of the Company's Common Stock subject to all options held by Dr. Feeney were subject to an additional three months of accelerated vesting, and such options were exercisable for six months following the termination of his employment.

*Robert Repella.* We entered into an employment agreement in October 2011 with Mr. Repella, which provides for an annual base salary of not less than \$350,000 and the possibility of an annual target cash incentive bonus amount equal to 40% of his annual base salary upon achievement of certain performance criteria. (Mr. Repella's current base salary for 2013 is \$368,000 and his target bonus amount is 40% of his base salary). If the Company terminates Mr. Repella's employment for any reason other than cause or permanent disability, or, other than for item (4) below, if he terminates his employment within six months after the occurrence of any event constituting good reason, Mr. Repella will receive the following severance benefits following termination: (1) a cash payment of his monthly base salary for 12 months (the "Continuation Period"), payable in accordance with the Company's standard payroll procedures; (2) an amount equal to his annual target bonus, payable in a lump sum; (3) payment of his monthly COBRA health insurance premiums until the earliest of (a) the close of the Continuation Period, (b) the expiration of his continuation coverage under COBRA and (c) the date when he is offered substantially equivalent health insurance coverage in connection with new employment or self-employment; and (4) an additional three months of vesting under all options held by him and all such options shall be exercisable for six months following his termination. In addition, pursuant to the terms of his option agreements and RSU awards, if Mr. Repella is terminated without cause or if he terminates his employment for good reason, within 24 months following a change in control of the Company, he will become vested in all of his then unvested options and RSUs.

In the employment agreements referenced above, "Cause" means:

(a) An unauthorized use or disclosure by the executive officer of the Company's confidential information or trade secrets, which use or disclosure causes material harm to the Company;

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- (b) A material breach by the executive officer of any agreements between the executive officer and the Company;
- (c) A material failure by the executive officer to comply with the Company's written policies or rules;
- (d) The executive officer's conviction of, or plea of guilty or no contest to a felony under the laws of the United States or any State thereof;
- (e) The executive officer's gross negligence or willful misconduct; or
- (f) A continuing failure by the executive officer to perform assigned duties after receiving written notification of such failure from the Board of Directors;

And with respect to the employment agreement between the Company and Dr. Polymeropoulos, Cause also includes:

- (g) A failure by the executive officer to cooperate in good faith with a governmental or internal investigation of the Company or its directors, officers or employees, if the Company has requested the executive officer's cooperation.

In the employment agreements for Messrs. Kelly and Repella, Good Reason means: (i) a change in the executive officer's position with the Company that materially reduces his level of authority or responsibility, (ii) a material reduction in his base compensation or (iii) receipt of notice that his principal workplace will be relocated by more than 30 miles. In the employment agreement for Dr. Polymeropoulos, Good Reason shall mean any of the following events: (i) Dr. Polymeropoulos' receipt of notice that his principal workplace will be relocated more than 30 miles; (ii) a reduction in Dr. Polymeropoulos' base salary by more than 10%, unless pursuant to a Company-wide reduction affecting all employees proportionately; or (iii) a change in Dr. Polymeropoulos' position with the Company that materially reduces his level of authority or responsibility (including without limitation failure to nominate him as a director of the Company). A condition shall not be considered Good Reason unless the applicable executive officer gives the Company written notice of such condition within 90 days after such condition comes into existence and the Company fails to remedy such condition within 30 days after receiving such executive officer's written notice.

## **Severance and Change in Control Arrangements**

See Employment Agreements and Compensation Discussion and Analysis Severance and Change in Control Benefits above for a description of the severance and change in control arrangements for Drs. Polymeropoulos and Feeney and Messrs. Kelly and Repella. Dr. Polymeropoulos and Messrs. Kelly and Repella will only be eligible to receive severance payments if each executive officer signs a general release of claims.

Our Compensation Committee, as plan administrator of our Second Amended and Restated Management Equity Plan and our 2006 Equity Incentive Plan, has the authority to provide for accelerated vesting of the shares of common stock subject to outstanding options held by our named executive officers and any other person in connection with certain changes in control of Vanda.

In each employment agreement, a change in control is defined as (1) the consummation of a merger or consolidation of the Company with or into another entity, if persons who were not stockholders of the Company immediately prior to such merger or consolidation own immediately after such merger or consolidation 50% or more of the voting power of the outstanding securities of each of (a) the continuing or surviving entity and (b) any direct or indirect parent corporation of such continuing or surviving entity; or (2) the sale, transfer or other disposition of all or substantially all of the Company's assets. With respect to Messrs. Kelly's and Repella's employment agreement, change in control also includes: (i) a change in the composition of our Board of Directors, as a result of which fewer than 50% of the incumbent directors are directors who either: (A) had been directors of the Company on the date 24 months prior to the date of such change in the composition of the Board of Directors (the Original Directors); or (B) were appointed to the Board of Directors, or nominated for

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election to the Board of Directors, with the affirmative votes of at least a majority of the aggregate of (1) the Original Directors who were in office at the time of their appointment or nomination and (2) the directors whose appointment or nomination was previously approved in a manner consistent with (B); and (ii) any transaction as a result of which any person is the beneficial owner (as defined in Rule 13d-3 under the Securities Exchange Act of 1934, as amended), directly or indirectly, of securities of the Company representing at least 50% of the total voting power represented by the Company's then outstanding voting securities. A transaction shall not constitute a change in control if its sole purpose is to change the state of the Company's incorporation or to create a holding company that will be owned in substantially the same proportions by the persons who held the Company's securities immediately before such transaction.

In addition, the Company is a party to a tax indemnity agreement with Dr. Polymeropoulos. Under this tax indemnity agreement, the Company or its successor will reimburse Dr. Polymeropoulos for any excise tax that he is required to pay under Section 4999 of the Code of 1986, as amended, as well as the income and excise taxes imposed on the reimbursement. Section 4999 imposes a 20% excise tax on payments and distributions that are made or accelerated (or the vesting of which is accelerated) as a result of a change in control of the Company. The excise tax applies only if the aggregate value of those payments and distributions equals or exceeds 300% of Dr. Polymeropoulos' average annual compensation from the Company for the last five completed calendar years. If the tax applies, it attaches to the excess of the aggregate value of the payments and distributions over 100% of Dr. Polymeropoulos' average annual compensation. In the Company's case, the payments and distributions consist of the continuation of salary, incentive bonus and health insurance coverage for varying periods of time and accelerated vesting of stock options to varying degrees.

**Table of Contents****Estimated Payments and Benefits Upon Termination**

The following table describes the potential payments and benefits upon employment termination for Dr. Polymeropoulos and Messrs. Kelly and Repella, as if the executive officer's employment terminated as of December 31, 2012.

	Executive benefits and payments upon termination(1)	Voluntary resignation not for good reason	Voluntary resignation for good reason	Termination by company not for cause	Termination by company for cause	Voluntary resignation for good reason or termination by company not for cause in connection with or following change in control
<b>Mihael H. Polymeropoulos, M.D., President and Chief Executive Officer</b>	<b>Compensation:</b>					
	Base salary	\$	\$ 500,000(2)	\$ 500,000(2)	\$	\$ 500,000(2)
	Highest target cash incentive bonus		327,333(3)	327,333(3)		327,333(3)
	Stock options and RSUs unvested and accelerated		5,438(4)	5,438(4)		734,500(5)
	<b>Benefits and perquisites:</b>					
	Health care		18,670(6)	18,670(6)		18,670(6)
	Accrued vacation pay	9,615(7)	9,615(7)	9,615(7)	9,615(7)	9,615(7)
	<b>Total</b>	\$ 9,615	\$ 861,056	\$ 861,056	\$ 9,615	\$ 1,590,119
<b>James P. Kelly, Senior Vice President, Chief Financial Officer, Treasurer and Secretary</b>	<b>Compensation:</b>					
	Base salary	\$	\$ 300,000(2)	\$ 300,000(2)	\$	\$ 300,000(2)
	Target cash incentive bonus		120,000(8)	120,000(8)		120,000(8)
	Stock options and RSUs unvested and accelerated		2,036(4)	2,036(4)		310,125(5)
	<b>Benefits and perquisites:</b>					
	Health care		18,670(6)	18,670(6)		18,670(6)
	Accrued vacation pay					
	<b>Total</b>	\$	\$ 440,706	\$ 440,706	\$	\$ 748,795
<b>Robert Repella, Senior Vice President and Chief Commercial Officer</b>	<b>Compensation:</b>					
	Base salary	\$	\$ 350,000(2)	\$ 350,000(2)		\$ 350,000(2)
	Target cash incentive bonus		140,000(8)	140,000(8)		140,000(8)
	Stock options and RSUs unvested and accelerated		2,036(4)	2,036(4)		324,000(5)

**Benefits and  
perquisites:**

Health care		18,670(6)	18,670(6)		18,670(6)
Accrued vacation pay	6,731(7)	6,731(7)	6,731(7)	6,731(7)	6,731(7)
<b>Total</b>	\$ 6,731	\$ 517,437	\$ 517,437	\$ 6,731	\$ 839,401

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- (1) Dr. Polymeropoulos is eligible to receive benefits payable in connection with the tax indemnity agreement described above in "Severance and Change in Control Arrangements" which was approved by our Compensation Committee on March 16, 2007. However, in the event that Dr. Polymeropoulos' employment was terminated as of December 31, 2012, there would be no amounts due under this agreement.
- (2) Last monthly base salary prior to the termination for a period of 12 months following the date of the termination.
- (3) Greater of the most recent target cash incentive bonus awarded prior to termination or the average of the prior three years cash incentive bonuses.
- (4) In the event that the executive officer's employment is terminated by the Company for any reason other than cause or permanent disability, the vested portion of the executive officer's options is determined by adding three months to the executive officer's service.
- (5) Full acceleration for all options and RSUs will occur in the event of an involuntary termination following a change of control. For purposes of the table above, settlement of the RSUs is assumed to have occurred on December 31, 2012.
- (6) Payment of the COBRA health insurance premiums up to 12 months or until the executive officer begins employment with another company that offers comparable benefits.
- (7) Based on accrued but unused vacation days available to the executive officer at December 31, 2012.
- (8) Represents the executive officer's target cash bonus in effect as of December 31, 2012.



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The following table describes the actual payments and benefits provided to Dr. Feeney upon the termination of his employment with the Company on September 12, 2012.

<b>John J. Feeney, III, M.D., former Senior Vice President and Chief Medical Officer</b>	<b>Compensation:</b>	
	Base salary	\$ 320,000(1)
	Target cash incentive bonus	128,000(2)
	Stock options and RSUs unvested and accelerated	977(3)
	<b>Benefits and perquisites:</b>	
	Health care	16,487(4)
	Accrued vacation pay	14,905(5)
	<b>Total</b>	<b>\$ 480,369</b>

- (1) Last monthly base salary prior to the termination for a period of 12 months following Dr. Feeney's termination date of September 12, 2012.
- (2) Represents the Dr. Feeney's target cash bonus in effect as of his termination date of September 12, 2012.
- (3) The vested portion of Dr. Feeney's options was determined by adding three months to Dr. Feeney's service following his termination date of September 12, 2012 and such options were exercisable for six months following the termination of Dr. Feeney's employment.
- (4) Payment of the COBRA health insurance premiums up to 12 months following Dr. Feeney's termination date of September 12, 2012 or until Dr. Feeney begins employment with another company that offers comparable benefits.
- (5) Based on accrued but unused vacation days available to Dr. Feeney as of his termination date of September 12, 2012.

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**PROPOSAL 3**

**ADVISORY VOTE ON EXECUTIVE COMPENSATION**

Our Board of Directors recognizes the interests our investors have in the compensation of our executive officers. In recognition of that interest and as required by the recently enacted Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, or the Dodd-Frank Act, we are providing our stockholders with the opportunity to vote to approve, on an advisory (nonbinding) basis, the compensation of our named executive officers as disclosed in this proxy statement in accordance with the SEC's rules.

As described in detail in our Compensation Discussion and Analysis, our executive compensation programs are designed to attract, motivate and retain our named executive officers, who are critical to our success and will drive the creation of stockholder value. Under these programs, our named executive officers are rewarded for the achievement of specific annual, long-term and strategic goals, corporate goals and the realization of increased stockholder value. Please read the Compensation Discussion and Analysis for additional details about our executive compensation programs, including information about the fiscal year 2012 compensation of our named executive officers.

The Compensation Committee of our Board of Directors continually reviews the compensation programs for our named executive officers to ensure they achieve the desired goals of aligning our executive compensation structure with our stockholders' interests and current market practices. As described in detail in our Compensation Discussion and Analysis our compensation programs are designed to motivate our executive officers to create a successful company. We believe that our compensation program, with its balance of short-term incentives (including cash bonus awards and performance conditions for certain equity awards) and long-term incentives (including equity awards that vest over up to four years) reward sustained performance that is aligned with long-term stockholder interests.

We are asking our stockholders to indicate their support for our named executive officer compensation as described in this proxy statement. This proposal, commonly known as a "say-on-pay" proposal, gives our stockholders the opportunity to express their views on our named executive officers' compensation. This vote is not intended to address any specific item of compensation, but rather the overall compensation of our named executive officers and the philosophy, policies and practices described in this proxy statement. Stockholders are encouraged to read the Compensation Discussion and Analysis, the accompanying compensation tables, and the narrative disclosure. Accordingly, we will ask our stockholders to vote **FOR** the following resolution at the Annual Meeting:

RESOLVED, that the stockholders advise that they approve, in a non-binding vote, the compensation of the Company's named executive officers as disclosed pursuant to the compensation disclosure rules of the Securities and Exchange Commission, including the Compensation Discussion and Analysis, related compensation tables, and the accompanying narrative disclosure set forth in the Proxy Statement relating to the Company's 2013 Annual Meeting of Stockholders.

In order for Proposal 3 to be approved, holders of a majority of all those outstanding shares present in person, or represented by proxy, and cast either affirmatively or negatively at the Annual Meeting must vote **FOR** Proposal 3. Abstentions and broker non-votes will not be counted either **FOR** or **AGAINST** the proposal and will have no effect on the proposal. Because Proposal 3 is a non-routine matter, broker non-votes are expected to exist in connection with this matter.

As an advisory vote, the result will not be binding on our Board of Directors or Compensation Committee. Our Board of Directors and our Compensation Committee value the opinions of our stockholders and expect to take into account the outcome of the vote when considering future executive compensation decisions to the extent they can determine the cause or causes of any significant negative voting results.

**YOUR BOARD OF DIRECTORS RECOMMENDS YOU VOTE FOR PROPOSAL 3, THE APPROVAL OF THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS, AS DISCLOSED IN THIS PROXY STATEMENT PURSUANT TO THE COMPENSATION DISCLOSURE RULES OF THE SECURITIES AND EXCHANGE COMMISSION.**

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### **CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS**

In addition to the compensation arrangements with directors and executive officers described elsewhere in this proxy statement, the following is a description of transactions since January 1, 2012, in which we have been a participant, in which the amount involved exceeded or will exceed \$120,000 and in which any of our directors, executive officers, beneficial holders of more than 5% of our capital stock, or entities affiliated with them, had or will have a direct or indirect material interest.

All of the transactions set forth below were approved by a majority of our Board of Directors, including a majority of the independent and disinterested members of our Board of Directors. We believe that we have executed all of the transactions set forth below on terms no less favorable to us than we could have obtained from unaffiliated third parties. It is our intention to ensure that all future transactions between us and our officers, directors and principal stockholders and their affiliates are approved by the audit committee and a majority of the members of our Board of Directors, including a majority of the independent and disinterested members of our Board of Directors, and are on terms no less favorable to us than those that we could obtain from unaffiliated third parties.

#### **Indemnification Agreements**

We have entered into indemnification agreements with each of our directors and executive officers. These agreements, among other things, require us to indemnify each director and officer to the fullest extent permitted by Delaware law, including indemnification of expenses such as attorneys' fees, judgments, fines and settlement amounts incurred by the director or officer in any action or proceeding, including any action or proceeding by or in right of us, arising out of the person's services as a director or officer.

In addition, the Company is a party to a tax indemnity agreement with Dr. Polymeropoulos. Under this tax indemnity agreement, the Company or its successor will reimburse Dr. Polymeropoulos for any excise tax that he is required to pay under Section 4999 of the Code of 1986, as amended, as well as the income and excise taxes imposed on the reimbursement. Section 4999 imposes a 20% excise tax on payments and distributions that are made or accelerated (or the vesting of which is accelerated) as a result of a change in control of the Company. The excise tax applies only if the aggregate value of those payments and distributions equals or exceeds 300% of Dr. Polymeropoulos' average annual compensation from the Company for the last five completed calendar years. If the tax applies, it attaches to the excess of the aggregate value of the payments and distributions over 100% of Dr. Polymeropoulos' average annual compensation. In the Company's case, the payments and distributions consist of the continuation of salary, incentive bonus and health insurance coverage for varying periods of time and accelerated vesting of stock options to varying degrees.

#### **Stock Option and Restricted Stock Unit Awards**

For information regarding stock options, stock awards and RSUs granted to our named executive officers and directors, see "Corporate Governance - 2012 Director Compensation" and "Compensation of Executive Officers."

### **NO INCORPORATION BY REFERENCE**

In Vanda's filings with the SEC, information is sometimes incorporated by reference. This means that we are referring you to information that has previously been filed with the SEC and the information should be considered as part of the particular filing. As provided under SEC regulations, the "Report of the Audit Committee" and the "Report of the Compensation Committee" contained in this Proxy Statement specifically are not incorporated by reference into any other filings with the SEC and shall not be deemed to be soliciting material. In addition, this Proxy Statement includes several website addresses. These website addresses are

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intended to provide inactive, textual references only. The information on these websites is not part of this Proxy Statement.

**OTHER MATTERS**

The Board of Directors knows of no other matters that will be presented for consideration at the Annual Meeting. If any other matters are properly brought before the Annual Meeting, it is the intention of the persons named in the accompanying proxy to vote on such matters in accordance with their best judgment.

It is important that your proxies be returned promptly and that your shares are represented at the Annual Meeting. Whether or not you plan to attend the Annual Meeting, please complete, date, sign and promptly return the enclosed proxy card in the enclosed postage pre-paid envelope or vote your shares before the Annual Meeting by telephone or over the internet so your shares will be represented at the Annual Meeting.

The form of proxy and this Proxy Statement have been approved by the Board of Directors and are being mailed and delivered to stockholders by its authority.

**CONTACT FOR QUESTIONS AND ASSISTANCE WITH VOTING**

If you have any questions or require any assistance with voting your shares, please contact:

Investor Relations

Vanda Pharmaceuticals Inc.

2200 Pennsylvania Avenue

Suite 300E, Washington, D.C. 20037

or

Call (202) 734-3400

If you need additional copies of this Proxy Statement or voting materials, you should contact Investor Relations as described above.

The Board of Directors of Vanda Pharmaceuticals Inc.

Washington, D.C.

April 26, 2013

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**VOTE BY INTERNET - [www.proxyvote.com](http://www.proxyvote.com)**

Use the Internet to transmit your voting instructions and for electronic delivery of information up until 11:59 P.M. Eastern Time the day before the cut-off date or meeting date. Have your proxy card in hand when you access the web site and follow the instructions to obtain your records and to create an electronic voting instruction form.

**Electronic Delivery of Future PROXY MATERIALS**

If you would like to reduce the costs incurred by our company in mailing proxy materials, you can consent to receiving all future proxy statements, proxy cards and annual reports electronically via e-mail or the Internet. To sign up for electronic delivery, please follow the instructions above to vote using the Internet and, when prompted, indicate that you agree to receive or access proxy materials electronically in future years.

**VOTE BY PHONE - 1-800-690-6903**

Use any touch-tone telephone to transmit your voting instructions up until 11:59 P.M. Eastern Time the day before the cut-off date or meeting date. Have your proxy card in hand when you call and then follow the instructions.

**VOTE BY MAIL**

Mark, sign and date your proxy card and return it in the postage-paid envelope we have provided or return it to Vote Processing, c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717.

TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS:

x

KEEP THIS PORTION FOR YOUR RECORDS  
DETACH AND RETURN THIS PORTION ONLY

**THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED.**

<b>For All</b>	<b>Withhold All</b>	<b>For All Except</b>	To withhold authority to vote for any individual nominee(s), mark <b>For All Except</b> and write the number(s) of the nominee(s) on the line below.
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**The Board of Directors recommends you  
vote**

**FOR the following:**

.. .. .

**1. Election of Directors  
Nominees**

01 Michael F. Cola                      02 Howard H. Pien                      03 H. Thomas Watkins

**The Board of Directors recommends you vote FOR proposals 2 and 3.**

**For    Against    Abstain**

..                      ..                      ..

**2**    TO RATIFY THE SELECTION OF PRICEWATERHOUSECOOPERS LLP AS THE COMPANY'S INDEPENDENT  
REGISTERED PUBLIC ACCOUNTING FIRM FOR THE FISCAL YEAR ENDING DECEMBER 31, 2013.

**3**    TO APPROVE ON AN ADVISORY BASIS THE NAMED EXECUTIVE OFFICER COMPENSATION.

..                      ..                      ..

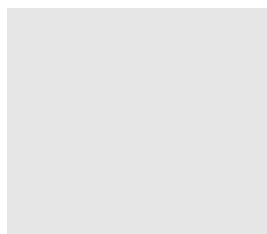
**NOTE:** To conduct any other business properly brought before the Annual Meeting or any adjournments or postponements thereof.

Please sign exactly as your name(s) appear(s) hereon. When signing as attorney, executor, administrator, or other fiduciary, please give full title as such. Joint owners should each sign personally. All holders must sign. If a corporation or partnership, please sign in full corporate or partnership name, by authorized officer.

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**Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting:** The Notice & Proxy Statement, Form 10-K is/are available at [www.proxyvote.com](http://www.proxyvote.com).



**VANDA PHARMACEUTICALS INC.**

**Annual Meeting of Stockholders**

**JUNE 20, 2013 9:00 AM**

**This Proxy is solicited on behalf of the Board of Directors  
for the Annual Meeting of Stockholders to be held on June 20, 2013**

The undersigned appoints Mihael H. Polymeropoulos, M.D. and Mr. James P. Kelly, or any of them as shall be in attendance at the 2013 Annual Meeting of Stockholders, as proxy or proxies, with full power of substitution, to represent the undersigned at the Annual Meeting of Stockholders of Vanda Pharmaceuticals Inc. (the Company), to be held on June 20, 2013, at 9:00 a.m. local time, at the Washington Marriott, located at 1221 22nd Street NW, Washington, D.C. 20037, and at any adjournments or postponements of the Annual Meeting, and to vote on behalf of the undersigned as specified in this Proxy all the Common Stock of the Company that the undersigned would be entitled to vote if personally present, upon the matters referred to on the reverse side hereof, and, in their sole discretion, upon any other business as may properly come before the Annual Meeting. The undersigned acknowledges receipt of the Notice of the Annual Meeting of Stockholders and of the accompanying proxy statement and revokes any proxy heretofore given with

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respect to such Annual Meeting. The votes entitled to be cast by the undersigned will be cast as instructed.

**If this Proxy is executed, but no instruction is given, the votes entitled to be cast by the undersigned will be cast FOR each of the Board of Directors nominees for director in Proposal 1, FOR Proposal 2, AND FOR Proposal 3, each of which is set forth on the reverse side hereof.** The votes entitled to be cast by the undersigned will be cast in the discretion of the Proxy holders on any other matter that may properly come before the Annual Meeting and any adjournment or postponement thereof.

**Continued and to be signed on reverse side**