

NOVEN PHARMACEUTICALS INC

Form DEF 14A

April 09, 2007

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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.

(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):

☒ 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:

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

(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):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

☐ o Fee paid previously with preliminary materials.

☐ o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

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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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April 3, 2007

Dear Stockholder:

The 2007 Annual Meeting of Stockholders of Noven Pharmaceuticals, Inc. will convene at 10:00 a.m. on Friday, May 18, 2007. The meeting will be held at Noven's facilities located at 13800 S.W. 119th Ave., Miami, FL 33186. Details regarding the business to be conducted at the meeting are 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 enclosed proxy card or voting instruction card regarding which of these options is available to you, and how to vote your shares.

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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NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

TIME	10:00 a.m. on Friday, May 18, 2007
PLACE	13800 S.W. 119 th Ave. Miami, Florida 33186
ITEMS OF BUSINESS	<ol style="list-style-type: none">1. To elect seven members to the Board of Directors.2. To approve an amendment to Noven's 1999 Long-Term Incentive Plan.3. To approve the material terms of the performance goals under Noven's 1999 Long-Term Incentive Plan.4. To ratify the appointment of Deloitte & Touche LLP as Noven's independent registered public accounting firm.5. To transact such other business as may properly come before the meeting and any adjournment thereof.
RECORD DATE	You are entitled to vote if you were a Noven stockholder at the close of business on March 19, 2007.
ANNUAL REPORT	Noven's 2006 Annual Report, which is not a part of the proxy soliciting material, is enclosed.
PROXY VOTING	If you own shares of record, you will find enclosed a proxy card or cards and an envelope in which to return the card(s). Whether or not you plan to attend this meeting, please sign, date and return your enclosed proxy card(s) as soon as possible so your shares can be voted at the meeting in accordance with your instructions. Any proxy may be revoked in the manner described on page 2 in the accompanying Proxy Statement at any time prior to its exercise at the meeting. If you hold your shares in street name, you may instruct your broker or nominee to vote your shares by following instructions that the broker or nominee provides you.

Jeff T. Mihm

*Vice President, General Counsel &
Corporate Secretary*

This Proxy Statement and accompanying proxy card are being distributed on or about April 6, 2007.

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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, 2007. 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 2006 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 four proposals scheduled to be voted on at the meeting:

Election of seven directors;
Approval of an amendment to Noven's 1999 Long-Term Incentive Plan (the 1999 Plan);
Approval of the material terms of the performance goals under the 1999 Plan; and
Ratification of the appointment of Deloitte & Touche LLP as Noven's independent registered public accounting firm.

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

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 amendment to the 1999 Plan;
For the approval of the material terms of the performance goals under the 1999 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 March 19, 2007, 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. Each share of Noven's common stock outstanding as of the close of business on March 19, 2007, the record date, is entitled to one vote at the annual meeting. On the record date, approximately 24,767,845 shares of common stock were issued and outstanding.

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

A: 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 the stockholder of record for those shares 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.

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. If you hold your shares in street name, you must obtain a signed proxy from the record holder in order to vote these shares in person at 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 instruct your broker or nominee to vote your shares by following instructions that the broker or nominee provides for you. Most brokers offer voting over the Internet, by telephone or by mail. Please refer to the instructions included on your proxy card or, for shares held in street name, the voting instruction card included by your broker or nominee.

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 are a stockholder of record, you must (1) file with Noven's Corporate Secretary a written notice of revocation or (2) timely deliver a valid, later-dated proxy. 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.

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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 of 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.

Q: What happens if I do not provide voting instructions to my broker?

A: If you are a beneficial owner and do not provide the stockholder of record with voting instructions, your broker or other nominee, in its discretion, may either leave your shares unvoted or vote your shares on routine matters. The election of directors and the proposal to ratify the appointment of Deloitte & Touche LLP should be treated as routine matters. The proposals to approve the amendment to the 1999 Plan and the performance goals under the 1999 Plan are not considered routine matters and, as a result, without your voting instructions, your broker or other nominee cannot vote your shares. If your broker or other nominee does not vote your shares, your shares will constitute *broker non-votes*, as described in *What is the quorum requirement for the meeting?* below. 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 2007.

Q: What happens if additional proposals are presented at the meeting?

A: Other than the four proposals described in this Proxy Statement, we do not expect any matters to be presented for a vote at the annual meeting. If you grant a proxy, the persons named as proxy holders will have the discretion to vote your shares on any additional matters properly presented for a vote at the meeting. If for any unforeseen reason any of Noven's nominees is not available as a candidate for director, the persons named as proxy holders will vote your proxy for such other candidate or candidates as may be nominated by the Board.

Q: What is the quorum requirement for the meeting?

A:

The quorum requirement for holding the meeting and transacting business is a majority of the outstanding shares entitled to be voted. The shares may be present in person or represented by proxy at the meeting. Both abstentions and broker non-votes are counted as present for the purpose of determining the presence

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of a quorum. Generally, broker non-votes occur when shares held by a broker for a beneficial owner are not voted with respect to a particular proposal because (1) the broker has not received voting instructions from the beneficial owner and (2) the broker lacks discretionary voting power to vote such shares.

Q: Who will bear the cost of soliciting votes for the meeting?

A: Noven will pay the entire cost of preparing, assembling, printing, mailing and distributing these proxy materials. However, if you choose to vote over the Internet, you will bear the expenses for your Internet access. In addition to the mailing of these proxy materials, the solicitation of proxies or votes may be made in person, by telephone or by electronic communication by Noven's directors, officers, and employees, who will not receive any additional compensation for such solicitation activities. We have retained the services of Georgeson Shareholder Communications, Inc. to aid in the solicitation of proxies (and for certain consulting services related to Proposal 2) for a fee of approximately \$11,000 plus per call fees for any individual solicitations and certain out of pocket expenses. We will also reimburse brokerage houses and other custodians, nominees and fiduciaries for their reasonable out-of-pocket expenses for forwarding proxy and solicitation materials to stockholders.

Q: May I propose actions for consideration at next year's annual meeting of stockholders or nominate individuals to serve as directors?

A: Yes, you may submit proposals for consideration at future stockholder meetings, including director nominations.

Stockholder Proposals for Presentation at Meeting: Our By-laws govern the submission of nominations for director or other business proposals that a stockholder wishes to have considered at a meeting of stockholders, but which are not included in Noven's Proxy Statement for that meeting. Under our By-laws, nominations for director or other business proposals to be addressed at our next annual meeting may be made by a stockholder entitled to vote who has delivered a notice to the Corporate Secretary of Noven no later than the close of business on February 6, 2008 and not earlier than December 8, 2007, which dates are based on the mailing of this Proxy Statement on April 6, 2007. The notice must contain the information required by the By-laws.

These advance notice provisions are in addition to, and separate from, the requirements that a stockholder must meet in order to have a proposal included in the Proxy Statement under the rules of the Securities and Exchange Commission.

A proxy granted by a stockholder will give discretionary authority to vote on any matters introduced pursuant to the above advance notice By-law provisions, subject to applicable rules of the Securities and Exchange Commission.

Stockholder Proposals for Inclusion in Proxy: In order for a stockholder proposal to be considered for inclusion in Noven's Proxy Statement for next year's annual meeting, the written proposal must be received by Noven's Corporate Secretary no later than December 8, 2007. Such proposals also will need to comply with Securities and Exchange Commission regulations regarding the inclusion of stockholder proposals in company sponsored proxy materials.

Copy of By-law Provisions: You may contact Noven's Corporate Secretary at Noven's headquarters for a copy of the relevant By-law provisions regarding the requirements for making stockholder proposals and nominating director candidates.

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PROPOSAL 1 ELECTION OF DIRECTORS

The seven persons named below were designated by the Board as nominees for election as directors. All of the nominees have served as directors since the last annual meeting. 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 69

Mr. Braginsky is President and Chief Executive Officer of Atropos Technology Inc. (consulting and venture capital) 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. Mr. Braginsky serves on the board of directors of Mediscience (optical biopsy development), Diomed Holdings (laser technology), Geneva Acquisition Corporation (acquisitions) and Electro-Optical Sciences, Inc. (surgical and medical instruments).

John G. Clarkson, M.D.

Director since 2000

Age 64

Dr. Clarkson is the Executive Director of the American Board of Ophthalmology and the Dean Emeritus and Professor of Ophthalmology, Miller School of Medicine at the University of Miami. From 1995 to 2006, he served as Professor and Senior Vice President for Medical Affairs and Dean, University of Miami School of Medicine. Dr. Clarkson serves as a director of the American Board of Medical Specialties and as a trustee for the Evelyn F. McKnight Brain Research Foundation.

Donald A. Denkhaus

Director since 2004

Age 61

Mr. Denkhaus has, since January 2004, served as the executive chairman of TM Systems, LLC (international language services). Since 2005, he has also served as President and Chief Executive Officer of Integrity Risk Advisors (consulting). 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 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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Pedro P. Granadillo

Director since 2004

Age 59

Mr. Granadillo was employed by Eli Lilly and Company (pharmaceuticals) from 1970 until 2004. From 1998 to 2004, he served as Eli Lilly's Senior Vice President overseeing manufacturing, quality and human resources and from 1993 to 1998, he served as Vice President of Human Resources. Mr. Granadillo serves on the board of directors of First Indiana Corporation (banking), First Indiana Bank, N.A. (banking) and Haemonetics Corporation (medical devices).

Robert G. Savage

Director since 2004

Age 53

Mr. Savage has been the President of Strategic Imagery LLC (pharmaceutical consulting) since May 2003. He 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 as the non-executive chairman of EpiCept Corporation (pharmaceuticals) and as the presiding director of The Medicines Company, Inc. (pharmaceuticals).

Robert C. Strauss

Director since 1997

Age 65

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 & 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.

Wayne P. Yetter

Director since 2001

Age 61

Mr. Yetter has been Chief Executive Officer of Verispan LLC (health care information) since September 2005. From November 2004 to September 2005, he served as the Chief Executive Officer of Odyssey Pharmaceuticals, Inc., the specialty pharmaceutical division of Pliva d.d. From 2003 to 2005, he served on the Advisory Board of Alterity Partners (mergers and acquisition advisory firm). From September 2000 to June 2003, Mr. Yetter served as Chairman 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 health care 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 Matria Healthcare, Inc. (disease management), EpiCept Corporation (pharmaceuticals), Alteon, Inc. (pharmaceuticals) and HAPC, Inc. (healthcare acquisitions).

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Governance of the Company

Pursuant to Noven's By-Laws and the 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 adopted a Code of Business Conduct and Ethics that applies to all of our directors, officers and employees. The Board has also adopted Corporate Governance Guidelines which, in conjunction with Noven's Certificate of Incorporation, By-Laws, committee charters and the Code of Business Conduct and Ethics, form the framework for the governance of Noven. Noven's Corporate Governance Guidelines and the Code of Business Conduct and Ethics are posted in the Investor Relations-Governance 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-Governance section of our company website.

Noven's Corporate Governance Guidelines provide that the Board should have a significant majority of independent directors and that the expectation of the Board is that the number of employee directors should not exceed two. 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.

In accordance with Noven's Corporate Governance Guidelines, the Chairman of the Nominating and Corporate Governance Committee (Mr. Yetter) has been appointed as the lead independent director. As the lead independent director, Mr. Yetter presides at executive sessions of the independent directors, which are held at each regularly scheduled meeting of the Board. The lead independent director is also responsible for coordinating the activities of the other independent directors.

The Board held five meetings in 2006, and each director who served as a director during 2006 attended more than 75% of the aggregate of the meetings of the Board and the Committees on which he served. We typically schedule a Board meeting in conjunction with our annual meeting and expect that our directors will attend the annual meeting, absent a valid reason, such as a schedule conflict. Last year, six of the seven individuals then serving as directors attended our annual meeting.

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The Board has three standing committees: (1) Nominating and Corporate Governance, (2) Audit and (3) Compensation. The Board has adopted a written charter for each of the three committees. The committee charters are posted in the Investor Relations-Governance section of our company website: <http://www.noven.com>. Under these charters, each of the standing committees has the authority to retain and pay the fees of any advisor it deems necessary to carry out its duties.

Nominating and Corporate Governance Committee

The Nominating and Corporate Governance Committee provides assistance to the Board in identifying, screening and recommending candidates to serve as directors of Noven. The Committee also oversees matters of corporate governance and provides advice 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 re-election to the Board, based upon recommendations from the Chairman, the Chief Executive Officer, other Board members, and Noven stockholders. Recommendations from stockholders should be submitted to Noven in accordance with the procedures set forth in the Q&A information beginning on page 4. The Nominating and Corporate Governance Committee is empowered to engage third-party executive search firms to assist it in identifying 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, and there are no separate processes or criteria for evaluating candidates nominated by stockholders. After completing this review of the candidate and conducting in-person or telephone interviews, the Nominating and Corporate Governance Committee recommends which candidate or candidates should be nominated for election to the Board. As a general matter, the Nominating and Corporate Governance Committee believes that the continuing services of qualified incumbents promotes stability and continuity in the Board, contributing to the Board's ability to work as a collective body, while giving Noven the benefit of the familiarity and insight into the Company's affairs that its directors have accumulated during their tenure. Noven has no term limits or mandatory retirement age with respect to its Board members.

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

- reviews potential conflicts of interest involving prospective Board members;

- annually reviews and makes recommendations to the Board concerning the Corporate Governance Guidelines;

- reviews the structure of the Board and the skills and experience of its members;

- studies and makes recommendations to the Board concerning the size, composition, compensation and functioning of the Board; and

- reviews and makes recommendations to the Board regarding the composition and responsibilities of Board Committees.

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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) and Dr. Clarkson

Meetings held last year: Three

Audit Committee

The primary responsibility of the Audit Committee is to oversee Noven's financial reporting processes and the audits of Noven's financial statements on behalf of the Board 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, evaluation and oversight of the work of the independent registered public accounting firm;

- oversees the resolution of disagreements between management and the independent registered public accounting firm 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 registered public accounting firm and 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 registered public accounting firm and their possible impact on that firm's independence;

- reviews and discusses with the independent registered public accounting firm any relationships between the auditor and Noven that may impact that firm'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 registered public accounting firm the financial statements of Noven to be included in its periodic filings with the Securities and Exchange Commission and other relevant reports (such as reports of internal controls over financial reporting) or financial information submitted by Noven to any governmental body, or the public;

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discusses with management and the independent registered public accounting firm 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 registered public accounting firm 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 registered public accounting firm Noven's critical accounting policies and confers with management and the independent registered public accounting firm 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 registered public accounting firm as appropriate the integrity of Noven's financial reporting processes and the quality and adequacy of Noven's internal controls and disclosure controls, including Noven's systems to monitor and manage business risk;

reviews management's assertion on its assessment of the effectiveness of internal controls over financial reporting as of the end of the most recent calendar year and the independent registered public accounting firm's report on and attestation of management's assertions, as well as all material issues raised by management's assessment of internal controls over financial reporting;

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

reviews and, if appropriate, approves or ratifies related party transactions ;

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 current or former partners, principals, or professional employees of the independent registered public accounting firm.

The Board of Directors, in its business judgment, has determined that each Audit Committee member is independent as such term is defined by the applicable listing standards of the Nasdaq Stock Market and under Section 10A(m)(3) of the Securities Exchange Act of 1934. Noven has identified Donald A. Denkhaus as an audit committee financial expert as that term is defined in applicable regulations of the Securities and Exchange Commission.

Members: Messrs. Denkhaus (Chairperson), Braginsky and Granadillo

Meetings held last year: Eight

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Compensation Committee

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

- reviews and determines the annual salary, bonus, equity compensation 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

- administers Noven's equity compensation plans including approving grants of equity compensation under Noven's 1999 Long-Term Incentive Plan.

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

Members: Dr. Clarkson (Chairperson), Messrs. Granadillo and Savage

Meetings held last year: Six

Related Party Transactions

The Board has adopted a policy and procedures for the review and approval of transactions in which Noven and its directors, executive officers or their immediate family members are participants to determine whether such persons have a direct or indirect material interest. The policy covers any related party transaction that meets the minimum threshold for disclosure in Noven's proxy statement under the relevant Securities and Exchange Commission rules. The Audit Committee is responsible for reviewing and, if appropriate, approving or ratifying any related party transactions.

In determining whether to approve, disapprove or ratify a related party transaction, the Audit Committee will take into account, among other factors it deems appropriate, (i) whether the transaction is on terms no less favorable to Noven than terms that would otherwise be generally available to Noven if the transaction was entered into under the same or similar circumstances with a party unaffiliated with Noven and (ii) the extent of the interest of the related party in the transaction.

Noven was not a party to any related party transaction that would be required to be disclosed under Item 404 of Regulation S-K in 2006, and historically has not entered into related party transactions since at least 1998.

Stockholder Communication with Directors

As specified in our Corporate Governance Guidelines, Noven stockholders who want to communicate with the Board or any individual Director may write to:

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Noven Pharmaceuticals, Inc.
11960 S.W. 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 for non-employee directors. Directors who are employed by Noven do not receive any additional compensation for their Board activities and are not included in this table.

Director Compensation in 2006

Name	Fees Earned or Paid in Cash	Stock Awards (1)(2)	Option Awards (2)(3)	Non-Equity Incentive Plan Compensation	Change in Pension Value and Non-Qualified Deferred	All Other Compensation	Total
					Earnings		
Sidney Braginsky	\$ 29,250	\$ 75,000	\$ 0	\$ 0	\$ 0	\$ 0	\$ 104,250
John G. Clarkson	38,500	75,000	0	0	0	0	113,500
Donald A. Denkhaus	49,000	75,000	0	0	0	0	124,000
Pedro P. Granadillo	41,500	75,000	0	0	0	0	116,500
Robert G. Savage	33,250	75,000	0	0	0	0	108,250
Wayne P. Yetter	34,750	75,000	0	0	0	0	109,750

(1) Represents the dollar amount recognized for financial statement reporting purposes for the year ended December 31, 2006 in accordance with Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment (FAS 123(R)). Each non-employee

director received a restricted stock award upon his re-election to the Board at the 2006 Annual Meeting. The grant date fair value of the restricted stock award computed in accordance with FAS 123(R) for each director was \$100,000. The restricted stock awards vest over a one-year period in four quarterly installments.

- (2) Set forth in the table below are the aggregate number of stock awards and aggregate number of shares of common stock underlying options held by each non-employee director as of December 31, 2006.

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Name	Outstanding Stock Awards	Outstanding Option Awards
Sidney Braginsky	5,724	37,500
John G. Clarkson	5,724	15,000
Donald A. Denkhaus	5,724	30,000
Pedro P. Granadillo	5,724	22,500
Robert G. Savage	5,724	30,000
Wayne P. Yetter	5,724	40,000

- (3) No stock options were granted to the non-employee directors in 2006 and there is no current intention to grant stock options to the non-employee directors in future periods.

Noven uses a combination of cash and stock-based incentive compensation to attract and retain qualified candidates to serve on the Board. In setting director compensation, Noven considers the significant amount of time that directors expend in fulfilling their duties to Noven as well as the skill-level required by Noven of members of the Board. The Board sets director compensation based on the joint recommendations of the Nominating and Corporate Governance Committee and Compensation Committee.

Cash Compensation Paid to Board Members

Upon re-election to the Board at the 2006 Annual Meeting, each non-employee director received an annual cash retainer of \$20,000. Non-employee directors also receive attendance fees of \$1,500 for each Board and committee meeting attended in person and \$750 for each Board and committee meeting attended by telephone. The chair of the Audit Committee receives an additional annual retainer of \$10,000 and each other committee chair receives an additional annual retainer of \$5,000. Noven reimburses directors for their expenses incurred related to their Board membership.

Equity Compensation Paid to Board Members

Commencing in May 2006, Noven began granting restricted stock to non-employee directors under the 1999 Plan in lieu of the stock options that were previously granted to these directors. Under Noven's current director compensation program, each non-employee director is granted restricted stock valued at \$150,000 upon election to the Board and then receives annual grants of restricted stock valued at \$100,000 upon re-election to the Board at Noven's annual meeting. The Board may increase or decrease the value of the awards from time to time based on such factors as the Board deems relevant. The number of shares of restricted stock granted will be determined based on the market

price of Noven's common stock on the date of grant.

Deferred Compensation Program

Directors can defer receipt of their fees and their restricted stock grants by participating in Noven's non-qualified deferred compensation plan. A more complete description of the plan is described below on page 30 under

Non-qualified Deferred Compensation in 2006.

Table of Contents**Executive Compensation****Compensation Discussion and Analysis**

This section discusses Noven's compensation policies and programs applicable to Noven's Chief Executive Officer (CEO), Chief Financial Officer and the three other executive officers named in the Summary Compensation Table on page 26 (collectively, we refer to these five executive officers as the named executive officers).

Compensation Philosophy and Objectives

The core objectives of Noven's compensation programs are to secure and retain the services of high quality executives and to provide compensation to Noven's executives that is commensurate and aligned with the company's performance and long-term stockholder value.

Noven seeks to achieve these objectives through three principal compensation programs. Each of these programs has a different purpose and is intended to reward achievement of different goals.

Program	Purpose
Base Salary and Benefits	Recruit and retain key employees
Annual Incentive Plan	Reward the achievement of selected financial and non-financial goals
Long-term Incentive Pay	Enhance long-term stockholder value by aligning the interests of executives with those of stockholders

These compensation programs are designed to reward current and long-term objectives. Achievement of current objectives is rewarded through base salary and the annual incentive plan, while long-term incentive pay in the form of equity grants is intended to link a significant portion of compensation to long-term stock price appreciation realized by Noven's stockholders.

Noven's overall compensation levels have been chosen to attract the talent needed to achieve and maintain Noven's position as a leading transdermal drug delivery company. Noven targets cash compensation (base salary and the annual incentive award) at the median and total compensation between the median and the 75th percentile of peer companies (as discussed below) provided commensurate levels of performance are attained.

As a general philosophy, the Compensation Committee believes that, as an officer's position and responsibilities increase, a greater percentage of that officer's total compensation should be tied to performance, and therefore at risk. Thus, individuals with greater roles and responsibilities associated with achieving Noven's performance targets bear a greater proportion of the risk that those goals may not be achieved and receive a greater proportion of the reward if those goals are met

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or surpassed. In accordance with these principles, incentive compensation (i.e., the annual incentive plan at target and the grant date fair value of the annual equity grant) represented almost 70% of the CEO's total compensation in 2006 and an average of almost 60% of the total compensation for the other named executive officers in 2006. The mix between the three components of Noven's executive compensation program is set forth in the following table which shows each component of the named executive officers' compensation in 2006 as an approximate percentage of their total compensation:

Executive	Base Salary	Annual Incentive Pay
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