

NEW RIVER PHARMACEUTICALS INC.

Corporate Governance Guidelines

(As of September 15, 2004)

I. Board of Directors

- The directors of New River Pharmaceuticals Inc. (the “Corporation”) are elected by its shareholders to oversee management and to act in the best interest of the Corporation and its shareholders.

II. Ethical Business Principles

- Integrity and ethical behavior are core values of the Corporation. The Board of Directors and employees shall reflect such principles in the conduct of business. The Board is responsible to provide the best example of these values and should reinforce their importance at appropriate times.
- The Nominating and Governance Committee should review periodically the Corporation’s Code of Business Conduct and Ethics. The Nominating and Governance Committee is responsible for evaluating periodically the adequacy of the policies included in the Code of Business Conduct and Ethics. The Nominating and Governance Committee should have management confirm periodically that those policies are fully understood and implemented.

III. Board Composition

- A range in the size of the Board from 6 to 10 members seems appropriate.
- Diversity of backgrounds and expertise should be emphasized.
- A majority of the directors shall be independent within the meaning of the independence standards of The Nasdaq Stock Market (“Nasdaq”) within the time requirements established by Nasdaq, all as determined by the Board of Directors. The Independence Determination Guidelines attached to these guidelines as Appendix A have been established to assist the Board of Directors in making these independence determinations.
- When an independent director no longer holds the principal position that he or she held when first elected to the Board of Directors, he or she is expected to notify the Chairman of the Nominating and Governance Committee for consideration by that Committee. The Nominating and Governance Committee shall make a recommendation to the Board of Directors regarding the director’s continued service on the Board.

IV. Meetings

- Meetings

The Board of Directors shall have an annual meeting as soon as practicable after the adjournment of the annual meeting of shareholders. Other meetings of the Board of Directors shall be held at times fixed by resolution of the Board, or upon call of the Chief Executive Officer or a majority of the directors.

- Attendance

1. Directors are expected to attempt to attend all meetings of the Board of Directors and the Board committees on which they serve, to ask questions and engage in discussion, and to spend the time needed and meet as frequently as necessary to properly discharge their responsibilities. Directors are also strongly encouraged to attend each annual meeting of the Corporation's shareholders.

2. Attendance at meetings of the Board of Directors and of Board committees that falls below 75% shall be discussed with the Chairman of the Board to determine if excessive time conflicts are likely to continue.

- The independent directors shall meet as a group in executive session at least two times a year. At these sessions the Chair shall rotate from meeting to meeting among the Chairmen of the Compensation Committee, the Audit Committee and the Nominating and Governance Committee. The independent directors have the authority to retain outside counsel and advisors.
- An agenda shall be distributed before each meeting of the Board of Directors with the opportunity provided for each director to request additions to the agenda.
- Meeting materials shall be delivered to each director in sufficient time in advance of each regular meeting of the Board of Directors to permit a thorough review.

V. Responsibilities of the Board of Directors and Committees

- Approve major corporate decisions and oversee, develop and implement Board policies.
- Review and, where appropriate, approve the Corporation's major financial objectives and strategic and operating plans and activities.

- Periodic review (at least annually) of the Corporation's legal compliance programs and procedures.
- Monitor and assess performance and ask appropriate questions of management to address accountability with established goals.
- Stay well informed regarding the Corporation's businesses.
- Be a partner with the Chief Executive Officer on strategic issues by advising and consulting.
- Through the Audit Committee, oversee the Corporation's disclosure controls and procedures and internal controls over financial reporting.
- Oversee the Corporation's program for identifying, evaluating and controlling significant risks.
- Be willing to be proactive in crisis situations.
- Review and approve major capital allocation recommendations of management.
- Oversee financial statements through the Audit Committee.
- Assume responsibility for the selection, retention and replacement of the Chief Executive Officer.
- Review, evaluate the performance of, and approve compensation of executive officers through the Compensation Committee.
- Establish proper governance, which includes a periodic review of the Corporate Governance Guidelines by the Nominating and Governance Committee, the consideration by such Committee of other corporate governance issues and related matters, and any resulting recommendation by such Committee as to the governance issues that should be addressed by the Board of Directors.
- Recruit effective new members through the Nominating and Governance Committee.
- The Board shall have three standing committees: (i) Audit, (ii) Compensation and (iii) Nominating and Governance. The responsibilities of the three committees are set forth in the Bylaws and in the committee charters. Each Committee will have a written charter that will be reviewed annually.

VI. Director Compensation and Ownership of Capital Stock

- Non-employee directors shall receive reasonable annual compensation, which may take the form of an annual retainer, an annual stock grant, an award of stock options and/or a fee for attendance at any Board of Directors or Committee meeting. The annual compensation shall be recommended by the Compensation Committee and reviewed and approved annually by the Board of Directors.
- Board members are expected to own the Corporation's common stock.

VII. Director Orientation

- The Chairman of the Board shall have responsibility for developing an orientation program for each new director, and an ongoing education program for all directors.

VIII. Board Contacts and Access

- Board members shall have access to the Corporation's management at all times. Directors are expected to consider whether the results of any contact with a member of management other than the Chief Executive Officer should be reported to the Chief Executive Officer.
- Dealings with the press and with investors generally should be the sole province of the Chief Executive Officer and his designees. From time to time the Chief Executive Officer may request director participation.

IX. Shareholders Access to Directors

- **Shareholder Communications.** Shareholders may communicate with the Board of Directors as a group and individual directors by sending written correspondence to the Chairman of the Nominating and Governance Committee at the following address: New River Pharmaceuticals Inc., 1881 Grove Avenue, Radford, Virginia 24141, Attention: Corporate Secretary.
- **Process for Collecting and Organizing Shareholder Communications.** The Chairman of the Nominating and Governance Committee and his or her duly authorized agents shall be responsible for collecting and organizing shareholder communications. Absent a conflict of interest, the Chairman of the Nominating and Governance Committee is responsible for evaluating the materiality of each shareholder communication and determining whether further distribution is appropriate, and, if so, whether to (i) the full Board, (ii) one or more Board members and/or (iii) other individuals or entities.

X. Board Performance Review

- The Board of Directors shall conduct an annual review of its performance, reflecting on how the Board could have done a better job, *i.e.*, lessons learned and improvements needed by the group and, if appropriate, by individual directors.

XI. Chief Executive Officer Performance Review

- Provide for regular oral communication from the Board members to the Chief Executive Officer regarding concerns, suggestions, needs and expectations; written communication will be provided to the Chief Executive Officer upon the request of the Board.
- The Compensation Committee shall provide an annual review of the Chief Executive Officer's performance.

XII. Chief Executive Officer Succession

- Chief Executive Officer succession planning process should include a regular (at least annual) Board review. Any review of possible internal candidates should include:
 1. readiness and potential;
 2. demonstrated skills and competencies;
 3. needed experience and training to fill gaps; and
 4. a plan for adequate exposure to Board of Directors.

APPENDIX A

Independence Determination Guidelines

“Independent Director” means a person other than an officer or employee of New River Pharmaceuticals Inc. (the “Corporation”) or its subsidiaries or any other individual having a relationship, which, in the opinion of the Corporation’s board of directors, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. The following persons shall not be considered independent:

- (a) a director who is, or at any time during the past three years was, employed by the Corporation or by any parent or subsidiary of the Corporation;
- (b) a director who accepted or who has a Family Member who accepted any payments from the Corporation or any parent or subsidiary of the Corporation in excess of \$60,000 during the current or any of the past three fiscal years, other than the following:
 - (i) compensation for board or board committee service;
 - (ii) payments arising solely from investments in the Corporation’s securities;
 - (iii) compensation paid to a Family Member who is a non-executive employee of the Corporation or a parent or subsidiary of the Corporation;
 - (iv) benefits under a tax-qualified retirement plan, or non-discretionary compensation; or
 - (v) loans permitted under Section 13(k) of the Act.

provided, however, audit committee members are subject to additional, more stringent requirements under Rule 4350(d) of The Nasdaq Stock Market;

- (c) a director who is a Family Member of an individual who is, or at any time during the past three years was, employed by the Corporation or by any parent or subsidiary of the Corporation as an executive officer;
- (d) a director who is, or has a Family Member who is, a partner in, or a controlling shareholder or an executive officer of, any organization to which the Corporation made, or from which the Corporation received, payments for property or services in the current or any of the past three fiscal years that exceed 5% of the recipient’s consolidated gross revenues for that year, or \$200,000, whichever is more, other than the following:
 - (i) payments arising solely from investments in the Corporation’s securities;
or

- (ii) payments under non-discretionary charitable contribution matching programs;
- (e) a director of the Corporation who is, or has a Family Member who is, employed as an executive officer of another entity where at any time during the past three years any of the executive officers of the Corporation serve on the compensation committee of such other entity; or
- (f) a director who is, or has a Family Member who is, a current partner of the Corporation's outside auditor, or was a partner or employee of the Corporation's outside auditor who worked on the Corporation's audit at any time during any of the past three years.

A "Family Member" is a person's spouse, parents, children and siblings, whether by blood, marriage or adoption, or anyone residing in such person's home. "Marriage" captures relationships that arise as a result of marriage, such as in-law relationships.