

INCYTE CORP  
Form DEF 14A  
April 06, 2007  
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**SCHEDULE 14A**

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 Pursuant to §240.14a-12

**Incyte Corporation**

(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:
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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):
(4)	Proposed maximum aggregate value of transaction:
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- o Fee paid previously with preliminary materials.
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(1)	Amount Previously Paid:
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(3)	Filing Party:
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**Incyte Corporation**  
**Experimental Station**  
**Route 141 & Henry Clay Road, Building E336**  
**Wilmington, DE 19880**  
**(302) 498-6700**

April 6, 2007

Dear Stockholder:

You are cordially invited to attend the Annual Meeting of Stockholders of Incyte Corporation that will be held on May 22, 2007, at 10:00 a.m., Eastern Daylight Time, at the Hotel du Pont, 11th and Market Streets, Wilmington, Delaware 19801.

The formal notice of the Annual Meeting and the Proxy Statement have been made a part of this invitation.

After reading the Proxy Statement, please mark, date, sign and return, at an early date, the enclosed proxy in the enclosed prepaid envelope, to ensure that your shares will be represented. **Your shares cannot be voted unless you sign, date and return the enclosed proxy, follow the instructions on the proxy to vote by telephone or the Internet, or attend the Annual Meeting in person.**

A copy of the Company's 2006 Annual Report to Stockholders is also enclosed.

The Board of Directors and management look forward to seeing you at the meeting.

Sincerely yours,

Richard U. De Schutter  
*Chairman of the Board*

INCYTE CORPORATION

Notice of Annual Meeting of Stockholders  
to be held May 22, 2007

To the Stockholders of Incyte Corporation:

The Annual Meeting of Stockholders of Incyte Corporation, a Delaware corporation (the Company), will be held at the Hotel du Pont, 11th and Market Streets, Wilmington, Delaware 19801, on Tuesday, May 22, 2007, at 10:00 a.m., Eastern Daylight Time, for the following purposes:

1. To elect eight directors to serve until the 2008 Annual Meeting of Stockholders and thereafter until their successors are duly elected and qualified;
2. To consider and vote upon a proposal to amend the Company's 1991 Stock Plan to increase the number of shares available for issuance thereunder by 3,000,000 shares, from 22,350,000 shares to 25,350,000 shares;
3. To ratify the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm for 2007; and
4. To transact such other business as may properly come before the Annual Meeting of Stockholders and any postponement or adjournment of the Annual Meeting.

Stockholders of record as of the close of business on March 28, 2007 are entitled to notice of and to vote at the Annual Meeting and any postponement or adjournment thereof.

**It is important that your shares be represented at this meeting. Even if you plan to attend the meeting, we hope that you will vote as soon as possible. Voting now will ensure your representation at the Annual Meeting regardless of whether you attend in person. Please review the instructions on page 2 of the attached Proxy Statement regarding your voting options. This will not limit your right to attend or vote at the meeting.**

By Order of the Board of Directors

Patricia A. Schreck  
*Secretary*

April 6, 2007

**INCYTE CORPORATION**  
**Experimental Station**  
**Route 141 & Henry Clay Road, Building E336**  
**Wilmington, DE 19880**

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**PROXY STATEMENT**

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This Proxy Statement is furnished in connection with the solicitation by the Board of Directors of Incyte Corporation, a Delaware corporation ( we, us, Incyte or the Company ), of proxies in the accompanying form to be used at the Annual Meeting of Stockholders of the Company to be held at the Hotel du Pont, 11th and Market Streets, Wilmington, Delaware 19801, on Tuesday May 22, 2007, at 10:00 a.m., Eastern Daylight Time, and any postponement or adjournment thereof.

This Proxy Statement and the accompanying form of proxy are being mailed to stockholders on or about April 16, 2007.

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

**What proposals will be voted on at the Annual Meeting?**

Three proposals will be voted on at the Annual Meeting:

- The election of directors;
- The amendment of the Company s 1991 Stock Plan to increase the number of shares available for issuance; and
- The ratification of the appointment of the independent registered public accounting firm for 2007.

**What are the Board s recommendations?**

Our Board recommends that you vote:

- **FOR** election of each of the nominated directors;
- **FOR** the amendment of the Company s 1991 Stock Plan to increase the number of shares available for issuance; and
- **FOR** ratification of the appointment of the independent registered public accounting firm for 2007.

**Will there be any other items of business on the agenda?**

We do not expect any other items of business because the deadline for stockholder proposals and nominations has already passed. Nonetheless, in case there is an unforeseen need, the accompanying proxy gives discretionary authority to the persons named on the proxy with respect to any other matters that might be brought before the meeting. Those persons intend to vote that proxy in accordance with their best judgment.

**Who is entitled to vote?**

Stockholders of record at the close of business on March 28, 2007 (the Record Date ) may vote at the Annual Meeting. Each stockholder is entitled to one vote for each share of the Company's common stock ( Common Stock ) held as of the Record Date.

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

*Stockholder of Record.* If your shares are registered directly in your name with Incyte's transfer agent, Mellon Investor Services LLC, you are considered, with respect to those shares, the stockholder of record. The Proxy Statement, Annual Report and proxy card have been sent directly to you by Incyte.

*Beneficial Owner.* If your shares are held in a stock brokerage account or by a bank or other nominee, you are considered the beneficial owner of shares held in street name. The Proxy Statement and Annual Report have been forwarded to you by your broker, bank or nominee who is considered, with respect to those shares, the stockholder of record. As the beneficial owner, you have the right to direct your broker, bank or nominee how to vote your shares by using the voting instruction form included in the mailing.

**How do I vote?**

You may vote using any of the following methods:

- **By Mail** Sign and date each proxy card you receive and return it in the prepaid envelope. Sign your name exactly as it appears on the proxy. If you return your signed proxy but do not indicate your voting preferences, your shares will be voted on your behalf FOR the election of the nominated directors, FOR the amendment of the Company's 1991 Stock Plan and FOR the ratification of the independent registered public accounting firm for 2007.
- **By Telephone or the Internet** If you are a beneficial owner, you will receive instructions from the holder of record that you must follow in order for your shares to be voted. Telephone and Internet voting will be offered to stockholders owning shares through most banks and brokers. Follow the instructions located on your voting instruction form. Please be aware that if you vote over the telephone or the Internet, you may incur costs such as telephone and Internet access charges for which you will be responsible. The Internet and telephone voting facilities will close at 11:59 p.m., Eastern Daylight Time, the day before the meeting date. Internet and telephone voting is not available for stockholders of record.

If you vote by telephone or via the Internet you do not need to return your voting instruction form.

- **In Person at the Annual Meeting** Shares held in your name as the stockholder of record may be voted at the Annual Meeting. Shares held beneficially in street name may be voted in person only if you obtain a legal proxy from the broker, bank or nominee that holds your shares giving you the right to vote the shares. *Even if you plan to attend the Annual Meeting, we recommend that you also submit your proxy or voting instructions or vote by telephone or the Internet so that your vote will be counted if you later decide not to attend the meeting.*

**Can I change my vote or revoke my proxy?**

You may change your vote or revoke your proxy at any time prior to the vote at the Annual Meeting. If you submitted your proxy by mail, you must file with the Secretary of the Company a written notice of revocation or deliver, prior to the vote at the Annual Meeting, a valid, later-dated proxy. If you submitted your proxy by telephone or the Internet, you may change your vote or revoke your proxy with a later telephone or Internet proxy, as the case may be. Attendance at the Annual Meeting will not have the effect



of revoking a proxy unless you give written notice of revocation to the Secretary before the proxy is exercised or you vote by written ballot at the Annual Meeting.

**How are votes counted?**

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 other items of business, you may vote **FOR**, vote **AGAINST** or **ABSTAIN**. If you **ABSTAIN**, the abstention has the same effect as a vote **AGAINST**. If you provide specific instructions, your shares will be voted as you instruct. If you sign your proxy card or voting instruction form with no further instructions, your shares will be voted in accordance with the recommendations of the Board ( **FOR** all of the nominees to the Board, **FOR** the amendment of the Company's 1991 Stock Plan, **FOR** ratification of the independent registered public accounting firm, and in the discretion of the proxy holders on any other matters that may properly come before the meeting).

**What vote is required to approve each item?**

For Proposal 1, the election of directors, the eight persons receiving the highest number of **FOR** votes at the Annual Meeting will be elected. For Proposal 1, any shares not voted will have no impact on the election of directors, except to the extent the withholding of authority to vote for an individual director results in another individual receiving a larger number of votes. Each of Proposal 2 and Proposal 3 requires the affirmative **FOR** vote of a majority of the shares present at the Annual Meeting in person or by proxy and entitled to vote. If you hold shares beneficially in street name and do not provide your broker or nominee with voting instructions, your shares may constitute broker non-votes. Generally, broker non-votes occur on a matter when a broker is not permitted to vote on that matter without instructions from the beneficial owner and instructions are not given. In tabulating the voting result for any particular proposal, shares that constitute broker non-votes are not considered entitled to vote on that proposal. Thus, broker non-votes will not affect the outcome of any matter being voted on at the Annual Meeting, assuming that a quorum is obtained. For Proposal 2 and Proposal 3, abstentions have the same effect as votes **AGAINST** the matter.

**Is cumulative voting permitted for the election of directors?**

Stockholders may not cumulate votes in the election of directors, which means that each stockholder may vote no more than the number of shares he or she owns for a single director candidate.

**What constitutes a quorum?**

The presence at the Annual Meeting, in person or by proxy, of the holders of a majority of Common Stock outstanding on the Record Date will constitute a quorum. As of the close of business on the Record Date, there were 83,992,570 shares of our Common Stock outstanding. Both abstentions and broker non-votes are counted for the purpose of determining the presence of a quorum.

**What is householding and how does it affect me?**

Incyte has adopted a process for mailing the Annual Report and Proxy Statement called **householding**, which has been approved by the Securities and Exchange Commission. Householding means that stockholders who share the same last name and address will receive only one copy of the Annual Report and Proxy Statement, unless we receive contrary instructions from any stockholder at that address. Incyte will continue to mail a proxy card to each stockholder of record.

If you prefer to receive multiple copies of the Annual Report and Proxy Statement at the same address, additional copies will be provided to you upon request. If you are a stockholder of record, you



may contact us by writing to Investor Relations Department, Incyte Corporation, Experimental Station, Route 141 & Henry Clay Road, Building E336, Wilmington, Delaware 19880 or by calling (302) 498-6700 and asking for Investor Relations. Eligible stockholders of record receiving multiple copies of the Annual Report and Proxy Statement can request householding by contacting Incyte in the same manner. Incyte has undertaken householding to reduce printing costs and postage fees, and we encourage you to participate.

If you are a beneficial owner, you may request additional copies of the Annual Report and Proxy Statement or you may request householding by notifying your broker, bank or nominee.

**How are proxies solicited?**

Employees, officers and directors of the Company may solicit proxies. We will reimburse brokerage houses and other custodians, nominees and fiduciaries for their reasonable out-of-pocket expenses for forwarding proxy and solicitation material to the owners of Common Stock.

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**PROPOSAL 1****ELECTION OF DIRECTORS****Nominees**

The Board of Directors proposes the election of eight directors of the Company to serve until the next annual meeting of stockholders and thereafter until their successors are duly elected and qualified. If any nominee is unable or declines to serve as director at the time of the Annual Meeting, an event that the Company does not currently anticipate, proxies will be voted for any nominee designated by the Board of Directors to fill the vacancy.

The Company's Bylaws provide that the Company shall not have fewer than one nor more than twelve directors, with the exact number of directors to be determined by the Board of Directors. The number of directors is currently fixed at eight.

Names of the nominees and certain biographical information about them are set forth below:

Name	Age	Position with the Company	Director Since
Richard U. De Schutter (1)(3)(5)	66	Chairman of the Board	2001
Barry M. Ariko (1)(2)	61	Director	2001
Julian C. Baker (1)(3)(5)	40	Director	2001
Paul A. Brooke (1)(3)(5)	61	Director	2001
Matthew W. Emmens (2)	55	Director	2006
Paul A. Friedman, M.D. (4)(5)	64	President and Chief Executive Officer and Director	2001
John F. Niblack, Ph.D.	68	Director	2006
Roy A. Whitfield (2)	53	Director	1991

- (1) Member of the Compensation Committee.
- (2) Member of the Audit Committee.
- (3) Member of the Nominating and Corporate Governance Committee.
- (4) Member of the Non-Management Stock Option Committee.
- (5) Member of the Finance Committee.

**Richard U. De Schutter** has been Chairman of the Company's Board of Directors since 2004. He was Chairman and Chief Executive Officer of DuPont Pharmaceuticals Company from July 2000 to October 2001. He served as Chief Administrative Officer of Pharmacia Corporation between April 2000 and July 2000. From January 1999 through March 2000, Mr. De Schutter served as Vice Chairman and Chief Administrative Officer of Monsanto Company. He served as Chief Executive Officer of G.D. Searle & Co. from April 1995 to December 1998. Mr. De Schutter is also a director of Ecolab, Inc., Smith & Nephew PLC, Varian, Inc. and several privately held companies.

**Barry M. Ariko** has been President and Chief Executive Officer of Mirapoint, Inc., a secure messaging technology company, since November 2003, and has been its Chairman of the Board since December 2003. He was a private consultant from October 2001 to October 2003. From April 2001 until September 2001, Mr. Ariko was Senior Vice President of Peregrine Systems, Inc., an infrastructure management software company, and from April 2001 until June 2002 was a member of its Board of Directors. From March 2000 until the acquisition of Extricity, Inc. by Peregrine in April 2001, Mr. Ariko served as the President and Chief Executive Officer of Extricity, an Internet software provider, and he also served as Chairman of the Board of Extricity from March 2000 to April 2001. In September 2002, Peregrine filed voluntary petitions for relief under Chapter 11 of Title 11 of the United States Code

in the United States Bankruptcy Court for the District of Delaware. Peregrine emerged from bankruptcy court supervision in August 2003 and was acquired by Hewlett-Packard Company in December 2005. From March 1999 to January 2000,

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Mr. Ariko was a Senior Vice President of America Online, Inc., where he was responsible for the Netscape Enterprise Group. From August 1998 until the acquisition of Netscape Communications Corporation by America Online in March 1999, Mr. Ariko served as Executive Vice President and Chief Operating Officer of Netscape. From 1994 to August 1998, Mr. Ariko was Executive Vice President of Oracle Corporation. Mr. Ariko currently serves as a director of Autonomy Corporation plc and a privately held company.

**Julian C. Baker** is a Managing Member of Baker Bros. Advisors, LLC, which he and his brother, Felix Baker, Ph.D., founded in 2000. Mr. Baker's firm manages Baker Brothers Investments, a family of long-term investment funds for major university endowments and foundations, which are focused on publicly traded life sciences companies. Mr. Baker's career as a fund manager began in 1994 when he co-founded a biotechnology investing partnership with the Tisch family. Previously, Mr. Baker was employed from 1988 to 1993 by the private equity investment arm of Credit Suisse First Boston Corporation. He is also a director of Genomic Health, Inc., Neurogen Corporation, Theravance, Inc. and Trimeris, Inc.

**Paul A. Brooke has been** Chairman of the Board of Directors and Chief Executive Officer of Ithaca Acquisition Corp., a special purpose acquisition company whose objective is to acquire an operating business in the healthcare industry, since 2005, and a Managing Member of PMSV Holdings LLC, a private investment firm, since 1993. He has also served as a Senior Advisor to Morgan Stanley & Co. Incorporated since April 2000, and was a Venture Partner at MPM Capital, a venture capital firm specializing in the healthcare industry, from 1997 through 2006. From April 1999 through May 2000, Mr. Brooke served as a Managing Director at Tiger Management LLC. He was a Managing Director and the Global Head of Healthcare Research and Strategy at Morgan Stanley & Co. from 1983 to April 1999. Mr. Brooke is also a director of Emdeon Corporation, ViroPharma Incorporated and several privately held companies.

**Matthew W. Emmens** has been the Chief Executive Officer, Chairman of the Management Committee and a member of the Board of Directors of Shire plc, a global specialty pharmaceuticals company, since 2003. From 2001 to 2003, Mr. Emmens served as president of Merck KGaA's global prescription pharmaceuticals business. From 1999 to 2001, Mr. Emmens served as President and Chief Executive Officer of EMD Pharmaceuticals, a division of Merck KGaA. Prior to this, Mr. Emmens held various positions, including Chief Executive Officer, at Astra Merck, Inc. as well as several positions at Merck & Co., Inc. Mr. Emmens serves on the Board of Vertex Pharmaceuticals Incorporated.

**Paul A. Friedman, M.D.** joined the Company as the Chief Executive Officer in November 2001 and has been President of the Company since May 2004. From 1998 until October 2001, Dr. Friedman served as President of DuPont Pharmaceuticals Research Laboratories, a wholly owned subsidiary of DuPont Pharmaceuticals Company (formerly The DuPont Merck Pharmaceutical Company), from 1994 to 1998 he served as President of Research and Development of The DuPont Merck Pharmaceutical Company, and from 1991 to 1994 he served as Senior Vice President at Merck Research Laboratories. Prior to his work at Merck and DuPont, Dr. Friedman was an Associate Professor of Medicine and Pharmacology at Harvard Medical School. Dr. Friedman is a Diplomat of the American Board of Internal Medicine and a Member of the American Society of Clinical Investigation. He received his A.B. in Biology from Princeton University and his M.D. from Harvard Medical School. Dr. Friedman is also a director of Bausch & Lomb Incorporated.

**John F. Niblack, Ph.D.** retired from Pfizer Inc. in September 2002, where he had served as its Vice Chairman since May 1999, and as a director since June 1997. From June 2000 to July 2002, he also served as President of Pfizer Global Research and Development. Dr. Niblack was Executive Vice President of Pfizer from 1993 to May 1999 and was responsible for Pfizer's Global Research and Development Division and Pharmaceutical Licensing and Development. Dr. Niblack held other various positions at Pfizer since 1967.



**Roy A. Whitfield** co-founded the Company and served as Chairman of the Board from November 2001 until June 2003. Mr. Whitfield served as Chief Executive Officer of the Company between June 1993 and November 2001, as President of the Company from June 1991 until January 1997, and as Treasurer of the Company between April 1991 and October 1995. Previously, Mr. Whitfield served as the President of Ideon Corporation, which was a majority-owned subsidiary of Invitron Corporation, a biotechnology company, from October 1989 until April 1991. From 1984 to 1989, he held senior operating and business development positions with Technicon Instruments Corporation, a medical instrumentation company, and its predecessor company, Cooper Biomedical, Inc., a biotechnology and medical diagnostics company. Prior to his work at Technicon, Mr. Whitfield spent seven years with the Boston Consulting Group's international consulting practice. He also serves as a director of Illumina, Inc., Nektar Therapeutics and several privately held companies.

**The Board of Directors recommends a vote FOR election as director of the nominees set forth above.**

#### **Director Independence**

The Board of Directors has determined that, except for Dr. Friedman, each individual who currently serves as a member of the Board is, and each individual who served as a member of the Board in 2006 was, an independent director within the meaning of Rule 4200 of The NASDAQ Stock Market. Dr. Friedman is not considered independent as he is employed by the Company as its President and Chief Executive Officer. All of the nominees are members of the Board standing for re-election as directors. For Messrs. Ariko, Brooke, De Schutter, Emmens and Niblack, the Board of Directors considered their relationship and transactions with the Company as directors and security holders of the Company. For Mr. Baker, the Board of Directors considered Mr. Baker's relationship and transactions with the Company as a director and security holder of the Company, and ordinary course transactions with another company for which Mr. Baker serves as a director. For Mr. Whitfield, the Board of Directors considered Mr. Whitfield's status as a director, security holder and former executive officer of the Company.

#### **Board Meetings**

The Board of Directors held seven meetings during 2006. Each director attended at least 75% of the aggregate number of meetings held by the Board of Directors and of the committees on which such director served during his tenure in 2006. The independent directors meet in regularly scheduled executive sessions at in-person meetings of the Board of Directors without the participation of the President and Chief Executive Officer or other members of management. All directors are expected to attend the Annual Meeting and, in 2006, all six directors then continuing in office attended the 2006 annual meeting of stockholders.

#### **Board Committees**

The Board of Directors has appointed a Nominating and Corporate Governance Committee, an Audit Committee and a Compensation Committee. The Board has determined that each director who serves on these committees is independent, as that term is defined by applicable listing standards of The NASDAQ Stock Market and Securities and Exchange Commission rules. The Board has approved a charter for each of these committees that can be found on our website at <http://www.incyte.com> under the Corporate Governance heading. The Board has also appointed a Non-Management Stock Option Committee and has established a Finance Committee.

*Nominating and Corporate Governance Committee*

The current members of the Nominating and Corporate Governance Committee are Richard U. De Schutter (Chair), Julian C. Baker and Paul A. Brooke. The Nominating and Corporate Governance Committee held two meetings during 2006. The Nominating and Corporate Governance Committee's primary functions are to identify qualified individuals to become members of the Board of Directors, determine the composition of the Board and its committees, and monitor a process to assess Board effectiveness. Other specific duties and responsibilities of the Nominating and Corporate Governance Committee are to recommend nominees to fill vacancies on the Board of Directors, review and make recommendations to the Board of Directors with respect to candidates for director proposed by stockholders, review on an annual basis the composition, functioning and effectiveness of the Board and its committees, develop and recommend to the Board of Directors codes of conduct applicable to officers, directors and employees and charters for the various committees of the Board, and review and make recommendations to the Board of Directors regarding the succession plan relating to the Chief Executive Officer.

*Audit Committee*

The current members of the Audit Committee are Barry M. Ariko (Chair), Matthew W. Emmens and Roy A. Whitfield. Mr. Emmens joined the Audit Committee in May 2006, replacing Dr. Frederick B. Craves, who served on the Audit Committee until his retirement from the Board of Directors. Mr. Whitfield joined the Audit Committee in January 2007, replacing Mr. De Schutter, who had served on the Audit Committee since June 2002. The Audit Committee held seven meetings during 2006. The Audit Committee's primary functions are to assist the Board of Directors in fulfilling its oversight responsibilities relating to the Company's financial statements, system of internal control over financial reporting, and auditing, accounting and financial reporting processes. Other specific duties and responsibilities of the Audit Committee are to appoint, compensate, evaluate and, when appropriate, replace the Company's independent registered public accounting firm; review and pre-approve audit and permissible non-audit services; review the scope of the annual audit; monitor the independent registered public accounting firm's relationship with the Company; and meet with the independent registered public accounting firm and management to discuss and review the Company's financial statements, internal control over financial reporting, and auditing, accounting and financial reporting processes. The Board of Directors has determined that all three members of the Audit Committee are qualified as Audit Committee Financial Experts under the definition outlined by the Securities and Exchange Commission.

*Compensation Committee*

The current members of the Compensation Committee are Paul A. Brooke (Chair), Barry M. Ariko, Julian C. Baker and Richard U. De Schutter. The Compensation Committee held seven meetings during 2006. The Compensation Committee's primary functions are to assist the Board of Directors in meeting its responsibilities with regard to oversight and determination of executive compensation and to review and make recommendations with respect to major compensation plans, policies and programs of the Company. Other specific duties and responsibilities of the Compensation Committee are to develop and monitor compensation arrangements for the Company's executive officers, make recommendations to the independent members regarding compensation of the Company's Chief Executive Officer, determine compensation for the Company's other executive officers, determine stock-based compensation awards for the Company's executive officers, and administer performance-based compensation plans such as the Company's 1991 Stock Plan. The Compensation Committee also reviews and recommends directors' compensation to the full Board of Directors. The Compensation Committee has the authority to select, retain, terminate and approve the fees and other retention terms of consultants as it deems appropriate to perform its duties. Additional information concerning the Compensation Committee's processes and

procedures for the consideration and determination of executive compensation is set forth under the heading Compensation Discussion and Analysis.

***Non-Management Stock Option Committee***

Dr. Friedman currently serves as the Non-Management Stock Option Committee. The Non-Management Stock Option Committee is a secondary committee responsible for granting and issuing awards of options and shares under the 1991 Stock Plan to eligible employees or consultants, other than to members of the Board of Directors, to individuals designated by the Board of Directors as Section 16 officers, and to employees who hold the title of Senior Vice President or above. In addition, the Non-Management Stock Option Committee may not make any awards or grants to any one employee or consultant that total more than 50,000 shares of Common Stock in any calendar year.

***Finance Committee***

The current members of the Finance Committee are Paul A. Brooke (Chair), Julian C. Baker, Richard U. De Schutter, and Paul A. Friedman. The Finance Committee held six meetings in 2006. The Finance Committee's primary function is to assist the Board of Directors in its oversight of the Company's strategic financing matters and, in that regard, to review and recommend matters related to the capital structure of the Company and, upon delegation by the Board of Directors, to exercise the powers of the Board of Directors that may be lawfully delegated to the Finance Committee in connection with the authorization, issuance and sale of debt or equity securities of the Company.

**Director Nominations**

The Board of Directors nominates directors for election at each annual meeting of stockholders and elects new directors to fill vacancies when they arise. The Nominating and Corporate Governance Committee has the responsibility to identify, evaluate, recruit and recommend qualified candidates to the Board of Directors for nomination or election.

The Board of Directors has as an objective that its membership be composed of experienced and dedicated individuals with a diversity of backgrounds, perspectives and skills. The Nominating and Corporate Governance Committee will select candidates for director based on their character, judgment, diversity of experience, business acumen, and ability to act on behalf of all stockholders. The Nominating and Corporate Governance Committee believes that nominees for director should have experience, such as experience in management or accounting and finance, or industry and technology knowledge, that may be useful to the Company and the Board, high personal and professional ethics, and the willingness and ability to devote sufficient time to effectively carry out his or her duties as a director. The Nominating and Corporate Governance Committee believes it appropriate for at least one, and, preferably, multiple, members of the Board to meet the criteria for an audit committee financial expert as defined by Securities and Exchange Commission rules, and for a majority of the members of the Board to meet the definition of independent director under the rules of The NASDAQ Stock Market. The Nominating and Corporate Governance Committee also believes it appropriate for certain key members of the Company's management currently, the President and Chief Executive Officer to participate as members of the Board.

Prior to each annual meeting of stockholders, the Nominating and Corporate Governance Committee identifies nominees first by evaluating the current directors whose term will expire at the annual meeting and who are willing to continue in service. These candidates are evaluated based on the criteria described above, including as demonstrated by the candidate's prior service as a director, and the needs of the Board with respect to the particular talents and experience of its directors. In the event that a director does not wish to continue in service, the Nominating and Corporate Governance Committee determines not to



re-nominate the director, or if a vacancy is created on the Board as a result of a resignation, an increase in the size of the Board or other event, then the Committee will consider various candidates for Board membership, including those suggested by the Committee members, by other Board members, by any search firm engaged by the Committee and by stockholders. The Committee recommended all of the nominees for election included in this Proxy Statement. All of the nominees are members of the Board standing for re-election as directors.

A stockholder who wishes to suggest a prospective nominee for the Board should notify the Secretary of the Company or any member of the Nominating and Corporate Governance Committee in writing with any supporting material the stockholder considers appropriate. In addition, the Company's Bylaws contain provisions that address the process by which a stockholder may nominate an individual to stand for election to the Board of Directors at the Company's Annual Meeting of Stockholders. In order to nominate a candidate for director, a stockholder must give timely notice in writing to the Secretary of the Company and otherwise comply with the provisions of the Company's Bylaws. To be timely, the Company's Bylaws provide that the Company must have received the stockholder's notice not less than 60 days nor more than 90 days prior to the scheduled date of such meeting. However, if notice or prior public disclosure of the date of the annual meeting is given or made to stockholders less than 70 days prior to the meeting date, the Company must receive the stockholder's notice by the earlier of (1) the close of business on the 10th day after the earlier of the day the Company mailed notice of the annual meeting date or provided such public disclosure of the meeting date and (2) two days prior to the scheduled date of the annual meeting. Information required by the Bylaws to be in the notice include the name and contact information for the candidate and the person making the nomination and other information about the nominee that must be disclosed in proxy solicitations under Section 14 of the Securities Exchange Act of 1934 and the related rules and regulations under that Section.

Stockholder nominations must be made in accordance with the procedures outlined in, and include the information required by, the Company's Bylaws and must be addressed to:

Secretary  
Incyte Corporation  
Experimental Station  
Route 141 & Henry Clay Road  
Building E336  
Wilmington, DE 19880

You can obtain a copy of the full text of the Bylaw provision by writing to the Company's Secretary at the above address.

**Communications with the Board of Directors**

If you wish to communicate with the Board of Directors, you may send your communication in writing to:

Secretary  
Incyte Corporation  
Experimental Station  
Route 141 & Henry Clay Road  
Building E336  
Wilmington, DE 19880

You must include your name and address in the written communication and indicate whether you are a stockholder of the Company.

The Secretary will review any communications received from a stockholder and all material communications from stockholders will be forwarded to the appropriate director or directors or Committee of the Board based on the subject matter.

### **Certain Relationships and Related Transactions**

It is the Company's policy that all employees, officers and directors must avoid any activity that is or has the appearance of conflicting with the interests of the Company. This policy is included in the Company's Code of Business Conduct and Ethics and Board of Directors Code of Conduct and Ethics. The Company conducts a review of all related party transactions for potential conflict of interest situations on an ongoing basis and all such transactions must be approved by the Company's Audit Committee or another independent body of the Board of Directors.

### **Compensation of Directors**

Directors who are employees of the Company do not receive any fees for their service on the Board of Directors or any committee. During 2006, Dr. Friedman was the Company's only employee director. For a description of the compensation arrangements with Dr. Friedman see Executive Compensation.

### ***Cash Compensation***

In 2006, the Company's non-employee directors each received \$2,500 for every in-person Board meeting that they attended and \$500 for every Board meeting that they attended telephonically. Non-employee directors received additional compensation of \$500 for their participation in every committee meeting that they attended that was up to one hour in duration and \$1,000 for every committee meeting that was over one hour in duration, in each case whether in-person or telephonic. The chair of the Audit Committee received an additional \$6,000 annually, and the chair of the Compensation Committee received an additional \$5,000 annually. The chair of any other committee received an additional \$4,000 annually. Non-employee directors also received a \$15,000 annual retainer, which was prorated for such portion of the year that the director served on the Board. Mr. De Schutter's annual retainer was \$22,500 in recognition of his additional responsibilities as Chairman of the Board. In addition, all directors were reimbursed for their travel and out-of pocket expenses in accordance with the Company's travel policy for each in-person Board or committee meeting that they attended.

Effective March 2007, the Company's non-employee directors will no longer receive fees for each Board meeting or committee meeting that they attend. Each non-employee director, other than the Chairman of the Board, will receive a \$25,000 annual retainer, payable quarterly, and prorated for such portion of the year that the director serves on the Board. Mr. De Schutter will receive an annual retainer of \$50,000 as Chairman of the Board. The chair of the Audit Committee will receive an additional \$15,000 annual retainer, and each other member of the Audit Committee will receive an additional \$7,500 annual retainer. The chair of the Compensation Committee will receive an additional \$12,000 annual retainer, and each other member of the Compensation Committee will receive an additional \$6,000 annual retainer. The chair of any other committee will receive an additional \$4,000 annual retainer, and each other member of such other committee will receive an additional \$2,000 annual retainer. All directors will continue to be reimbursed for their travel and out-of pocket expenses in accordance with the Company's travel policy for each in-person Board or committee meeting that they attend.

### ***Equity Compensation***

In addition to cash compensation for services as a member of the Board, the non-employee directors also receive options to purchase shares of the Company's Common Stock pursuant to the 1993 Directors' Stock Option Plan (the Directors' Option Plan). Under the Directors' Option Plan, every new

non-employee director appointed to the Board of Directors will receive an initial stock option grant of 35,000 shares of Common Stock at an exercise price equal to 100% of the fair market value of the Common Stock on the date of grant. The option will vest as to 25% of the shares on the first anniversary of the date of the grant, with the remaining shares vesting monthly over the following three years. Pursuant to the Directors Option Plan, following the conclusion of each annual meeting of stockholders, each non-employee director who will continue to serve as a member of the Board of Directors will receive an additional option to purchase 20,000 shares of Common Stock at an exercise price equal to the fair market value of the Common Stock on the date of grant. Each of these options will vest in full on the first anniversary of the date of the grant or, if earlier, the date of the next annual meeting of stockholders or upon a change in control. When a new non-employee director is appointed to the Board of Directors at a time other than at an annual meeting, such director will receive a pro rata portion of the automatic annual grant that will vest in full on the date of the Company's next annual meeting. In 2006, each of Messrs. Ariko, Baker, Brooke, De Schutter, and Whitfield received their annual grant of an option to purchase 20,000 shares of Common Stock at an exercise price equal to the fair market value of the Common Stock on the date of grant, and each of Messrs. Emmens and Niblack received an initial grant of an option to purchase 35,000 shares of Common Stock at an exercise price equal to the fair market value of the Common Stock on the date of grant.

The table below shows the compensation paid to each non-employee director for their service in 2006.

### 2006 Director Compensation

Director	Fees Earned or Paid in Cash (\$)	Option Awards \$(2)(3)	Total (\$)
Richard U. De Schutter	50,500	70,953	121,453
Barry M. Ariko	44,000	51,477	95,477
Julian C. Baker	37,000	51,477	88,477
Paul A. Brooke	47,500	51,477	98,977
Frederick B. Craves (1)	14,934	-	14,934
Matthew W. Emmens	16,107	24,446	40,553
John F. Niblack	14,607	24,446	39,053
Roy A. Whitfield	28,500	51,477	79,977

(1) Dr. Frederick B. Craves retired from the Board of Directors effective May 23, 2006.

(2) Amounts listed in this column represent the compensation expense of option awards recognized by the Company, before forfeitures, under Statement of Financial Accounting Standards No. 123 (revised 2004) (FAS 123R) for the 2006 fiscal year, rather than amounts paid to or realized by the named individual, and includes expense recognized for awards granted prior to 2006. Please refer to Note 11 to our consolidated financial statements in our 2006 Annual Report on Form 10-K for the underlying assumptions for this expense. There can be no assurance that options will be exercised (in which case no value will be realized by the individual) or that the value on exercise will approximate the compensation expense recognized by the Company. The grant date fair value of the options granted to each non-employee director during 2006 was \$34,640, except for Messrs. Emmens and Niblack, for whom it was \$73,061.

(3) The following table provides the number of shares of Common Stock subject to outstanding options held at December 31, 2006 for each director, as applicable:

Name	Number of Shares Underlying Unexercised Options (#)
Richard U. De Schutter	177,084
Barry M. Ariko	100,834
Julian C. Baker	97,917
Paul A. Brooke	112,084
Frederick B. Craves	-
Matthew W. Emmens	35,000
John F. Niblack	35,000
Roy A. Whitfield	258,000

## EXECUTIVE COMPENSATION

### Compensation Discussion and Analysis

#### *Compensation Philosophy and Objectives*

The Compensation Committee of our Board of Directors believes that compensation of our executive officers should:

- Encourage creation of stockholder value and achievement of strategic corporate objectives;
- Integrate compensation with our annual and long-term corporate objectives and strategy, and focus executive behavior on the fulfillment of those objectives;
- Provide a competitive total compensation package that enables us to attract and retain, on a long-term basis, qualified personnel;
- Provide a total compensation opportunity that is competitive with companies in the biotechnology, life sciences and pharmaceutical industries, taking into account relative company size, performance and geographic location, as well as individual responsibilities and performance;
- Align the interests of management and stockholders and enhance stockholder value by providing management with longer-term incentives through equity ownership by management; and
- Provide fair compensation consistent with internal compensation programs.

#### *Implementing Our Objectives*

*Role of Compensation Committee and Our Chief Executive Officer.* The Compensation Committee approves, administers and interprets our executive compensation and benefits policies, including our 1991 Stock Plan. The Compensation Committee evaluates the performance of our Chief Executive Officer and determines his compensation in light of the goals and objectives of our compensation program. The Chief Executive Officer and the Compensation Committee together assess the performance of our other executive officers and determine their compensation, based on initial recommendations from the Chief Executive Officer.

*Role of Compensation Consultant.* The Compensation Committee in 2006 engaged Frederic W. Cook & Co., Inc. as independent executive compensation consultants to review our executive compensation program. While the Compensation Committee did not use market benchmarks to determine executive compensation for 2006, the Compensation Committee reviewed market reference data generated by the compensation consultant to evaluate the competitiveness of our executive officers' compensation and to determine whether the total compensation paid to each of our named executive officers was reasonable. The compensation consultant conducted its review using a peer group of 20 biotechnology and pharmaceutical companies that we believe were selected from the same pool of companies that institutional stockholders would use in evaluating the reasonableness of our compensation plans. The peer group companies were selected based on the following characteristics: major labor and capital market competitors, broadly similar size in revenues and market capitalization value, and similar growth and performance potential.

*Equity Grant Practices.* The exercise price of each stock option awarded to our executive officers under our 1991 Stock Plan is the closing price of our common stock on the date of grant, which for our annual stock option grants is the date of the regularly scheduled Compensation Committee meeting shortly after the end of each year at which equity awards for senior executives are determined. These meetings are scheduled in advance, and we do not coordinate the timing of equity award grants with the release of financial results or other material announcements by the Company. Under our 1991 Stock Plan, we may not reprice or replace options at lower exercise prices without stockholder approval.

*Tax Deductibility of Compensation.* Section 162(m) of the Internal Revenue Code places a limit of \$1,000,000 on the amount of compensation that we may deduct in any one year with respect to our Chief Executive Officer and each of the next four most highly compensated executive officers. To maintain flexibility in compensating our executive officers in a manner designed to promote varying corporate goals,

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the Compensation Committee has not adopted a policy requiring all executive compensation to be deductible.

*Stock Ownership Guidelines.* We have not currently adopted stock ownership guidelines.

***Key Elements of Executive Compensation***

Our executive officers' compensation currently includes three primary components: base salary, cash bonus, and equity-based incentive awards. In addition, we provide our executive officers a variety of benefits that are available generally to all salaried employees.

*Base Salary.* Base salaries are designed to attract and retain qualified personnel by providing a consistent cash flow throughout the year as compensation for acceptable levels of performance of day-to-day responsibilities. Base salaries for our executive officers are established based on the scope of their responsibilities, their performance, and their prior relevant background, training and experience, taking into account competitive market compensation paid by the companies represented in the compensation data we review for similar positions and the overall market demand for those executive officers at the time of hire. The Compensation Committee reviews salaries on an annual basis. At such time, the Compensation Committee may change each executive officer's salary based on the individual's contributions and responsibilities over the prior twelve months and any change in competitive market pay levels.

In January 2006, the Compensation Committee set the 2006 base salaries for our executive officers. Base salary increases for 2006 for the six executive officers named in the table below entitled "Summary Compensation Table" ranged from 3% to 5% and were established after considering job performance, internal pay alignment and equity, and marketplace competitiveness. In February 2007, the Compensation Committee set the 2007 base salaries for the Company's executive officers. Base salary increases for the six named executive officers for 2007 ranged from 2% to 4% and were established after considering the same factors that were considered for 2006 base salaries.

*Incentive Compensation Plan.* Each year, we have established an incentive compensation plan that provides for cash incentive awards for all of our eligible employees. The plans have been designed to align incentive awards for each participant based upon an evaluation of the achievement of corporate objectives, which are approved by our Board of Directors based on the recommendations of the Compensation Committee, as well as the achievement of individual business objectives for a particular year. Corporate objectives have included the progress of our drug discovery and development efforts, including the achievement of preclinical and clinical development and discovery program objectives, business development objectives, such as the establishment of commercial collaborations and progress toward other strategic goals, and our financial performance. Eligibility to participate in the plans and actual award amounts are not guaranteed and are determined, in the case of our executive officers, at the discretion of the Compensation Committee. After the completion of each year, the Compensation Committee reviews with our Chief Executive Officer the level of achievement of the corporate objectives under the plan and determines the size of the overall bonus pool to be used for awards. The Compensation Committee, with input from the Chief Executive Officer with respect to other executive officers, uses discretion in determining for each individual their bonus amount.

Incentive awards for our executive officers were approved by the Compensation Committee and paid in 2007 pursuant to our 2006 annual incentive compensation plan. Each of our executive officers other than the President and Chief Executive Officer had a funding target under the plan of 50% of his or her annual base salary for the 2006 fiscal year, with the potential for actual awards under the plan to either exceed or be less than such funding target depending upon corporate performance, as well as the executive officer's performance of certain individual goals that are predetermined by our President and Chief Executive Officer. Our President and Chief Executive Officer had a funding target under the plan of 75%, with the potential for actual awards under the plan to either exceed or be less than such funding target depending upon corporate performance. Target incentive award amounts for each participant were based on the participant's potential impact on the Company's operating and financial results and on market competitive pay practices. Individual performance goals were established for eligible employees, and evaluations were based upon whether the employee met, exceeded or did not meet each established goal.

The percentage of potential incentive awards attributable to the achievement of individual goals decreases as seniority increases, with a greater proportion of the potential incentive awards for executive officers being based upon achievement of corporate performance objectives. Corporate performance objectives for 2006 were based on achievement of drug discovery and development program goals, representing 90% of the overall corporate performance objectives, business development objectives, representing 7.5% of the overall corporate performance objectives and finance related objectives, representing 2.5% of the overall corporate performance objectives. Threshold, target and outperform achievement levels were defined for each corporate objective that was established, resulting in potential payouts ranging from 0% to 150% for each objective depending on achievement of such performance levels, with bonus opportunities enabling payouts of up to an additional 20%. In January 2007, the Compensation Committee evaluated the achievement of the 2006 corporate performance objectives and determined that incentive awards under the 2006 annual incentive compensation plan should be based upon achievement of 96% of the target level of corporate performance objectives. This 96% figure was less than 100% of target primarily because objectives with respect to the development of dexelvucitabine, or DFC, which was discontinued in 2006, were not met, which was offset in part by the achievement of a number of objectives at the outperform level, with the most significant being the objective relating to the number of investigational new drug application filings to be made by the Company in 2006. The incentive award amounts paid to our President and Chief Executive Officer for 2006 were based solely on the achievement of the predetermined corporate objectives at the 96% level. The Compensation Committee determined, with the advice of our President and Chief Executive Officer, also to base incentive award amounts paid to our other executive officers for 2006 on the achievement of the predetermined corporate objectives at the 96% level.

In March 2007, we established corporate objectives for 2007 for our 2007 annual incentive compensation plan. Corporate performance objectives for 2007 are based on achievement of drug discovery and development objectives, representing 87.5% of the overall objectives; achievement of business development objectives, representing 7.5% of the overall objectives; and finance objectives, representing 5% of the overall objectives. Threshold, target and outperform achievement levels were defined for each corporate objective and, depending on the achievement of those performance levels, payouts ranging from 0% to 150% may be made, with bonus opportunities enabling payouts of up to an additional 25%.

*Equity-Based Incentive Awards.* The Compensation Committee administers equity-based incentive awards, such as stock option grants, that are made to our executive officers under our 1991 Stock Plan. The Compensation Committee believes that by providing those persons who have substantial responsibility for our management and growth with an opportunity to increase their ownership of our stock, the best interests of our stockholders and executive officers will be closely aligned. Therefore, executive officers are eligible to receive equity-based incentive awards when the Compensation Committee performs its annual review, although these awards may be granted at other times in recognition of exceptional achievements. As is the case when the amounts of base salary and initial equity awards are determined, the Compensation Committee conducts a review of all components of an executive officer's compensation when determining annual equity awards to ensure that the executive's total compensation conforms to our overall philosophy and objectives.

The Compensation Committee approved grants of stock options to the Company's executive officers in February 2007 in connection with the Compensation Committee's evaluation of the Company's 2006 performance, and granted options in essentially the same amounts as we granted to those officers in January 2006 for 2005 performance. In 2005, the Compensation Committee reviewed with an external compensation consultant the Company's stock grant guidelines for all employees. The consultant considered results of several independent surveys involving biotechnology companies only and biotechnology and pharmaceutical companies, and reviewed with the Compensation Committee share dilution and option overhang analyses involving a group of generally comparable biotechnology companies. The Compensation Committee reviewed updates to this information provided by the Company's finance staff in connection with the stock option grants in 2006. The number of shares underlying stock options granted to executive officers was based on competitive practices in the industry as determined by independent surveys and the Compensation Committee's knowledge of industry practice,

while taking into account the total compensation paid to an executive and the executive's responsibilities and performance.

The Compensation Committee also approved the total number of options to be awarded to all employees of the Company in connection with this annual review of stock option grants. Based on the recommendations of the Committee's compensation consultant, options granted in 2007 have a seven-year term and vest over a three-year period with a one-year cliff (i.e., vesting occurs at the end of the first year and on a monthly basis for the remaining two years). This is a change from the Company's prior option grants of options with a ten-year term that vest over a four-year period with a one-year cliff.

Under our 1991 Stock Plan, we may grant restricted stock or restricted stock unit awards. In 2006, the Compensation Committee did not grant restricted stock or restricted stock units to any of our executive officers. The Compensation Committee, in its discretion, may in the future elect to make such grants to our executive officers if it deems it advisable.

*Termination Based Compensation Under Employment Agreements and Offer Letters.* Our executive officers are parties to employment agreements and offer letters, as described below under Employment Contracts, Termination of Employment and Change-in-Control Arrangements. We have no current plans to make changes to any employment agreements or offer letters, except as required by law or as required to clarify the benefits to which our executive officers are entitled.

These employment agreements and offer letters provide for severance payments and acceleration of vesting of equity-based awards upon termination of employment under the circumstances described below under Employment Contracts, Termination of Employment and Change-in-Control Arrangements. In general, the employment agreements provide for severance benefits if an officer's employment is terminated within 24 months following a change in control. These agreements are designed both to attract executives as we compete for talented employees in a marketplace where such protections are routinely offered and to retain executives and provide continuity of management in the event of an actual or threatened change in control.

*Other Compensation.* All of our full-time employees, including our executive officers, may participate in our health programs, such as medical, dental and vision care coverage, and our 401(k) and life and disability insurance programs. These benefits are designed to provide our executive officers and eligible employees a competitive total compensation package that enables us to attract and retain qualified personnel.

#### **Compensation Committee Report**

*This report shall not be deemed to be soliciting material or filed with the Securities and Exchange Commission or be deemed incorporated by reference into any filing under the Securities Act of 1933 or under the Securities Exchange Act of 1934, except to the extent the Company specifically incorporates it by reference into a document filed under such Acts.*

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis set forth in this Proxy Statement with our management. Based on such review and discussions, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Proxy Statement and incorporated by reference into the Company's Annual Report on Form 10-K for the year ended December 31, 2006.

#### **Compensation Committee**

Paul A. Brooke  
Barry M. Ariko  
Julian C. Baker  
Richard U. De Schutter



**Named Executive Officers**

The Summary Compensation Table, Grants of Plan-Based Awards Table and the tables that follow provide compensation information for our named executive officers, including Paul A. Friedman as President and Chief Executive Officer, David C. Hastings as Executive Vice President and Chief Financial Officer, and the three most highly compensated executive officers of the Company who were serving as executive officers at the end of 2006, which in 2006 were John A. Keller, Brian W. Metcalf and Patricia A. Schreck.

Under new SEC regulations, compensation for purposes of determining the most highly compensated officers is determined with reference to all compensation disclosed in the Summary Compensation Table below. In previous years, compensation was measured for this purpose only with reference to salary and bonus (the amounts reported as bonuses under the SEC's prior rules are now reported under the Non-Equity Incentive Plan Compensation column of the Summary Compensation Table). Although she is not considered a named executive officer under the new SEC regulations, Paula J. Swain is included in the tables below as she would have been considered a named executive officer but for the inclusion of the compensation cost of outstanding option awards under FAS 123R for the 2006 fiscal year in determining the three most highly compensated executive officers of the Company other than Dr. Friedman and Mr. Hastings.

**2006 Summary Compensation Table**

Name and Principal Position	Year	Salary (\$)	Option Awards\$(1)	Non-Equity Incentive Plan Compensation\$(2)	All Other Compensation (\$)	Total (\$)
Paul A. Friedman President and Chief Executive Officer	2006	543,577	874,450	393,120	3,909(3 )	1,815,056
David C. Hastings Executive Vice President and Chief Financial Officer	2006	288,206	400,541	138,955	428(3 )	828,130
John A. Keller Executive Vice President and Chief Business Officer	2006	325,800	453,064	157,248	330(3 )	936,442
Brian W. Metcalf Executive Vice President and Chief Drug Discovery Scientist	2006	350,010	348,639	180,797	45,643(4 )	925,089
Patricia A. Schreck Executive Vice President, General Counsel	2006	257,914	407,266	124,351	574(3 )	790,105
Paula J. Swain Executive Vice President, Human Resources	2006	286,044	355,822	137,913	424(3 )	780,203

(1) Amounts listed in this column represent the compensation expense of option awards recognized by the Company, before forfeitures, under FAS 123R for the 2006 fiscal year, rather than amounts paid to or realized by the named individual, and includes expense recognized for awards granted prior to 2006. Please refer to Note 11 to our consolidated financial statements in our 2006 Annual Report on Form 10-K for the underlying assumptions for this expense. There can be no assurance that options will be exercised (in which case no value will be realized by the individual) or that the value on exercise will approximate the compensation expense recognized by the Company.

(2) Amounts listed in this column represent bonuses paid under the annual incentive compensation plan for 2006. These amounts are not reported in the Bonus column because the award is tied to corporate performance goals. Under the SEC's prior rules, these types of awards were previously reported under the Bonus column.

(3) Represents payments made for group term life insurance.

(4) Includes (i) a \$27,000 housing allowance, (ii) \$16,667 for forgiveness of an interest-free loan from the Company to be used for financing Dr. Metcalf's residence in California and (iii) \$1,976 for payments made for group term life insurance.

**2006 Grants of Plan-Based Awards**

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards (1) (2)			All Other Option Awards: Number of Securities Underlying Options (#) (3)	Exercise or Base Price of Option Awards (\$/Sh)	Grant Date Fair Value of Stock and Option Awards(\$)
		Threshold (\$)	Target (\$)	Maximum (\$)			
Paul A. Friedman	- 1/13/2006	307,125	409,500	696,150			
David C. Hastings	- 1/13/2006	108,559	144,745	246,067	200,000	5.46	575,252
John A. Keller	- 1/13/2006	122,850	163,800	278,460	100,000	5.46	287,627
Brian W. Metcalf	- 1/13/2006	141,248	188,330	320,162	120,000	5.46	345,151
Patricia A. Schreck	- 1/13/2006	97,149	129,532	220,204	100,000	5.46	287,627
Paula J. Swain	- 1/13/2006	107,745	143,660	244,221	100,000	5.46	287,627

(1) The target incentive amounts shown in this column reflect our annual incentive plan awards originally provided under the annual incentive compensation plan for 2006 and represent the pre-established target awards as a percentage of base salary for the 2006 fiscal year, with the potential for actual awards under the plan to either exceed or be less than such funding target depending upon corporate performance. Actual award amounts are not guaranteed and are determined at the discretion of the Compensation Committee, which may consider an individual's performance during the period. For additional information, please refer to the Compensation Discussion and Analysis section. Actual 2006 annual incentive compensation plan payouts are reflected in the Non-Equity Incentive Plan Compensation column of the Summary Compensation Table.

(2) The threshold illustrates the smallest payout that can be made if all of the pre-established performance objectives are achieved at the minimum achievement level. Actual awards may be more or less than these amounts and are at the discretion of the Compensation Committee. The target is the payout that can be made if the pre-established performance objectives have been achieved at the target achievement level. The maximum is the greatest payout that can be made if the pre-established maximum performance objectives are achieved or exceeded at the outperform achievement levels.

(3) Options listed in this column become exercisable as to 25% of the shares on the first anniversary of the grant date, with the remaining shares vesting ratably each month thereafter over the following three years.

**Salary**

The annual salaries of the named executive officers are reflected under the Salary column of the Summary Compensation Table. The Compensation Committee reviews salaries on an annual basis, and may change each executive officer's salary based on the individual's contributions and responsibilities over the prior twelve months and any change in comparable company pay levels. In January 2006, the Compensation Committee set the 2006 base salaries for the Company's executive officers. Salary compensation is discussed in greater detail under the heading Compensation Discussion and Analysis.

**Incentive Compensation**

All named executive officers received a bonus for the 2006 fiscal year under the Company's discretionary 2006 annual incentive compensation plan. This bonus is reflected under the Non-Equity Incentive Plan Compensation column of the Summary Compensation Table because the bonus is tied to the corporate performance of the Company. The plan established cash incentive awards for all eligible employees of the Company for 2006, and was designed to align incentive awards for each participant's individual performance with the Company's corporate goals. Incentive awards for the Company's executive officers were approved by the Compensation Committee and paid in 2007 pursuant to this plan. The Company's executive officers each had a funding target under the plan, with the potential for actual awards under the plan to either exceed or be less than such funding target depending upon corporate performance, as well as each executive officer's individual performance. The range of the 2006 awards at the time of establishment of the plan is set forth under the Estimated Future Payouts Under Non-Equity

Incentive Plan Awards columns to the Grants of Plan-Based Awards Table. Actual incentive award amounts paid to named executive officers for 2006 pursuant to this plan were based on the achievement of corporate goals that were predetermined by the Compensation Committee and individual performance, as described in greater detail under the heading Compensation Discussion and Analysis, and is disclosed in the Non-Equity Incentive Plan Compensation column of the Summary Compensation Table.

#### ***Stock Option Awards***

In 2006, all named executive officers received grants of options to purchase Common Stock. The numbers and grant date fair values of these awards under FAS 123R are set forth in the Grant of Plan-Based Awards Table. The exercise price was the fair market value of the Company's Common Stock on the grant date. Although these awards will generally vest and become exercisable as to 25% of the shares on the first anniversary of the grant date, with the remaining shares vesting ratably each month thereafter over the following three years, the amounts disclosed in the Option Awards column of the Summary Compensation Table attributable to the 2006 awards reflect the portion of these awards expensed by the Company in the 2006 fiscal year under FAS 123R. The balance of the amount set forth in the Option Awards column is attributable to the amounts expensed by the Company in the 2006 fiscal year for outstanding stock option awards from previous years under FAS 123R.

The amounts, if any, actually realized by the named executive officers for the 2006 awards will vary depending on the vesting of the award and the price of the Company's Common Stock in relation to the exercise price at the time of exercise. Detail regarding the number of exercisable and unexercisable options held by each named executive officer at year-end is set forth in the Outstanding Equity Awards at Fiscal Year-End Table below.

#### **Employment Contracts, Termination of Employment and Change-in-Control Arrangements**

##### ***Paul A. Friedman***

In November 2001, and in connection with his appointment as Chief Executive Officer, the Company entered into an employment agreement with Paul A. Friedman which provides for certain payments and benefits in the event of termination of Dr. Friedman's employment with the Company.

*Termination Without Good Reason Prior to a Change in Control.* If Dr. Friedman terminates his employment with the Company without good reason (which generally includes the assignment of duties substantially and materially inconsistent with Dr. Friedman's position or other diminishment in position, requiring him to be based at any location outside of the East Coast, a reduction in salary, bonus or adverse change in benefits, or a breach by the Company of the terms of his employment arrangement) prior to a change in control (discussed below under the heading Termination in Connection with a Change in Control Without Cause or for Good Reason), the Company will pay Dr. Friedman, to the extent not already paid, his annual base salary through the date of termination, any deferred compensation and any accrued vacation pay.

*Termination Without Good Reason in Connection with a Change in Control.* If Dr. Friedman terminates his employment with the Company without good reason following a change in control, the Company will pay Dr. Friedman, to the extent not already paid, his annual base salary through the date of termination, any deferred compensation and any accrued vacation pay, and an amount equal to a pro rata portion of his target bonus calculated according to the number of days he worked through the termination date in the current fiscal year.

*Termination Without Cause or for Good Reason Not in Connection with a Change in Control.* If, at any time other than the two year period following a change in control, Dr. Friedman's employment is terminated by the Company without cause or by him for good reason, the agreement provides that the

Company will pay Dr. Friedman, to the extent not already paid, his annual base salary through the date of termination, any deferred compensation and any accrued vacation pay, and an amount equal to a pro rata portion of his target bonus calculated according to the number of days he worked through the termination date in the current fiscal year. In addition, the Company will pay him an amount equal to the sum of his annual base salary and the greater of his current target bonus or his bonus amount for the preceding fiscal year. The cash payment will be paid in a lump sum payment unless Dr. Friedman previously elects to receive equal monthly installments over the twelve-month period following his termination. This agreement also provides that Dr. Friedman's stock options will vest as to the amount that would have vested had he continued to work for the Company for an additional 12 months. In addition, the agreement provides for the payment of COBRA premiums by the Company for Dr. Friedman and his family for up to 12 months, outplacement services for up to 12 months, as well as payment with respect to any other accrued amounts under other of the Company's benefits arrangements.

*Termination in Connection with a Change in Control Without Cause or for Good Reason.* In the event that Dr. Friedman's employment is terminated within 24 months following a change in control (a change in control generally includes a significant change in the composition of the Board of Directors, the acquisition by any person or entity of greater than 50% of the combined voting power of the Company's outstanding securities, the approval of a liquidation or dissolution of the Company, or the sale or disposition of all or substantially all of the Company's assets or similar transaction) either by the Company without cause or by Dr. Friedman for good reason (which in the case of a change in control includes requiring Dr. Friedman to be based at any location more than 35 miles from the office or location where he was based prior to the change in control), the Company will pay Dr. Friedman, to the extent not already paid, his annual base salary through the date of termination, any deferred compensation and any accrued vacation pay, and an amount equal to a pro rata portion of his target bonus calculated according to the number of days he worked through the termination date in the current fiscal year. In addition, the Company will pay him an amount equal to three times the sum of his current annual base salary and the greater of his current target bonus or his bonus amount for the preceding fiscal year. The cash payment will be paid in a lump sum payment, unless Dr. Friedman previously elects to receive equal monthly installments over a 36-month period following his termination. The agreement also provides that in the event of such a termination, all of Dr. Friedman's unvested restricted stock units and unvested stock options will vest in full, and all stock options will be exercisable for 12 months following his termination. In addition, the agreement provides for the continuation of benefits for Dr. Friedman and his family for up to 36 months, outplacement services for up to 12 months, as well as payment with respect to any other accrued amounts under other of the Company's benefits arrangements.

*Other Covenants.* Under the agreement, Dr. Friedman is subject to non-solicitation/non-hiring and non-disparagement covenants that extend two years from termination of employment. Upon certain breaches of those covenants after termination of employment, Dr. Friedman must forfeit all of his unvested restricted stock units and the gain or income realized from units vesting within 24 months prior to the breach.

#### *Agreements with other Named Executive Officers*

In November 2003, the Company's Board of Directors approved a form of employment agreement for Executive Vice Presidents, including Brian W. Metcalf, David C. Hastings, John A. Keller and Patricia A. Schreck, and Paula J. Swain.

This form of employment agreement provides that in the event of an involuntary termination of the executive's employment within 24 months following a change in control (which includes actual termination without cause and constructive termination by way of the assignment of duties substantially and materially inconsistent with the executive's position or other diminishment in position, requiring the executive to be based at any location outside more than 35 miles from the office or location where he or she was based

prior to a change in control, a reduction in salary, bonus or adverse change in benefits, or a breach by the Company of the terms of the executive's employment arrangement), the Company will pay the executive an amount equal to the sum of the executive's current annual base salary and the greater of (1) the executive's current target bonus or (2) the executive's bonus amount for the preceding fiscal year. A change in control generally includes a significant change in the composition of the Board of Directors, the acquisition by any person or entity of greater than 50% of the combined voting power of the Company's outstanding securities, the approval of a liquidation or dissolution of the Company, or the sale or disposition of all or substantially all of the Company's assets or similar transaction. The Company will also pay the executive a pro rata portion of the executive's target bonus calculated according to the number of days the executive worked through the termination date in the current fiscal year. The cash payment would be paid in a lump sum payment following the executive's termination. The agreement also provides that in the event of such a termination, all of the executive's unvested stock options will vest in full, and all stock options will be exercisable for 12 months following the executive's termination. In addition, the agreement provides for the reimbursement of COBRA premiums by the Company for the executive and eligible dependents for up to 12 months, reimbursement (or payment) by the Company for the cost of continued life and disability insurance for the executive for 12 months at the same levels in effect on the termination date, as well as payment with respect to any other accrued amounts under other of the Company's benefits arrangements.

*Brian W. Metcalf.* In connection with his employment in February 2002, Brian W. Metcalf received a loan from the Company for the purpose of financing his residence in California. On February 6, 2003, 25% of the outstanding principal balance was forgiven, and 1/48 of the original principal amount was forgiven on the last day of each month thereafter, through February 6, 2006.

*John A. Keller.* In September 2003, in connection with his appointment as Executive Vice President and Chief Business Officer, Dr. Keller received an offer letter that provides that if his employment is terminated other than for cause, the Company will pay him an amount equal to the sum of his current annual base salary and his current target bonus, as well as amounts with respect to any other accrued amounts under other of the Company's benefits arrangements.

*David C. Hastings.* In September 2003, in connection with his appointment as Executive Vice President and Chief Financial Officer, Mr. Hastings received an offer letter that provides that if his employment is terminated other than for cause, the Company will pay him an amount equal to the sum of his current annual base salary and his current target bonus, as well as amounts with respect to any other accrued amounts under other of the Company's benefits arrangements. The Company will also pay the cost of COBRA premiums for one year, or until he becoming eligible for medical insurance with another employer.

**Potential Payments Upon Termination without a Change in Control**

The following table describes the potential payments and benefits triggered by a termination of employment of a named executive officer by the Company without cause, or by the executive for good reason, in each case prior to a change in control and assuming the employment of the named executive officer was terminated on December 29, 2006.

Termination	Cash Payment(\$)	Medical/Insurance Benefits(\$)	Acceleration of Equity Awards\$(1)	Other\$(2)	Total(\$)
Paul A. Friedman					
Termination without cause or for good reason	1,440,500	15,673	36,417	136,100 (3)	1,628,690
David C. Hastings					
Termination without cause	434,235	17,282	-	7,794	459,311
John A. Keller					
Termination without cause	491,400	-	-	25,200	516,600

(1) Represents the amount by which the closing price of our common stock on December 29, 2006 exceeded the exercise price for equity awards for which vesting accelerated as a result of termination of employment.

(2) Includes accrued amounts under other of the Company's benefits arrangements, including accrued vacation and other vested benefits the named executive officer is entitled to receive that are generally available to all salaried employees.

(3) Includes an estimated \$50,000 for outplacement services.

**Potential Payments Upon Termination in Connection with a Change in Control**

The following table describes the potential payments and benefits triggered by a termination of employment of a named executive officer in connection with a change in control, by the Company without cause or by the executive for good reason, in each case assuming the employment of the named executive officer was terminated on December 29, 2006.

Termination	Cash Payment (\$)	Medical/Insurance Benefits (\$)	Acceleration of Equity Awards (\$) (2)	Other (\$) (3)	Total (\$)
Paul A. Friedman					
Termination without good reason	409,500	-	-	86,100	495,600
Termination without cause or for good reason	3,502,500	51,897	76,000	136,100 (4)	3,766,497
David C. Hastings					
Termination without cause or for good reason (1)	606,235	19,108	62,000	7,794	695,137
John A. Keller					
Termination without cause or for good reason (1)	691,400	12,583	81,225	25,200	810,408
Brian W. Metcalf					
Termination without cause or for good reason (1)	789,991	12,959	38,000	30,691	871,641
Patricia A. Schreck					
Termination without cause or for good reason (1)	542,596	19,078	38,000	10,089	609,763
Paula J. Swain					
Termination without cause or for good reason (1)	605,979	19,105	38,000	4,697	667,781

(1) Includes constructive termination following a change in control. See the section entitled "Agreements with other Named Executive Officers" above.

(2) Represents the amount by which the closing price of our common stock on December 29, 2006 exceeded the exercise price for equity awards for which vesting accelerated as a result of termination of employment.

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(3) Includes accrued amounts under other of the Company's benefits arrangements, including accrued vacation and other vested benefits the named executive officer is entitled to receive that are generally available to all salaried employees.

(4) Includes an estimated \$50,000 for outplacement services.

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**2006 Outstanding Equity Awards At Fiscal Year-End**

Name	Option Awards (1)		Option Exercise Price (\$)	Option Expiration Date
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Options (#) Un-Exercisable		
Paul A. Friedman	400,000	-	16.19	11/26/2011
	225,000	-	5.97	11/7/2012