INCYTE CORP
Form S-3
November 21, 2006

As filed with the Securities and Exchange Commission on November 21, 2006.

Registration No. 333-

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM S-3

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

INCYTE CORPORATION

(Exact Name of registrant as Specified in Its Charter)

Delaware	**94-3136539**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

Incyte Corporation
Experimental Station
Route 141 & Henry Clay Road
Building E336
Wilmington, DE 19880
(302) 498-6700

(Address, Including Zip Code, and Telephone Number, Including

Area Code, of Registrant s Principal Executive Offices)

Paul A. Friedman
Chief Executive Officer
Incyte Corporation
Experimental Station
Route 141 & Henry Clay Road
Building E336
Wilmington, DE 19880
(302) 498-6700

(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent for Service)

With copy to:

Stanton D. Wong
Pillsbury Winthrop Shaw Pittman LLP
P.O. Box 7880
San Francisco, CA 94120
Telephone: (415) 983-1000

Approximate date of commencement of proposed sale to the public:

From time to time after this registration statement becomes effective, as determined by market conditions and other factors.

If the only securities being registered on this form are being offered pursuant to dividend or interest reinvestment plans, check the following box. o

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. x

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this form is a registration statement pursuant to General Instruction I.D. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, check the following box. o

If this form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.D. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, check the following box. o

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	**Amount to be registered**	**Proposed maximum offering price per unit**	**Proposed maximum aggregate offering price(1)**	**Amount of registration fee**
3½% Convertible Senior Notes due 2011(2)	$151,800,000	100 %	$ 151,800,000	$ 16,243
Common Stock, $.001 par value(3)	13,531,224 shares (2)	(4)	(4)	(4)

(1) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(i) of the Securities Act.

(2) The shares of Common Stock registered hereunder are issuable upon conversion of the Notes at the rate of 89.1385 shares of Common Stock per $1,000 principal amount of the Notes. Pursuant to Rule 416 under the Securities Act, such number of shares of Common Stock registered hereby shall include an indeterminate number of shares of Common Stock that may be issued as a result of the antidilution provisions thereof.

(3) Associated with the Common Stock are Series A Participating Preferred Stock Purchase Rights that will not be exercisable or be evidenced separately from the Common Stock prior to the occurrence of certain events.

(4) Pursuant to Rule 457(i), there is no additional filing fee with respect to the shares of Common Stock issuable upon conversion of the Notes because no additional consideration will be received in connection with the exercise of the conversion privilege.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment that specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

Subject to Completion, Dated November 21, 2006

The information in this prospectus is not complete and may be changed. The selling securityholders may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

PROSPECTUS

$151,800,000

3½% Convertible Senior Notes due 2011
and Shares of Common Stock Issuable upon Conversion of the Notes

Incyte Corporation issued the notes in a private placement in September 2006. This prospectus will be used by selling securityholders to resell their notes and the shares of common stock issuable upon conversion of their notes. We will not receive any proceeds from this offering.

The notes are due on February 15, 2011. The notes bear interest at the rate of 3½% per year, payable semi-annually in arrears on February 15 and August 15 of each year, beginning February 15, 2007.

Holders may convert the notes at any time prior to maturity into shares of our common stock at a conversion rate of 89.1385 shares per $1,000 principal amount of notes (representing a conversion price of approximately $11.22 per share). This conversion rate is subject to adjustment under the terms of the notes.

We may redeem any portion of the notes at any time after February 20, 2007 and prior to maturity if specific circumstances are satisfied. Holders may require us to repurchase the notes at a price equal to 100% of the principal amount of the notes plus accrued and unpaid interest, if any, to, but excluding, the date of repurchase, upon the occurrence of a designated event, subject to specified exceptions. The notes are not listed on any securities exchange.

The notes are unsecured senior indebtedness that rank equally with our other senior unsecured debt, but are effectively subordinated to all our secured debt, to the extent of the value of the assets securing such debt, and to all debt incurred by our subsidiaries.

For a more detailed description of the notes, see Description of Notes beginning on page 25.

Our common stock is traded on the NASDAQ Global Market under the symbol INCY. The last reported sale price of our common stock on the NASDAQ Global Market on November 20, 2006 was $5.34 per share.

Investing in the notes or our common stock involves a high degree of risk. You should carefully read and consider the Risk Factors beginning on page 9.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is , 2006

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About This Prospectus

This prospectus is part of a registration statement that we have filed with the Securities and Exchange Commission, or the SEC. By using a shelf registration statement, the selling securityholders may sell, from time to time, the 3½% Convertible Senior Notes due 2011, which we refer to as the notes, as well as the shares of common stock issuable upon conversion of the notes.

You should rely only on the information provided in or incorporated by reference in this prospectus, the registration statement, a prospectus supplement or an amendment. We have not authorized anyone to provide you with information or to represent anything not contained in this prospectus. You must not rely on any unauthorized information or representations. The selling securityholders are offering to sell, and seeking offers to buy, only the notes and shares of common stock covered by this prospectus, and only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this prospectus is current only as of its date, regardless of the time of delivery of this prospectus or of any sale of the shares.

You should read carefully the entire prospectus, as well as the documents incorporated by reference in the prospectus, before making an investment decision. All references to Incyte, we, us, our, or the Company in this prospectus mean Incyte Corporation and its subsidiaries, except where it is made clear that the term means only the parent company.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this prospectus, any prospectus supplement and any report or document contained herein or incorporated herein by reference constitute forward-looking statements. When used in this prospectus, any prospectus supplement or in any other such report or document, the words expects, believes, anticipates, estimates, plans, and similar expressions are intended to identify forward-looking statem These forward-looking statements speak only as of the date of this prospectus and we expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based. You should, however, review additional disclosures we make in our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, and Current Reports on Form 8-K filed with the SEC. These are statements that relate to future periods and include or incorporate by reference statements under the captions Summary and Risk Factors as to:

- the discovery, development, formulation, manufacturing and commercialization of our compounds and our product candidates;

- the increase in our drug discovery and development efforts;

- the expected timing, progress, results and other information regarding our preclinical testing, clinical trials and drug development programs;

- conducting clinical trials internally, with collaborators, or with contract research organizations;

- our collaboration and strategic alliance efforts; anticipated benefits and disadvantages of entering into collaboration agreements;

- the regulatory approval process, including determinations to seek U.S. Food and Drug Administration, or the FDA, approval for, and plans to commercialize, our products in the United States and abroad;

- the safety, effectiveness and potential benefits and indications of our product candidates and other compounds under development; potential uses for our product candidates and our other compounds; our ability to manage expansion of our drug discovery and development operations;

- future required expertise relating to clinical trials, manufacturing, sales and marketing; obtaining and terminating licenses to products, compounds or technology, or other intellectual property rights;

- the receipt of or payments to collaborators resulting from milestones or royalties; the decrease in revenues from our information product-related activities;

- expected expenses and expenditure levels; expected revenues and sources of revenues;

- expected losses; fluctuation of losses;

- our profitability; the adequacy of our capital resources;

- the need to raise additional capital; the costs associated with resolving matters in litigation; our expectations regarding competition; our investments, including anticipated expenditures, losses and expenses;

- costs associated with prosecuting, maintaining, defending and enforcing patent claims and other intellectual property rights;

- our ability to obtain, maintain or increase coverage of product liability and other insurance;

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- adequacy of our product liability insurance;
- our indebtedness;
- the listing of the notes on a national exchange; and
- uses of net proceeds.

These forward-looking statements reflect our current views with respect to future events, are based on assumptions and are subject to risks and uncertainties. These risks and uncertainties could cause actual results to differ materially from those projected and include, but are not limited to,

- our ability to discover, develop, formulate, manufacture and commercialize a drug candidate or product;
- the risk of unanticipated delays in research and development efforts;
- the risk that previous preclinical testing or clinical trial results are not necessarily indicative of future clinical trial results;
- risks relating to the conduct of our clinical trials;
- changing regulatory requirements;
- the risk of adverse safety findings;
- the risk that results of our clinical trials do not support submission of a marketing approval application for our product candidates;
- the risk of significant delays or costs in obtaining regulatory approvals;
- risks relating to our reliance on third party manufacturers, collaborators, and contract research organizations;
- risks relating to the development of new products and their use by us and our current and potential collaborators;
- risks relating to our inability to control the development of out-licensed drug compounds or drug candidates;
- our ability to in-license a potential drug compound or drug candidate;
- the cost of accessing, licensing or acquiring potential drug compounds or drug candidates developed by other companies;
- the costs of terminating any licensing or access arrangement for third party drug compounds or drug candidates;
- the risk that our product candidates may not obtain regulatory approval;
- the impact of technological advances and competition;
- the ability to compete against third parties with greater resources than ours;
- competition to develop and commercialize similar drug products;

- our ability to obtain patent protection and freedom to operate for our discoveries and to continue to be effective in expanding our patent coverage;

- the impact of changing laws on our patent portfolio;

- developments in and expenses relating to litigation;

- the results of businesses in which we have made investments;
- our ability to obtain additional capital when needed;
- our history of operating losses; and
- the risks set forth or later incorporated by reference under Risk Factors.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, events, levels of activity, performance, or achievements. We do not assume responsibility for the accuracy and completeness of the forward-looking statements. We do not intend to update any of the forward-looking statements after the date of this prospectus to conform them to actual results.

INCYTE CORPORATION

This summary contains basic information about us, the notes and our common stock. Because it is a summary, it is not complete and it does not contain all of the information that you should consider before investing. You should read this entire prospectus carefully, including the information incorporated by reference herein, especially the risks of investing in the notes and our common stock described under the caption entitled Risk Factors and our financial statements and the related notes incorporated in this prospectus by reference, before making an investment decision.

Incyte Corporation is focused on the discovery and development of novel drugs to treat major medical conditions. Our core therapeutic areas are oncology and inflammation, and we have additional programs in diabetes and human immunodeficiency virus, or HIV. We have assembled a team of scientists with core competencies in the areas of medicinal chemistry and molecular, cellular and *in vivo* biology.

We have several internal drug development programs underway. Our most advanced oncology program involves inhibitors of an enzyme activity known as sheddase. We believe these compounds may have application in the treatment of breast cancer and other tumor types.

We have developed a series of novel proprietary small molecule inhibitors of 11-beta hydroxysteroid dehydrogenase type 1, or 11ßHSD1. 11ßHSD1 inhibitors have the potential to treat Type 2 diabetes.

We also have an oral CCR5 antagonist program. We believe CCR5 antagonists may represent a new class of HIV drugs.

One of our inflammation programs is focused on developing antagonists to a key chemokine receptor involved in inflammation called CCR2. We believe that CCR2 receptor antagonists may represent a new class of compounds to treat various inflammation-driven diseases, including rheumatoid arthritis, multiple sclerosis, diabetes, and atherosclerosis. We have entered into a collaborative research and license agreement with Pfizer Inc., described below. We have retained rights to certain CCR2 antagonist compounds for multiple sclerosis and an additional, undisclosed, specialty indication.

Earlier stage programs, directed against distinct targets, have generated novel compounds with potential applications in oncology and inflammation.

In April 2006, we announced that we were discontinuing the development of our then most advanced clinical candidate, dexelvucitabine or DFC (formerly known as Reverset), a nucleoside analog reverse transcriptase inhibitor, or NRTI, that was being developed as a treatment for patients with HIV infections.

We anticipate incurring additional losses for several years as we expand our drug discovery and development programs. We also expect that losses will fluctuate from quarter to quarter and that such fluctuations may be substantial. Conducting clinical trials for our drug candidates in development is a lengthy, time-consuming and expensive process. We do not expect to generate product sales from our drug discovery and development efforts for several years, if at all. If we are unable to successfully develop and market pharmaceutical products over the next several years, our business, financial condition and results of operations would be adversely impacted.

In November 2005, we entered a collaborative research and license agreement with Pfizer for the pursuit of our CCR2 antagonist program, which became effective in January 2006. As part of this agreement, we may receive milestone and other payments, including $10.0 million that was received through the purchase of a convertible subordinated note in February 2006. Pfizer gained worldwide development and commercialization rights to our portfolio of CCR2 antagonist compounds, the most advanced of which was in Phase IIa clinical trials in rheumatoid arthritis and insulin-resistant obese patients. Pfizer s rights extend to the full scope of potential indications, with the exception of multiple sclerosis and one other undisclosed indication, for which we retained worldwide rights, along with certain compounds. We do not have obligations to Pfizer on pre-clinical development candidates we select for

pursuit in these indications. After we file an IND for our CCR2 antagonist candidate for multiple sclerosis and, at our option, Pfizer may purchase from us an additional $10.0 million convertible subordinated note.

Incyte is our registered trademark. We also refer to trademarks of other corporations and organizations in this prospectus.

Incyte was incorporated in Delaware in 1991. Our executive offices are located at Experimental Station, Route 141 & Henry Clay Road, Building E336, Wilmington, DE 19880 and our telephone number is (302) 498-6700.

The Offering

The following is a brief summary of certain terms of this offering. For a more complete description of the terms of the notes, see the section titled Description of the Notes in this prospectus.

Securities Offered	$151.8 million aggregate principal amount of 3½% Convertible Senior Notes due 2011.
Maturity Date	February 15, 2011.
Interest and Payment Dates	3½% per annum on the principal amount, payable semi-annually in arrears in cash on February 15 and August 15 of each year, beginning February 15, 2007.
Conversion	The notes are convertible into shares of our common stock, $.001 par value which we refer to as our common stock, at the option of the holder, at a conversion rate of 89.1385 shares per $1,000 principal amount of notes (representing a conversion price of approximately $11.22 per share of common stock), subject to adjustment, at any time prior to the close of business on the final maturity date.
Ranking	The notes are unsecured senior indebtedness and rank equally with our other senior unsecured debt, but are effectively subordinated to all our secured debt, to the extent of the value of the assets securing such debt, and to all debt incurred by our subsidiaries. The notes are senior in right of payment to our 3½% convertible subordinated notes due 2011 and the convertible subordinated note held by Pfizer. As of October 31, 2006, we had no consolidated indebtedness that ranks senior to or equally with the notes and $260.0 million aggregate principal amount of consolidated indebtedness that ranks junior to the notes. As of October 31, 2006, our subsidiaries had no indebtedness (excluding inter-company indebtedness) outstanding. Neither we nor any of our subsidiaries are prohibited from incurring additional debt, including senior or secured indebtedness, under the indenture.
Redemption	We may redeem any of the notes beginning February 20, 2007 by giving at least 30 days notice. On or after such date, we may redeem the notes at any time and from time to time, either in whole or in part, at redemption prices declining from 102.0% of their principal amount in 2007 to 100% on February 15, 2011, plus accrued and unpaid interest and additional interest, if any, to, but excluding, the date of repurchase.

Designated Event	If a designated event (as described under Description of Notes Repurchase at Option of the Holder Upon a Designated Event) occurs prior to maturity, holders may require us to purchase all or part of the notes at a repurchase price equal to 100% of their principal amount, plus accrued and unpaid interest and additional interest, if any, to, but excluding, the date of repurchase.
Use of Proceeds	We will not receive any proceeds from the resale of the notes or the sale of the shares of common stock issuable upon conversion of the notes.
Original Issue Discount	The notes were issued with original issue discount for federal income tax purposes of 22% of their principal amount at maturity. Holders are generally required to include original issue discount in income as it accrues for federal income tax purposes in advance of receipt of any payment on the notes to which the income is attributable, as discussed under Material United States Federal Income Tax Considerations.
Trading	The notes will not be listed on any securities exchange or The Nasdaq Stock Market. We cannot assure you that any active or liquid market will develop for the notes.
Nasdaq Symbol for our Common Stock	INCY.
Risk Factors	See Risk Factors and other information included or incorporated by reference in this prospectus for a discussion of the factors you should carefully consider before deciding to invest in the notes.

RATIO OF EARNINGS TO FIXED CHARGES

The ratio of earnings to fixed charges for each of the period indicated are set forth in the following table:

	Year Ended December 31,					Nine Months Ended September 30,	
	2001	2002	2003	2004	2005	2005	2006
	(in thousands)						
Ratio of earnings to fixed charges	NM	NM	NM	NM	NM	NM	NM

(1) The ratio of earnings to fixed charges is computed by dividing loss before taxes plus fixed charges by fixed charges. Fixed charges consist of interest expense (including interest expense from capital leases) and the estimated portion of rental expense deemed by us to be representative of the interest factor of rental payments under operating leases, plus amortization of debt issuance expenses. Earnings were insufficient to cover fixed charges by $182.3 million for the year ended December 31, 2001, $135.9 million for the year ended December 31, 2002, $166.1 million for the year ended December 31, 2003, $164.4 million for the year ended December 31, 2004, $103.6 million for the year ended December 31, 2005, $75.6 million for the nine months ended September 30, 2005 and $53.7 million for the nine months ended September 30, 2006.

(2) NM Not meaningful.

RISK FACTORS

An investment in the notes involves a high degree of risk. You should carefully consider the risks and uncertainties and all other information contained or incorporated by reference in this prospectus before you purchase the notes, including the risks and uncertainties discussed below, as well as any modification, replacement or update to these risks and uncertainties that are reflected in any future filings we make with the Commission as described under the caption Documents Incorporated By Reference below, which will also be incorporated by reference herein in their entirety.

The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business operations. If any of the following risks actually occurs, our business, financial condition and results of operations could be materially and adversely affected As a result, the trading price of our common stock could decline, and you could lose part or all of your investment.

Risks Relating to Our Business

We are at the early stage of our drug discovery and development efforts and we may be unsuccessful in our efforts.

We are in the early stage of building our drug discovery and development operations. Our ability to discover, develop, and commercialize pharmaceutical products will depend on our ability to:

- hire and retain key scientific employees;
- identify high quality therapeutic targets;
- identify potential drug candidates;
- develop products internally or license drug candidates from others;
- identify and enroll suitable human subjects, either in the United States or abroad, for our clinical trials;
- complete laboratory testing and clinical trials on humans;
- obtain and maintain necessary intellectual property rights to our products;
- obtain and maintain necessary regulatory approvals for our products, both in the United States and abroad;
- enter into arrangements with third parties to provide services or to manufacture our products on our behalf, or develop efficient production facilities meeting all regulatory requirements;
- deploy sales and marketing resources effectively or enter into arrangements with third parties to provide these functions;
- lease facilities at reasonable rates to support our growth; and
- enter into arrangements with third parties to license and commercialize our products.

Of the compounds that we identify as potential drug products or that we in-license from other companies, only a few, if any, are likely to lead to successful drug development programs. Significant research and development efforts will be necessary. For example, in April 2006, we announced the discontinuation of development of DFC, which was at the time our most advanced drug candidate and was in Phase IIb clinical trials. Prior to discontinuation of the DFC program, we expended a significant amount of effort and money on that program. We have limited experience with the activities listed above and may not be successful in discovering, developing, or commercializing drug products. If we choose to outsource

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some of these activities, we may be unable to enter into outsourcing or licensing agreements on commercially reasonable terms, if at all. In addition, if we elect to manufacture our products in our own manufacturing facilities, we will require substantial additional capital resources to lease or build and maintain those facilities, including attracting and retaining qualified personnel to lease or build and operate our facilities.

Our efforts to discover and develop potential drug candidates may not lead to the discovery, development, commercialization or marketing of drug products.

We are currently engaged in a number of different approaches to discover and develop novel drug candidates. At the present time, we have three drug candidates from our active drug discovery and development programs in clinical trials: (1) our lead sheddase inhibitor in Phase Ib/IIa clinical trials; (2) our lead 11ßHSD1 inhibitor compound in Phase I clinical trials; and (3) our lead CCR5 antagonist compound in Phase IIa clinical trials. Our other earlier stage internal drug discovery programs are focused on compounds with potential applications in oncology and inflammation. We have also licensed to Pfizer our lead CCR2 antagonist, which was in Phase IIa clinical trials at the time of licensing to Pfizer. We have no control over the further clinical development of any compounds we licensed to Pfizer. Discovery and development of potential drug candidates are expensive and time-consuming, and we do not know if our efforts will lead to discovery of any drug candidates that can be successfully developed and marketed. If our efforts do not lead to the discovery of a suitable drug candidate, we may be unable to grow our clinical pipeline or we may be unable to enter into agreements with collaborators who are willing to develop our drug candidates.

The success of our drug discovery and development efforts may depend on our ability to find suitable collaborators to fully exploit our capabilities. If we are unable to establish collaborations or if these future collaborations are unsuccessful, our research and development efforts may be unsuccessful, which could adversely affect our results of operations and financial condition.

An important element of our business strategy will be to enter into collaborative or license arrangements with other parties, such as our collaboration with Pfizer, under which we license our drug candidates to those parties for development and commercialization. We expect that while we may initially seek to conduct initial clinical trials on our drug candidates, we will need to seek collaborators for a number of our drug candidates, such as our chemokine receptor antago