

NEW RIVER PHARMACEUTICALS INC.

Compensation Committee Charter

The Compensation Committee (the “Committee”) of New River Pharmaceuticals Inc. (the “Company”) shall consist of not less than three members of the Board of Directors. On recommendation of the Nominating and Governance Committee, the Board of Directors shall appoint the members of the Committee and shall designate the Chairman of the Committee. Each member must satisfy the independence requirements of The Nasdaq Stock Market (“Nasdaq”) within the time requirements established by Nasdaq, all as determined by the Board of Directors. Any member of the Committee may be replaced by the Board of Directors.

The Committee’s primary responsibility is to oversee the implementation of the Company’s philosophy with respect to the compensation of executive officers. The Committee shall have the overall responsibility for the executive compensation plans, policies, and programs for executive officers on behalf of the Board of Directors. The Compensation Committee reports to the Board of Directors on all matters within the Committee’s responsibilities.

The Committee shall meet at such times as it determines to be appropriate or at the call of the Chairman of the Committee.

In carrying out its responsibilities:

- The Committee shall have responsibility for maintaining an executive compensation policy that creates a direct relationship between pay levels and corporate performance and returns to shareholders. The Committee shall monitor the results of such policy to assure that the compensation payable to the Company’s executive officers provides overall competitive pay levels, creates proper incentives to enhance shareholder value, rewards superior performance, and is justified by the returns available to shareholders.
- The Committee shall have responsibility for recommending to the Board of Directors for approval, compensation and benefit plans for executive officers, which may include amendments to existing plans, cash- and equity-based incentive compensation plans, and non-qualified deferred compensation and retirement plans.
- The Committee shall review and approve annually corporate and personal goals and objectives to serve as the basis for the Chief Executive Officer’s compensation, evaluate the Chief Executive Officer’s performance in light of those goals and objectives and determine the Chief Executive Officer’s compensation based on that evaluation, or recommend to the Board of Directors for determination.

- The Committee shall determine, or recommend to the Board of Directors for determination, the annual compensation for other executive officers.
- The Committee shall be responsible for approving the compensation to be paid or provided to executive officers and the Committee shall utilize, where it deems appropriate, comparative data regarding compensation practices. The Committee may utilize flexible compensation structures to attract, retain, motivate and appropriately reward executive officers, consistent with the Company's compensation philosophy. The Committee may retain one or more executive compensation consultants or other advisors to assist the Committee with these duties. The Committee shall have the sole authority to retain, compensate, terminate and oversee the executive consultants, who shall be accountable ultimately to the Committee.
- With respect to the Company's equity-based compensation plans, the Committee shall approve grants of stock options, restricted stock, performance shares, stock appreciation rights, and other equity-based incentives to the extent provided under the compensation plans.
- The Committee shall from time to time review and make recommendations to the Board of Directors regarding the compensation of non-employee directors.
- The Committee shall provide, over the names of the Committee members, the required Compensation Committee report for the Company's proxy statement for the annual meeting of shareholders.
- The Committee shall have available to it such support personnel, including management staff, outside auditors, attorneys and consultants as it deems necessary to discharge its responsibilities.
- The Committee shall consider the application of Section 162(m) of the Internal Revenue Code to the Company and its compensation practices and develop a policy for the Company with respect to Section 162(m).
- The Secretary of the Committee shall be the Corporate Secretary or his designee. The proceedings of all Committee meetings shall be documented in minutes. At the next regular Board meeting following any Committee meeting, the Chairman of the Committee shall report to the Board of Directors on behalf of the Committee.
- The Chairman of the Committee shall discuss the Committee's performance with each member of the Committee, following which discussions the Chairman shall lead the Committee in an annual evaluation of its performance. The annual evaluation shall include a review of the Committee's charter.

- The Committee shall cause to be provided to Nasdaq appropriate written confirmation of any of the foregoing matters as Nasdaq may from time to time require.

This Compensation Committee Charter was duly approved and adopted by the Board of the Company on the 6th day of July, 2004.

/s/ Krish S. Krishnan
Krish S. Krishnan, Secretary