

NOVEN PHARMACEUTICALS INC

Form DEF 14A

April 08, 2004

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**SCHEDULE 14A  
(Rule 14a-101)**

**INFORMATION REQUIRED IN PROXY STATEMENT**

**SCHEDULE 14A INFORMATION**

**Proxy Statement Pursuant to Section 14(a) of the Securities**

**Exchange Act of 1934 (Amendment No. )**

Filed by the Registrant  x

Filed by a Party other than the Registrant  o

Check the appropriate box:

o Preliminary Proxy Statement

o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

x Definitive Proxy Statement

o Definitive Additional Materials

o Soliciting Material under Rule 14a-12

Noven Pharmaceuticals, Inc.

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(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

x No fee required.

o 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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(2) Aggregate number of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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(4) Proposed maximum aggregate value of transaction:

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(5) Total fee paid:

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o Fee paid previously with preliminary materials.

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(1) Amount Previously Paid:

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

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(4) Date Filed:

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April 12, 2004

Dear Stockholder:

The 2004 Annual Meeting of Stockholders of Noven Pharmaceuticals, Inc. will convene at 10:00 a.m. on Tuesday, May 18, 2004. The meeting will be held at our corporate headquarters located at 11960 S.W. 144th Street, Miami, Florida and will address the matters referred to in the enclosed Notice of Meeting. Details regarding the business to be conducted at the meeting are more fully described in the accompanying Notice of Annual Meeting and Proxy Statement.

Your vote on these matters is important. Whether or not you plan to attend the meeting, I hope you will vote as soon as possible. Most of you may now vote your shares over the Internet, as well as by telephone or by mailing a traditional proxy card. Voting over the Internet, by telephone or by written proxy will assure that your shares are voted if you do not attend in person. Please review the instructions on the proxy card regarding each of these voting options.

We hope you will participate in your Annual Meeting, if not in person, then by proxy. If you are able to attend, the Board of Directors, as well as the executive officers of Noven, look forward to seeing you there. We appreciate your continued support.

Sincerely yours,

ROBERT C. STRAUSS  
*President, Chief Executive Officer  
& Chairman of the Board*

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[Noven Pharmaceuticals Logo]

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**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

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<b>TIME</b>	10:00 a.m. on Tuesday, May 18, 2004
<b>PLACE</b>	Noven Pharmaceuticals, Inc. 11960 S.W. 144th Street Miami, Florida
<b>ITEMS OF BUSINESS</b>	<ol style="list-style-type: none"><li>1. To elect six members to the Board of Directors.</li><li>2. To approve amendments to Noven's 1999 Long-Term Incentive Plan.</li><li>3. To ratify the appointment of Deloitte &amp; Touche LLP as Noven's independent accountants.</li><li>4. To transact such other business as may properly come before the meeting and any adjournment thereof.</li></ol>
<b>RECORD DATE</b>	You are entitled to vote if you were a stockholder at the close of business on April 7, 2004.
<b>ANNUAL REPORT</b>	Noven's 2003 Annual Report, which is not a part of the proxy soliciting material, is enclosed.
<b>PROXY VOTING</b>	It is important that your shares be represented and voted at the meeting. You can vote your shares by one of the following methods: vote over the Internet or by telephone using the instructions on the enclosed proxy card (if these options are available to you), <b>or</b> mark, sign, date and promptly return the enclosed proxy card in the postage-paid envelope furnished for that purpose. Any proxy may be revoked in the manner described in the accompanying Proxy Statement at any time prior to its exercise at the meeting.

Jeffrey F. Eisenberg  
*Vice President Strategic Alliances,  
General Counsel & Corporate Secretary*

*This Proxy Statement and accompanying proxy card are being distributed on or about April 12, 2004.*

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**QUESTIONS AND ANSWERS ABOUT THE PROXY MATERIALS  
AND THE ANNUAL MEETING**

***Q: Why am I receiving these materials?***

**A:** The Board of Directors (the Board) of Noven Pharmaceuticals, Inc. (Noven) is providing these proxy materials to solicit your proxy in connection with Noven's annual meeting of stockholders, which will take place on May 18, 2004. You are invited to attend the meeting and are requested to vote on the proposals described in this Proxy Statement.

***Q: What information is contained in these materials?***

**A:** The information included in this Proxy Statement relates to the proposals to be voted on at the meeting, the voting process, the compensation of directors and Noven's most highly paid officers, and other required information. We are also sending Noven's 2003 Annual Report with these materials, but it does not constitute part of our proxy soliciting material.

***Q: What proposals will be voted on at the meeting?***

**A:** There are three proposals scheduled to be voted on at the meeting:

Election of six directors;

Approval of amendments to Noven's 1999 Long-term Incentive Plan; and

Ratification of the appointment of Deloitte & Touche LLP to audit Noven's books and accounts for 2004.

We will also consider and vote upon any other proposal properly brought before the meeting.

***Q: What are the Board's voting recommendations?***

**A:** The Board recommends that you vote your shares:

For each of the nominees named herein to the Board;

For the approval of the amendments to Noven's 1999 Long-term Incentive Plan; and

For the ratification of the appointment of Deloitte & Touche LLP.

***Q: What shares can I vote?***

**A:** You may vote all shares that you owned as of April 7, 2004, which is the *record date*. These shares include (1) those held directly in your name as the *stockholder of record* and (2) those held for you as the *beneficial owner* through a stockbroker, bank or other nominee.

**Q:** *What is the difference between holding shares as a stockholder of record and as a beneficial owner?*

**A:** Most Noven stockholders hold their shares through a stockbroker, bank or other nominee rather than directly in their own name. As summarized below, there are some distinctions between shares held of record and those owned beneficially.

### **Stockholder of Record**

If your shares are registered directly in your name with Noven's Transfer Agent, American Stock Transfer and Trust Company, you are considered, with respect to those shares, the *stockholder of record* and we are sending these proxy materials directly to you. As the *stockholder of record*, you have the right to grant your proxy directly to Noven or to vote in person at the meeting. Noven has enclosed a proxy card for you to use.



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**Beneficial Owner**

If you hold shares in a stock brokerage account or through a bank or other nominee, you are considered the *beneficial owner* of shares held *in street name* and your broker or nominee is forwarding these proxy materials to you. Your broker or nominee is considered, with respect to those shares, the *stockholder of record*. As the beneficial owner, you have the right to direct your broker on how to vote, but since you are not the *stockholder of record*, you may not vote these shares in person at the meeting unless you obtain a signed proxy from the record holder giving you the right to vote the shares. As a beneficial owner, you are, however, welcome to attend the meeting. Your broker or nominee has enclosed a voting instruction card for you to use.

**Q:** *How can I vote my shares in person at the meeting?*

**A:** You may vote shares you hold directly in your name as the *stockholder of record* in person at the annual meeting. If you choose to do so, please bring the enclosed proxy card or proof of identification.

Even if you plan to attend the annual meeting, we recommend that you also submit your proxy as described below so that your vote will be counted if you later decide not to attend the meeting.

**Q:** *How can I vote my shares without attending the meeting?*

**A:** Whether you hold shares directly as the stockholder of record or beneficially in street name, you may direct your vote without attending the meeting. If you hold your shares directly, you may vote by granting a proxy. If you hold your shares in street name, you may submit voting instructions to your broker or nominee. In most instances, you will be able to do this over the Internet, by telephone or by mail. Please refer to the summary instructions below and those included on your proxy card or, for shares held in street name, the voting instruction card included by your broker or nominee.

**By Internet** If this option is available to you, you may submit your proxy via the Internet from any location in the world by following the *Vote by Internet* instructions on the proxy card.

**By Telephone** If you live in the United States or Canada and this option is available to you, you may submit your proxy by following the *Vote by Phone* instructions on the proxy card.

**By Mail** You may do this by signing your proxy card or, for shares held in street name, the voting instruction card included by your broker or nominee and mailing it in the enclosed, postage prepaid and addressed envelope. If you provide specific voting instructions, your shares will be voted as you instruct. If you sign but do not provide instructions, your shares will be voted as described below in **How are votes counted?** If you vote by telephone or via the Internet, you do not need to return your proxy card.

**Q:** *May I change my vote?*

**A:** Yes, you may change your proxy instructions at any time prior to the vote at the annual meeting. If you voted by mail, you must (a) file with Noven's Corporate Secretary a written notice of revocation or (b) timely deliver a valid, later-dated proxy. If you voted by telephone or via the Internet, you may change your vote with a later telephone or Internet vote, but you must submit your later vote using the

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same system (telephone or Internet) as you used to submit the vote you wish to change. For shares you own beneficially, you may change your vote by submitting new voting instructions to your broker or nominee. Your attendance at the meeting will not revoke your previously granted proxy unless you give written notice of revocation to Noven's Corporate Secretary before the vote at the meeting or you vote by written ballot at the meeting.

***Q: How are votes counted?***

**A:** In the election of directors, you may vote **FOR** all of the nominees or your vote may be **WITHHELD** with respect to one or more of the nominees. For the other proposals, you may vote **FOR**, **AGAINST** or **ABSTAIN**. If you **ABSTAIN**, it has the same effect as a vote **AGAINST**. If you sign your proxy card or broker voting instruction card with no further instructions, your shares will be voted in accordance with the recommendations of the Board.

***Q: What is the voting requirement to approve each of the proposals?***

**A:** In the election for directors, each director requires the affirmative **FOR** vote of a plurality of those shares represented, in person or by proxy, and entitled to vote at the meeting. The other proposals require the affirmative **FOR** vote of a majority of those shares represented, in person or by proxy, and entitled to vote at the meeting. If you are a *beneficial owner* and do not provide the *stockholder of record* with voting instructions, your shares may constitute *broker non-votes*, as described in *What is the quorum requirement for the meeting?* on page 33. In tabulating the voting result for any particular proposal, shares which constitute *broker non-votes* are not considered represented at the meeting.

***Q: What does it mean if I receive more than one proxy or voting instruction card?***

**A:** It means your shares are registered differently or are in more than one account. Please provide voting instructions for all proxy and voting instruction cards you receive.

***Q: Where can I find the voting results of the meeting?***

**A:** We will announce preliminary voting results at the meeting and publish final results in Noven's quarterly report on Form 10-Q for the second quarter of 2004.

*Additional Q&A information regarding the annual meeting and stockholder proposals may be found on pages 33 and 34.*

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The following table sets forth, as of March 1, 2004, information with respect to:

each person known to us to be the beneficial owner of more than 5% of Noven's common stock;

beneficial ownership by all of Noven's directors (including retiring directors and director nominees) and executive officers named in the Summary Compensation Table on page 15 (the "Named Officers"); and

beneficial ownership by all of Noven's current directors and executive officers as a group.

The number of shares beneficially owned by each entity, person, director, director nominee or executive officer is determined under rules of the Securities and Exchange Commission, and the information is not necessarily indicative of beneficial ownership for any other purpose. Under these rules, beneficial ownership includes any shares as to which the individual has the sole or shared voting power or investment power and also any shares with respect to which the person has the right to acquire sole or shared voting or investment power on or before May 1, 2004 (60 days after March 1, 2004) through the exercise of any stock option or other right. Unless we indicate otherwise, each person has sole investment and voting power (or shares such powers with his or her spouse) with respect to the shares set forth in the following table.

Name	Number of Shares Owned (1)	Right to Acquire (2)	Percentage of Total (3)
T. Rowe Price Associates, Inc. (4) 100 E. Pratt Street Baltimore, Maryland 21202	2,793,250	0	12.0%
Lord, Abnett & Co. (5) 90 Hudson Street Jersey City, NJ 07302	1,365,006	0	5.9%
Palisades Capital Management, L.L.C. (6) One Bridge Plaza, Suite 695 Fort Lee, NJ 07024	1,253,200	0	5.4%
Barclays Global Investors NA (7) 45 Fremont Street, 17th Floor San Francisco, CA 94105	1,238,930	0	5.3%

**All Directors and Named Officers:**

Diane M. Barrett.	0	52,000	*
Sidney Braginsky.	6,694	37,500	*
John G. Clarkson, M.D.	328	0	*
Donald A. Denkhaus.	0	15,000	*

Lawrence J. DuBow (8).	10,694	37,500	*
Jeffrey F. Eisenberg.	1,250	91,000	*

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Name	Number of Shares		Percentage of Total (3)
	Owned (1)	Right to Acquire (2)	
Regina E. Herzlinger (8).	2,694	30,000	*
W. Neil Jones.	2,512	56,750	*
Juan A. Mantelle.	18,767	98,750	*
Robert G. Savage.	0	15,000	*
Robert C. Strauss.	121,349	279,287	1.7%
Wayne P. Yetter.	694	25,000	*
<b>All Directors and Executive Officers as a Group (13 persons).</b>	164,982	737,787	3.8%

\* signifies less than 1%

(1) Excludes shares that may be acquired through stock option exercises.

(2) Shares that may be acquired through stock options exercisable on or before May 1, 2004.

(3) Based on 23,195,863 shares outstanding at March 1, 2004. In calculating the percentage of ownership, all shares of Common Stock of which the identified person or group has the right to acquire beneficial ownership on or before May 1, 2004 are deemed to be outstanding for the purpose of computing the percentage of the shares of Common Stock owned by that person or group. These shares are not, however, deemed to be outstanding for the purpose of computing the percentage of the shares of Common Stock owned by any other person or group.

(4) Based on Schedule 13G filed on or about February 13, 2004 with the Securities and Exchange Commission. These securities are owned by various individual and institutional investors, which T. Rowe Price Associates, Inc. (Price Associates) serves as investment adviser with power to direct investments and/or sole power to vote the securities. For purposes of the reporting requirements of the Securities Exchange Act of 1934, Price Associates is deemed to be a beneficial owner of such securities; however, Price Associates expressly disclaims that it is, in fact, the beneficial owner of such securities.

(5) Based on Schedule 13G filed on or about January 26, 2004 with the Securities and Exchange Commission.

(6) Based on Schedule 13G filed on or about February 9, 2004 with the Securities and Exchange Commission.

(7) Based on Schedule 13G filed on or about February 13, 2004 with the Securities and Exchange Commission.

(8) Director not standing for reelection at the 2004 Annual Meeting of Stockholders.

**PROPOSAL 1 ELECTION OF DIRECTORS**

The six persons named below were designated by the Board as nominees for election as directors. Four of the nominees have served as directors since the last annual meeting and two of the nominees are standing for election for the first time. Two of our directors, Lawrence J. DuBow and Prof. Regina E. Herzlinger, will be retiring at the meeting and will not stand for reelection. We are grateful to Mr. DuBow and Prof. Herzlinger for the time and counsel that they have each provided to

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us since joining the Board and wish them well in their future endeavors. Information regarding the business experience of each nominee and their service on boards of directors of public companies is provided below. All directors are elected annually to serve until the next annual meeting and until their respective successors are elected.

**The Board recommends a vote FOR the election to the Board of each of the following nominees.**

**Sidney Braginsky**

Director since 1992

Age 66

Mr. Braginsky has been a director of Noven since June 1992 and is President and Chief Executive Officer of Atropos Technology Inc. (consulting and venture capital), President of Mediscience (optical biopsy development) and Chairman of Digilab LLC (molecular spectroscopy). From 1970 through 1999, Mr. Braginsky served Olympus America, Inc. in a variety of roles, most recently as President and Chief Operating Officer.

**John G. Clarkson, M.D.**

Director since 2000

Age 61

Dr. Clarkson has been a director of Noven since April 2000 and is a Professor and Senior Vice President for Medical Affairs and Dean, University of Miami School of Medicine, a position he has held since 1995. Dr. Clarkson serves on the Board of Governors of the UMHC/Sylvester Cancer Center and Anne Bates Leach Eye Hospital and on the board of directors of the Jackson Memorial Hospital/Public Health Trust.

**Donald A. Denkhaus**

Director since 2004

Age 58

Mr. Denkhaus was a partner with Arthur Andersen, LLP from 1980 to 2002 and served as Arthur Andersen's audit practice director responsible for Florida and San Juan, Puerto Rico from 1999 to 2002. For a one-year period in 2002 and 2003, Mr. Denkhaus was employed as a principal with Ernst & Young LLP where he provided audit services and assisted in the transition of Arthur Andersen audit clients and personnel to Ernst & Young.



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**Robert G. Savage**  
Director since 2004  
Age 50

Mr. Savage served as Group Vice President and President General Therapeutics & Inflammation Business of Pharmacia Corporation from 2002 until its acquisition by Pfizer, Inc. in 2003. From 1996 through 2001, Mr. Savage served Johnson & Johnson in a variety of roles, most recently as Chairman of Johnson & Johnson's Pharmaceutical Group. From 1985 to 1996, he served Roche Holding AG in a variety of marketing, business development and operations positions, most recently as Vice President Marketing, Hoffmann-La Roche, Inc. Mr. Savage serves on the board of directors of The Medicines Company, Inc. (pharmaceuticals) and NovaDel Pharma Inc. (drug delivery).

**Robert C. Strauss**  
Director since 1997  
Age 62

Mr. Strauss has been President, Chief Executive Officer & Chairman of the Board of Noven since June 2001. From December 1997 through September 2000, he served as President and Chief Executive Officer and as a Director of Noven, and from September 2000 to June 2001, he served as Co-Chairman of Noven. From March 1997 to July 1997, he served as President and Chief Operating Officer and a Director of IVAX Corporation (pharmaceuticals). From 1983 to 1997, he served in various executive positions with Cordis Corporation, most recently as its Chairman of the Board, President and Chief Executive Officer. Mr. Strauss serves on the board of directors of CardioGenesis Corporation (medical devices), Columbia Laboratories, Inc. (pharmaceuticals), Percardia, Inc. (medical devices) and TissueLink Medical, Inc. (surgical devices and procedures).

**Wayne P. Yetter**  
Director since 2001  
Age 58

Mr. Yetter is the Chairman of the Advisory Board of Alterity Partners (mergers and acquisition advisory firm). From September 2000 to June 2003, Mr. Yetter served as Chairman of the Board of Directors and Chief Executive Officer of Synavant Inc. (pharmaceutical marketing/technology services). From 1999 to 2000, Mr. Yetter served as Chief Operating Officer at IMS Health, Inc., (information services for the healthcare industry). From 1997 to 1999, he served as President and Chief Executive Officer of Novartis Pharmaceuticals Corporation (pharmaceuticals). From 1991 to 1994, Mr. Yetter served as General Manager and then President of Astra Merck, a division of Merck & Co. From 1994 to 1997, he served as President and Chief Executive Officer of Astra Merck, Inc. (pharmaceuticals). Mr. Yetter serves on the board of directors of Transkaryotic Therapies, Inc. (biotechnology) and Maxim Pharmaceuticals, Inc (biotechnology).

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### **Governance of the Company**

Pursuant to Noven's bylaws and Delaware General Corporation Law, Noven's business, property and affairs are managed under the direction of the Board. Members of the Board are kept informed of Noven's business through discussions with the Chief Executive Officer and other senior officers, by reviewing materials provided to them and by participating in meetings of the Board and its committees.

The Board has determined that all of the directors, other than Mr. Strauss, are independent as such term is defined by the applicable listing standards of the Nasdaq Stock Market. The Board based this determination primarily on a review of the responses of the directors to questions regarding their employment, affiliations and family and other relationships.

The Board held 11 meetings in 2003, and each director who served as a director during 2003 attended more than 75% of the meetings of the Board and the Committees on which he or she served. At each regular meeting of the Board, the non-management directors meet in private without members of management.

We typically schedule a Board meeting in conjunction with our annual meeting and expect that our directors will attend, absent a valid reason, such as a schedule conflict. Last year, five of the six individuals then serving as directors attended our annual meeting.

The Board has the following three committees: (1) Audit, (2) Compensation and Stock Option and (3) Nominating and Corporate Governance. The Board has adopted a written charter for each of the three committees. The committee charters are posted in the Investor Relations section of our company website: <http://www.noven.com>.

The Board has also adopted a Code of Business Conduct and Ethics that applies to all of our directors, officers (including our Chief Executive Officer, our Chief Financial Officer and our principal accounting officer) and employees. Our Code of Business Conduct and Ethics is posted on the Investor Relations section of our company website: <http://www.noven.com>. If, in the future, we should amend our Code of Business Conduct and Ethics or grant a waiver to our Chief Executive Officer, Chief Financial Officer or principal accounting officer with respect to our Code of Business Conduct and Ethics, then we will post the amendment or a description of the waiver in the Investor Relations section of our company website.

### **Nominating and Corporate Governance Committee**

The Nominating and Corporate Governance Committee provides assistance to the Board in identifying, screening and recommending qualified candidates to serve as directors of Noven. The Committee also oversees matters of corporate governance and provides counsel to the Board with respect to Board organization, membership and function.

The Nominating and Corporate Governance Committee is responsible for proposing to the Board nominees for election or reelection to the Board, based upon recommendations from the Chairman, the Chief Executive Officer, other Board members, and Noven stockholders.

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Recommendations from stockholders should be submitted to Noven in accordance with the procedures set forth in the additional Q&A information on pages 33 and 34. The Nominating and Corporate Governance Committee is empowered to engage third-party search firms to identify candidates.

Board candidates are considered by the Nominating and Corporate Governance Committee on a case-by-case basis using various criteria, such as a candidate's business and industry experience, personal and professional reputation, professional skill, status as an independent director, financial expertise and the current composition of the Board. There are no minimum criteria for nomination to the Board. After completing this review of the candidate and conducting an in person or telephone interview of the candidate, the Nominating and Corporate Governance Committee makes a recommendation of which candidate or candidates should be nominated for election to the Board.

For the two new director candidates (Messrs. Denkhaus and Savage) included in this year's slate of nominees, the Nominating and Corporate Governance Committee initiated a search process and identified potential candidates from a number of sources. Mr. Denkhaus was identified (without recommendation) by a Noven executive officer and Mr. Savage was identified and recommended by a third-party search firm that the Nominating and Corporate Governance Committee retained to assist the committee in the search process. The candidates were interviewed by members of the Nominating and Corporate Governance Committee and each completed a questionnaire that included questions regarding their independence, conflicts of interest and financial acumen. After meeting to review and discuss the candidates' qualifications, the Nominating and Corporate Governance Committee unanimously recommended Messrs. Denkhaus and Savage for nomination to the Board.

In addition to identifying, screening and recommending qualified candidates to serve as directors, the Nominating and Corporate Governance Committee's responsibilities include:

- reviewing potential conflicts of prospective Board members;

- reviewing the composition of the Board and the skills and experience of its members;

- studying and making recommendations to the Board concerning the size, composition, compensation and functioning of the Board;

- reviewing and making recommendations to the Board regarding the composition and responsibilities of Board Committees; and

- reviewing and approving or disapproving transactions between Noven and any of its officers, Board members, or any other individual or entity able to exercise control or significant influence over Noven.

All of the members of the Nominating and Corporate Governance Committee are independent as such term is defined by the applicable listing standards of the Nasdaq Stock Market.

Members: Mr. Yetter (Chairperson), Prof. Herzlinger and Dr. Clarkson Meetings last year: 4

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**Audit Committee**

The primary responsibility of the Audit Committee is to oversee Noven's reporting processes on behalf of the Board and the stockholders and to report the results of its activities to the Board. The Committee:

is directly responsible for the appointment and termination (subject, if applicable, to stockholder ratification), compensation, and oversight of the work of the independent accountants;

oversees the resolution of disagreements between management and the independent accountants in the event that they arise, including resolution of disagreements between management and the auditor regarding financial reporting;

reviews with the individual responsible, if any, for the internal audit function, the independent accountants and financial management of Noven the scope of their proposed audits for the current year and the proposed audit procedures to be utilized;

reviews and pre-approves both audit and permissible non-audit services provided by the independent accountants and their impact on the outside auditor's independence;

reviews and discusses with the independent accountants any relationships between the auditor and Noven and their impact on the outside auditor's independence;

reviews and advises the Board on the selection, performance, compensation and removal of the individual, if any, responsible for Noven's internal audit function, and the activities, organizational structure, and qualifications of the individuals involved in the internal audit function;

reviews and discusses with management and the independent accountants the financial statements of Noven to be included in its periodic filings with the Securities and Exchange Commission and other relevant reports (such as internal control reports) or financial information submitted by Noven to any governmental body, or the public;

discusses with management and the independent accountants the quality, not just acceptability, of the accounting principles (including accounting policies that may be viewed as critical), and the reasonableness of significant judgments, and reviews and considers with the independent accountants the matters required to be discussed by Statement of Auditing Standards No. 61, Communication With Audit Committees, as amended by SASs 89 and 90 and Rule 2-07 of Regulation S-X;

discusses with management and the independent accountants Noven's critical accounting policies and confers with management and the outside auditor on significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effects on the financial statements of alternative methods permitted by generally accepted accounting principles;

discusses with management and the independent accountants as appropriate the integrity of Noven's financial reporting processes (both internal and external) and the quality and adequacy of Noven's internal controls and disclosure controls, including Noven's systems to monitor and manage business risk;

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reviews management's assertion on its assessment of the effectiveness of internal controls as of the end of the most recent fiscal year and the independent accountants' report on and attestation of management's assertions, as well as all material issues raised by management's internal controls review;

meets with the independent accountants outside the presence of management, and discusses the independent accountants' evaluation of Noven's financial and accounting personnel and the cooperation that the independent accountants received during the course of the audit;

establishes procedures for the receipt, retention and treatment of complaints regarding Noven's accounting, internal accounting controls, or auditing matters; and

sets hiring policies for employees or former employees of the independent auditor.

While the Audit Committee has the powers and responsibilities set forth in its charter, it is not the responsibility of the Audit Committee to plan or conduct audits or to determine that Noven's financial statements are complete and accurate or are in compliance with generally accepted accounting principles. This is the responsibility of management and the independent auditors. All of the members of the Audit Committee are independent as such term is defined by the applicable listing standards of the Nasdaq Stock Market and Section 10A(m)(3) of the Securities Exchange Act of 1934. Noven has identified each of Prof. Regina E. Herzlinger and Donald A. Denkhaus as an audit committee financial expert as that term is defined in applicable regulations of the Securities and Exchange Commission and the regulations thereunder.

Members: Prof. Herzlinger (Chairperson), Messrs. Braginsky, DuBow, Denkhaus and Yetter Meetings last year: 8

**Compensation and Stock Option Committee**

The Compensation and Stock Option Committee provides assistance to the Board in fulfilling its responsibility to oversee and participate in the creation and administration of executive compensation programs and practices. The Committee:

reviews and determines the annual salary, bonus, stock options and other benefits, of the executive officers of Noven;

reviews, approves and, if appropriate, negotiates all employment, termination and other compensation-related agreements with the executive officers of Noven;

reviews the operation of Noven's executive compensation programs and establishes and reviews policies for their administration; and

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administers Noven's various stock option plans including approving grants of options thereunder.

All of the members of the Compensation and Stock Option Committee are independent within the meaning of the applicable listing standards of the Nasdaq Stock Market.

Members: Dr. Clarkson (Chairperson), Messrs. Braginsky and DuBow Meetings last year: 7

**Stockholder Communication with Directors**

Noven stockholders who want to communicate with the Board or any individual Director may write to:

Noven Pharmaceuticals, Inc.  
11960 SW 144th Street  
Miami, Florida 33186  
Attn: General Counsel

The letter should include a statement indicating that the sender is a Noven stockholder. The General Counsel will review all stockholder letters to the Board and depending on the subject matter will:

Regularly forward any letter that deals with the function of the Board or committees of the Board (or is otherwise appropriate for Board attention) to the director or directors to whom it is addressed;

Attempt to handle the inquiry directly if it relates to routine or ministerial matters, including requests for information about Noven and stock-related matters; or

Not forward the letter if it relates to an improper or irrelevant topic.

The General Counsel or another member of management will, at each meeting of the Board, present a summary of all letters received since the last meeting that were not forwarded to the Board and will make those letters available to the Board upon request.

**Table of Contents****DIRECTOR COMPENSATION**

The following table provides information on Noven's compensation and reimbursement practices during 2003 for non-employee directors. Directors who are employed by Noven do not receive any additional compensation for their Board activities. Dr. Clarkson does not accept any compensation for his service on the Board other than (commencing in 2004) the annual stock option grant.

Annual Director Retainer	\$ 7,500	(cash)
	\$ 7,500	(paid in stock)
Board Meeting Attendance Fees (per meeting)	\$ 1,000	(in person)
	\$ 500	(by telephone)
Committee Meeting Attendance Fees (per meeting)	\$ 1,000	(in person)
	\$ 500	(by telephone)
Additional Retainer for Audit Committee Chair	\$ 3,500	
Additional Retainer for Other Committee Chair	\$ 2,500	
Stock Options Granted upon Election to Board	15,000	(1)
Annual Stock Options Granted (upon re-election at annual meeting)	7,500	(2)
Reimbursement for Expenses Attendant to Board Membership	Yes	

(1) Consists of an automatic grant of 12,500 options under our 1999 Long-Term Incentive Plan (the "1999 Plan") plus an additional discretionary grant of 2,500 options under the 1999 Plan. These options have a ten-year term and are immediately exercisable.

(2) Consists of an automatic grant of 5,000 options under our 1999 Plan plus an additional discretionary grant of 2,500 options under the 1999 Plan. These options have a ten-year term and are immediately exercisable.

Table of Contents**EXECUTIVE COMPENSATION**

The following table discloses compensation received by Noven's Chief Executive Officer and its four other most highly paid executive officers for the fiscal year ended December 31, 2003, as well as their compensation for each of the fiscal years ended December 31, 2002 and December 31, 2001.

**SUMMARY COMPENSATION TABLE**

Name and Principal Position	Year	Annual Compensation		Long Term Compensation Awards	All Other Compensation (1)
		Salary	Bonus	Number of Securities Underlying Options	
Robert C. Strauss President, Chief Executive Officer & Chairman	2003	\$531,822	\$388,087	100,000	\$ 3,014
	2002	500,000	379,604	120,000	3,000
	2001	485,100	0	90,000	5,250
Juan A. Mantelle Vice President & Chief Technical Officer	2003	239,272	182,210	50,000	6,000
	2002	227,115	128,027	50,000	2,530
	2001	220,500	0	40,000	2,290
Jeffrey F. Eisenberg Vice President Strategic Alliances, General Counsel & Corporate Secretary	2003	232,971	133,695	60,000	5,950
	2002	199,897	116,560	50,000	2,998
	2001	192,765	0	50,000	2,669
W. Neil Jones Vice President Marketing & Sales	2003	214,404	118,357	50,000	6,000
	2002	203,317	113,918	50,000	1,408
	2001	196,858	0	40,000	0
Diane M. Barrett	2003	208,130			