

TERCICA, INC.

**CHARTER OF THE COMPENSATION COMMITTEE
OF THE BOARD OF DIRECTORS**

(Amended November 23, 2004)

PURPOSES:

The purpose of the Compensation Committee of the Board of Directors (the “**Board**”) of Tercica, Inc. (the “**Company**”) shall be to discharge the Board’s responsibilities relating to compensation of the Company’s executive officers. The Compensation Committee has overall responsibility for approving and evaluating the compensation plans, policies and programs of the Company. In addition, the Compensation Committee shall review and make recommendations to the Board relating to compensation to be provided to directors.

The Compensation Committee is also responsible for producing an annual report on executive compensation for inclusion in the Company’s proxy statement.

The Compensation Committee has the authority to undertake the specific duties and responsibilities listed below and will have the authority to undertake such other specific duties as the Board from time to time prescribes.

STATEMENT OF PHILOSOPHY:

The policy of the Compensation Committee is to maximize stockholder value over time. The primary goal of the Company’s Compensation Committee and its executive compensation program is therefore to closely align the interests of the executive officers with those of the Company’s stockholders. To achieve this goal the Compensation Committee attempts (i) to offer compensation opportunities that attract and retain executives whose abilities are critical to the long-term success of the Company, motivate individuals to perform at their highest level and reward outstanding achievement, (ii) to maintain a significant portion of the executive’s total compensation at risk, tied to achievement of financial, organizational and management performance goals, and (iii) to encourage executives to manage from the perspective of owners with an equity stake in the Company.

MEMBERSHIP:

The Compensation Committee will be appointed by, and will serve at the discretion of, the Board. The Compensation Committee shall consist of no fewer than two members. The members of the Compensation Committee must meet the following criteria:

- When applicable, the independence requirements of Nasdaq Rule 4200, as amended;
- The “non-employee director” definition of Rule 16b-3 promulgated under Section 16 of the Securities Exchange Act of 1934, as amended; and

- The “outside director” definition of Section 162(m) of the Internal Revenue Code of 1986, as amended.

The Board shall annually appoint the members of the Compensation Committee and (if any) the Chair of the Compensation Committee, immediately following the Company’s annual meeting of stockholders.

RESPONSIBILITIES:

The responsibilities of the Compensation Committee shall include the following:

- The Compensation Committee shall at least annually review and make recommendations to the Board for the CEO and review and approve for the other executive officers of the Company the following: (a) annual base salary; (b) annual incentive bonus including the specific goals and amount; (c) equity compensation; (d) employment agreements, severance arrangements, and change in control agreements/provisions; and (e) any other benefits, compensation, compensation policies or arrangements, including compensation relating to raises and promotions. In reviewing and approving such matters, the Compensation Committee shall consider such matters as it deems appropriate, including the Company’s financial and operating performance, the alignment of the interests of the executive officers and the Company’s stockholders, the performance of the Company’s common stock and the Company’s ability to attract and retain qualified individuals.
- The Compensation Committee shall annually review and make recommendations to the Board regarding the compensation policy for such other officers of the Company as directed by the Board.
- The Compensation Committee shall annually review and make recommendations to the Board regarding general compensation goals and guidelines for the Company’s employees and the criteria by which bonuses to the Company’s employees are determined.
- The Compensation Committee shall prepare a report (to be included in the Company’s proxy statement) which describes: (a) the criteria on which compensation paid to the CEO for the last completed fiscal year is based; (b) the relationship of such compensation to the Company’s performance; and (c) the Compensation Committee’s executive compensation policies applicable to executive officers.
- The Compensation Committee shall act as Administrator (as defined therein) of the 2002 Stock Plan, 2002 Executive Stock Plan, 2004 Stock Plan, 2003 Director Option Plan, 2003 Employee Stock Purchase Plan and any subsequent employee benefit plans adopted and approved by the Company’s Board and stockholders, if appropriate. In its administration of the plans, the Compensation Committee may, pursuant to authority delegated by the Board (i) grant stock options or stock purchase rights to individuals eligible for such grants (including grants to individuals subject to Section 16 of the Exchange Act in compliance with Rule 16b-3 promulgated thereunder, as long as the

Compensation Committee is comprised entirely of “non-employee directors,” as such term is defined in Rule 16b-3(b)(3)(i) promulgated under the Exchange Act), and (ii) amend such stock options or stock purchase rights. The Compensation Committee shall also make recommendations to the Board with respect to amendments to the plans and changes in the number of shares reserved for issuance thereunder.

- The Compensation Committee may review and make recommendations to the Board regarding other plans that are proposed for adoption or adopted by the Company for the provision of compensation to employees of, directors of and consultants to the Company.
- The Compensation Committee may authorize the repurchase of shares from terminated employees pursuant to applicable law.
- The Compensation Committee may delegate authority to the CEO and/or to subcommittees duly formed by the Compensation Committee when appropriate.
- The Compensation Committee shall make regular reports to the Board.
- The Compensation Committee shall review and reassess the adequacy of this Charter annually and recommend any proposed changes to the Board for approval.
- The Compensation Committee shall have the sole authority to retain and terminate any compensation consultant to be used by the Company to assist in the evaluation of CEO or executive officer compensation and shall have sole authority to approve the consultant’s fees and other retention terms. The Compensation Committee shall also have authority to obtain advice and assistance from internal or external legal, accounting or other advisors.
- The Compensation Committee shall review any issues concerning the legal compliance and maintenance of the Company’s employee benefit plans.

MEETINGS:

It is anticipated that the Compensation Committee will meet at least two (2) times each year. However, the Compensation Committee may establish its own schedule, which it will provide to the Board in advance.

At a minimum of one of such meetings annually, the Compensation Committee will consider stock plans, performance goals and incentive awards, and the overall coverage and composition of the compensation package.

MINUTES:

The Compensation Committee will maintain written minutes of its meetings, which minutes will be filed with the minutes of the meetings of the Board.

REPORTS:

The Compensation Committee will report to the Board regarding their meetings and recommendations submitted to the Board for action. Also, as requested by the Board, the Compensation Committee will make full reports of their activities to the Board in executive session.

COMPENSATION:

Members of the Compensation Committee shall receive such fees for their service as Compensation Committee members as may be determined by the Board in its sole discretion. Such fees may include retainers or per meeting fees. Fees may be paid in such form of consideration as is determined by the Board.

Members of the Compensation Committee may not receive any compensation from the Company except the fees that they receive for service as members of the Board or any committee thereof.