

Use these links to rapidly review the document  
[Table of Contents](#)  
[Item 8. Financial Statements and Supplementary Data](#)  
[Table of Contents](#)

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549  
**FORM 10-K**

(mark one)

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2014

or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 0-27488

**INCYTE CORPORATION**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State of other jurisdiction  
of incorporation or organization)

**94-3136539**  
(IRS Employer  
Identification No.)

**1801 Augustine Cut-Off**  
**Wilmington, DE**  
(Address of principal executives offices)

**19803**  
(zip code)  
**(302) 498-6700**  
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of exchange on which registered
Common Stock, \$.001 par value per share	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act:

**None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15 (d) of the Act. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See

the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (check one)

Large accelerated  
filer

Accelerated  
filer

Non-  
accelerated filer   
(Do not check if a smaller  
reporting company)

Smaller reporting  
company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The aggregate market value of Common Stock held by non-affiliates (based on the closing sale price on The NASDAQ Global Select Market on June 30, 2014) was approximately \$8.6 billion.

As of February 9, 2015 there were 171,765,591 shares of Common Stock, \$.001 par value per share, outstanding.

#### DOCUMENTS INCORPORATED BY REFERENCE

Items 10 (as to directors and Section 16(a) Beneficial Ownership Reporting Compliance), 11, 12, 13 and 14 of Part III incorporate by reference information from the registrant's proxy statement to be filed with the Securities and Exchange Commission in connection with the solicitation of proxies for the registrant's 2015 Annual Meeting of Stockholders to be held on May 27, 2015.

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**Table of Contents**

<b>PART I</b>		
<a href="#">Item 1.</a>	<a href="#">Business</a>	<a href="#">2</a>
<a href="#">Item 1A.</a>	<a href="#">Risk Factors</a>	<a href="#">28</a>
<a href="#">Item 1B.</a>	<a href="#">Unresolved Staff Comments</a>	<a href="#">48</a>
<a href="#">Item 2.</a>	<a href="#">Properties</a>	<a href="#">48</a>
<a href="#">Item 3.</a>	<a href="#">Legal Proceedings</a>	<a href="#">48</a>
<a href="#">Item 4.</a>	<a href="#">Mine Safety Disclosures</a>	<a href="#">48</a>
<b>PART II</b>		
<a href="#">Item 5.</a>	<a href="#">Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</a>	<a href="#">50</a>
<a href="#">Item 6.</a>	<a href="#">Selected Financial Data</a>	<a href="#">51</a>
<a href="#">Item 7.</a>	<a href="#">Management's Discussion and Analysis of Financial Condition and Results of Operations</a>	<a href="#">52</a>
<a href="#">Item 7A.</a>	<a href="#">Quantitative and Qualitative Disclosures About Market Risk</a>	<a href="#">70</a>
<a href="#">Item 8.</a>	<a href="#">Financial Statements and Supplementary Data</a>	<a href="#">71</a>
<a href="#">Item 9.</a>	<a href="#">Changes in and Disagreements With Accountants on Accounting and Financial Disclosure</a>	<a href="#">107</a>
<a href="#">Item 9A.</a>	<a href="#">Controls and Procedures</a>	<a href="#">107</a>
<a href="#">Item 9B.</a>	<a href="#">Other Information</a>	<a href="#">109</a>
<b>PART III</b>		
<a href="#">Item 10.</a>	<a href="#">Directors, Executive Officers and Corporate Governance</a>	<a href="#">109</a>
<a href="#">Item 11.</a>	<a href="#">Executive Compensation</a>	<a href="#">109</a>
<a href="#">Item 12.</a>	<a href="#">Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</a>	<a href="#">110</a>
<a href="#">Item 13.</a>	<a href="#">Certain Relationships and Related Transactions, and Director Independence</a>	<a href="#">110</a>
<a href="#">Item 14.</a>	<a href="#">Principal Accountant Fees and Services</a>	<a href="#">110</a>
<b>PART IV</b>		
<a href="#">Item 15.</a>	<a href="#">Exhibits, Financial Statement Schedules</a>	<a href="#">110</a>
<a href="#">SIGNATURES</a>		<a href="#">115</a>

**Item 1. Business**

*This report contains forward-looking statements that involve risks and uncertainties. These statements relate to future periods, future events or our future operating or financial plans or performance. Often, these statements include the words "believe," "expect," "target," "anticipate," "intend," "plan," "seek," "estimate," "potential," or words of similar meaning, or future or conditional verbs such as "will," "would," "should," "could," "might," or "may," or the negative of these terms, and other similar expressions. These forward-looking statements include statements as to:*

- *the discovery, development, formulation, manufacturing and commercialization of our compounds, our drug candidates and JAKAFI®/JAKAVI® (ruxolitinib);*
- *conducting clinical trials internally, with collaborators, or with clinical research organizations;*
- *our collaboration and strategic relationship strategy; anticipated benefits and disadvantages of entering into collaboration agreements;*
- *our licensing, investment and commercialization strategies, including our plans to commercialize JAKAFI;*
- *the regulatory approval process, including obtaining U.S. Food and Drug Administration and other international health authorities approval for our products in the United States and abroad;*
- *the safety, effectiveness and potential benefits and indications of our drug candidates and other compounds under development;*
- *the timing and size of our clinical trials; the compounds expected to enter clinical trials; timing of clinical trial results;*
- *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, drug candidates or technology, or other intellectual property rights;*
- *the receipt from or payments pursuant to collaboration or license agreements resulting from milestones or royalties;*
- *plans to develop and commercialize products on our own;*
- *plans to use third party manufacturers;*
- *expected expenses and expenditure levels; expected uses of cash; expected revenues and sources of revenues;*
- *expected losses; fluctuation of losses; currency translation impact associated with collaboration royalties;*
- *our profitability; the adequacy of our capital resources to continue operations;*
- *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;*
- *our patent prosecution and maintenance efforts; and*
- *our indebtedness, and debt service obligations.*

## [Table of Contents](#)

*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 successfully commercialize JAKAFI;*
- *our ability to maintain at anticipated levels, reimbursement for JAKAFI from government health administration authorities, private health insurers and other organizations;*
- *our ability to establish and maintain effective sales, marketing and distribution capabilities;*
- *the risk of reliance on other parties to manufacture JAKAFI, which could result in a short supply of JAKAFI, increased costs, and withdrawal of regulatory approval;*
- *our ability to maintain regulatory approvals to market JAKAFI;*
- *our ability to achieve a significant market share in order to achieve or maintain profitability;*
- *the risk of civil or criminal penalties if we market JAKAFI in a manner that violates health care fraud and abuse and other applicable laws, rules and regulations;*
- *our ability to discover, develop, formulate, manufacture and commercialize our drug candidates;*
- *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 drug candidates;*
- *the risk of significant delays or costs in obtaining regulatory approvals;*
- *risks relating to our reliance on third party manufacturers, collaborators, and clinical 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 compounds or drug candidates;*
- *risks relating to our collaborators' ability to develop and commercialize drug candidates;*
- *costs associated with prosecuting, maintaining, defending and enforcing patent claims and other intellectual property rights;*
- *our ability to maintain or obtain adequate product liability and other insurance coverage;*
- *the risk that our drug candidates may not obtain or maintain regulatory approval;*
- *the impact of technological advances and competition;*
- *our ability to compete against third parties with greater resources than ours;*
- *risks relating to changes in pricing and reimbursements in the markets in which we may compete;*
- *competition to develop and commercialize similar drug products;*

## [Table of Contents](#)

- *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;*
- *our ability to in-license drug candidates or other technology;*
- *our substantial leverage;*
- *our ability to obtain additional capital when needed;*
- *fluctuations in net cash provided and used by operating, financing and investing activities;*
- *our history of operating losses; and*
- *the risks set forth under "Risk Factors."*

*Given these risks and uncertainties, you should not place undue reliance on these forward-looking statements. Except as required by federal securities laws, we undertake no obligation to update any forward-looking statements for any reason, even if new information becomes available or other events occur in the future.*

*In this report all references to "Incyte," "we," "us," "our" or the "Company" mean Incyte Corporation and our subsidiaries, except where it is made clear that the term means only the parent company.*

*Incyte and JAKAFI are our registered trademarks. We also refer to trademarks of other corporations and organizations in this Annual Report on Form 10-K.*

### **Overview**

Incyte is a biopharmaceutical company focused on the discovery, development and commercialization of proprietary therapeutics to treat serious unmet medical needs, primarily in oncology. JAKAFI (ruxolitinib) is our first product to be approved for sale in the United States. It was approved by the U.S. Food and Drug Administration (FDA) in November 2011 for the treatment of patients with intermediate or high-risk myelofibrosis and in December 2014 for the treatment of patients with polycythemia vera who have had an inadequate response to or are intolerant of hydroxyurea. Myelofibrosis and polycythemia vera are both rare blood cancers.

JAKAFI is marketed in the United States through our own specialty sales force and commercial team. Under our collaboration agreement with Novartis International Pharmaceutical Ltd., Novartis received exclusive development and commercialization rights to ruxolitinib outside of the United States for all hematologic and oncologic indications and sells ruxolitinib outside of the United States under the name JAKAVI.

In 2003, we initiated a research and development program to explore the inhibition of enzymes called janus associated kinases (JAK). The JAK family is composed of four tyrosine kinases—JAK1, JAK2, JAK3 and Tyk2—that are involved in the signaling of a number of cytokines and growth factors. JAKs are central to a number of biologic processes, including the formation and development of blood cells and the regulation of immune functions. Dysregulation of the JAK-STAT signaling pathway has been associated with a number of diseases, including myeloproliferative neoplasms, other hematological malignancies, solid tumors, rheumatoid arthritis, psoriasis and other chronic inflammatory diseases. Myeloproliferative neoplasms are a closely related group of blood diseases in which blood cells, specifically platelets, white blood cells, and red blood cells, grow or act abnormally in the bone marrow. These diseases include myelofibrosis (MF), polycythemia vera (PV) and essential thrombocythemia.

We have discovered multiple potent, selective and orally bioavailable JAK inhibitors that are selective for JAK1 or JAK1 and JAK2. JAKAFI is the most advanced compound in our JAK program. It is an

## [Table of Contents](#)

oral JAK1 and JAK2 inhibitor and was approved by the FDA in November 2011 as a treatment for patients with intermediate or high-risk MF, which includes primary MF, post-polycythemia vera MF and post-essential thrombocythemia MF. We estimate there are between 16,000 and 18,500 patients with MF in the United States. Based on the modern prognostic scoring systems referred to as International Prognostic Scoring System and Dynamic International Prognostic Scoring System, we believe intermediate and high-risk patients represent 80 percent to 90 percent of all patients with MF in the United States and encompass patients over the age of 65, or patients who have or have ever had any of the following: anemia, constitutional symptoms, elevated white blood cell or blast counts, or platelet counts less than 100,000 per microliter of blood.

In December 2014, the FDA approved JAKAFI for the treatment of patients with PV who have had an inadequate response to or are intolerant of hydroxyurea. Current standard treatment for PV is phlebotomy (the removal of blood from the body) plus aspirin. When phlebotomy can no longer control PV, chemotherapy such as hydroxyurea, or interferon, is utilized. Approximately 25,000 patients with PV in the United States are considered uncontrolled because they have an inadequate response to or are intolerant of hydroxyurea, the most commonly used chemotherapeutic agent for the treatment of PV.

JAKAFI was the first FDA-approved JAK inhibitor for any indication and was the first and remains the only product approved by the FDA for use in MF and also now in PV. The FDA has granted JAKAFI orphan drug status for MF, PV and essential thrombocythemia.

In August 2012, the European Commission approved ruxolitinib as JAKAVI for the treatment of disease-related splenomegaly or symptoms in adult patients with primary MF (also known as chronic idiopathic MF), post-polycythemia vera MF or post-essential thrombocythemia MF. In January 2015, the Committee for Medicinal Products for Human Use of the European Medicines Agency adopted a positive opinion for JAKAVI for the treatment of adult patients with polycythemia vera who are resistant to or intolerant of hydroxyurea. We have retained all development and commercialization rights to JAKAFI in the United States and are eligible to receive development and commercial milestones as well as royalties from product sales outside the United States. We hold patents that cover the composition of matter and use of ruxolitinib through late 2027, excluding additional potential patent term extensions. We believe ruxolitinib may have potential as a treatment for other cancers.

Full results from the Phase II proof-of-concept RECAP trial of ruxolitinib in patients with refractory metastatic pancreatic cancer were presented in June 2014 and suggest a demonstrable survival benefit in a pre-specified subgroup of patients with elevated C-reactive protein (CRP). The Company and the FDA have agreed on a Special Protocol Assessment (SPA) for a registration trial for advanced or metastatic pancreatic cancer. Under the SPA, the Phase III JANUS 1 trial can be limited to patients with elevated CRP and there is no requirement to develop a companion diagnostic. The global Phase III program includes a second nearly identical Phase III trial, JANUS 2, and both trials are ongoing. The FDA has granted orphan drug status for ruxolitinib for the treatment of pancreatic cancer.

Elevated CRP has negative prognostic significance in many tumor types, and we believe that JAK inhibition may represent a new treatment approach for other solid tumors. To test this hypothesis, we have initiated three blinded proof-of-concept Phase II trials evaluating ruxolitinib in non-small cell lung cancer, breast cancer and colorectal cancer. The primary endpoint for each trial will be overall survival.

We have a second oral JAK1 and JAK2 inhibitor, baricitinib, which is subject to a collaboration agreement with Eli Lilly and Company in which Lilly received exclusive worldwide development and commercialization rights for the compound for inflammatory and autoimmune diseases. We could receive tiered, double-digit royalty payments on future global sales of products subject to the agreement with rates ranging up to 20 percent if the products are successfully commercialized. This collaboration also contains an option for us to co-develop compounds for any inflammatory and autoimmune disease, whereby we fund 30 percent of development costs from Phase IIb through regulatory approval for that indication in exchange for tiered royalties ranging up to the high twenties on potential future sales. We exercised our co-development option for the development of baricitinib in rheumatoid arthritis in 2010. The Phase III

## [Table of Contents](#)

program of baricitinib in patients with rheumatoid arthritis is ongoing, and in December 2014, we announced with Lilly that the first of the Phase III trials met the primary endpoint. Baricitinib is also in Phase II trials for patients with moderate-to-severe psoriasis and patients with diabetic nephropathy. We have decided not to exercise our co-development option for psoriasis, and the timeframe for exercising our co-development option for diabetic nephropathy has not yet occurred.

We have a portfolio of wholly-owned JAK1 inhibitors. Our lead JAK1 inhibitor, INCB39110, has completed proof-of-concept studies in patients with psoriasis, rheumatoid arthritis and myelofibrosis. While the results of the psoriasis and rheumatoid arthritis studies were positive, for strategic reasons, we are pursuing oncologic indications with INCB39110. We believe that selective JAK1 inhibition has the potential to minimize the myelosuppression associated with JAK2 inhibition, thus potentially enabling the combination of JAK1 selective inhibitors with myelosuppressive chemotherapy. The clinical program to evaluate INCB39110 in solid tumors includes one ongoing Phase I open-label safety study in combination with gemcitabine and nab-paclitaxel and two blinded proof-of-concept Phase II trials in non-small cell lung cancer. Both trials are now underway, and both trials are designed with overall survival as the primary endpoint. We have another JAK1 inhibitor, INCB52793, which has recently initiated a Phase I/II trial in advanced malignancies.

We have an oral IDO1 inhibitor, epacadostat (previously INCB24360) which belongs to a new class of agents known as immuno-oncology agents. IDO1 is an enzyme whose increased levels in multiple solid tumor types are associated with decreased survival. IDO1 inhibition shifts the immune system from an immunosuppressive state to an activated state, allowing the body to mount a more effective anti-tumor immune response. While preclinical data suggest that IDO1 inhibition can provide anti-tumor effects as monotherapy, based on the significant synergy exhibited in combination with checkpoint inhibitors as well as emerging clinical data, we believe that the optimal development strategy for our IDO1 inhibitor is in combination with other immuno-oncology therapies. During 2014 we signed clinical trial agreements with Merck, Genentech, AstraZeneca and Bristol-Myers Squibb to evaluate epacadostat with their respective PD-1 and PD-L1 agents in Phase I/II trials, and all four of these trials are now in progress. The tumor types under investigation under these agreements include non-small cell lung cancer, metastatic melanoma, head and neck cancer, colorectal cancer, ovarian cancer, diffuse large B-cell lymphoma and pancreatic cancer.

We have recently added two new compounds to our clinical development portfolio. INCB54828 is an FGFR inhibitor that demonstrated potency and selectivity in preclinical studies. The FGFR family of receptor tyrosine kinases can act as oncogenic drivers in a number of liquid and solid tumor types. INCB54329 is a bromodomain (BRD) inhibitor. BRDs are a family of proteins which play important roles in mediating gene transcription, most notably by facilitating the expression of oncogenes such as MYC, one of the most frequently dysregulated oncogenes in all human cancer. We plan to begin clinical trials of INCB54828 and INCB54329 in the first half of this year. We have other orally available small molecule compounds that are in various stages of clinical development, including two PI3K-delta inhibitors, INCB40093 and INCB50465. INCB40093 is being studied as both monotherapy and in combination with our JAK1 inhibitor, INCB39110, in patients with B-lymphoid malignancies.

We have a number of programs in preclinical development, and we intend to continue our investment in drug discovery to expand our pipeline.



[Table of Contents](#)

Our current pipeline includes the following compounds:

<u>Target/Drug Compound</u>	<u>Indication</u>	<u>Status</u>
<b>ONCOLOGY</b>		
<b><i>JAK1 and JAK2</i></b>		
JAKAFI(1)	Myelofibrosis(11)(12)	FDA Approved— Marketed
JAKAFI(1)	Polycythemia Vera(13)	FDA Approved— Marketed
ruxolitinib(1)	Pancreatic Cancer	Phase III
ruxolitinib(1)	Breast Cancer	Phase II
ruxolitinib(1)	Non-Small Cell Lung Cancer	Phase II
ruxolitinib(1)	Colorectal Cancer	Phase II
<b><i>JAK1</i></b>		
INCB39110	Advanced Malignancies	Phase I/II
INCB39110	Non-Small Cell Lung Cancer	Phase II
INCB39110	Non-Small Cell Lung Cancer	Phase II
INCB52793	Advanced malignancies	Phase I/II
<b><i>PI3K-delta</i></b>		
INCB40093	B-lymphoid Malignancies	Phase I/II
INCB50465	Hematology / Oncology	Phase I/II
<b><i>JAK1+PI3K-delta</i></b>		
INCB39110+INCB40093	B-lymphoid Malignancies	Phase I/II
<b><i>IDO1</i></b>		
epacadostat	Metastatic Melanoma	Phase II
epacadostat(2)	Non-Small Cell Lung Cancer	Phase I/II
epacadostat(3)	Non-Small Cell Lung Cancer	Phase I/II
epacadostat(4)	Multiple tumor types	Phase I/II
epacadostat(5)	Multiple tumor types	Phase I/II
<b><i>c-MET</i></b>		
capmatinib(6)	Solid Tumors	Phase I/II
capmatinib(6)	Hepatocellular Carcinoma	Phase II
capmatinib(6)	Non-Small Cell Lung Cancer	Phase II
<b><i>FGFR</i></b>		
INCB54828(7)	Solid Tumors	Phase I/II
<b><i>BRD</i></b>		
INCB54329(7)	Hematology / Oncology	Phase I/II
<b>INFLAMMATION</b>		
<b><i>JAK1 and JAK2</i></b>		
baricitinib(8)	Rheumatoid Arthritis	Phase III
baricitinib(9)	Psoriasis	Phase IIb
baricitinib(10)	Diabetic Nephropathy	Phase II

- (1) We licensed rights outside the United States to Novartis and retained U.S. rights.
- (2) In combination with Merck's anti-PD-1 immunotherapy, Keytruda (pembrolizumab).
- (3) In combination with Genentech's anti-PD-L1 immunotherapy, MPDL3280A.
- (4) In combination with AstraZeneca's anti-PD-L1 immunotherapy, MEDI4736.
- (5) In combination with Bristol-Myers-Squibb's anti-PD-1 immunotherapy, Opdivo (nivolumab).

## [Table of Contents](#)

- (6) We licensed worldwide rights to Novartis and retained co-development and co-promotion options.
- (7) Clinical trial not yet initiated.
- (8) We licensed worldwide rights to Lilly, have elected to co-develop with Lilly, and retained a co-promotion option.
- (9) We licensed worldwide rights to Lilly and retained a co-promotion option.
- (10) We licensed worldwide rights to Lilly and retained co-development and co-promotion options.
- (11) Several clinical trials in patients with myelofibrosis are ongoing, including long-term extension studies, alternative dosing studies, joint global trials with Novartis and trials in patients with low platelet counts.
- (12) JAKAFI is approved for treatment of people with intermediate or high-risk myelofibrosis (MF), including primary MF, post—polycythemia vera MF, and post—essential thrombocythemia MF.
- (13) JAKAFI is approved for treatment of people with polycythemia vera (PV) who have had an inadequate response to or are intolerant of hydroxyurea.

### **JAKAFI**

JAKAFI became commercially available in the United States in November 2011 for the treatment of patients with intermediate or high-risk MF and in December 2014 for the treatment of patients with PV who have had an inadequate response to or are intolerant of hydroxyurea, which we refer to as uncontrolled PV. JAKAFI is marketed in the United States through our own specialty sales force and commercial team.

To help ensure that all eligible MF and PV patients have access to JAKAFI, we have established a patient assistance program called IncyteCARES (CARES stands for Connecting to Access, Reimbursement, Education and Support). IncyteCARES helps ensure that any patient with intermediate or high-risk MF or uncontrolled PV who meets certain eligibility criteria and is prescribed JAKAFI has access to the product regardless of ability to pay and has access to ongoing support and educational resources during treatment. In addition, IncyteCARES works closely with payers to help facilitate insurance coverage of JAKAFI.

JAKAFI is distributed primarily through a network of specialty pharmacy providers and group purchasing organizations that allow for efficient delivery of the medication by mail directly to patients or direct delivery to the patient's pharmacy of choice. Our distribution process uses a model that is well-established and familiar to physicians who practice within the oncology field.

To further support appropriate use and future development of JAKAFI, our Medical Affairs department is responsible for providing appropriate scientific and medical education and information to physicians, preparing scientific presentations and publications, and overseeing the process for supporting investigator sponsored trials.

Novartis received approval for JAKAFI in the European Union and Canada in the second half of 2012 for the treatment of disease-related splenomegaly or symptoms in adult patients with primary MF, post-polycythemia vera MF or post-essential thrombocythemia MF. JAKAFI is approved for MF in more than 70 countries with additional worldwide regulatory filings underway for both MF and PV.

*Myelofibrosis.* Myelofibrosis is a rare, life-threatening condition. MF, considered the most serious of the myeloproliferative neoplasms, can occur either as primary MF, or as secondary MF that develops in some patients who previously had polycythemia vera or essential thrombocythemia.

Most MF patients have enlarged spleens and many suffer from debilitating symptoms, including abdominal discomfort, pruritus (itching), night sweats and cachexia (involuntary weight loss). There were no therapies for MF until the approval of JAKAFI.

## [Table of Contents](#)

The FDA approval was based on results from two randomized Phase III trials (COMFORT-I and COMFORT-II), which demonstrated that patients treated with JAKAFI experienced significant reductions in splenomegaly (enlarged spleen). COMFORT-I also demonstrated improvements in symptoms. The most common hematologic adverse reactions in both trials were thrombocytopenia and anemia. These events rarely led to discontinuation of JAKAFI treatment. The most common non-hematologic adverse reactions were bruising, dizziness and headache.

In August 2014, the FDA approved supplemental labeling for JAKAFI to include Kaplan-Meier overall survival curves as well as additional safety and dosing information. The overall survival information is based on three-year data from COMFORT-I and II, and shows that at three years the probability of survival for patients treated with JAKAFI in COMFORT-I was 70% and for those patients originally randomized to placebo it was 61%. In COMFORT-II, at three years the probability of survival for patients treated with Jakafi was 79% and for patients originally randomized to best available therapy it was 59%.

*Polycythemia Vera.* PV is a myeloproliferative neoplasm typically characterized by elevated hematocrit, the volume percentage of red blood cells in whole blood, which can lead to a thickening of the blood and an increased risk of blood clots, as well as an elevated white blood cell and platelet count. When phlebotomy can no longer control PV, chemotherapy such as hydroxyurea, or interferon, is utilized. Approximately 25,000 patients with PV in the United States are considered uncontrolled because they have an inadequate response to or are intolerant of hydroxyurea, the most commonly used chemotherapeutic agent for the treatment of PV.

In December 2014, the FDA approved JAKAFI for the treatment of patients with PV who have had an inadequate response to or are intolerant of hydroxyurea. The approval of JAKAFI for PV was based on data from the pivotal Phase III RESPONSE trial. In this trial, patients treated with JAKAFI demonstrated superior hematocrit control and reductions in spleen volume compared to best available therapy. In addition, a greater proportion of patients treated with JAKAFI achieved complete hematologic remission—which was defined as achieving hematocrit control, and lowering platelet and white blood cell counts. In the RESPONSE trial, the most common hematologic adverse reactions (incidence > 20%) were thrombocytopenia and anemia. The most common non-hematologic adverse events (incidence >10%) were headache, abdominal pain, diarrhea, dizziness, fatigue, pruritus, dyspnea and muscle spasms.

### **Clinical Programs**

#### ***JAK1/JAK2 Programs for Oncology and Inflammation***

*Pancreatic Cancer.* Pancreatic cancer is a disease in which malignant cells are found in the tissues of the pancreas. Full results from the Phase II proof-of-concept RECAP trial, which compared ruxolitinib in combination with capecitabine versus capecitabine alone in patients with refractory metastatic pancreatic cancer, were presented in June 2014 and suggest a demonstrable survival benefit in a pre-specified subgroup of patients with elevated CRP. In this subgroup, results showed a hazard ratio for overall survival of 0.47, which means the risk of death was reduced by approximately 50 percent for those patients treated with ruxolitinib. The subgroup represented approximately half of the randomized population in this trial.

The Company and the FDA have agreed on an SPA for a registration trial for advanced or metastatic pancreatic cancer. Under the SPA, the Phase III JANUS 1 trial can be limited to patients with elevated CRP and there is no requirement to develop a companion diagnostic. The global Phase III program includes a second nearly identical Phase III trial, JANUS 2. Both JANUS trials are now recruiting patients.

*Solid Tumors.* Elevated CRP has negative prognostic significance in many tumor types, and we believe that JAK inhibition may represent a new treatment approach for other solid tumors. In the first half of 2014, we initiated three blinded Phase II proof-of-concept trials evaluating ruxolitinib in non-small cell lung cancer, breast cancer and colon cancer. The primary endpoint for each trial is overall survival.

## [Table of Contents](#)

*Rheumatoid Arthritis.* Rheumatoid arthritis is an autoimmune disease characterized by aberrant or abnormal immune mechanisms that lead to joint inflammation and swelling and, in some patients, the progressive destruction of joints. Rheumatoid arthritis can also affect connective tissue in the skin and organs of the body.

Current rheumatoid arthritis treatments include the use of non-steroidal anti-inflammatory drugs, disease-modifying anti-rheumatic drugs, such as methotrexate, and the newer biological response modifiers that target pro-inflammatory cytokines, such as tumor necrosis factor, implicated in the pathogenesis of rheumatoid arthritis. None of these approaches to treatment is curative; therefore, there remains an unmet need for new safe and effective treatment options for these patients. Rheumatoid arthritis is estimated to affect about 1 percent of the world population.

We have a second JAK1 and JAK2 inhibitor, baricitinib, which is subject to our collaboration agreement with Lilly. The Phase III program of baricitinib in patients with rheumatoid arthritis began in October 2012 and currently includes four trials that are expected to each recruit between 500 and 1,300 patients. The four trials incorporate all three rheumatoid arthritis populations (methotrexate naïve, biologic naïve, and biologic experienced); use event rates to fully power the baricitinib program for structural comparison and non-inferiority vs. adalimumab; incorporate an MRI sub-study into the methotrexate naïve registration trial; and evaluate patient-reported outcomes. In December 2014, we and Lilly announced that the Phase III RA-BEACON study met the primary endpoint of improved ACR20 response compared to placebo after 12 weeks of treatment. The study included patients with moderately-to-severely active rheumatoid arthritis who previously failed one or more tumor necrosis factor inhibitors and who were taking stable doses of conventional disease-modifying anti-rheumatic drug therapy. We expect to disclose with Lilly results from the remaining three Phase III studies in 2015. We have exercised our co-development option in rheumatoid arthritis to fund 30 percent of development costs from Phase IIb through regulatory approval in exchange for increased tiered royalties ranging up to the high twenties on potential future sales.

*Psoriasis.* Baricitinib is also being developed in psoriasis. Psoriasis is a skin disease that causes visible scaling and inflammation. Most psoriasis patients have patches of thick, red skin with silvery scales that can occur on the elbows, knees, other parts of the legs, scalp, lower back, face, palms, and soles of the feet. Market research suggests that neither physicians nor patients are satisfied with existing psoriasis treatments primarily because these require constant monitoring to balance safety and efficacy outcomes. There is clear unmet need for a better tolerated and effective treatment. The U.S. psoriasis market consists of approximately six million patients, of which moderate-to-severe patients account for approximately 20 percent of the market.

In December 2011, Lilly initiated a Phase IIb double-blind, placebo-controlled, dose-ranging trial designed to evaluate baricitinib in patients with moderate-to-severe plaque psoriasis. The trial is fully enrolled with approximately 240 patients randomized in several dose groups. The primary objective of this study is to demonstrate that at least one dose group is superior to placebo at week 12 in the treatment of patients with moderate-to-severe psoriasis as measured by the proportion of patients with at least a 75 percent improvement from baseline in Psoriasis Area and Severity Index (PASI) score. We have decided not to exercise our co-development option for this indication, although we retain a co-promotion option.

*Diabetic Nephropathy.* In August 2012, Lilly initiated a Phase II trial to evaluate baricitinib in patients with diabetic nephropathy. Data suggest that ongoing renal inflammation plays a key role in diabetic nephropathy, and biopsies from the kidneys of early- and late-stage diabetic kidney disease patients suggest that over-activation of the JAK/STAT pathway leads to increased levels of pro-inflammatory cytokines. Therefore, inhibiting cytokine pathways dependent on JAK1 and JAK2 may lead to positive clinical outcomes in diabetic nephropathy.

In this dose-ranging placebo-controlled Phase II trial, the primary endpoint was the change from baseline in the urinary albumin/creatinine ratio at 24 weeks. We retain co-development and co-promotion options for this indication.

***JAK1 Programs for Oncology***

We believe that selective JAK1 inhibition has the potential to minimize the myelosuppression associated with JAK2 inhibition, thus potentially enabling the combination of JAK1 selective inhibitors with myelosuppressive chemotherapy. We have a wholly owned portfolio of JAK1 inhibitors, and we are pursuing oncologic indications with our lead JAK1 inhibitor, INCB39110. We have completed a Phase I clinical trial to evaluate the safety and tolerability of INCB39110 in combination with chemotherapy in patients with advanced solid tumors, and have initiated two planned placebo-controlled proof-of-concept Phase II trials of INCB39110 in distinct chemotherapeutic regimens in patients with non-small cell lung cancer. We plan to begin a first line pancreatic cancer study of INCB39110 in combination with gemcitabine and nab-paclitaxel in the second half of 2015.

We have another JAK1 inhibitor, INCB52793, which has recently initiated a Phase I/II trial in advanced malignancies.

***IDO1 for Oncology***

The enzyme, indoleamine 2, 3-dioxygenase-1, IDO1, is a key regulator of the mechanisms that are responsible for allowing tumors to escape from a patient's immune surveillance. IDO1 expression by tumor cells, or by antigen presenting cells such as macrophages and dendritic cells in tumors, creates an environment in which tumor specific cytotoxic T lymphocytes are rendered functionally inactive or are no longer able to attack a patient's cancer cells. By inhibiting IDO1, it is proposed that this "brake" on the anti-tumor immune response is removed, allowing anti-tumor specific cytotoxic T cells, generated in a patient spontaneously in response to the tumor, or through a therapy designed to stimulate the immune response, to have greater anti-tumor efficacy.

Epacadostat is a novel, potent and selective inhibitor of the enzyme IDO1. We believe that the optimal development strategy for epacadostat is for the compound to be developed in combination with other immuno-oncology agents. We have four clinical trial agreements in place to evaluate the safety and efficacy of epacadostat in combination with four different checkpoint inhibitors: Merck's anti-PD-1 inhibitor Keytruda (pembrolizumab); AstraZeneca's investigational anti-PD-L1 inhibitor, MEDI4736; Bristol-Myers Squibb's anti-PD-1 inhibitor Opdivo (nivolumab); and Genentech's investigational anti-PD-L1 inhibitor, MPDL3280A. These four agreements are non-exclusive and involve multiple tumor types, including non-small cell lung, melanoma, ovarian, colorectal, squamous cell carcinoma of the head and neck, pancreatic and diffuse large B-cell lymphoma, and the Phase I/II trials under these agreements have been initiated.

***PI3K-delta Inhibition for Hematology/Oncology***

The PI3K-delta pathway mediates oncogenic signaling in B cell malignancies, and we have two PI3K-delta inhibitors in clinical development, INCB40093 and INCB50465. We believe each of these compounds provides an opportunity to differentiate competitor agents on potency, pharmacokinetics and safety, thereby potentially providing more attractive combination opportunities.

INCB50465, a PI3K-delta inhibitor that demonstrated high potency in preclinical studies, has now entered Phase I development as monotherapy, and INCB40093, our first PI3K-delta inhibitor, is advancing in both monotherapy and combination (with our JAK1 selective inhibitor INCB39110) proof-of-concept trials in B-cell malignancies. In-house preclinical studies have demonstrated that the JAK1 and PI3K-delta signaling pathways play inter-related functions in maintaining the growth and survival of B-lymphoid cells, and the data suggest that concurrent inhibition of the two pathways may achieve synergistic cellular efficacy.

***c-MET for Solid Tumors***

c-MET is a clinically validated receptor kinase cancer target. Abnormal c-MET activation in cancer correlates with poor prognosis. Dysregulation of the c-MET pathway triggers tumor growth, formation of new blood vessels that supply the tumor with nutrients, and causes cancer to spread to other organs. Dysregulation of the c-MET pathway is seen in many types of cancers, including kidney, liver, stomach, breast and brain.

Several small molecule c-MET kinase inhibitors have demonstrated clinical efficacy in a number of cancers; however, these molecules have limited potency and are relatively non-selective, which could lead to off-target toxicities. We believe our lead c-MET inhibitor, capmatinib, which is licensed to Novartis, has the requisite properties to overcome these limitations, including greater selectivity, improved potency and more effective inhibition of c-MET. Under our agreement, Novartis received worldwide exclusive development and commercialization rights to capmatinib and certain back-up compounds in all indications. Capmatinib is being evaluated in hepatocellular carcinoma, non-small cell lung cancer, and other solid tumors and may have potential utility as a combination agent.

***Early Stage Clinical / Discovery***

We have recently added two new compounds to our clinical development portfolio. INCB54828 is an FGFR inhibitor that demonstrated potency and selectivity in preclinical studies. The FGFR family of receptor tyrosine kinases can act as oncogenic drivers in a number of liquid and solid tumor types. We plan to begin clinical trials of INCB54828 in the first half of 2015. INCB54329 is a BRD inhibitor. BRDs are a family of proteins which play important roles in mediating gene transcription, most notably by facilitating the expression of oncogenes such as MYC, one of the most frequently dysregulated oncogenes in all human cancer. We plan to begin clinical trials of INCB54329 in the first half of 2015.

We have a number of other early programs at various stages of preclinical and clinical testing. We intend to describe these programs once we have obtained clinical proof-of-concept and established that a compound within a specific program warrants further development.

**License Agreements**

***Novartis***

In November 2009, we entered into a Collaboration and License Agreement with Novartis. Under the terms of the agreement, Novartis received exclusive development and commercialization rights outside of the United States to ruxolitinib and certain back-up compounds for hematologic and oncology indications, including all hematological malignancies, solid tumors and myeloproliferative diseases. We retained exclusive development and commercialization rights to JAKAFI (ruxolitinib) in the United States and in certain other indications. Novartis also received worldwide exclusive development and commercialization rights to our c-MET inhibitor compound capmatinib and certain back-up compounds in all indications. We retained options to co-develop and to co-promote capmatinib in the United States.

Under this agreement, we received an upfront payment and immediate milestone payment totaling \$210 million and were initially eligible to receive additional payments of up to approximately \$1.2 billion if defined development and commercialization milestones are achieved. We are also eligible to receive tiered, double-digit royalties ranging from the upper-teens to the mid-twenties on future ruxolitinib net sales outside of the United States. In addition, Novartis has received reimbursement and pricing approval for ruxolitinib in a specified number of countries, and we are now obligated to pay to Novartis tiered royalties in the low single digits on future ruxolitinib net sales within the United States. Each company is responsible for costs relating to the development and commercialization of ruxolitinib in its respective territories, with costs of collaborative studies shared equally. Novartis is now responsible for all costs relating to the development and commercialization of capmatinib.

## [Table of Contents](#)

The Novartis agreement will continue on a program-by-program basis until Novartis has no royalty payment obligations with respect to such program or, if earlier, the termination of the agreement or any program in accordance with the terms of the agreement. Royalties are payable by Novartis on a product-by-product and country-by-country basis until the latest to occur of (1) the expiration of the last valid claim of the licensed patent rights covering the licensed product in the relevant country, (2) the expiration of regulatory exclusivity for the licensed product in such country and (3) a specified period from first commercial sale in such country of the licensed product by Novartis or its affiliates or sublicensees. The agreement may be terminated in its entirety or on a program-by-program basis by Novartis for convenience. The agreement may also be terminated by either party under certain other circumstances, including material breach.

### ***Lilly***

In December 2009, we entered into a License, Development and Commercialization Agreement with Lilly. Under the terms of the agreement, Lilly received exclusive worldwide development and commercialization rights to baricitinib and certain back-up compounds for inflammatory and autoimmune diseases. We received an initial payment of \$90 million, and were initially eligible to receive additional payments of up to \$665 million based on the achievement of defined development, regulatory and commercialization milestones. We also could receive tiered, double-digit royalty payments on future global net sales with rates ranging up to 20% if the product is successfully commercialized.

We retained options to co-develop our JAK1/JAK2 inhibitors with Lilly on a compound-by-compound and indication-by-indication basis. Lilly is responsible for all costs relating to the development and commercialization of the compounds unless we elect to co-develop any compounds or indications. If we elect to co-develop any compounds and/or indications, we would be responsible for funding 30% of the associated future global development costs from the initiation of a Phase IIb trial through regulatory approval. We would receive an incremental royalty rate increase across all tiers resulting in effective royalty rates ranging up to the high twenties on potential future global net sales for compounds and/or indications that we elect to co-develop. We also retained an option to co-promote products in the United States.

In July 2010, we elected to co-develop baricitinib with Lilly in rheumatoid arthritis and we are responsible for funding 30% of the associated future global development costs for this indication from the initiation of the Phase IIb trial through regulatory approval. Baricitinib is also being developed in psoriasis and diabetic nephropathy. We have decided not to exercise our co-development option for psoriasis.

The Lilly agreement will continue until Lilly no longer has any royalty payment obligations or, if earlier, the termination of the agreement in accordance with its terms. Royalties are payable by Lilly on a product-by-product and country-by-country basis until the latest to occur of (1) the expiration of the last valid claim of the licensed patent rights covering the licensed product in the relevant country, (2) the expiration of regulatory exclusivity for the licensed product in such country and (3) a specified period from first commercial sale in such country of the licensed product by Lilly or its affiliates or sublicensees. The agreement may be terminated by Lilly for convenience, and may also be terminated under certain other circumstances, including material breach.

### ***Agenus***

In January 2015, we entered into a License, Development and Commercialization Agreement with Agenus Inc. and its wholly-owned subsidiary, 4-Antibody AG, which we collectively refer to as Agenus. Under this agreement, the parties have agreed to collaborate on the discovery of novel immunotherapeutics using Agenus' proprietary Retrocyte Display antibody discovery platform. The effectiveness of the agreement is conditioned on the expiration of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 (HSR Act).

## [Table of Contents](#)

Under the terms of this agreement, we received exclusive worldwide development and commercialization rights to four checkpoint modulators directed against GITR, OX40, LAG-3 and TIM-3. In addition to the initial four program targets, we and Agenus have the option to jointly nominate and pursue additional targets within the framework of the collaboration. These targets may be designated profit-share programs, where all costs and profits are shared equally by us and Agenus, or royalty-bearing programs, where we will be responsible for all costs associated with discovery, preclinical activities, clinical development and commercialization activities. The programs relating to GITR and OX40 are profit-share programs and the programs relating to LAG-3 and TIM-3 are royalty-bearing programs. All costs related to the collaboration are subject to a joint research plan. We agreed to pay Agenus upfront non-refundable payments totaling \$25 million. For each royalty-bearing product, Agenus will be eligible to receive up to \$155 million in future contingent development, regulatory and commercialization milestones as well as tiered royalties on global net sales ranging from 6% to 12%. For each profit-share product, Agenus will be eligible to receive up to \$20 million in future contingent development milestones. Additionally, Agenus retains co-promotion participation rights in the United States on any profit-share product. For each royalty-bearing product, Agenus has reserved the right to elect to co-fund 30% of development costs for a commensurate increase in royalties. The agreement may be terminated by us for convenience and may also be terminated under certain other circumstances, including material breach. We have agreed to certain standstill provisions that allow us to acquire up to 15% of Agenus Inc.'s outstanding voting stock, including shares acquired pursuant to the Stock Purchase Agreement described below, solely for investment purposes.

We also entered into a Stock Purchase Agreement with Agenus Inc., pursuant to which we agreed to purchase, subject to expiration of the waiting period under the HSR Act, approximately 7.76 million shares of Agenus Inc. common stock for an aggregate purchase price of \$35 million in cash, or approximately \$4.51 per share. We will own approximately 11% of the outstanding shares of Agenus Inc.'s common stock after such purchase. We have agreed not to dispose of any of the shares of common stock for a period of 12 months and Agenus Inc. has agreed to certain registration rights with respect to the shares of common stock.

### *Pfizer*

In January 2006, we entered into a Collaborative Research and License Agreement with Pfizer Inc. for the pursuit of our CCR2 antagonist program. Pfizer gained worldwide development and commercialization rights to our portfolio of CCR2 antagonist compounds. Pfizer's rights extend to the full scope of potential indications, with the exception of multiple sclerosis and autoimmune nephritides, where 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. The agreement will terminate upon the expiration of the last to expire of patent rights licensed under the agreement. Prior to such expiration, either party can terminate the agreement for the uncured material breach of the agreement by the other party or for the insolvency of the other party. In addition, Pfizer may terminate the agreement at any time upon 90 days' notice. We received an upfront nonrefundable, non-creditable payment of \$40 million in January 2006 and are eligible to receive additional future development and commercialization milestone payments.

### **Incyte's Approach to Drug Discovery and Development**

Our productivity in drug discovery and development is primarily a result of our core competency in medicinal chemistry which is tightly integrated with, and supported by, an experienced team of biologists with expertise in multiple therapeutic areas. We have also built a clinical development and regulatory team. This team utilizes clinical research organizations (CROs), expert scientific advisory boards, and leading consultants and suppliers in relevant drug development areas in an effort to conduct our clinical trials



efficiently and effectively, while maintaining strategic control of the design and management of our programs.

To succeed in our objective to create a pipeline of novel therapeutics that address serious unmet medical needs, we have established a broad range of discovery capabilities in-house, including target validation, high-throughput screening, medicinal chemistry, computational chemistry, and pharmacological and ADME (absorption, distribution, metabolism and excretion) assessment. We augment these capabilities through collaborations with academic and contract laboratory resources with relevant expertise.

Given our chemistry-driven discovery process, our pipeline has grown and is focused primarily in the area of oncology. We conduct a limited number of discovery programs in parallel at any one time. This focus allows us to allocate resources to our selected programs at a level that we believe is competitive with larger pharmaceutical companies. We believe this level of resource allocation, applied to the discovery process outlined above, has been a critical competitive advantage in advancing our product pipeline.

Once our compounds reach clinical development, our objective, whenever possible, is to rapidly progress the lead candidate into a proof-of-concept Phase II clinical trial to quickly assess the therapeutic potential of the clinical candidate itself and its underlying mechanism. This information is then used to evaluate the commercial potential of the compound, the most appropriate indication or indications to pursue, and whether to pursue any development on our own or seek a strategic relationship for the compound.

Our development teams are responsible for ensuring that our clinical candidates are expeditiously progressed from preclinical development and IND-enabling studies into human testing. Our development teams include employees with expertise in drug development, including clinical trial design, statistics, regulatory affairs, medical affairs, pharmacovigilance and project management. We have also built core internal process chemistry and formulation teams using this same strategy. Rather than build extensive infrastructure, we work with contract manufacturers with expertise in process chemistry, product formulation, and the manufacture of clinical trial supplies to support our drug development efforts. In addition, we use external CROs for later stage clinical trials.

### **Incyte's Commercial Strategy**

Our strategy is to develop and commercialize our compounds on our own in selected markets when we believe a company of our size can successfully compete, such as in myelofibrosis, polycythemia vera, and other oncology indications. In November 2011, we received regulatory approval of JAKAFI (ruxolitinib) in the United States for the treatment of intermediate or high-risk myelofibrosis. Since that time, we have focused on increasing utilization of JAKAFI in this patient population. In December 2014, JAKAFI was approved for the treatment of patients with polycythemia vera who have had an inadequate response to or are intolerant of hydroxyurea. JAKAFI is the only FDA-approved product to treat these two diseases. JAKAFI is distributed primarily through a limited network of specialty pharmacy providers and group purchasing organizations. We have expanded the marketing, medical, sales and operational infrastructure to support continued commercialization of JAKAFI in its two indications and to prepare for potential future indications of JAKAFI and other products in the United States.

For rights to ruxolitinib outside the United States as well as for pipeline compounds that are outside of our core expertise, would require expensive clinical studies, or could be used in combination with other compounds or biologics, we have established or may in the future establish collaborations or strategic relationships to support development and commercialization, such as our collaborations with Novartis and Lilly for our JAK inhibitors. We believe the key benefits to entering into strategic relationships include the potential to receive upfront payments and future milestones and royalties in exchange for certain rights to our compounds, as well as the potential to expedite the development and commercialization of certain of our compounds.

## Patents and Other Intellectual Property

We regard the protection of patents and other enforceable intellectual property rights that we own or license as critical to our business and competitive position. Accordingly, we rely on patent, trade secret and copyright law, as well as nondisclosure and other contractual arrangements, to protect our intellectual property. We have established a patent portfolio of patents and patent applications owned by us that cover aspects of all our drug products and drug candidates. The patents and patent applications relating to our drug products and drug candidates generally include claims directed to the compounds, methods of using the compounds, formulations of the compounds, pharmaceutical salt forms of the compounds, and methods of manufacturing the compounds. Our policy is to pursue patent applications on inventions and discoveries that we believe are commercially important to the development and growth of our business. The following table sets forth the status of the patents and patent applications in the United States, the European Union, and Japan, covering our drug products and drug candidates in key programs that have progressed into at least Phase II clinical trials:

<b>Drug/Drug Candidate (Target)</b>	<b>Status of United States Patent Estate (Earliest Anticipated Expirations, Subject to Potential Extensions and Payment of Maintenance Fees)</b>	<b>Status of European Union and Japan Patent Estate (Earliest Anticipated Expirations, Subject to Potential Extensions and Payment of Maintenance Fees)</b>
ruxolitinib (JAK)	Granted and pending (2026)	Granted and pending (2026)
baricitinib (JAK)	Granted and pending (2029)	Granted and pending (2029)
epacadostat (IDO)	Granted and pending (2029)	Granted and pending (2029)
INCB39110 (JAK)	Granted and pending (2031)	Applications pending (2031)
capmatinib (cMET)	Granted and pending (2027)	Granted and pending (2027)

Patents extend for varying periods according to the date of patent filing or grant and the legal term of patents in the various countries where patent protection is obtained. The actual protection afforded by a patent, which can vary from country to country, depends on the type of patent, the scope of its coverage and the availability of legal remedies in the country.

We may seek to license rights relating to technologies in connection with our drug discovery and development programs. Under these licenses, we may be required to pay up-front fees, license fees, milestone payments and royalties on sales of future products.

Although we believe our rights under patents and patent applications provide a competitive advantage, the patent positions of pharmaceutical and biotechnology companies are highly uncertain and involve complex legal and factual questions. We may not be able to develop patentable products or processes, and may not be able to obtain patents in the United States or elsewhere from pending applications. Even if patent claims are allowed, the claims may not issue, or in the event of issuance, may not be valid or enforceable or may not be sufficient to protect the technology owned by or licensed to us or provide us with a competitive advantage. Any patent or other intellectual property rights that we own or obtain may be circumvented, challenged or invalidated by our competitors. Others may have patents that relate to our business or technology and that may prevent us from marketing our drug candidates unless we are able to obtain a license to those patents. In addition, litigation or other proceedings may be necessary to defend against claims of infringement, to enforce patents, to protect our other intellectual property rights, to determine the scope and validity of the proprietary rights of third parties or to defend ourselves in patent or other intellectual property right suits brought by third parties. We could incur substantial costs in such litigation or other proceedings. An adverse outcome in any such litigation or proceeding could subject us to significant liability.

With respect to proprietary information that is not patentable, and for inventions for which patents are difficult to enforce, we rely on trade secret protection and confidentiality agreements to protect our interests. While we require all employees, consultants and potential business partners to enter into confidentiality agreements, we may not be able to adequately protect our trade secrets or other proprietary

information. Others may independently develop substantially equivalent proprietary information and techniques or otherwise gain access to our trade secrets.

## Competition

Our drug discovery, development and commercialization activities face, and will continue to face, intense competition from organizations such as pharmaceutical and biotechnology companies, as well as academic and research institutions and government agencies. We face significant competition from organizations, particularly fully integrated pharmaceutical companies, that are pursuing pharmaceuticals that are competitive with JAKAFI and our drug candidates.

Many companies and institutions, either alone or together with their collaborative partners, have substantially greater financial resources, larger drug discovery, development and commercial staffs and significantly greater experience than we do in:

- drug discovery;
- developing products;
- undertaking preclinical testing and clinical trials;
- obtaining FDA and other regulatory approvals of products; and
- manufacturing, marketing, distributing and selling products.

Accordingly, our competitors may succeed in obtaining patent protection, receiving FDA and other regulatory approval or commercializing products that compete with JAKAFI or our drug candidates.

In addition, any drug candidate that we successfully develop may compete with existing therapies that have long histories of safe and effective use. Competition may also arise from:

- other drug development technologies and methods of preventing or reducing the incidence of disease;
- new small molecules; or
- other classes of therapeutic agents.

We face and will continue to face intense competition from other companies for collaborative arrangements with pharmaceutical and biotechnology companies, for establishing relationships with academic and research institutions and for licenses to drug candidates or proprietary technology. These competitors, either alone or with their collaborative partners, may succeed in developing products that are more effective than ours.

Our ability to compete successfully will depend, in part, on our ability to:

- develop proprietary products;
- develop and maintain products that reach the market first, are technologically superior to and/or are of lower cost than other products in the market;
- attract and retain scientific, product development and sales and marketing personnel;
- obtain patent or other proprietary protection for our products and technologies;
- obtain required regulatory approvals; and
- manufacture, market, distribute and sell any products that we develop.

In a number of countries, including in particular, developing countries, government officials and other groups have suggested that pharmaceutical companies should make drugs available at a low cost. In some

## [Table of Contents](#)

cases, governmental authorities have indicated that where pharmaceutical companies do not do so, their patents might not be enforceable to prevent generic competition. Some major pharmaceutical companies have greatly reduced prices for their drugs in certain developing countries. If certain countries do not permit enforcement of any of our patents, sales of our products in those countries, and in other countries by importation from low-price countries, could be reduced by generic competition or by parallel importation of our product. Alternatively, governments in those countries could require that we grant compulsory licenses to allow competitors to manufacture and sell their own versions of our products in those countries, thereby reducing our product sales, or we could respond to governmental concerns by reducing prices for our products. In all of these situations, our results of operations could be adversely affected.

### **Government Regulation**

Our ongoing research and development activities and any manufacturing and marketing of JAKAFI and our drug candidates are subject to extensive regulation by numerous governmental authorities in the United States and other countries. Before marketing in the United States, any drug developed by us must undergo rigorous preclinical testing and clinical trials and an extensive regulatory clearance process implemented by the FDA under the United States Food, Drug and Cosmetic Act and its implementing regulations and, in the case of biologics, the Public Health Service Act. The FDA regulates, among other things, the research, development, testing, manufacture, safety, efficacy, record-keeping, labeling, storage, approval, advertising, promotion, sale and distribution and import and export, of these products.

#### *FDA Review and Approval Process*

The regulatory review and approval process is lengthy, expensive and uncertain. The steps generally required before a drug may be marketed in the United States include:

- preclinical laboratory tests, animal studies and formulation studies in compliance with the FDA's Good Laboratory Practice and Good Manufacturing Practice regulations;
- submission to the FDA of an Investigational New Drug application (IND) for human clinical testing, which must become effective before human clinical trials may commence;
- performance of adequate and well-controlled clinical trials in three phases, as described below, to establish the safety and efficacy of the drug for each indication;
- submission of a New Drug Application (NDA) or Biologics License Application (BLA) to the FDA for review;
- random inspections of clinical sites to ensure validity of clinical safety and efficacy data;
- satisfactory completion of an FDA inspection of the manufacturing facility or facilities at which the drug is produced to assess compliance with current good manufacturing practices;
- FDA approval of the NDA or BLA; and
- payment of user and establishment fees, if applicable.

Similar requirements exist within foreign agencies as well. The time required to satisfy FDA requirements or similar requirements of foreign regulatory agencies may vary substantially based on the type, complexity and novelty of the product or the targeted disease.

Preclinical testing includes laboratory evaluation of product pharmacology, drug metabolism, and toxicity which includes animal studies, to assess potential safety and efficacy as well as product chemistry, stability, formulation, development, and testing. The results of the preclinical tests, together with manufacturing information and analytical data, are submitted to the FDA as part of an IND. An IND will automatically become effective 30 days after receipt by the FDA, unless before that time, the FDA raises

[Table of Contents](#)

safety concerns or questions about the conduct of the clinical trial(s) included in the IND. In the latter case, the IND sponsor and the FDA must resolve any outstanding FDA concerns or questions before clinical trials can proceed. We cannot be sure that submission of an IND will result in the FDA allowing clinical trials to commence.

Clinical trials involve the administration of the investigational drug to human subjects under the supervision of qualified investigators and in accordance with good clinical practices regulations covering the protection of human subjects. These regulations require all research subjects to provide informed consent. Clinical trials are conducted under protocols detailing the objectives of the study, the parameters to be used in monitoring safety, and the effectiveness criteria to be evaluated. Each protocol must be submitted to the FDA as part of the IND and each trial must be reviewed and approved by an institutional review board (IRB) before it can begin.

Clinical trials typically are conducted in three sequential phases, but the phases may overlap or be combined. Phase I usually involves the initial introduction of the investigational drug into healthy volunteers to evaluate its safety, dosage tolerance, absorption, metabolism, distribution and excretion. Phase II usually involves clinical trials in a limited patient population to evaluate dosage tolerance and optimal dosage, identify possible adverse effects and safety risks, and evaluate and gain preliminary evidence of the efficacy of the drug for specific indications. Phase III clinical trials usually further evaluate clinical efficacy and safety by testing the drug in its final form in an expanded patient population, providing statistical evidence of efficacy and safety, and providing an adequate basis for labeling. We cannot guarantee that Phase I, Phase II or Phase III testing will be completed successfully within any specified period of time, if at all. Furthermore, we, the IRB, or the FDA may suspend clinical trials at any time on various grounds, including a finding that the subjects or patients are being exposed to an unacceptable health risk.

As a separate amendment to an IND, a clinical trial sponsor may submit to the FDA a request for a special protocol assessment (SPA). Under the SPA procedure, a sponsor may seek the FDA's agreement on the design and size of a clinical trial intended to form the primary basis of an effectiveness claim. If the FDA agrees in writing, its agreement may not be changed after the trial begins, except when agreed by FDA or in limited circumstances, such as when a substantial scientific issue essential to determining the safety and effectiveness of a drug candidate is identified after a Phase III clinical trial is commenced and agreement is obtained with the FDA. If the outcome of the trial is successful, the sponsor will ordinarily be able to rely on it as the primary basis for approval with respect to effectiveness. However, additional trials could also be requested by the FDA to support approval, and the FDA may make an approval decision based on a number of factors, including the degree of clinical benefit as well as safety. The FDA is not obligated to approve an NDA or BLA as a result of an SPA agreement, even if the clinical outcome is positive.

Even after initial FDA approval has been obtained, post-approval trials, or Phase IV studies, may be required to provide additional data, and will be required to obtain approval for the sale of a product as a treatment for a clinical indication other than that for which the product was initially tested and approved. Also, the FDA will require post-approval safety reporting to monitor the side effects of the drug. Results of post-approval programs may limit or expand the indication or indications for which the drug product may be marketed. Further, if there are any requests for modifications to the initial FDA approval for the drug, including changes in indication, manufacturing process, manufacturing facilities, or labeling, a supplemental NDA or BLA may be required to be submitted to the FDA.

The length of time and related costs necessary to complete clinical trials varies significantly and may be difficult to predict. Clinical results are frequently susceptible to varying interpretations that may delay,

## [Table of Contents](#)

limit or prevent regulatory approvals. Additional factors that can cause delay or termination of our clinical trials, or cause the costs of these clinical trials to increase, include:

- slow patient enrollment due to the nature of the protocol, the proximity of patients to clinical sites, the eligibility criteria for the study, competition with clinical trials for other drug candidates or other factors;
- inadequately trained or insufficient personnel at the study site to assist in overseeing and monitoring clinical trials;
- delays in approvals from a study site's IRB;
- longer than anticipated treatment time required to demonstrate effectiveness or determine the appropriate product dose;
- lack of sufficient supplies of the drug candidate for use in clinical trials;
- adverse medical events or side effects in treated patients; and
- lack of effectiveness of the drug candidate being tested.

Any drug is likely to produce some toxicities or undesirable side effects in animals and in humans when administered at sufficiently high doses and/or for sufficiently long periods of time. Unacceptable toxicities or side effects may occur at any dose level, and at any time in the course of animal studies designed to identify unacceptable effects of a drug candidate, known as toxicological studies, or in clinical trials of our drug candidates. The appearance of any unacceptable toxicity or side effect could cause us or regulatory authorities to interrupt, limit, delay or abort the development of any of our drug candidates, and could ultimately prevent their marketing approval by the FDA or foreign regulatory authorities for any or all targeted indications.

The FDA's fast track and breakthrough therapy designation programs are intended to facilitate the development and expedite the review of drug candidates intended for the treatment of serious or life-threatening conditions and that demonstrate the potential to address unmet medical needs for these conditions. Under these programs, FDA can, for example, review portions of an NDA or BLA for a drug candidate before the entire application is complete, thus potentially beginning the review process at an earlier time.

We cannot guarantee that the FDA will grant any of our requests for fast track or breakthrough therapy designations, that any such designations would affect the time of review or that the FDA will approve the NDA or BLA submitted for any of our drug candidates, whether or not these designations are granted. Additionally, FDA approval of a fast track/breakthrough product can include restrictions on the product's use or distribution (such as permitting use only for specified medical conditions or limiting distribution to physicians or facilities with special training or experience). Approval of such designated products can be conditioned on additional clinical trials after approval.

Sponsors submit the results of preclinical studies and clinical trials to the FDA as part of an NDA or BLA. NDAs and BLAs must also contain extensive product manufacturing information and proposed labeling. Upon receipt, the FDA initially reviews the NDA or BLA to determine whether it is sufficiently complete to initiate a substantive review. If the FDA identifies deficiencies that would preclude substantive review, the FDA will refuse to accept the NDA or BLA and will inform the sponsor of the deficiencies that must be corrected prior to resubmission. If the FDA accepts the submission for review (then deemed a "filing"), the FDA typically completes the NDA or BLA review within a pre-determined time frame. Under the Prescription Drug User Fee Act, the FDA agrees to review NDAs and BLAs under either a standard review or priority review. FDA procedures provide for priority review of NDAs and BLAs submitted for drugs that, compared to currently marketed products, if any, offer a significant improvement in the treatment, diagnosis or prevention of a disease. The FDA seeks to review NDAs and BLAs that are

## [Table of Contents](#)

granted priority status more quickly than NDAs and BLAs given standard review status. The FDA's stated policy is to act on 90% of priority NDAs and BLAs within eight months of receipt (or six months after filing, which occurs 60 days after NDA or BLA submission). Although the FDA historically has not met these goals, the agency has made significant improvements in the timeliness of the review process. NDA and BLA review often extends beyond anticipated completion dates due to FDA requests for additional data or clarification, the FDA's decision to have an advisory committee review, and difficulties in scheduling an advisory committee meeting. The recommendations of an advisory committee are not binding on the FDA.

To obtain FDA approval to market a product, we must demonstrate that the product is safe and effective for the patient population that will be treated. If regulatory approval of a product is granted, the approval will be limited to those disease states and conditions for which the product is safe and effective, as demonstrated through clinical trials. Marketing or promoting a drug for an unapproved indication is prohibited. Furthermore, approval may entail requirements for post-marketing studies or risk evaluation and mitigation strategies, including the need for patient and/or physician education, patient registries, medication or similar guides, or other restrictions on the distribution of the product. If an NDA or BLA does not satisfy applicable regulatory criteria, the FDA may deny approval of an NDA or BLA or may issue a complete response, and require, among other things, additional clinical data or analyses.

Outside the United States, our ability to market a product is contingent upon receiving a marketing authorization from the appropriate regulatory authorities. The requirements governing the conduct of clinical trials, marketing authorization, pricing and reimbursement vary widely from country to country. At present, foreign marketing authorizations are applied for at a national level, although within the European Union (EU) registration procedures are available to companies wishing to market a product in more than one EU member state. If the regulatory authority is satisfied that adequate evidence of safety, quality and efficacy has been presented, a marketing authorization may be granted. This foreign regulatory approval process involves all of the risks associated with FDA approval discussed above and may also include additional risks.

The Orphan Drug Act provides incentives to manufacturers to develop and market drugs for rare diseases and conditions affecting fewer than 200,000 persons in the United States at the time of application for orphan drug designation. The first developer to receive FDA marketing approval for an orphan drug is entitled to a seven year exclusive marketing period in the United States for the orphan drug indication. However, a drug that the FDA considers to be clinically superior to, or different from, another approved orphan drug, even though for the same indication, may also obtain approval in the United States during the seven year exclusive marketing period.

Legislation similar to the Orphan Drug Act has been enacted in other countries outside of the United States, including the EU. The orphan legislation in the EU is available for therapies addressing conditions that affect five or fewer out of 10,000 persons, are life-threatening or chronically debilitating conditions and for which no satisfactory treatment is authorized. The market exclusivity period is for ten years, although that period can be reduced to six years if, at the end of the fifth year, available evidence establishes that the product does not justify maintenance of market exclusivity.

### *Regulation of Manufacturing Process*

Even when NDA or BLA approval is obtained, a marketed product, such as JAKAFI, its manufacturer and its manufacturing facilities are subject to continual review and periodic inspections by the FDA. The manufacturing process for pharmaceutical products is highly regulated and regulators may shut down manufacturing facilities that they believe do not comply with regulations. Discovery of previously unknown problems with a product, manufacturer or facility may result in restrictions on the product, manufacturer or facility, including costly recalls or withdrawal of the product from the market. Manufacturing facilities are always subject to inspection by the applicable regulatory authorities.

## [Table of Contents](#)

We and our third-party manufacturers are subject to current Good Manufacturing Practices, which are extensive regulations governing manufacturing processes, including but not limited to stability testing, record keeping and quality standards as defined by the FDA and the European Medicines Agency. Similar regulations are in effect in other countries. Manufacturing facilities are subject to inspection by the applicable regulatory authorities. These facilities, whether our own or our contract manufacturers, must be inspected before we can use them in commercial manufacturing of our related products. We or our contract manufacturers may not be able to comply with applicable Good Manufacturing Practices and FDA or other regulatory requirements. If we or our contract manufacturers fail to comply, we or our contract manufacturers may be subject to legal or regulatory action, such as suspension of manufacturing, seizure of product, or voluntary recall of product. Furthermore, continued compliance with applicable Good Manufacturing Practices will require continual expenditure of time, money and effort on the part of us or our contract manufacturers in the areas of production and quality control and record keeping and reporting, in order to ensure full compliance.

### *Post-Approval Regulation*

Any products manufactured or distributed by us pursuant to FDA approvals are subject to pervasive and continuing regulation by the FDA, including record-keeping requirements, reporting of adverse experiences with the drug and other reporting, advertising and promotion restrictions. The FDA's rules for advertising and promotion require, among other things, that our promotion be fairly balanced and adequately substantiated by clinical studies, and that we not promote our products for unapproved uses. We must also submit appropriate new and supplemental applications and obtain FDA approval for certain changes to the approved product, product labeling or manufacturing process. On its own initiative, the FDA may require changes to the labeling of an approved drug if it becomes aware of new safety information that the agency believes should be included in the approved drug's labeling. The FDA also enforces the requirements of the Prescription Drug Marketing Act, or PDMA, which, among other things, imposes various requirements in connection with the distribution of product samples to physicians.

In addition to inspections related to manufacturing, we are subject to periodic unannounced inspections by the FDA and other regulatory bodies related to the other regulatory requirements that apply to marketed drugs manufactured or distributed by us. The FDA also may conduct periodic inspections regarding our review and reporting of adverse events, or related to compliance with the requirements of the PDMA concerning the handling of drug samples. When the FDA conducts an inspection, the inspectors will identify any deficiencies they believe exist in the form of a notice of inspectional observations. The observations may be more or less significant. If we receive a notice of inspectional observations, we likely will be required to respond in writing, and may be required to undertake corrective and preventive actions in order to address the FDA's concerns.

There are a variety of state laws and regulations that apply in the states or localities where JAKAFI and our drug candidates are or may be marketed. For example, we must comply with state laws that require the registration of manufacturers and wholesale distributors of pharmaceutical products in that state, including, in certain states, manufacturers and distributors who ship products into the state even if such manufacturers or distributors have no place of business within the state. Some states also impose requirements on manufacturers and distributors to establish the pedigree of product in the chain of distribution, including some states that require manufacturers and others to adopt new technology capable of tracking and tracing product as it moves through the distribution chain. Any applicable state or local regulations may hinder our ability to market, or increase the cost of marketing, our products in those states or localities.

The FDA's policies may change and additional government regulations may be enacted which could impose additional burdens or limitations on our ability to market products after approval. Moreover, increased attention to the containment of health care costs in the United States and in foreign markets could result in new government regulations which could have a material adverse effect on our business. We



## [Table of Contents](#)

cannot predict the likelihood, nature or extent of adverse governmental regulation which might arise from future legislative or administrative action, either in the United States or abroad.

### *Marketing Exclusivity*

The FDA may grant five years of exclusivity in the United States for the approval of NDAs for new chemical entities, and three years of exclusivity for supplemental NDAs, for among other things, new indications, dosages or dosage forms of an existing drug if new clinical investigations that were conducted or sponsored by the applicant are essential to the approval of the supplemental application. Additionally, six months of marketing exclusivity in the United States is available if, in response to a written request from the FDA, a sponsor submits and the agency accepts requested information relating to the use of the approved drug in the pediatric population. The six month pediatric exclusivity is added to any existing patent or non-patent exclusivity period for which the drug is eligible. Orphan drug products are also eligible for pediatric exclusivity if the FDA requests and the company completes pediatric clinical trials. Under the Biologics Price Competition and Innovation Act, the FDA may grant 12 years of data exclusivity for innovative biological products.

### *Health Law Compliance*

In addition to FDA laws and regulations, we must also comply with various federal and state laws pertaining to healthcare "fraud and abuse" which govern, among other things, our relationships with healthcare providers, and the marketing and pricing of prescription drug products. Among these laws are anti-kickback laws and false claims laws. Anti-kickback laws make it illegal for a prescription drug manufacturer to solicit, offer, receive, or pay any remuneration in exchange for, or to induce, the referral of business, including the purchase or prescription of a particular drug. Due to the breadth of the statutory provisions and the absence of guidance in the form of regulations and very few court decisions addressing industry practices, it is possible that our practices could be challenged under anti-kickback or similar laws. False claims laws prohibit anyone from knowingly and willingly presenting, or causing to be presented, for payment to third party payors (including Medicare and Medicaid) claims for reimbursed drugs or services that are false or fraudulent, claims for items or services not provided as claimed, or claims for medically unnecessary items or services. In addition, a number of states require that companies implement compliance programs or comply with industry ethics codes, adopt spending limits, and report to state governments any gifts, compensation, and other remuneration provided to physicians. The majority of states also have statutes or regulations similar to the federal anti-kickback law and false claims laws, which apply to items and services reimbursed under Medicaid and other state programs, or, in several states, apply regardless of the payer. Many pharmaceutical and other health care companies have been investigated and prosecuted for alleged violations of these laws. Sanctions under these federal and state laws may include civil monetary penalties, exclusion of a manufacturer's products from reimbursement under government programs (including Medicare and Medicaid), criminal fines, and imprisonment. Companies that have chosen to settle these alleged violations have typically paid multi-million dollar fines to the government and agreed to abide by corporate integrity agreements. Private individuals may bring similar actions.

There are also an increasing number of state laws that require manufacturers to make reports to those states on certain pricing and marketing information. Many of these laws contain ambiguities as to what is required to comply with the laws. Given the lack of clarity in laws and their implementation, our reporting actions could be subject to the penalty provisions of the state authorities.

### *Healthcare Reform and Reimbursement and Pricing Controls*

There has been an increased focus on drug pricing in recent years in the United States. Although there are no direct government price controls over private sector purchases in the United States, there are rebates and other financial requirements for federal and state health care programs. The Medicare

## [Table of Contents](#)

Modernization Act, enacted in December 2003, established the Medicare Part D outpatient prescription drug benefit, which is provided primarily through private entities that attempt to negotiate price concessions from pharmaceutical manufacturers. The health care reform legislation enacted in 2010, known as the Affordable Care Act, requires drug manufacturers to pay 50% of the Medicare Part D coverage gap, also known as the "donut hole," on prescriptions for branded products filled when the beneficiary reaches this coverage. The Deficit Reduction Act of 2005 resulted in changes to the way drug prices are reported to the government and the formula using such information to calculate the required Medicaid rebates. The Affordable Care Act increased the minimum basic Medicaid rebate for branded prescription drugs from 15.1% to 23.1% and requires pharmaceutical manufacturers to pay states rebates on prescription drugs dispensed to Medicaid managed care enrollees. In addition, the Affordable Care Act increased the additional Medicaid rebate on "line extensions" (such as extended release formulations) of solid oral dosage forms of branded products, revised the definition of average manufacturer price by changing the classes of purchasers included in the calculation, and expanded the entities eligible for discounted pricing under the federal 340B drug pricing program. Current orphan drugs are excluded from the expanded 340B hospitals eligible for discounts and the increased rebates to Medicaid on line extension and sustained release formulations.

The Affordable Care Act imposes a significant annual fee on companies that manufacture or import branded prescription drug products. The fee (which is not deductible for federal income tax purposes) is based on the manufacturer's market share of sales of branded drugs and biologics (excluding orphan drugs) to, or pursuant to coverage under, specified U.S. government programs. The Affordable Care Act also contains a number of provisions, including provisions governing the way that health care is financed by both governmental and private insurers, enrollment in federal health care programs, reimbursement changes, the increased use of comparative effectiveness research in health care decision-making, and enhancements to fraud and abuse requirements and enforcement, that are affecting existing government health care programs and will result in the development of new programs. The Affordable Care Act also contains requirements for manufacturers to publicly report certain payments or other transfers of value made to physicians and teaching hospitals. We are unable to predict the future course of federal or state health care legislation and regulations, including regulations that will be issued to implement provisions of the Affordable Care Act. The Affordable Care Act and further changes in the law or regulatory framework that reduce our revenues or increase our costs could also have a material adverse effect on our business, financial condition and results of operations and cash flows.

Public and private health care payers control costs and influence drug pricing through a variety of mechanisms, including through negotiating discounts with the manufacturers and through the use of tiered formularies and other mechanisms that provide preferential access to certain drugs over others within a therapeutic class. Payers also set other criteria to govern the uses of a drug that will be deemed medically appropriate and therefore reimbursed or otherwise covered. Payers may require physicians to seek approval from them before a product will be reimbursed or covered, commonly referred to as prior authorization. In particular, many public and private health care payers limit reimbursement and coverage to the uses of a drug that are either approved by the FDA or appear in a recognized drug compendium. Drug compendia are publications that summarize the available medical evidence for particular drug products and identify which uses of a drug are supported or not supported by the available evidence, whether or not such uses have been approved by the FDA. For example, in the case of Medicare Part D coverage for oncology drugs, the Medicare Modernization Act, with certain exceptions, provides for Medicare coverage of unapproved uses of an FDA-approved drug if the unapproved use is reasonable and necessary and is supported by one or more citations in CMS-approved compendia, such as the National Comprehensive Cancer Network Drugs and Biologics Compendium. Different pricing and reimbursement schemes exist in other countries. For example, in the European Union, governments influence the price of pharmaceutical products through their pricing and reimbursement rules and control of national health care systems that fund a large part of the cost of such products to consumers. The approach taken varies from member state to member state. Some jurisdictions operate positive or negative list systems under which

products may only be marketed once a reimbursement price has been agreed. Other member states allow companies to fix their own prices for medicines, but monitor and control company profits and may limit or restrict reimbursement. The downward pressure on health care costs in general, and prescription drugs in particular, has become very intense. As a result, increasingly high barriers are being erected to the entry of new products, as exemplified by the actions of the National Institute for Clinical Excellence in the United Kingdom, which evaluates the data supporting new medicines and passes reimbursement recommendations to the government. In addition, in some countries cross-border imports from low-priced markets (parallel imports) exert a commercial pressure on pricing within a country.

## **Manufacturing**

Our manufacturing strategy is to contract with third parties to manufacture the raw materials, our active pharmaceutical ingredients, or API, and finished solid dose products for clinical and commercial uses. We currently do not operate manufacturing facilities for clinical or commercial production of JAKAFI or our drug candidates. In addition, we expect for the foreseeable future to continue to rely on third parties for the manufacture of commercial supplies of the raw materials, API and finished drug product for any drugs that we successfully develop and are approved for commercial sale. In this manner, we continue to build and maintain our supply chain and quality assurance resources.

### *Manufacturing of our Products*

Our supply chain for manufacturing raw materials, API and drug product ready for distribution and commercialization is a multi-step international process. Establishing and managing the supply chain requires a significant financial commitment and the creation and maintenance of numerous third-party contractual relationships.

We contract with third parties to manufacture our drug candidates and JAKAFI for clinical and commercial purposes. Third-party manufacturers supply us with raw materials, and other third-party manufacturers convert these raw materials into API or convert the API into final dosage form. For most of our drug candidates, once our raw materials are produced, we rely on one third party to manufacture the API, another to make finished drug product and a third to package and label the finished product. For ruxolitinib phosphate, the API for JAKAFI, we use and rely on a single third-party contract manufacturer in the United States and have qualified a second manufacturer for the supply of ruxolitinib phosphate.

We also rely on third-party contract manufacturers to tablet or capsule all of our active pharmaceutical ingredients for clinical and commercial uses. For example, we use and rely on a single third-party manufacturer to tablet and manufacture the finished product of JAKAFI. We are in the process of qualifying a second manufacturer for the commercial supply of JAKAFI, however, there is no assurance that we will be able to identify and qualify a second source of supply for JAKAFI tablets on a timely basis.

We may not be able to obtain sufficient quantities of any of our raw materials, drug candidates, ruxolitinib phosphate, or JAKAFI if our designated manufacturers do not have the capacity or capability to manufacture our products according to our schedule and specifications. If any of these single source suppliers were to become unable or unwilling to supply us with API or finished product that complies with applicable regulatory requirements, we could incur significant delays in our clinical trials or interruption of commercial supply which could have a material adverse effect on our business.

We have established a quality assurance program intended to ensure that our third-party manufacturers and service providers produce materials and provide services, when applicable, in accordance with the FDA's current Good Manufacturing Practices and other applicable regulations.

For our future products, we intend to continue to establish third-party suppliers to manufacture sufficient quantities of our drug candidates to undertake clinical trials and to manufacture sufficient quantities of any product that is approved for commercial sale. If we are unable to contract for large scale

## [Table of Contents](#)

manufacturing with third parties on acceptable terms for our future products or develop manufacturing capabilities internally, our ability to conduct large scale clinical trials and meet customer demand for commercial products will be adversely affected.

### *Third-party Manufacturers*

Our third-party manufacturers are independent entities, under contract with us, who are subject to their own unique operational and financial risks which are out of our control. If we or any of our third-party manufacturers fail to perform as required, this could impair our ability to deliver our products on a timely basis or cause delays in our clinical trials and applications for regulatory approval. To the extent these risks materialize and affect their performance obligations to us, our financial results may be adversely affected.

We believe the technology used to manufacture our products is proprietary. For products manufactured by our third-party manufacturers, we have licensed the necessary aspects of this manufacturing technology that we believe is proprietary to us to enable them to manufacture the products for us. We have agreements with these third-party manufacturers that are intended to restrict these manufacturers from using or revealing our technology, but we cannot be certain that these third-party manufacturers will comply with these restrictions.

While we believe there are multiple third parties capable of providing most of the materials and services we need in order to manufacture ruxolitinib phosphate and distribute JAKAFI, and that supply of materials that cannot be second-sourced can be managed with inventory planning, there is always a risk that we may underestimate demand, and that our manufacturing capacity through third-party manufacturers may not be sufficient. In addition, because of the significant lead times involved in our supply chain for ruxolitinib phosphate, we may have less flexibility to adjust our supply in response to changes in demand than if we had shorter lead times.

### *Access to Supplies and Materials*

Our third-party manufacturers need access to certain supplies and products to manufacture JAKAFI and our drug candidates. If delivery of material from their suppliers were interrupted for any reason or if they are unable to purchase sufficient quantities of raw materials used to manufacture JAKAFI and our drug candidates, they may be unable to ship JAKAFI for commercial supply or to supply our drug candidates in development for clinical trials. For example, currently raw materials used to manufacture ruxolitinib phosphate, the API in JAKAFI, are supplied by Chinese-based companies. As a result, an international trade dispute between China and the United States or any other actions by the Chinese government that would limit or prevent Chinese companies from supplying these materials would adversely affect our ability to manufacture and supply our products to meet market needs and have a material and adverse effect on our operating results.

### *Agenus*

Under our pending collaboration with Agenus, Agenus has primary responsibility for manufacturing activities, including selecting and monitoring third-party manufacturers. Manufacturing antibodies and products containing antibodies is a more complex process than manufacturing small molecule drugs and subject to additional risks. The process of manufacturing antibodies and products containing antibodies is highly susceptible to product loss due to contamination, equipment failure or improper installation or operation of equipment, vendor or operator error, inconsistency in yields, variability in product characteristics, and difficulties in scaling the production process. Even minor deviations from normal manufacturing processes could result in reduced production yields, product defects and other supply disruptions. If microbial, viral or other contaminations are discovered in our product candidates or in the

[Table of Contents](#)

manufacturing facilities in which our product candidates are made, such manufacturing facilities may need to be closed for an extended period of time to investigate and remedy the contamination.

**Research and Development**

Since our inception, we have made substantial investments in research and technology development. During the years ended December 31, 2014, 2013 and 2012, we incurred research and development expenses of \$347.5 million, \$260.4 million and \$210.4 million, respectively.

**Human Resources**

As of December 31, 2014, we had 588 employees, including 337 in research and development, 42 in medical affairs, 133 in sales and marketing and 76 in operations support, finance and administrative positions. Of these employees, 178 employees have advanced technical degrees, including 19 MDs and 159 doctorate degrees. None of our employees are covered by collective bargaining agreements, and management considers relations with our employees to be good.

**Available Information**

We were incorporated in Delaware in 1991 and our website is located at *www.incyte.com*. We make available free of charge on our website our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports, as soon as reasonably practicable after we electronically file or furnish such materials to the Securities and Exchange Commission. Our website and the information contained therein or connected thereto are not intended to be incorporated into this Annual Report on Form 10-K.

**Item 1A. Risk Factors**

**RISKS RELATING TO OUR LEAD PRODUCT JAKAFI**

**We depend heavily on our lead product, JAKAFI (ruxolitinib), which is marketed as JAKAVI outside the United States. If we are unable to successfully commercialize JAKAFI in its approved indications or to successfully obtain regulatory approval for and commercialize ruxolitinib for the treatment of additional indications, or if we are significantly delayed or limited in doing so, our business may be materially harmed.**

JAKAFI is our first product to be approved for sale in the United States. It was approved by the U.S. Food and Drug Administration, or FDA, in November 2011 for the treatment of patients with intermediate or high-risk myelofibrosis and in December 2014 for the treatment of patients with polycythemia vera who have had an inadequate response to or are intolerant of hydroxyurea, which we refer to as uncontrolled polycythemia vera. Although we have received regulatory approval for these indications, such approval does not guarantee future revenues. The commercial success of JAKAFI and our ability to generate and maintain revenues from the sale of JAKAFI will depend on a number of factors, including:

- the number of patients with intermediate or high-risk myelofibrosis or uncontrolled polycythemia vera who are diagnosed with the disease and the number of such patients that may be treated with JAKAFI;
- the acceptance of JAKAFI by patients and the healthcare community;
- whether physicians, patients and healthcare payors view JAKAFI as therapeutically effective and safe relative to cost and any alternative therapies;
- the ability to obtain and maintain sufficient coverage or reimbursement by third-party payors;
- the ability of our third-party manufacturers to manufacture JAKAFI in sufficient quantities with acceptable quality;
- the ability of our company and our third-party providers to provide marketing and distribution support for JAKAFI;
- the label and promotional claims allowed by the FDA;
- the maintenance of regulatory approval for the approved indications in the United States; and
- our ability to develop, obtain regulatory approval for and commercialize ruxolitinib in the United States for additional indications.

If we are not successful in commercializing JAKAFI in the United States, or are significantly delayed or limited in doing so, our business may be materially harmed and we may need to delay other drug discovery and development initiatives or even significantly curtail operations.

In addition, our receipt of royalties under our collaboration agreement with Novartis for sales of JAKAVI outside the United States will depend on factors similar to those listed above for jurisdictions outside the United States.

**If we are unable to obtain, or maintain at anticipated levels, reimbursement for JAKAFI from government health administration authorities, private health insurers and other organizations, our pricing may be affected or our product sales, results of operations or financial condition could be harmed.**

We may not be able to sell JAKAFI on a profitable basis or our profitability may be reduced if we are required to sell JAKAFI at lower than anticipated prices or reimbursement is unavailable or limited in scope or amount. JAKAFI is expensive and almost all patients will require some form of third party coverage to afford its cost. Our future revenues and profitability will be adversely affected if we cannot depend on government and other third-party payors to defray the cost of JAKAFI to the patient. In the

[Table of Contents](#)

United States, there have been, and we expect there will continue to be, efforts to control and reduce healthcare costs. Government and other third-party payors are challenging the prices charged for healthcare products and increasingly limiting and attempting to limit both coverage and level of reimbursement for prescription drugs. If these entities refuse to provide coverage and reimbursement with respect to JAKAFI, determine to provide a lower level of coverage and reimbursement than anticipated, or reduce previously approved levels of coverage and reimbursement, then our pricing or reimbursement for JAKAFI may be affected and our product sales, results of operations or financial condition could be harmed.

**We depend upon a limited number of specialty pharmacies and group purchasing organizations for a significant portion of any revenues from JAKAFI, and the loss of, or significant reduction in sales to, any one of these specialty pharmacies or group purchasing organizations could adversely affect our operations and financial condition.**

We sell JAKAFI primarily to specialty pharmacies and group purchasing organizations, which in turn dispense JAKAFI to patients in fulfillment of prescriptions. We do not promote JAKAFI to specialty pharmacies and group purchasing organizations, and they do not set or determine demand for JAKAFI. Our ability to successfully commercialize JAKAFI will depend, in part, on the extent to which we are able to provide adequate distribution of JAKAFI to patients. Although we have contracted with a number of specialty pharmacies and group purchasing organizations, they are expected generally to carry a very limited inventory and may be reluctant to be part of our distribution network in the future if demand for the product does not increase. Further, it is possible that these specialty pharmacies and group purchasing organizations could decide to change their policies or fees, or both, at some time in the future. This could result in their refusal to carry smaller volume products such as JAKAFI, or cause higher product costs, lower margins or the need to find alternative methods of distributing our product. Although we believe we can find alternative channels to distribute JAKAFI on relatively short notice, our revenue during that period of time may suffer and we may incur additional costs to replace any such specialty pharmacy or group purchasing organization. The loss of any large specialty pharmacy or group purchasing organization as part of our distribution network, a significant reduction in sales we make to specialty pharmacies or group purchasing organizations, or any failure to pay for the products we have shipped to them could materially and adversely affect our results of operations and financial condition.

**If we are unable to establish and maintain effective sales, marketing and distribution capabilities, or to enter into agreements with third parties to do so, we will not be able to successfully commercialize JAKAFI.**

Prior to our commercialization of JAKAFI, we had no experience selling and marketing drug products and with pricing and obtaining adequate third-party reimbursement for drug products. Under our collaboration and license agreement with Novartis, we have retained commercialization rights to JAKAFI in the United States. We have established commercial capabilities in the United States, but cannot guarantee that we will be able to maintain our own capabilities or enter into and maintain any marketing, distribution or third-party logistics agreements with third-party providers on acceptable terms, if at all. We may not be able to correctly judge the size and experience of the sales and marketing force and the scale of distribution capabilities necessary to successfully market and sell JAKAFI. Establishing and maintaining sales, marketing and distribution capabilities are expensive and time-consuming. Competition for personnel with experience in sales and marketing can be high. Our expenses associated with building and maintaining the sales force and distribution capabilities may be disproportional compared to the revenues we may be able to generate on sales of JAKAFI.

**Our reliance on other parties to manufacture JAKAFI could result in a short supply of JAKAFI, increased costs, and withdrawal of regulatory approval.**

We do not currently operate manufacturing facilities for commercial production of JAKAFI. Accordingly, we will be subject to the risks described below under "—Other Risks Relating to Our Business—Our reliance on other parties to manufacture our drug products and drug candidates could result in a short supply of the drugs, delays in clinical trials or drug development, increased costs, and withdrawal or denial of a regulatory authority's approval."

**If we fail to comply with applicable laws and regulations, we could lose our approval to market JAKAFI or be subject to other governmental enforcement activity.**

We cannot guarantee that we will be able to maintain regulatory approval to market JAKAFI in the United States. If we do not maintain our regulatory approval to market JAKAFI, our results of operations will be materially harmed. We and our collaborators, third-party manufacturers and suppliers are subject to rigorous and extensive regulation by the FDA and other federal and state agencies. These regulations continue to apply after product marketing approval, and cover, among other things, testing, manufacturing, quality control, labeling, advertising, promotion, risk mitigation, and adverse event reporting requirements.

Our commercialization of JAKAFI is subject to post-regulatory approval product surveillance, and JAKAFI may have to be withdrawn from the market or subject to restrictions if previously unknown problems occur. Regulatory agencies may also require additional clinical trials or testing for JAKAFI, and JAKAFI may be recalled or may be subject to reformulation, additional studies, changes in labeling, warnings to the public and negative publicity.

Failure to comply with the laws and regulations administered by the FDA or other agencies could result in:

- administrative and judicial sanctions, including warning letters;
- fines and other civil penalties;
- withdrawal of regulatory approval to market JAKAFI;
- interruption of production;
- operating restrictions;
- product recall or seizure;
- injunctions; and
- criminal prosecution.

The occurrence of any such event may have a material adverse effect on our business.

**If the use of JAKAFI harms patients, or is perceived to harm patients even when such harm is unrelated to JAKAFI, our regulatory approval could be revoked or otherwise negatively impacted or we could be subject to costly and damaging product liability claims.**

The testing of JAKAFI and the manufacturing, marketing and sale of JAKAFI expose us to product liability and other risks. Side effects and other problems experienced by patients from the use of JAKAFI could:

- lessen the frequency with which physicians decide to prescribe JAKAFI;
- encourage physicians to stop prescribing JAKAFI to their patients who previously had been prescribed JAKAFI;



## [Table of Contents](#)

- cause serious harm to patients that may give rise to product liability claims against us; and
- result in our need to withdraw or recall JAKAFI from the marketplace.

If JAKAFI is used by a wide patient population, new risks and side effects may be discovered, the rate of known risks or side effects may increase, and risks previously viewed as less significant could be determined to be significant.

Previously unknown risks and adverse effects of JAKAFI may also be discovered in connection with unapproved, or off-label, uses of JAKAFI. We are prohibited by law from promoting or in any way supporting or encouraging the promotion of JAKAFI for off-label uses, but physicians are permitted to use products for off-label purposes. In addition, we are studying and expect to continue to study JAKAFI in diseases for potential additional indications in controlled clinical settings, and independent investigators are doing so as well. In the event of any new risks or adverse effects discovered as new patients are treated for intermediate or high-risk myelofibrosis or uncontrolled polycythemia vera and as JAKAFI is studied in or used by patients for off-label indications, regulatory authorities may delay or revoke their approvals, we may be required to conduct additional clinical trials, make changes in labeling of JAKAFI, reformulate JAKAFI or make changes and obtain new approvals. We may also experience a significant drop in the sales of JAKAFI, experience harm to our reputation and the reputation of JAKAFI in the marketplace or become subject to lawsuits, including class actions. Any of these results could decrease or prevent sales of JAKAFI or substantially increase the costs and expenses of commercializing JAKAFI.

Patients who have been enrolled in our clinical trials or who may use JAKAFI in the future often have severe and advanced stages of disease and known as well as unknown significant pre-existing and potentially life-threatening health risks. During the course of treatment, patients may suffer adverse events, including death, for reasons that may or may not be related to JAKAFI. Such events could subject us to costly litigation, require us to pay substantial amounts of money to injured patients, delay, negatively impact or end our opportunity to receive or maintain regulatory approval to market JAKAFI, or require us to suspend or abandon our commercialization efforts. Even in a circumstance in which we do not believe that an adverse event is related to JAKAFI, the investigation into the circumstance may be time consuming or inconclusive. These investigations may interrupt our sales efforts, impact and limit the type of regulatory approvals JAKAFI receives or maintains, or delay the regulatory approval process for our collaborator Novartis in other countries.

Factors similar to those listed above also apply to our collaboration partner Novartis for jurisdictions outside the United States.

**If we market JAKAFI in a manner that violates various federal and state health care related laws and regulations, we may be subject to civil or criminal penalties.**

In addition to FDA and related regulatory requirements, we are subject to health care "fraud and abuse" laws, such as the federal False Claims Act, the anti-kickback provisions of the federal Social Security Act, and other state and federal laws and regulations. Federal and state anti-kickback laws prohibit, among other things, knowingly and willfully offering, paying, soliciting or receiving remuneration to induce, or in return for purchasing, leasing, ordering or arranging for the purchase, lease or order of any health care item or service reimbursable under Medicare, Medicaid, or other federally- or state-financed health care programs. Federal false claims laws prohibit any person from knowingly presenting, or causing to be presented, a false claim for payment to the federal government, or knowingly making, or causing to be made, a false statement to get a false claim paid. Pharmaceutical companies have been prosecuted under these laws for a variety of alleged promotional and marketing activities.

Although physicians are permitted, based on their medical judgment, to prescribe products for indications other than those approved by the FDA, manufacturers are prohibited from promoting their products for such off-label uses. We market JAKAFI for intermediate or high-risk myelofibrosis and

[Table of Contents](#)

uncontrolled polycythemia vera and provide promotional materials to physicians regarding the use of JAKAFI for these indications. Although we believe that our promotional materials for physicians do not constitute off-label promotion of JAKAFI, the FDA or other agencies may disagree. If the FDA or another agency determines that our promotional materials or other activities constitute off-label promotion of JAKAFI, it could request that we modify our promotional materials or other activities or subject us to regulatory enforcement actions, including the issuance of a warning letter, injunction, seizure, civil fine and criminal penalties. It is also possible that other federal, state or foreign enforcement authorities might take action if they believe that the alleged improper promotion led to the submission and payment of claims for an unapproved use, which could result in significant fines or penalties under other statutory authorities, such as laws prohibiting false claims for reimbursement. Even if it is later determined we are not in violation of these laws, we may be faced with negative publicity, incur significant expenses defending our position and have to divert significant management resources from other matters.

The majority of states also have statutes or regulations similar to the federal anti-kickback law and false claims laws, which apply to items and services reimbursed under Medicaid and other state programs, or, in several states, apply regardless of the payor. In recent years, several states and localities, including California, Connecticut, the District of Columbia, Massachusetts, Minnesota, Nevada, New Mexico, Texas, Vermont, and West Virginia, have enacted legislation requiring pharmaceutical companies to establish marketing compliance programs, file periodic reports with the state or make periodic public disclosures on sales, marketing, pricing, clinical trials, and other activities. Similar legislation is being considered in other states. Additionally, as part of the Patient Protection and Affordable Care Act, the federal government has enacted the Physician Payment Sunshine provisions. The Sunshine provisions require manufacturers to publicly report certain payments or other transfers of value made to physicians and teaching hospitals. Many of these requirements are new and uncertain, and the penalties for failure to comply with these requirements are unclear. Nonetheless, if we are found not to be in full compliance with these laws, we could face enforcement action and fines and other penalties, and could receive adverse publicity. See also "—Other Risks Relating to our Business —If we fail to comply with the extensive legal and regulatory requirements affecting the health care industry, we could face increased costs, penalties and a loss of business" below.

### **OTHER RISKS RELATING TO OUR BUSINESS**

#### **We may be unsuccessful in our efforts to discover and develop drug candidates and commercialize drug products.**

None of our drug candidates, other than JAKAFI/JAKAVI, has received regulatory approval. Our ability to discover and develop drug candidates and to commercialize additional drug products will depend on our ability to:

- hire and retain key 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;

## [Table of Contents](#)

- enter into arrangements with third parties to provide services or to manufacture our products on our behalf;
- deploy sales and marketing resources effectively or enter into arrangements with third parties to provide these functions in compliance with all applicable laws;
- obtain appropriate coverage and reimbursement levels for the cost of our products from governmental authorities, private health insurers and other third-party payors;
- lease facilities at reasonable rates to support our growth; and
- enter into arrangements with third parties to license and commercialize our products.

We have limited experience with the activities listed above and may not be successful in discovering, developing, or commercializing drug products. Discovery and development of 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. Of the compounds or biologics that we identify as potential drug products or that we may in-license from other companies, only a few, if any, are likely to lead to successful drug development programs and commercialized drug products.

**We depend heavily on the success of our most advanced drug candidates. We might not be able to commercialize any of our drug candidates successfully, and we may spend significant time and money attempting to do so.**

We have invested significant resources in the development of our most advanced drug candidates. Ruxolitinib is in Phase III clinical trials for the treatment of advanced or metastatic pancreatic cancer, as well as in other clinical trials. Further, we have a number of drug candidates in Phase I and Phase II clinical trials. Our ability to generate product revenues will depend on the successful development and eventual commercialization of our most advanced drug candidates. We, or our collaborators or licensees, may decide to discontinue development of any or all of our drug candidates at any time for commercial, scientific or other reasons. For example, in September 2011, we announced that we had discontinued development of our lead sheddase inhibitor, INCB7839, for the treatment of breast cancer. If a product is developed, but is not marketed, we may have spent significant amounts of time and money on it, which could adversely affect our operating results and financial condition.

**Although we obtained a special protocol assessment agreement for ruxolitinib for advanced or metastatic pancreatic cancer, a special protocol assessment agreement does not guarantee any particular outcome from regulatory review, including any regulatory approval.**

We have obtained a special protocol assessment, or SPA, agreement with the FDA for a registration trial, which is one of two Phase III trials in the development plan, for ruxolitinib for the treatment of advanced or metastatic pancreatic cancer in a subgroup of patients with elevated CRP. The SPA process allows for FDA evaluation of a clinical trial protocol intended to form the primary basis of an efficacy claim in support of a New Drug Application, or NDA, and provides a product sponsor with an agreement confirming that the design and size of a trial will be appropriate to form the primary basis of an efficacy claim for an NDA if the trial is performed according to the SPA. Even if we believe that the data from a clinical trial are supportive, an SPA is not a guarantee of approval, and we cannot be certain that the design of, or data collected from, a trial will be adequate to demonstrate safety and efficacy, or otherwise be sufficient to support regulatory approval. There can be no assurance that the terms of an SPA will ultimately be binding on the FDA, and the FDA is not obligated to approve an NDA, if any, even if the clinical outcome is positive. The FDA retains significant latitude and discretion in interpreting the terms of an SPA and the data and results from a clinical trial, and can require trial design changes or additional studies if issues arise essential to determining safety or efficacy. Data may subsequently become available that causes the FDA to reconsider the previously agreed upon scope of review and the FDA may have

[Table of Contents](#)

subsequent safety or efficacy concerns that override an SPA, and we can give no assurance that as clinical trials proceed or as part of an NDA review process, if any, the FDA will determine that a previously approved SPA is still valid.

Additionally, an SPA may be changed only with the written agreement of the FDA, and any further changes we may propose to the protocol will remain subject to the FDA's approval. The FDA may not agree to any such amendment and, even if they agree, they may request other amendments to the trial design that could require additional cost and time, as well as increase the degree of difficulty in reaching clinical endpoints. As a result, even with an SPA, we cannot be certain that the trial results will be found to be adequate to support an efficacy claim and product approval.

**We depend on our collaborators and licensees for the future development and commercialization of some of our drug candidates. Conflicts may arise between our collaborators and licensees and us, or our collaborators and licensees may choose to terminate their agreements with us, which may adversely affect our business.**

We have licensed to Novartis rights to ruxolitinib outside of the United States and worldwide rights to our c-MET inhibitor compounds and licensed to Lilly worldwide rights to baricitinib. We have also licensed to Pfizer our portfolio of CCR2 antagonist compounds. Under the terms of our agreements with these collaborators, we have no or limited control over the further clinical development of these drug candidates and any revenues we may receive if these drug candidates receive regulatory approval and are commercialized will depend primarily on the development and commercialization efforts of others.

Conflicts may arise with our collaborators and licensees if they pursue alternative technologies or develop alternative products either on their own or in collaboration with others as a means for developing treatments for the diseases that we have targeted. Competing products and product opportunities may lead our collaborators and licensees to withdraw their support for our drug candidates. Any failure of our collaborators and licensees to perform their obligations under our agreements with them or otherwise to support our drug candidates could negatively impact the development of our drug candidates, lead to our loss of potential revenues from product sales and milestones and delay our achievement, if any, of profitability. Additionally, conflicts may arise if, among other things, there is a dispute about the achievement and payment of a milestone amount or the ownership of intellectual property that is developed during the course of a collaborative relationship.

Our existing collaborative and license agreements can be terminated by our collaborators and licensees for convenience, among other circumstances. If any of our collaborators or licensees terminates its agreement with us, or terminates its rights with respect to certain indications or drug candidates, we may not be able to find a new collaborator for them, and our business could be adversely affected. Should an agreement be terminated before we have realized the benefits of the collaboration or license, our reputation could be harmed, we may not obtain revenues that we anticipated receiving, and our business could be adversely affected.

**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 in the development and commercialization of our drug candidates, our research, development and commercialization efforts may be unsuccessful, which could adversely affect our results of operations and financial condition.**

An important element of our business strategy is to enter into collaborative or license arrangements with other parties, under which we license our drug candidates to those parties for development and commercialization or under which we study our drug candidates in combination with such parties' compounds or biologics. We are evaluating strategic relationships with respect to several of our other programs and may enter into an agreement with respect to one or more of these programs in the future.

## [Table of Contents](#)

However, because collaboration and license arrangements are complex to negotiate, we may not be successful in our attempts to establish these arrangements. Also, we may not have drug candidates that are desirable to other parties, or we may be unwilling to license a drug candidate to a particular party because such party interested in it is a competitor or for other reasons. The terms of any such arrangements that we establish may not be favorable to us. Alternatively, potential collaborators may decide against entering into an agreement with us because of our financial, regulatory or intellectual property position or for scientific, commercial or other reasons. If we are not able to establish collaboration or license arrangements, we may not be able to develop and commercialize a drug product, which could adversely affect our business and our revenues.

In order for any of these collaboration or license arrangements to be successful, we must first identify potential collaborators or licensees whose capabilities complement and integrate well with ours. We may rely on these arrangements for not only financial resources, but also for expertise or economies of scale that we expect to need in the future relating to clinical trials, manufacturing, sales and marketing, and for licenses to technology rights. However, it is likely that we will not be able to control the amount and timing of resources that our collaborators or licensees devote to our programs or drug candidates. If our collaborators or licensees prove difficult to work with, are less skilled than we originally expected, do not devote adequate resources to the program, pursue alternative technologies or develop alternative products, or do not agree with our approach to development or manufacturing of the drug candidate, the relationship could be unsuccessful. If a business combination involving a collaborator or licensee and a third party were to occur, the effect could be to terminate or cause delays in development of a drug candidate.

**If we fail to enter into additional licensing agreements or if these arrangements are unsuccessful, our business and operations might be adversely affected.**

In addition to establishing collaborative or license arrangements under which other parties license our drug candidates for development and commercialization or under which we study our drug candidates in combination with such parties' compounds or biologics, we may explore opportunities to develop our clinical pipeline by in-licensing drug candidates that fit within our focus on oncology, such as our collaboration with Agenus. We may be unable to enter into any additional in-licensing agreements because suitable drug candidates that are within our expertise may not be available to us on terms that are acceptable to us or because competitors with greater resources seek to in-license the same drug candidates. Drug candidates that we would like to develop may not be available to us because they are controlled by competitors who are unwilling to license the rights to the drug candidate to us. In addition, we may enter into license agreements that are unsuccessful and our business and operations might be adversely affected by the termination of a drug candidate and termination and winding down of the related license agreement. We may also need to license drug delivery or other technology in order to continue to develop our drug candidates. If we are unable to enter into additional agreements to license drug candidates, drug delivery technology or other technology or if these arrangements are unsuccessful, our research and development efforts could be adversely affected.

**Even if a drug candidate that we develop receives regulatory approval, we may decide not to commercialize it if we determine that commercialization of that product would require more money and time than we are willing to invest.**

Even if any of our drug candidates receives regulatory approval, it could be subject to post-regulatory surveillance, and may have to be withdrawn from the market or subject to restrictions if previously unknown problems occur. Regulatory agencies may also require additional clinical trials or testing, and the drug product may be recalled or may be subject to reformulation, additional studies, changes in labeling, warnings to the public and negative publicity. As a result, we may not continue to commercialize a product even though it has obtained regulatory approval. Further, we may decide not to continue to commercialize

[Table of Contents](#)

a product if the market does not accept the product because it is too expensive or because third parties such as insurance companies or Medicare have not approved it for substantial reimbursement. In addition, we may decide not to continue to commercialize a product if competitors develop and commercialize similar or superior products or have proprietary rights that preclude us from ultimately marketing our products.

**Any approved drug product that we bring to the market may not gain market acceptance by physicians, patients, healthcare payors and others in the medical community.**

Even if we are successful in gaining regulatory approval of any of our drug candidates in addition to JAKAFI, we may not generate significant product revenues and we may not become profitable if these drug products do not achieve an adequate level of acceptance. Physicians may not recommend our drug products until longer-term clinical data or other factors demonstrate the safety and efficacy of our drug products as compared to other alternative treatments. Even if the clinical safety and efficacy of our drug products is established, physicians may elect not to prescribe these drug products for a variety of reasons, including the reimbursement policies of government and other third-party payors and the effectiveness of our competitors in marketing their products.

Market acceptance of our drug products, if approved for commercial sale, will depend on a number of factors, including:

- the willingness and ability of patients and the healthcare community to use our drug products;
- the ability to manufacture our drug products in sufficient quantities with acceptable quality and to offer our drug products for sale at competitive prices;
- the perception of patients and the healthcare community, including third-party payors, regarding the safety, efficacy and benefits of our drug products compared to those of competing products or therapies;
- the label and promotional claims allowed by the FDA;
- the pricing and reimbursement of our drug products relative to existing treatments; and
- marketing and distribution support for our drug products.

**We have limited capacity to conduct preclinical testing and clinical trials, and our resulting dependence on other parties could result in delays in and additional costs for our drug development efforts.**

We have limited internal resources and capacity to perform preclinical testing and clinical trials. As part of our development strategy, we often hire clinical research organizations, or CROs, to perform preclinical testing and clinical trials for drug candidates. If the CROs that we hire to perform our preclinical testing and clinical trials do not meet deadlines, do not follow proper procedures, or a conflict arises between us and our CROs, our preclinical testing and clinical trials may take longer than expected, may cost more, may be delayed or may be terminated. If we were forced to find a replacement entity to perform any of our preclinical testing or clinical trials, we may not be able to find a suitable entity on favorable terms, or at all. Even if we were able to find another company to perform a preclinical test or clinical trial, the delay in the test or trial may result in significant additional expenditures. Events such as these may result in delays in our obtaining regulatory approval for our drug candidates or our ability to commercialize our products and could result in increased expenditures that would adversely affect our operating results.

**If we are unable to obtain regulatory approval for our drug candidates in the United States and foreign jurisdictions, we will not be permitted to commercialize products resulting from our research.**

In order to commercialize drug products in the United States, our drug candidates will have to obtain regulatory approval from the FDA. Satisfaction of regulatory requirements typically takes many years. To obtain regulatory approval, we must first show that our drug candidates are safe and effective for target indications through preclinical testing (animal testing) and clinical trials (human testing). Preclinical testing and clinical development are long, expensive and uncertain processes, and we do not know whether the FDA will allow us to undertake clinical trials of any drug candidates in addition to our compounds currently in clinical trials.

Completion of clinical trials may take several years and failure may occur at any stage of testing. The length of time required varies substantially according to the type, complexity, novelty and intended use of the drug candidate. Interim results of a preclinical test or clinical trial do not necessarily predict final results, and acceptable results in early clinical trials may not be repeated in later clinical trials. For example, a drug candidate that is successful at the preclinical level may cause harmful or dangerous side effects when tested at the clinical level. Our rate of commencement and completion of clinical trials may be delayed by many factors, including:

- the high degree of risk associated with drug development;
- our inability to formulate or manufacture sufficient quantities of materials for use in clinical trials;
- variability in the number and types of patients available for each study;
- difficulty in maintaining contact with patients after treatment, resulting in incomplete data;
- unforeseen safety issues or side effects;
- poor or unanticipated effectiveness of drug candidates during the clinical trials; or
- government or regulatory delays.

Data obtained from clinical trials are susceptible to varying interpretation, which may delay, limit or prevent regulatory approval. Many companies in the pharmaceutical industry, including biotechnology companies, have suffered significant setbacks in advanced clinical trials, even after achieving promising results in earlier clinical trials. In addition, regulatory authorities may refuse or delay approval as a result of other factors, such as changes in regulatory policy during the period of product development and regulatory agency review. For example, the FDA has in the past required and could in the future require that we conduct additional trials of any of our drug candidates, which would result in delays.

Compounds or biologics developed by us or with or by our collaborators and licensees may not prove to be safe and effective in clinical trials and may not meet all of the applicable regulatory requirements needed to receive marketing approval. If regulatory approval of a product is granted, this approval will be limited to those disease states and conditions for which the product is demonstrated through clinical trials to be safe and effective. Failure to obtain regulatory approval would delay or prevent us from commercializing products.

Outside the United States, our ability to market a product is contingent upon receiving a marketing authorization from the appropriate regulatory authorities. This foreign regulatory approval process typically includes all of the risks associated with the FDA approval process described above and may also include additional risks. The requirements governing the conduct of clinical trials, product licensing, pricing and reimbursement vary greatly from country to country and may require us to perform additional testing and expend additional resources. Approval by the FDA does not ensure approval by regulatory authorities in other countries, and approval by one foreign regulatory authority does not ensure approval by regulatory authorities in other countries or by the FDA.

**We face significant competition for our drug discovery and development efforts, and if we do not compete effectively, our commercial opportunities will be reduced or eliminated.**

The biotechnology and pharmaceutical industries are intensely competitive and subject to rapid and significant technological change. Our drug discovery and development efforts may target diseases and conditions that are already subject to existing therapies or that are being developed by our competitors, many of which have substantially greater resources, larger research and development staffs and facilities, more experience in completing preclinical testing and clinical trials, and formulation, marketing and manufacturing capabilities. As a result of these resources, our competitors may develop drug products that render our products obsolete or noncompetitive by developing more effective drugs or by developing their products more efficiently. Our ability to develop competitive products would be limited if our competitors succeeded in obtaining regulatory approvals for drug candidates more rapidly than we were able to or in obtaining patent protection or other intellectual property rights that limited our drug development efforts. Any drug products resulting from our research and development efforts, or from our joint efforts with collaborators or licensees, might not be able to compete successfully with our competitors' existing and future products, or obtain regulatory approval in the United States or elsewhere.

**Our reliance on other parties to manufacture our drug products and drug candidates could result in a short supply of the drugs, delays in clinical trials or drug development, increased costs, and withdrawal or denial of a regulatory authority's approval.**

We do not currently operate manufacturing facilities for clinical or commercial production of JAKAFI and our other drug candidates. We currently hire third parties to manufacture the raw materials, active pharmaceutical ingredient, or API, and finished drug product of JAKAFI and our other drug candidates for clinical trials. In addition, we expect to continue to rely on third parties for the manufacture of commercial supplies of raw materials, API and finished drug product for any drugs that we successfully develop. For JAKAFI and most of our drug candidates, we hire third parties to manufacture the raw materials, another third party to manufacture the API and another to make the finished drug product and to package and label the finished product. The FDA requires that the raw materials, API and finished product for JAKAFI and our other drug candidates be manufactured according to its current Good Manufacturing Practices regulations and regulatory authorities in other countries have similar requirements. There are only a limited number of manufacturers that comply with these requirements. Failure to comply with current Good Manufacturing Practices and the applicable regulatory requirements of other countries in the manufacture of our drug candidates and products could result in the FDA or foreign regulatory authority halting our clinical trials, withdrawing or denying regulatory approval of our drug product, enforcing product recalls or other enforcement actions, which could have a material adverse effect on our business.

We may not be able to obtain sufficient quantities of our drug candidates or any drug products we may develop if our designated manufacturers do not have the capacity or capability to manufacture them according to our schedule and specifications. In addition, we may not be able to arrange for our drug candidates or any drug products that we may develop to be manufactured by one of these parties on reasonable terms, if at all. Also, required raw materials may only be available from a limited number of suppliers and, in the case of JAKAFI, are currently supplied by a single source. As noted above, generally, we have a single source or a limited number of suppliers that are qualified to supply each of the API and finished product of JAKAFI and our other drug candidates. If any of these suppliers were to become unable or unwilling to supply us with raw materials, API or finished product that complies with applicable regulatory requirements, we could incur significant delays in our clinical trials or interruption of commercial supply that could have a material adverse effect on our business. If we have promised delivery of a drug candidate or drug product and are unable to meet the delivery requirement due to manufacturing difficulties, our development programs could be delayed, we may have to expend additional sums in order to ensure that manufacturing capacity is available when we need it even if we do not use all of the manufacturing capacity, and our business and operating results could be harmed.



## [Table of Contents](#)

Manufacturers of pharmaceutical products often encounter difficulties in production, especially in scaling up initial production. These problems include difficulties with production costs and yields, quality control and assurance and shortages of qualified personnel, as well as compliance with strictly enforced federal, state and foreign regulations.

In order to obtain approval of our products by the FDA and foreign regulatory agencies, we need to complete testing on both the API and on the finished product in the packaging we propose for commercial sales. This includes testing of stability, identification of impurities and testing of other product specifications by validated test methods. In addition, we will be required to consistently produce the API in commercial quantities and of specified quality on a repeated basis and document our ability to do so. This requirement is referred to as process validation.

We may not be able to adequately manage and oversee the manufacturers we choose, they may not perform as agreed or they may terminate their agreements with us. Foreign manufacturing approval processes typically include all of the risks associated with the FDA approval process for manufacturing and may also include additional risks.

Under our collaboration with Agenus, Agenus has primary responsibility for manufacturing activities, including selecting and monitoring third-party manufacturers. Manufacturing antibodies and products containing antibodies is a more complex process than manufacturing small molecule drugs and subject to additional risks. The process of manufacturing antibodies and products containing antibodies is highly susceptible to product loss due to contamination, equipment failure or improper installation or operation of equipment, vendor or operator error, inconsistency in yields, variability in product characteristics, and difficulties in scaling the production process. Even minor deviations from normal manufacturing processes could result in reduced production yields, product defects and other supply disruptions. If microbial, viral or other contaminations are discovered in our product candidates or in the manufacturing facilities in which our product candidates are made, such manufacturing facilities may need to be closed for an extended period of time to investigate and remedy the contamination.

**If we fail to comply with the extensive legal and regulatory requirements affecting the health care industry, we could face increased costs, penalties and a loss of business.**

Our activities, and the activities of our collaborators, partners and third-party providers, are subject to extensive government regulation and oversight both in the United States and in foreign jurisdictions. The FDA and comparable agencies in other jurisdictions directly regulate many of our most critical business activities, including the conduct of preclinical and clinical studies, product manufacturing, advertising and promotion, product distribution, adverse event reporting and product risk management. States increasingly have been placing greater restrictions on the marketing practices of healthcare companies. In addition, pharmaceutical and biotechnology companies have been the target of lawsuits and investigations alleging violations of government regulations, including claims asserting submission of incorrect pricing information, impermissible off-label promotion of pharmaceutical products, payments intended to influence the referral of federal or state healthcare business, submission of false claims for government reimbursement, antitrust violations, violations of the Foreign Corrupt Practices Act and similar anti-bribery or anti-corruption laws, or violations related to environmental matters. Violations of governmental regulation may be punishable by criminal and civil sanctions, including fines and civil monetary penalties and exclusion from participation in government programs, including Medicare and Medicaid. In addition to penalties for violation of laws and regulations, we could be required to repay amounts we received from government payors, or pay additional rebates and interest if we are found to have miscalculated the pricing information we have submitted to the government. We cannot ensure that our compliance controls, policies, and procedures will in every instance protect us from acts committed by our employees, collaborators, partners or third-party providers that would violate the laws or regulations of the jurisdictions in which we operate. Whether or not we have complied with the law, an investigation into

alleged unlawful conduct could increase our expenses, damage our reputation, divert management time and attention and adversely affect our business.

**Health care reform measures could impact the pricing and profitability of pharmaceuticals, and adversely affect the commercial viability of our drug candidates. Our ability to generate revenues will be diminished if we are unable to obtain an adequate level of reimbursement from private insurers, government insurance programs or other third-party payors of health care costs, which could be affected by recent healthcare reform legislation.**

Our ability to commercialize our drug candidates successfully will depend in part on the extent to which adequate reimbursement levels for the cost of our products and related treatment are obtained from third-party payors, such as private insurers, government insurance programs, including Medicare and Medicaid, health maintenance organizations (HMOs) and other health care related organizations.

In recent years, through legislative and regulatory actions, the federal government has made substantial changes to various payment systems under the Medicare and other federal health care programs. Comprehensive reforms to the U.S. healthcare system were recently enacted, including changes to the methods for, and amounts of, Medicare reimbursement. These reforms could significantly reduce payments from Medicare and Medicaid. Reforms or other changes to these payment systems, may change the availability, methods and rates of reimbursements from Medicare, private insurers and other third-party payors for our drug candidates. Some of these changes and proposed changes could result in reduced reimbursement rates, which could reduce the price that we or any of our collaborators or licensees receive for any products, if commercialized, in the future, and which would adversely affect our business strategy, operations and financial results. Further federal and state proposals and health care reforms are possible, which could limit the prices that can be charged for any of our drug candidates and may further limit the commercial viability of our drug candidates. In certain foreign markets, pricing or profitability of prescription pharmaceuticals is subject to government control. If reimbursement for our products, if commercialized, is unavailable, limited in scope or amount, or if pricing is set at unsatisfactory levels, our business could be materially harmed. There may be future changes that result in reductions in current coverage and reimbursement levels for our drug candidates, and we cannot predict the scope of any future changes or the impact that those changes would have on our operations.

Third-party payors are increasingly challenging the prices charged for medical products and services. Also, the trend toward managed health care in the United States, the organizations for which could control or significantly influence the purchase of health care services and products, as well as legislative proposals to reform health care or reduce government insurance programs, may all result in lower prices for or rejection of our products. Adoption of our drug candidates by the medical community may be limited without adequate reimbursement for our products. Cost control initiatives may decrease coverage and payment levels for our drug candidates and, in turn, the price that we will be able to charge for any product, if commercialized. Our drug candidates may not be considered cost-effective, and coverage and reimbursement may not be available or sufficient to allow us to sell our products on a profitable basis. We are unable to predict all changes to the coverage or reimbursement methodologies that will be applied by private or government payors to our drug candidates.

The continuing efforts of third-party payors to contain or reduce the costs of health care, any denial of private or government payor coverage or inadequate reimbursement for our drug candidates could materially and adversely affect our business strategy, operations, future revenues and profitability, and the future revenues and profitability of our potential customers, suppliers, collaborators and licensees and the availability of capital.

**As our drug discovery and development operations are conducted at our headquarters in Wilmington, Delaware, the loss of access to this facility would negatively impact our business.**

Our facility in Wilmington, Delaware is our headquarters and is also where we conduct all of our drug discovery, research, development and marketing activities. Our lease contains provisions that provide for its early termination upon the occurrence of certain events of default. In addition, natural disasters or actions of activists opposed to aspects of pharmaceutical research may disrupt our experiments or our ability to access or use our facility. The loss of access to or use of our Wilmington, Delaware, facility, either on a temporary or permanent basis, or early termination of our lease would result in an interruption of our business and, consequently, would adversely affect our overall business.

**We depend on key employees in a competitive market for skilled personnel, and the loss of the services of any of our key employees or our inability to attract and retain additional personnel would affect our ability to expand our drug discovery and development programs and achieve our objectives.**

We are highly dependent on the members of our executive management team and principal members of our commercial, development, medical, operations and scientific staff. We experience intense competition for qualified personnel. Our future success also depends in part on the continued service of our executive management team and key personnel and our ability to recruit, train and retain essential personnel for our drug discovery and development programs, and for our medical affairs and commercialization activities. If we lose the services of any of these people or if we are unable to recruit sufficient qualified personnel, our research and product development goals, and our commercialization efforts could be delayed or curtailed. We do not maintain "key person" insurance on any of our employees.

**If we fail to manage our growth effectively, our ability to develop and commercialize products could suffer.**

We expect that if our drug discovery efforts continue to generate drug candidates, our clinical drug candidates continue to progress in development, and we continue to build our development, medical and commercial organizations, we will require significant additional investment in personnel, management and resources. Our ability to achieve our research, development and commercialization objectives depends on our ability to respond effectively to these demands and expand our internal organization, systems, controls and facilities to accommodate additional anticipated growth. If we are unable to manage our growth effectively, our business could be harmed and our ability to execute our business strategy could suffer.

**Risks associated with expanding our operations to Europe could adversely affect our business.**

We plan to expand our operations and conduct certain development activities in Europe. We have limited experience with conducting activities outside of the United States. International operations and business expansion plans are subject to numerous additional risks, including:

- multiple, conflicting and changing laws and regulations such as tax laws, privacy regulations, export and import restrictions, employment, immigration and labor laws, regulatory requirements, and other governmental approvals, permits and licenses;
- difficulties in staffing and managing foreign operations;
- risks associated with obtaining and maintaining, or the failure to obtain or maintain, regulatory approvals for the sale or use of our products in various countries;
- complexities associated with managing government payor systems, multiple payor-reimbursement regimes or patient self-pay systems;
- financial risks, such as longer payment cycles, difficulty enforcing contracts and collecting accounts receivable and exposure to foreign currency exchange rate fluctuations;

## [Table of Contents](#)

- general political and economic conditions in the countries in operate, including terrorism and political unrest, curtailment of trade and other business restrictions;
- regulatory and compliance risks that relate to maintaining accurate information and control over activities that may fall within the purview of the U.S. Foreign Corrupt Practices Act, its books and records provisions or its anti-bribery provisions, or similar anti-bribery or anti-corruption laws and regulations;

Any of these risks, if encountered, could significantly increase our costs of operating internationally, prevent us from operating in certain jurisdictions, or otherwise significantly harm our future international expansion and operations, which could have a material adverse effect on our business, financial condition and results of operations.

### **If product liability lawsuits are brought against us, we could face substantial liabilities and may be required to limit commercialization of our products and our results of operations could be harmed.**

In addition to the risks described above under "—Risks Relating to Our Lead Product JAKAFI—If the use of JAKAFI harms patients, or is perceived to harm patients even when such harm is unrelated to JAKAFI, our regulatory approval could be revoked or otherwise negatively impacted or we could be subject to costly and damaging product liability claims," the conduct of clinical trials of medical products that are intended for human use entails an inherent risk of product liability. If any product that we or any of our collaborators or licensees develops causes or is alleged to cause injury during clinical trials or commercialization, we may be held liable. If we cannot successfully defend ourselves against product liability claims, we may incur substantial liabilities, including substantial damages to be paid to the plaintiffs and legal costs, or we may be required to limit further development and commercialization of our products. Additionally, any product liability lawsuit could cause injury to our reputation, participants and investigators to withdraw from clinical trials, and potential collaborators or licensees to seek other partners, any of which could impact our results of operations.

Our product liability insurance policy may not fully cover our potential liabilities. In addition, we may determine that we should increase our coverage, and this insurance may be prohibitively expensive to us or our collaborators or licensees and may not fully cover our potential liabilities. Our inability to obtain sufficient product liability insurance at an acceptable cost to protect against potential product liability claims could prevent or inhibit the development or commercialization of our drug candidates and products.

### **Because our activities involve the use of hazardous materials, we may be subject to claims relating to improper handling, storage or disposal of these materials that could be time consuming and costly.**

We are subject to various environmental, health and safety laws and regulations governing, among other things, the use, handling, storage and disposal of regulated substances and the health and safety of our employees. Our research and development processes involve the controlled use of hazardous and radioactive materials and biological waste resulting in the production of hazardous waste products. We cannot completely eliminate the risk of accidental contamination or discharge and any resultant injury from these materials. If any injury or contamination results from our use or the use by our collaborators or licensees of these materials, we may be sued and our liability may exceed our insurance coverage and our total assets. Further, we may be required to indemnify our collaborators or licensees against all damages and other liabilities arising out of our development activities or products produced in connection with these collaborations or licenses. Compliance with the applicable environmental and workplace laws and regulations is expensive. Future changes to environmental, health, workplace and safety laws could cause us to incur additional expense or may restrict our operations or impair our research, development and production efforts.

## RISKS RELATING TO OUR FINANCIAL RESULTS

### **We expect to incur losses in the future and we may not achieve or maintain profitability in the future.**

We had net losses from inception in 1991 through 1996 and in 1999 through December 31, 2014. Because of those losses, we had an accumulated deficit of \$1.8 billion as of December 31, 2014. We intend to continue to spend significant amounts on our efforts to discover and develop drugs. As a result, we could continue to incur losses in 2015 and in future periods as well.

We anticipate that our drug discovery and development efforts and related expenditures will increase as we focus on the studies, including preclinical tests and clinical trials prior to seeking regulatory approval, that are required before we can sell a drug product.

The development of drug products will require us to spend significant funds on research, development, testing, obtaining regulatory approvals, manufacturing and marketing. To date, we do not have any drug products that have generated significant revenues other than from sales of JAKAFI and we cannot assure you that we will generate significant revenues from the drug candidates that we license or develop, including JAKAFI, for several years, if ever.

We cannot be certain whether or when we will achieve profitability because of the significant uncertainties relating to our ability to generate commercially successful drug products. Even if we are successful in obtaining regulatory approvals for manufacturing and commercializing drug products in addition to JAKAFI, we expect that we will continue to incur losses if our drug products do not generate significant revenues. If we achieve profitability, we may not be able to sustain or increase profitability.

### **We will need additional capital in the future. If we are unable to generate sufficient funds from operations, the capital markets may not permit us to raise additional capital at the time that we require it, which could result in limitations on our research and development or commercialization efforts or the loss of certain of our rights in our technologies or drug candidates.**

Our future funding requirements will depend on many factors and we anticipate that we may need to raise additional capital to fund our business plan and research and development efforts going-forward and to repay our indebtedness.

Additional factors that may affect our future funding requirements include:

- the amount of revenues generated from our business activities;
- any changes in the breadth of our research and development programs;
- the results of research and development, preclinical testing and clinical trials conducted by us or our current or future collaborators or licensees, if any;
- our exercise of any co-development options with collaborators that may require us to fund future development;
- the acquisition of businesses, technologies, or drug candidates, or the licensing of technologies or drug candidates, if any;
- our ability to maintain and establish new corporate relationships and research collaborations;
- competing technological and market developments;
- the time and costs involved in filing, prosecuting, defending and enforcing patent and intellectual property claims;
- the receipt of contingent licensing or milestone fees or royalties on product sales from our current or future collaborative and license arrangements, if established; and

[Table of Contents](#)

- the timing of regulatory approvals, if any.

If we require additional capital at a time when investment in companies such as ours, or in the marketplace generally, is limited due to the then prevailing market or other conditions, we may have to scale back our operations, eliminate one or more of our research or development programs, or attempt to obtain funds by entering into an agreement with a collaborator or licensee that would result in terms that are not favorable to us or relinquishing our rights in certain of our proprietary technologies or drug candidates. If we are unable to raise funds at the time that we desire or at any time thereafter on acceptable terms, we may not be able to continue to develop our drug candidates. The sale of equity or additional convertible debt securities in the future may be dilutive to our stockholders, and debt financing arrangements may require us to pledge certain assets or enter into covenants that could restrict our operations or our ability to incur further indebtedness.

**We have a large amount of debt and our debt service obligations may prevent us from taking actions that we would otherwise consider to be in our best interests.**

As of December 31, 2014, the aggregate principal amount of our total consolidated debt was \$840.9 million and our stockholders' deficit was \$81.6 million. Our substantial leverage could have significant negative consequences for our future operations, including:

- increasing our vulnerability to general adverse economic and industry conditions;
- limiting our ability to obtain additional financing for working capital, capital and research and development expenditures, and general corporate purposes;
- requiring the dedication of a substantial portion of our expected cash flow or our existing cash to service our indebtedness, thereby reducing the amount of our cash available for other purposes, including working capital, capital expenditures and research and development expenditures;
- limiting our flexibility in planning for, or reacting to, changes in our business and the industry in which we compete; or
- placing us at a possible competitive disadvantage compared to less leveraged competitors and competitors that have better access to capital resources.

We may not generate sufficient cash flow from our operations in the future to enable us to meet our anticipated fixed charges, including our obligations with respect to our outstanding convertible senior notes. As of December 31, 2014, \$90.9 million aggregate principal amount of our 4.75% convertible senior notes due 2015 was outstanding and due in October 2015. The remaining interest payments for our 4.75% convertible senior notes through 2015, assuming that none of these notes are converted, repurchased or exchanged, will total \$4.3 million. As of December 31, 2014, \$375.0 million aggregate principal amount of our 0.375% convertible senior notes due 2018 was outstanding and due in November 2018. Annual interest payments for our 0.375% convertible senior notes through 2018, assuming that none of these notes are converted, repurchased or exchanged, are \$1.4 million. As of December 31, 2014, \$375.0 million aggregate principal amount of our 1.25% convertible senior notes due 2020 was outstanding and due in November 2020. Annual interest payments for our 1.25% convertible senior notes through 2020, assuming that none of these notes are converted, repurchased or exchanged, are \$4.7 million. If we are unable to generate cash from our operations or raise additional cash through financings sufficient to meet the remaining obligations under our convertible senior notes, we will need to use existing cash or liquidate marketable securities in order to fund these obligations, which may delay or curtail our research, development and commercialization programs.

**Our marketable securities are subject to certain risks that could adversely affect our overall financial position.**

We invest our cash in accordance with an established internal policy and customarily in instruments, corporate bonds and money market funds which historically have been highly liquid and carried relatively low risk. Recently similar types of investments and money market funds have experienced losses in value or liquidity issues which differ from their historical pattern.

Should a portion of our cash or marketable securities lose value or have their liquidity impaired, it could adversely affect our overall financial position by imperiling our ability to fund our operations and forcing us to seek additional financing sooner than we would otherwise. Such financing, if available, may not be available on commercially attractive terms.

**Our current revenues are derived from JAKAFI product sales, JAKAVI product royalties, collaborations and from licensing our intellectual property. If we are unable to achieve milestones, develop products or renew or enter into new collaborations, our revenues may decrease, and future milestone and royalty payments may not contribute significantly to revenues for several years, and may never result in revenues.**

We derived substantially all of our revenues for the year ended December 31, 2014 from JAKAFI product revenues, JAKAVI product royalties and our collaborations and licensing our intellectual property to others. Future revenues from research and development collaborations depend upon continuation of the collaborations, the achievement of milestones and royalties we earn from any future products developed from our research. If we are unable to successfully achieve milestones or our collaborators fail to develop successful products, we will not earn the future revenues contemplated under our collaborative agreements.

**RISKS RELATING TO INTELLECTUAL PROPERTY AND LEGAL MATTERS**

**If we are subject to arbitration, litigation and infringement claims, they could be costly and disrupt our drug discovery and development efforts.**

The technology that we use to make and develop our drug products, the technology that we incorporate in our products, and the products we are developing may be subject to claims that they infringe the patents or proprietary rights of others. The success of our drug discovery and development efforts will also depend on our ability to develop new compounds, drugs and technologies without infringing or misappropriating the proprietary rights of others. We are aware of patents and patent applications filed in certain countries claiming intellectual property relating to some of our drug discovery targets and drug candidates. While the validity of issued patents, patentability of pending patent applications and applicability of any of them to our programs are uncertain, if any of these patents are asserted against us or if we choose to license any of these patents, our ability to commercialize our products could be harmed or the potential return to us from any product that may be successfully commercialized could be diminished.

From time to time we have received, and we may in the future receive, notices from third parties offering licenses to technology or alleging patent, trademark, or copyright infringement, claims regarding trade secrets or other contract claims. Receipt of these notices could result in significant costs as a result of the diversion of the attention of management from our drug discovery and development efforts. Parties sending these notices may have brought and in the future may bring litigation against us or seek arbitration relating to contract claims.

We may be involved in future lawsuits or other legal proceedings alleging patent infringement or other intellectual property rights or contract violations. In addition, litigation or other legal proceedings may be necessary to:

- assert claims of infringement;

## [Table of Contents](#)

- enforce our patents or trademarks;
- protect our trade secrets or know-how; or
- determine the enforceability, scope and validity of the proprietary rights of others.

We may be unsuccessful in defending or pursuing these lawsuits, claims or other legal proceedings. Regardless of the outcome, litigation or other legal proceedings can be very costly and can divert management's efforts. An adverse determination may subject us to significant liabilities or require us or our collaborators or licensees to seek licenses to other parties' patents or proprietary rights. We or our collaborators or licensees may also be restricted or prevented from manufacturing or selling a drug or other product that we or they develop. Further, we or our future collaborators or licensees may not be able to obtain any necessary licenses on acceptable terms, if at all. If we are unable to develop non-infringing technology or license technology on a timely basis or on reasonable terms, our business could be harmed.

**We may be unable to adequately protect or enforce our proprietary information, which may result in its unauthorized use, a loss of revenue under a collaboration agreement or loss of sales to generic versions of our products or otherwise reduce our ability to compete in developing and commercializing products.**

Our business and competitive position depends in significant part upon our ability to protect our proprietary technology, including any drug products that we create. Despite our efforts to protect this information, unauthorized parties may attempt to obtain and use information that we regard as proprietary. For example, one of our collaborators may disclose proprietary information pertaining to our drug discovery efforts. In addition, while we have filed numerous patent applications with respect to ruxolitinib and our drug candidates in the United States and in foreign countries, our patent applications may fail to result in issued patents. In addition, because patent applications can take several years to issue as patents, there may be pending patent applications of others that may later issue as patents that cover some aspect of ruxolitinib and our drug candidates. Our existing patents and any future patents we may obtain may not be broad enough to protect our products or all of the potential uses of our products, or otherwise prevent others from developing competing products or technologies. In addition, our patents may be challenged and invalidated or may fail to provide us with any competitive advantages if, for example, others were first to invent or first to file a patent application for the technologies and products covered by our patents.

Additionally, when we do not control the prosecution, maintenance and enforcement of certain important intellectual property, such as a drug candidate in-licensed to us or subject to a collaboration with a third party, the protection of the intellectual property rights may not be in our hands. If we do not control the intellectual property rights in-licensed to us with respect to a drug candidate and the entity that controls the intellectual property rights does not adequately protect those rights, our rights may be impaired, which may impact our ability to develop, market and commercialize the in-licensed drug candidate.

Our means of protecting our proprietary rights may not be adequate, and our competitors may:

- independently develop substantially equivalent proprietary information, products and techniques;
- otherwise gain access to our proprietary information; or
- design around patents issued to us or our other intellectual property.

We pursue a policy of having our employees, consultants and advisors execute proprietary information and invention agreements when they begin working for us. However, these agreements may not provide meaningful protection for our trade secrets or other proprietary information in the event of unauthorized use or disclosure. If we fail to maintain trade secret and patent protection, our potential, future revenues may be decreased.



**If the effective term of our patents is decreased due to changes in the United States patent laws or if we need to refile some of our patent applications, the value of our patent portfolio and the revenues we derive from it may be decreased.**

The value of our patents depends in part on their duration. A shorter period of patent protection could lessen the value of our rights under any patents that we obtain and may decrease the revenues we derive from our patents. The United States patent laws were amended in 1995 to change the term of patent protection from 17 years from patent issuance to 20 years from the earliest effective filing date of the application. Because the time from filing to issuance of biotechnology applications may be more than three years depending on the subject matter, a 20-year patent term from the filing date may result in substantially shorter patent protection.

Additionally, United States patent laws were amended in 2011 with the enactment of the America Invents Act and third parties are now able to challenge the validity of issued U.S. patents through various review proceedings; thus rendering the validity of U.S. patents more uncertain. We may be obligated to participate in review proceedings to determine the validity of our U.S. patents. We cannot predict the ultimate outcome of these proceedings, the conduct of which could result in substantial costs and diversion of our efforts and resources. If we are unsuccessful in these proceedings some or all of our claims in the patents may be narrowed or invalidated and the patent protection for our products and drug candidates in the United States could be substantially shortened. Further, if all of the patents covering one of our products are invalidated, the FDA could approve requests to manufacture a generic version of that product prior to the expiration date of those patents.

Other changes in the United States patent laws or changes in the interpretation of patent laws could diminish the value of our patents or narrow the scope of our patent protection. For example, the Supreme Court of the United States recently ruled that isolated DNA sequences cannot be patented. Although we no longer receive significant revenues generated from our former information products business, the majority of our gene patent portfolio from that business consists of patents on isolated DNA sequences, and this ruling limits our ability to derive additional revenues from our gene patent portfolio. Additionally, the Supreme Court recently resolved a split among the circuit courts of appeals regarding antitrust challenges to settlements of patent infringement lawsuits under the Hatch-Waxman Act between brand-name drug companies and generic drug companies. The Court rejected the "scope of the patent" test and ruled that settlements involving "reverse payments" from brand-name drug companies to generic drug companies should be analyzed under the rule of reason. This ruling may create uncertainty and make it more difficult to settle patent litigation if a company seeking to manufacture a generic version of one of our products challenges the patents covering that product prior to the expiration date of those patents.

**International patent protection is particularly uncertain and costly, and our involvement in opposition proceedings in foreign countries may result in the expenditure of substantial sums and management resources.**

Biotechnology and pharmaceutical patent law outside the United States is even more uncertain and costly than in the United States and is currently undergoing review and revision in many countries. Further, the laws of some foreign countries may not protect our intellectual property rights to the same extent as United States laws. For example, certain countries do not grant patent claims that are directed to the treatment of humans. We have participated, and may in the future participate, in opposition proceedings to determine the validity of our foreign patents or our competitors' foreign patents, which could result in substantial costs and diversion of our efforts. For example, there is a patent opposition proceeding in India against our Indian patent that covers the composition of matter and use of certain Janus Kinase inhibitors, including ruxolitinib phosphate, for the treatment of myeloid proliferative disorders, cancer, immune-related diseases, skin disorders, and other diseases. Successful challenges to our patent or other intellectual property rights through these proceedings could result in a loss of rights in the relevant jurisdiction and allow third parties to use our proprietary technologies without a license from us or our collaborators, which may also result in loss of future royalty payments. In addition, successful challenges may jeopardize or delay our ability to enter into new collaborations or commercialize potential products, which could harm our business and results of operations.

[Table of Contents](#)

**Item 1B. Unresolved Staff Comments.**

None.

**Item 2. Properties**

Our corporate headquarters is in Wilmington, Delaware, which is where our drug discovery and development operations are also located. As of December 31, 2014, we had a 15 year lease agreement for approximately 190,000 square feet of laboratory and office space in Wilmington, Delaware.

**Item 3. Legal Proceedings**

None

**Item 4. Mine Safety Disclosures**

Not applicable.

**Executive Officers of the Registrant**

Our executive officers are as follows:

*Hervé Hoppenot*, age 54, joined Incyte as President and Chief Executive Officer and a Director, in January 2014. Mr. Hoppenot served as the President of Novartis Oncology, Novartis Pharmaceuticals Corporation, the U.S. subsidiary of Novartis AG, a pharmaceutical company, from January 2010 to January 2014. Prior to that, Mr. Hoppenot served in other executive positions at Novartis Pharmaceuticals Corporation, serving from September 2006 to January 2010 as Executive Vice President, Chief Commercial Officer of Novartis Oncology and Head of Global Product Strategy & Scientific Development of Novartis Pharmaceuticals Corporation and from 2003 to September 2006 as Senior Vice President, Head of Global Marketing of Novartis Oncology. Prior to joining Novartis, Mr. Hoppenot served in various increasingly senior roles at Aventis S.A. (formerly Rhône-Poulenc S.A.), a pharmaceutical company, including as Vice President Oncology US of Aventis Pharmaceuticals, Inc. from 2000 to 2003 and Vice President US Oncology Operations of Rhone-Poulenc Rorer Pharmaceuticals, Inc. from 1998 to 2000. Mr. Hoppenot holds a Diploma from ESSEC International Business School.

*James M. Daly*, age 53, has served as Executive Vice President and Chief Commercial Officer since October 2012. Prior to joining Incyte, Mr. Daly served as Senior Vice President of North America Commercial Operations and Global Marketing/Commercial Development of Amgen Inc., a biopharmaceutical company, where he was employed from January 2002 to December 2011. Prior to his employment with Amgen, Mr. Daly was Senior Vice President and General Manager of the Respiratory/Anti-infective business unit at GlaxoSmithKline, a pharmaceutical company, where he was employed from June 1985 to December 2001. Mr. Daly is a pharmacist and received his B.S. and M.B.A. degrees from SUNY at Buffalo.

*Barry P. Flannelly*, age 57, joined Incyte as our Executive Vice President, Business Development and Strategic Planning in August 2014. Prior to joining Incyte, he served as Chief Executive Officer of OSS Healthcare Inc., a biotechnology start-up company, from August 2013 to July 2014. He served as Vice President, Global Product Strategy and Commercial Planning of Nektar Therapeutics, a biopharmaceutical company, from April 2011 until April 2013 and as Senior Vice President, Commercial, of Onyx Pharmaceuticals, Inc., a biopharmaceutical company, from August 2008 until January 2011. Prior thereto, Dr. Flannelly held key positions at biopharmaceutical and pharmaceutical companies such as Abraxis BioScience, Inc. and Novartis. Dr. Flannelly earned his doctorate in pharmacy from the University of Maryland, School of Pharmacy, his master's degree in business administration from the University of Baltimore, and his B.S. degree in Pharmacy from Massachusetts College of Pharmacy.

## [Table of Contents](#)

*David W. Gryska*, age 58, joined Incyte as Executive Vice President and Chief Financial Officer in October 2014. Prior to joining Incyte, Mr. Gryska served as an independent consultant and as a member of several public company boards of directors. Mr. Gryska served as the Chief Operating Officer and a Director of Myrexix, Inc., a biotechnology company, from May 2012 to December 2012. From December 2006 to October 2010, Mr. Gryska served as Senior Vice President and Chief Financial Officer of Celgene Corporation, a biopharmaceutical company. From October 2004 to December 2006, Mr. Gryska was a principal at Strategic Consulting Group. Previously, Mr. Gryska served at Scios, Inc., a biopharmaceutical company, as Senior Vice President and Chief Financial Officer from 2000 to 2004, and as Vice President of Finance and Chief Financial Officer from 1998 to 2000. From 1993 to 1998, Mr. Gryska served as Vice President, Finance and Chief Financial Officer at Cardiac Pathways. Prior to Cardiac Pathways, Mr. Gryska served as a partner at Ernst & Young LLP. Mr. Gryska is a CPA, and Mr. Gryska holds a B.A. in Accounting and Finance from Loyola University and an M.B.A. from Golden Gate University.

*Reid M. Huber*, age 43, joined Incyte in January 2002 as Associate Director, Applied Technology. For the past 10 years, Dr. Huber has held roles of increasing responsibility in both drug discovery and clinical development at Incyte, and was appointed Executive Vice President, Chief Scientific Officer in April 2014. Prior to joining Incyte, Dr. Huber held scientific research positions with DuPont Pharmaceuticals Company from 1998 to 2002. Dr. Huber held intramural pre-doctoral and post-doctoral fellowships at the National Institutes of Health from 1997-1998. Dr. Huber received his B.S. in biochemistry/molecular genetics from Murray State University and his Ph.D. in molecular genetics from Washington University.

*Richard S. Levy, M.D.*, age 57, has served as Executive Vice President and Chief Drug Development and Medical Officer since January 2009 and joined the company as Senior Vice President of Drug Development in August 2003. Prior to joining Incyte, Dr. Levy held positions of increasing responsibility in drug development, clinical research and regulatory affairs at Celgene Corporation, from 2002 to 2003, DuPont Pharmaceuticals Company, from 1997 to 2002, and Sandoz (now part of Novartis), from 1991 to 1997. Prior to joining the pharmaceutical industry, Dr. Levy was Assistant Professor of Medicine at the UCLA School of Medicine. Dr. Levy is Board Certified in Internal Medicine and Gastroenterology and received his A.B. in Biology from Brown University and his M.D. from the University of Pennsylvania.

*Eric H. Siegel*, age 50, joined Incyte as our Chief Compliance Officer in October 2010 and became Executive Vice President and General Counsel in August 2011. Prior to joining Incyte, from April 2009 to October 2011, he was Chief Compliance Officer at EMD Serono, Inc., a privately-held biotechnology company. From 2007 to 2009 he served as General Counsel for Solstice Neurosciences, Inc., also a privately-held biotechnology company. He was Vice President, Deputy General Counsel and Chief Compliance Officer at Cephalon, Inc. from 2004 to 2007. Mr. Siegel holds a B.A. from Franklin and Marshall College, his M.B.A. from Temple University and his J.D. from the University of Pennsylvania.

*Paula J. Swain*, age 57, has served as Executive Vice President, Human Resources, of Incyte since August 2002 and joined the company as Senior Vice President of Human Resources in January 2002. Ms. Swain served as Senior Vice President of Human Resources at Bristol-Myers Squibb Company from October 2001 to January 2002, after it acquired DuPont Pharmaceuticals Company. From July 1998 to October 2001, Ms. Swain was Senior Vice President of Human Resources at DuPont Pharmaceuticals. From October 1992 to July 1998, Ms. Swain held a variety of human resources positions of increasing responsibility at DuPont Pharmaceuticals. Ms. Swain received her B.A. in Psychology and Industrial Relations from Rockhurst University.

*Wenqing Yao*, age 52, joined Incyte in February 2002 as Director, Chemistry. For the past nine years, Dr. Yao has held roles of increasing responsibility at Incyte, and was appointed Executive Vice President, Discovery Medicinal and Process Chemistry in October 2014. Prior to joining Incyte, Dr. Yao held scientific research positions with DuPont Pharmaceuticals and Bristol-Myers Squibb Company from 1996 to 2002. Dr. Yao received his B.S. in chemistry from Xuzhou Normal University, his M.S. in organic chemistry from NanKai University and his Ph.D. in organic/medicinal chemistry from the University of Pennsylvania.

**PART II**

**Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

Our common stock, \$.001 par value per share, is traded on The NASDAQ Global Select Market (Nasdaq) under the symbol "INCY." The following table sets forth, for the periods indicated, the range of high and low sales prices for our common stock on Nasdaq as reported in its consolidated transaction reporting system.

	<u>High</u>	<u>Low</u>
<b>2013</b>		
First Quarter	\$ 25.29	\$ 17.00
Second Quarter	24.86	18.23
Third Quarter	38.87	22.08
Fourth Quarter	52.47	33.01
<b>2014</b>		
First Quarter	\$ 70.86	\$ 49.66
Second Quarter	58.34	40.30
Third Quarter	57.34	45.06
Fourth Quarter	80.78	43.86

As of December 31, 2014, our common stock was held by 184 stockholders of record. We have never declared or paid dividends on our capital stock and do not anticipate paying any dividends in the foreseeable future.

**Item 6. Selected Financial Data**

**Selected Consolidated Financial Data  
(in thousands, except per share data)**

The data set forth below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in Item 7 and the Consolidated Financial Statements and related Notes included in Item 8 of this Report.

	Year Ended December 31,				
	2014	2013	2012	2011	2010
<b>Consolidated Statements of Operations Data:</b>					
Revenues:					
Product revenues, net(1)	\$ 357,562	\$ 235,443	\$ 136,001	\$ 2,012	\$ —
Product royalty revenues(2)	48,966	28,251	3,652	—	—
Contract revenues(3)	104,857	91,047	156,948	91,948	168,948
Other revenues	110	206	458	495	930
Total revenues	511,495	354,947	297,059	94,455	169,878
Costs and expenses:					
Cost of product revenues	3,004	630	157	—	—
Research and development	347,523	260,436	210,391	178,707	123,880
Selling, general and administrative	165,772	109,983	85,363	58,219	32,328
Other expenses(4)	—	—	—	712	(379)
Total costs and expenses	516,299	371,049	295,911	237,638	155,829
Income (loss) from operations	(4,804)	(16,102)	1,148	(143,183)	14,049
Interest and other income, net	3,350	1,324	764	462	1,416
Interest expense	(46,828)	(38,652)	(46,058)	(43,819)	(43,323)
Debt exchange expense on senior note conversions	(265)	(11,484)	—	—	—
Loss on repurchase/redemption of convertible senior and subordinated notes	—	(17,934)	—	—	(3,988)
Loss before provision for income taxes	(48,547)	(82,848)	(44,146)	(186,540)	(31,846)
(Benefit) provision for income taxes	(66)	299	174	—	—
Net loss	\$ (48,481)	\$ (83,147)	\$ (44,320)	\$ (186,540)	\$ (31,846)
Basic and diluted net loss per share	\$ (0.29)	\$ (0.56)	\$ (0.34)	\$ (1.49)	\$ (0.26)
Number of shares used in computation of basic and diluted net loss per share	167,947	148,403	129,747	125,362	121,628

- (1) 2014, 2013, 2012 and 2011 product revenues, net relates to our product sales of JAKAFI.
- (2) 2014, 2013 and 2012 product royalty revenues relate to Novartis net sales of JAKAVI outside the United States.
- (3) Contract revenues relates to our collaborative research and license agreements with Novartis and Lilly.
- (4) 2011 primarily relates to a settlement agreement. 2010 relates to restructuring activity.

	December 31,				
	2014	2013	2012	2011	2010
<b>Consolidated Balance Sheets Data:</b>					
Cash, cash equivalents, and marketable securities	\$ 600,263	\$ 509,004	\$ 228,418	\$ 277,594	\$ 424,168
Working capital	477,699	447,757	173,440	175,164	341,881
Total assets	830,069	629,568	330,419	328,962	489,581
Convertible senior notes	689,118	661,567	322,043	298,193	276,445
Convertible subordinated notes	—	—	9,033	17,960	16,987
Stockholders' deficit	(81,628)	(193,108)	(174,957)	(227,077)	(88,644)

**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with "Selected Consolidated Financial Data" and the Consolidated Financial Statements and related Notes included elsewhere in this Report.

Our current pipeline includes the following compounds:

<u>Target/Drug Compound</u>	<u>Indication</u>	<u>Status</u>
<b>ONCOLOGY</b>		
<b>JAK1 and JAK2</b>		
JAKAFI(1)	Myelofibrosis(11)(12)	FDA Approved—Marketed
JAKAFI(1)	Polycythemia Vera(13)	FDA Approved—Marketed
ruxolitinib(1)	Pancreatic Cancer	Phase III
ruxolitinib(1)	Breast Cancer	Phase II
ruxolitinib(1)	Non-Small Cell Lung Cancer	Phase II
ruxolitinib(1)	Colorectal Cancer	Phase II
<b>JAK1</b>		
INCB39110	Advanced Malignancies	Phase I/II
INCB39110	Non-Small Cell Lung Cancer	Phase II
INCB39110	Non-Small Cell Lung Cancer	Phase II
INCB52793	Advanced malignancies	Phase I/II
<b>PI3K-delta</b>		
INCB40093	B-lymphoid Malignancies	Phase I/II
INCB50465	Hematology / Oncology	Phase I/II
<b>JAK1+PI3K-delta</b>		
INCB39110+INCB40093	B-lymphoid Malignancies	Phase I/II
<b>IDO1</b>		
epacadostat	Metastatic Melanoma	Phase II
epacadostat(2)	Non-Small Cell Lung Cancer	Phase I/II
epacadostat(3)	Non-Small Cell Lung Cancer	Phase I/II
epacadostat(4)	Multiple tumor types	Phase I/II
epacadostat(5)	Multiple tumor types	Phase I/II
<b>c-MET</b>		
capmatinib(6)	Solid Tumors	Phase I/II
capmatinib(6)	Hepatocellular Carcinoma	Phase II
capmatinib(6)	Non-Small Cell Lung Cancer	Phase II
<b>FGFR</b>		
INCB54828(7)	Solid Tumors	Phase I/II
<b>BRD</b>		
INCB54329(7)	Hematology / Oncology	Phase I/II
<b>INFLAMMATION</b>		
<b>JAK1 and JAK2</b>		
baricitinib(8)	Rheumatoid Arthritis	Phase III
baricitinib(9)	Psoriasis	Phase IIb
baricitinib(10)	Diabetic Nephropathy	Phase II

(1) We licensed rights outside the United States to Novartis and retained U.S. rights.

## [Table of Contents](#)

- (2) In combination with Merck's anti-PD-1 immunotherapy, Keytruda (pembrolizumab).
- (3) In combination with Genentech's anti-PD-L1 immunotherapy, MPDL3280A.
- (4) In combination with AstraZeneca's anti-PD-L1 immunotherapy, MEDI4736.
- (5) In combination with Bristol-Myers-Squibb's anti-PD-1 immunotherapy, Opdivo (nivolumab).
- (6) We licensed worldwide rights to Novartis and retained co-development and co-promotion options.
- (7) Clinical trial not yet initiated.
- (8) We licensed worldwide rights to Lilly, have elected to co-develop with Lilly, and retained a co-promotion option.
- (9) We licensed worldwide rights to Lilly and retained a co-promotion option.
- (10) We licensed worldwide rights to Lilly and retained co-development and co-promotion options.
- (11) Several clinical trials in patients with myelofibrosis are ongoing, including long-term extension studies, alternative dosing studies, joint global trials with Novartis and trials in patients with low platelet counts.
- (12) JAKAFI is approved for treatment of people with intermediate or high-risk myelofibrosis (MF), including primary MF, post—polycythemia vera MF, and post—essential thrombocythemia MF.
- (13) JAKAFI is approved for treatment of people with polycythemia vera (PV) who have had an inadequate response to or are intolerant of hydroxyurea.

### **License Agreements**

#### *Novartis*

In November 2009, we entered into a Collaboration and License Agreement with Novartis. Under the terms of the agreement, Novartis received exclusive development and commercialization rights outside of the United States to ruxolitinib and certain back-up compounds for hematologic and oncology indications, including all hematological malignancies, solid tumors and myeloproliferative diseases. We retained exclusive development and commercialization rights to JAKAFI (ruxolitinib) in the United States and in certain other indications. Novartis also received worldwide exclusive development and commercialization rights to our c-MET inhibitor compound capmatinib and certain back-up compounds in all indications. We retained options to co-develop and to co-promote capmatinib in the United States.

Under this agreement, we received an upfront payment and immediate milestone payment totaling \$210.0 million and were initially eligible to receive additional payments of up to approximately \$1.2 billion if defined development and commercialization milestones are achieved. In 2014, 2013 and 2012, we received \$92.0 million, \$25.0 million and \$40.0 million, respectively, in milestone payments under this agreement. We are also eligible to receive tiered, double-digit royalties ranging from the upper-teens to the mid-twenties on future ruxolitinib net sales outside of the United States. In addition, Novartis has received reimbursement and pricing approval for ruxolitinib in a specified number of countries, and we are now obligated to pay to Novartis tiered royalties in the low single digits on future ruxolitinib net sales within the United States. Each company is responsible for costs relating to the development and commercialization of ruxolitinib in its respective territories, with costs of collaborative studies shared equally. Novartis is now responsible for all costs relating to the development and commercialization of capmatinib. JAKAFI is sold outside of the United States by Novartis under the name JAKAVI. For the years ended December 31, 2014, 2013 and 2012, we recorded \$49.0 million, \$28.3 million and \$3.7 million, respectively, of product royalty revenues related to Novartis net sales of JAKAVI.

The Novartis agreement will continue on a program-by-program basis until Novartis has no royalty payment obligations with respect to such program or, if earlier, the termination of the agreement or any program in accordance with the terms of the agreement. Royalties are payable by Novartis on a product-by-product and country-by-country basis until the latest to occur of (1) the expiration of the last valid claim of the licensed patent rights covering the licensed product in the relevant country, (2) the expiration of regulatory exclusivity for the licensed product in such country and (3) a specified period from

[Table of Contents](#)

first commercial sale in such country of the licensed product by Novartis or its affiliates or sublicensees. The agreement may be terminated in its entirety or on a program-by-program basis by Novartis for convenience. The agreement may also be terminated by either party under certain other circumstances, including material breach.

***Lilly***

In December 2009, we entered into a License, Development and Commercialization Agreement with Lilly. Under the terms of the agreement, Lilly received exclusive worldwide development and commercialization rights to baricitinib and certain back-up compounds for inflammatory and autoimmune diseases. We received an initial payment of \$90.0 million, and were initially eligible to receive additional payments of up to \$665.0 million based on the achievement of defined development, regulatory and commercialization milestones. In 2012, we recognized a \$50.0 million milestone under this agreement, and in 2010, we received \$49.0 million in milestone payments under this agreement. We also could receive tiered, double-digit royalty payments on future global net sales with rates ranging up to 20% if the product is successfully commercialized.

We retained options to co-develop our JAK1/JAK2 inhibitors with Lilly on a compound-by-compound and indication-by-indication basis. Lilly is responsible for all costs relating to the development and commercialization of the compounds unless we elect to co-develop any compounds or indications. If we elect to co-develop any compounds and/or indications, we would be responsible for funding 30% of the associated future global development costs from the initiation of a Phase IIb trial through regulatory approval. We would receive an incremental royalty rate increase across all tiers resulting in effective royalty rates ranging up to the high twenties on potential future global net sales for compounds and/or indications that we elect to co-develop. We also retained an option to co-promote products in the United States. In July 2010, we elected to co-develop baricitinib with Lilly in rheumatoid arthritis and we are responsible for funding 30% of the associated future global development costs for this indication from the initiation of the Phase IIb trial through regulatory approval. Baricitinib is also being developed in psoriasis and diabetic nephropathy. We have decided not to exercise our co-development option for psoriasis. The Lilly agreement will continue until Lilly no longer has any royalty payment obligations or, if earlier, the termination of the agreement in accordance with its terms. Royalties are payable by Lilly on a product-by-product and country-by-country basis until the latest to occur of (1) the expiration of the last valid claim of the licensed patent rights covering the licensed product in the relevant country, (2) the expiration of regulatory exclusivity for the licensed product in such country and (3) a specified period from first commercial sale in such country of the licensed product by Lilly or its affiliates or sublicensees. The agreement may be terminated by Lilly for convenience, and may also be terminated under certain other circumstances, including material breach.

***Agenus***

In January 2015, we entered into a License, Development and Commercialization Agreement with Agenus Inc. and its wholly-owned subsidiary, 4-Antibody AG, which we collectively refer to as Agenus. Under this agreement, the parties have agreed to collaborate on the discovery of novel immunotherapeutics using Agenus' proprietary Retrocyte Display antibody discovery platform. The effectiveness of the agreement is conditioned on the expiration of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 (HSR Act).

Under the terms of this agreement, we received exclusive worldwide development and commercialization rights to four checkpoint modulators directed against GITR, OX40, LAG-3 and TIM-3. In addition to the initial four program targets, we and Agenus have the option to jointly nominate and pursue additional targets within the framework of the collaboration. These targets may be designated profit-share programs, where all costs and profits are shared equally by us and Agenus, or royalty-bearing programs, where we will be responsible for all costs associated with discovery, preclinical activities, clinical



## [Table of Contents](#)

development and commercialization activities. The programs relating to GITR and OX40 are profit-share programs and the programs relating to LAG-3 and TIM-3 are royalty-bearing programs. All costs related to the collaboration are subject to a joint research plan. We agreed to pay Agenus upfront non-refundable payments totaling \$25.0 million. For each royalty-bearing product, Agenus will be eligible to receive up to \$155.0 million in future contingent development, regulatory and commercialization milestones as well as tiered royalties on global net sales ranging from 6% to 12%. For each profit-share product, Agenus will be eligible to receive up to \$20.0 million in future contingent development milestones. Additionally, Agenus retains co-promotion participation rights in the United States on any profit-share product. For each royalty-bearing product, Agenus has reserved the right to elect to co-fund 30% of development costs for a commensurate increase in royalties. The agreement may be terminated by us for convenience and may also be terminated under certain other circumstances, including material breach. We have agreed to certain standstill provisions that allow us to acquire up to 15% of Agenus Inc.'s outstanding voting stock, including shares acquired pursuant to the Stock Purchase Agreement described below, solely for investment purposes.

We also entered into a Stock Purchase Agreement with Agenus Inc., pursuant to which we agreed to purchase, subject to expiration of the waiting period under the HSR Act, approximately 7.76 million shares of Agenus Inc. common stock for an aggregate purchase price of \$35.0 million in cash, or approximately \$4.51 per share. We will own approximately 11% of the outstanding shares of Agenus Inc.'s common stock after such purchase. We have agreed not to dispose of any of the shares of common stock for a period of 12 months and Agenus Inc. has agreed to certain registration rights with respect to the shares of common stock.

### ***Pfizer***

In January 2006, we entered into a Collaborative Research and License Agreement with Pfizer Inc. for the pursuit of our CCR2 antagonist program. Pfizer gained worldwide development and commercialization rights to our portfolio of CCR2 antagonist compounds. Pfizer's rights extend to the full scope of potential indications, with the exception of multiple sclerosis and autoimmune nephritides, where 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. The agreement will terminate upon the expiration of the last to expire of patent rights licensed under the agreement. Prior to such expiration, either party can terminate the agreement for the uncured material breach of the agreement by the other party or for the insolvency of the other party. In addition, Pfizer may terminate the agreement at any time upon 90 days' notice. We received an upfront nonrefundable, non-creditable payment of \$40.0 million in January 2006 and are eligible to receive additional future development and milestone payments. We received a \$3.0 million milestone payment from Pfizer in 2010.

### **Critical Accounting Policies and Significant Estimates**

The preparation of financial statements requires us to make estimates, assumptions and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities. On an on-going basis, we evaluate our estimates. We base our estimates on historical experience and various other assumptions that we believe to be reasonable under the circumstances, the results of which form our basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from those estimates under different assumptions or conditions.

We believe the following critical accounting policies affect the more significant judgments and estimates used in the preparation of our consolidated financial statements:

- Revenue recognition;
- Research and development costs;

## [Table of Contents](#)

- Stock compensation;
- Investments;
- Inventory; and
- Convertible debt accounting

**Revenue Recognition.** Revenues are recognized when (1) persuasive evidence of an arrangement exists, (2) delivery has occurred or services have been rendered, (3) the price is fixed or determinable and (4) collectability is reasonably assured. Revenues are deferred for fees received before earned or until no further obligations exist. We exercise judgment in determining that collectability is reasonably assured or that services have been delivered in accordance with the arrangement. We assess whether the fee is fixed or determinable based on the payment terms associated with the transaction and whether the sales price is subject to refund or adjustment. We assess collectability based primarily on the customer's payment history and on the creditworthiness of the customer. Our product revenues consist of U.S. sales of JAKAFI and are recognized once we meet all four revenue recognition criteria described above. In November 2011, we began shipping JAKAFI to our specialty pharmacy customers, which in turn dispense JAKAFI to patients in fulfillment of prescriptions.

We recognize revenues for product received by our specialty pharmacy customers net of allowances for customer credits, including estimated rebates, chargebacks, discounts, returns, distribution service fees, patient assistance programs, and Medicare Part D coverage gap reimbursements. Product shipping and handling costs are included in cost of product revenues.

**Customer Credits:** Our specialty pharmacy customers are offered various forms of consideration, including allowances, service fees and prompt payment discounts. We expect our specialty pharmacy customers will earn prompt payment discounts and, therefore, we deduct the full amount of these discounts from total product sales when revenues are recognized. Service fees are also deducted from total product sales as they are earned.

**Rebates:** Allowances for rebates include mandated discounts under the Medicaid Drug Rebate Program. Rebate amounts are based upon contractual agreements or legal requirements with public sector (e.g., Medicaid) benefit providers. Rebates are amounts owed after the final dispensing of the product to a benefit plan participant and are based upon contractual agreements or legal requirements with public sector benefit providers. The accrual for rebates is based on statutory discount rates and expected utilization as well as historical data we have accumulated since product launch. Our estimates for expected utilization of rebates are based on data received from our specialty pharmacy customers. Rebates are generally invoiced and paid in arrears so that the accrual balance consists of an estimate of the amount expected to be incurred for the current quarter's activity, plus an accrual balance for known prior quarters' unpaid rebates. If actual future rebates vary from estimates, we may need to adjust prior period accruals, which would affect revenue in the period of adjustment.

**Chargebacks:** Chargebacks are discounts that occur when contracted customers purchase directly from a specialty pharmacy, or an intermediary distributor. Contracted customers, which currently consist primarily of Public Health Service institutions, non-profit clinics, and Federal government entities purchasing via the Federal Supply Schedule, generally purchase the product at a discounted price. The specialty pharmacy or distributor, in turn, charges back to us the difference between the price initially paid by the specialty pharmacy or distributor and the discounted price paid to the specialty pharmacy or distributor by the customer. The accrual for chargebacks is based on the estimated contractual discounts on the inventory levels on hand in our distribution channel. If actual future chargebacks vary from estimates, we may need to adjust prior period accruals, which would affect revenue in the period of adjustment.

## [Table of Contents](#)

*Medicare Part D Coverage Gap:* Medicare Part D prescription drug benefit mandates manufacturers to fund 50% of the Medicare Part D insurance coverage gap for prescription drugs sold to eligible patients. Our estimates for the expected Medicare Part D coverage gap are based on historical invoices received and in part from data received from our specialty pharmacy customers. Funding of the coverage gap is generally invoiced and paid in arrears so that the accrual balance consists of an estimate of the amount expected to be incurred for the current quarter's activity, plus an accrual balance for known prior quarters. If actual future funding varies from estimates, we may need to adjust prior period accruals, which would affect revenue in the period of adjustment.

*Co-payment assistance:* Patients who have commercial insurance and meet certain eligibility requirements may receive co-payment assistance. We accrue a liability for co-payment assistance based on actual program participation and estimates of program redemption using data provided by third-party administrators.

### Product Royalty Revenues

Royalty revenues on commercial sales for JAKAVI by Novartis are estimated based on information provided by Novartis. We exercise judgment in determining whether the information provided is sufficiently reliable for us to base our royalty revenue recognition thereon. If actual royalties vary from estimates, we may need to adjust prior period which would affect royalty revenue in the period of adjustment.

### Cost of Product Revenues

Cost of product revenues includes all JAKAVI related costs that are recoverable through the commercialization of the product. Beginning in October 2014, we became obligated to pay tiered, low-single digit royalties to Novartis on all future sales of JAKAVI in the United States, which are included in cost of product revenues.

### Contract and License Revenues

Under agreements involving multiple deliverables, services and/or rights to use assets that we entered into prior to January 1, 2011, the multiple elements are divided into separate units of accounting when certain criteria are met, including whether the delivered items have stand-alone value to the customer and whether there is objective and reliable evidence of the fair value of the undelivered items. When separate units of accounting exist, consideration is allocated among the separate elements based on their respective fair values. The determination of fair value of each element is based on objective evidence from historical sales of the individual elements by us to other customers. If such evidence of fair value for each undelivered element of the arrangement does not exist, all revenue from the arrangement is deferred until such time that evidence of fair value for each undelivered element does exist or until all elements of the arrangement are delivered. When elements are specifically tied to a separate earnings process, revenue is recognized when the specific performance obligation tied to the element is completed. When revenues for an element are not specifically tied to a separate earnings process, they are recognized ratably over the term of the agreement. We assess whether a substantive milestone exists at the inception of our agreements. For all milestones within our arrangements that are considered substantive, we recognize revenue upon the achievement of the associated milestone. If a milestone is not considered substantive, we would recognize the applicable milestone payment over the remaining period of performance under the arrangement. As of December 31, 2014, all remaining potential milestones under our collaborative arrangements are considered substantive.

On January 1, 2011, updated guidance on the recognition of revenues for agreements with multiple deliverables became effective and applies to any agreements we may enter into on or after January 1, 2011. This updated guidance (i) relates to whether multiple deliverables exist, how the deliverables in a revenue

## [Table of Contents](#)

arrangement should be separated and how the consideration should be allocated; (ii) requires companies to allocate revenues in an arrangement using estimated selling prices of deliverables if a vendor does not have vendor-specific objective evidence or third-party evidence of selling price; and (iii) eliminates the use of the residual method and requires companies to allocate revenues using the relative selling price method. During the years ended December 31, 2014, 2013 and 2012, we did not enter into any agreements that are subject to this updated guidance. If we enter into an agreement with multiple deliverables after January 1, 2011 or amend existing agreements, this updated guidance could have a material effect on our financial statements.

Our collaborations often include contractual milestones, which typically relate to the achievement of pre-specified development, regulatory and commercialization events. These three categories of milestone events reflect the three stages of the life-cycle of our drugs, which we describe in more detail in the following paragraphs.

The regulatory review and approval process, which includes preclinical testing and clinical trials of each drug candidate, is lengthy, expensive and uncertain. Securing approval by the U.S. Food and Drug Administration (FDA) requires the submission of extensive preclinical and clinical data and supporting information to the FDA for each indication to establish a drug candidate's safety and efficacy. The approval process takes many years, requires the expenditure of substantial resources, involves post-marketing surveillance and may involve ongoing requirements for post-marketing studies. Before commencing clinical investigations of a drug candidate in humans, we must submit an Investigational New Drug application (IND), which must be reviewed by the FDA.

The steps generally required before a drug may be marketed in the United States include preclinical laboratory tests, animal studies and formulation studies, submission to the FDA of an IND for human clinical testing, performance of adequate and well-controlled clinical trials in three phases, as described below, to establish the safety and efficacy of the drug for each indication, submission of a new drug application (NDA) or biologics license application (BLA) to the FDA for review and FDA approval of the NDA or BLA.

Similar requirements exist within foreign regulatory agencies as well. The time required satisfying the FDA requirements or similar requirements of foreign regulatory agencies may vary substantially based on the type, complexity and novelty of the product or the targeted disease.

Preclinical testing includes laboratory evaluation of product pharmacology, drug metabolism, and toxicity, which includes animal studies, to assess potential safety and efficacy as well as product chemistry, stability, formulation, development, and testing. The results of the preclinical tests, together with manufacturing information and analytical data, are submitted to the FDA as part of an IND. The FDA may raise safety concerns or questions about the conduct of the clinical trials included in the IND, and any of these concerns or questions must be resolved before clinical trials can proceed. We cannot be sure that submission of an IND will result in the FDA allowing clinical trials to commence. Clinical trials involve the administration of the investigational drug or the marketed drug to human subjects under the supervision of qualified investigators and in accordance with good clinical practices regulations covering the protection of human subjects. Clinical trials typically are conducted in three sequential phases, but the phases may overlap or be combined. Phase I usually involves the initial introduction of the investigational drug into healthy volunteers to evaluate its safety, dosage tolerance, absorption, metabolism, distribution and excretion. Phase II usually involves clinical trials in a limited patient population to evaluate dosage tolerance and optimal dosage, identify possible adverse effects and safety risks, and evaluate and gain preliminary evidence of the efficacy of the drug for specific indications. Phase III clinical trials usually further evaluate clinical efficacy and safety by testing the drug in its final form in an expanded patient population, providing statistical evidence of efficacy and safety, and providing an adequate basis for labeling. We cannot guarantee that Phase I, Phase II or Phase III testing will be completed successfully within any specified period of time, if at all. Furthermore, we, the institutional review board for a trial, or

## [Table of Contents](#)

the FDA may suspend clinical trials at any time on various grounds, including a finding that the subjects or patients are being exposed to an unacceptable health risk.

Generally, the milestone events contained in our collaboration agreements coincide with the progression of our drugs from development, to regulatory approval and then to commercialization. The process of successfully discovering a new development candidate, having it approved and successfully commercialized is highly uncertain. As such, the milestone payments we may earn from our partners involve a significant degree of risk to achieve. Therefore, as a drug candidate progresses through the stages of its life-cycle, the value of the drug candidate generally increases.

**Research and Development Costs.** Our policy is to expense research and development costs as incurred. We often contract with clinical research organizations (CROs) to facilitate, coordinate and perform agreed upon research and development of a new drug. To ensure that research and development costs are expensed as incurred, we record monthly accruals for clinical trials and preclinical testing costs based on the work performed under the contract.

These CRO contracts typically call for the payment of fees for services at the initiation of the contract and/or upon the achievement of certain clinical trial milestones. In the event that we prepay CRO fees, we record the prepayment as a prepaid asset and amortize the asset into research and development expense over the period of time the contracted research and development services are performed. Most professional fees, including project and clinical management, data management, monitoring, and medical writing fees are incurred throughout the contract period. These professional fees are expensed based on their percentage of completion at a particular date. Our CRO contracts generally include pass through fees. Pass through fees include, but are not limited to, regulatory expenses, investigator fees, travel costs, and other miscellaneous costs, including shipping and printing fees. We expense the costs of pass through fees under our CRO contracts as they are incurred, based on the best information available to us at the time. The estimates of the pass through fees incurred are based on the amount of work completed for the clinical trial and are monitored through correspondence with the CROs, internal reviews and a review of contractual terms. The factors utilized to derive the estimates include the number of patients enrolled, duration of the clinical trial, estimated patient attrition, screening rate and length of the dosing regimen. CRO fees incurred to set up the clinical trial are expensed during the setup period.

Under our clinical trial collaboration agreements, we may be reimbursed for certain development costs incurred. Such costs are recorded as a reduction of research and development expense in the period in which the related expense is incurred.

**Stock Compensation.** Share-based payment transactions with employees, which include stock options, restricted stock units (RSUs) and performance shares (PSUs), are recognized as compensation expense over the requisite service period based on their estimated fair values on the dates of grant. The stock compensation process requires significant judgment and the use of estimates, particularly surrounding Black-Scholes assumptions such as stock price volatility over the option term and expected option lives, as well as expected forfeiture rates and the probability of PSUs vesting. The fair value of stock options, which are subject to graded vesting, are recognized as compensation expense over the requisite service period using the accelerated attribution method. The fair value of RSUs, which are generally subject to cliff vesting, are recognized as compensation expense over the requisite service period using the straight line attribution method. The fair value of PSUs are recognized as compensation expense beginning at the time in which the performance conditions are deemed probable of achievement, over the remaining requisite service period. We recorded \$62.2 million, \$38.4 million and \$38.5 million of stock compensation expense for the years ended December 31, 2014, 2013 and 2012, respectively.

**Investments.** We carry our investments at their respective fair values. We periodically evaluate the fair values of our investments to determine whether any declines in the fair value of investments represent an other-than-temporary impairment. This evaluation consists of a review of several factors, including the

## [Table of Contents](#)

length of time and extent that a security has been in an unrealized loss position, the existence of an event that would impair the issuer's future repayment potential, the near term prospects for recovery of the market value of a security and if we intend to sell or if it is more likely than not that we will be required to sell the security before recovery of its amortized cost basis. If management determines that such an impairment exists, we would recognize an impairment charge. Because we may determine that market or business conditions may lead us to sell our marketable securities prior to maturity, we classify our marketable securities as "available-for-sale." Investments in securities that are classified as available-for-sale and have readily determinable fair values are measured at fair market value in the balance sheets, and unrealized holding gains and losses for these investments are reported as a separate component of stockholders' equity until realized. We classify marketable securities that are available for use in current operations as current assets on the consolidated balance sheets.

**Inventory.** Inventories are determined at the lower of cost or market value with cost determined under the specific identification method and may consist of raw materials, work in process and finished goods. We began capitalizing inventory in mid-November 2011 once the FDA approved JAKAFI as the related costs were expected to be recoverable through the commercialization of the product. Costs incurred prior to approval of JAKAFI have been recorded as research and development expense in our statements of operations. As a result, cost of product revenues for approximately the next 21 to 24 months will reflect a lower average per unit cost of materials.

The raw materials and work-in-process inventory is not subject to expiration and the shelf life for finished goods inventory is 36 months from the start of manufacturing of the finished goods. We evaluate for potential excess inventory by analyzing current and future product demand relative to the remaining product shelf life. We build demand forecasts by considering factors such as, but not limited to, overall market potential, market share, market acceptance and patient usage. We classify inventory as current on the consolidated balance sheets when we expect inventory to be consumed for commercial use within the next twelve months.

**Convertible Debt Accounting.** We perform an assessment of all embedded features of a debt instrument to determine if (1) such features should be bifurcated and separately accounted for, and (2) if bifurcation requirements are met, whether such features should be classified and accounted for as equity or liability instruments. If the embedded feature meets the requirements to be bifurcated and accounted for as a liability, the fair value of the embedded feature is measured initially, included as a liability on the consolidated balance sheet, and re-measured to fair value at each reporting period. Any changes in fair value are recorded in the consolidated statement of operations. We monitor, on an ongoing basis, whether events or circumstances could give rise to a change in our classification of embedded features.

We determined the embedded conversion options in the 0.375% convertible senior notes due 2018 (the 2018 Notes) and the 1.25% convertible senior notes due 2020 (the 2020 Notes) are not required to be separately accounted for as derivatives. However, since the 2018 Notes and the 2020 Notes can be settled in cash or common shares or a combination of cash and common shares at our option, we are required to separate the 2018 Notes and 2020 Notes into a liability and equity component. The carrying amount of the liability component is calculated by measuring the fair value of a similar liability that does not have an associated equity component. The carrying amount of the equity component representing the embedded conversion option is determined by deducting the fair value of the liability component from the initial proceeds. The excess of the principal amount of the liability component over its carrying amount is amortized to interest expense over the expected life of the 2018 Notes and 2020 Notes using the effective interest method. The equity component is not re-measured as long as it continues to meet the conditions for equity classification for contracts in an entity's own equity.

The fair value of the liability component of the 2018 Notes was estimated at \$299.4 million at issuance. Therefore, the difference between the \$375.0 million face value of the 2018 Notes and the \$299.4 million

## [Table of Contents](#)

estimated fair value of the liability component will be amortized to interest expense over the term of the 2018 Notes through November 15, 2018 using the effective interest method.

The fair value of the liability component of the 2020 Notes was estimated at \$274.8 million at issuance. Therefore, the difference between the \$375.0 million face value of the 2020 Notes and the \$274.8 million estimated fair value of the liability component will be amortized to interest expense over the term of the 2020 Notes through November 15, 2020 using the effective interest method.

The estimated fair value of the liability components at the date of issuance for the 2018 Notes and 2020 Notes were determined using valuation models and are complex and subject to judgment. Significant assumptions within the valuation models included an implied credit spread, the expected volatility and dividend yield of our common stock and the risk free interest rate for notes with a similar term.

Prior to May 14, 2014, the 2018 Notes and 2020 Notes were not convertible except in connection with a make-whole fundamental change, as defined in the respective indentures. Beginning on, and including, May 15, 2014, the 2018 Notes and 2020 Notes are convertible prior to the close of business on the business day immediately preceding May 15, 2018, in the case of the 2018 Notes, and May 15, 2020, in the case of the 2020 Notes, only under the following circumstances: (1) during any calendar quarter commencing after the calendar quarter ending on March 31, 2014 (and only during such calendar quarter), if the last reported sale price of our common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price for the 2018 Notes or 2020 Notes, as applicable, on each applicable trading day; (2) during the five business day period after any five consecutive trading day period (the measurement period) in which the trading price per \$1,000 principal amount of 2018 Notes or 2020 Notes, as applicable, for each trading day of the measurement period was less than 98% of the product of the last reported sale price of our common stock and the conversion rate for the 2018 Notes or 2020 Notes, as applicable, on each such trading day; or (3) upon the occurrence of specified corporate events. On or after May 15, 2018, in the case of the 2018 Notes, and May 15, 2020, in the case of the 2020 Notes, until the close of business on the second scheduled trading day immediately preceding the relevant maturity date, the Notes are convertible at any time, regardless of the foregoing circumstances. Upon conversion we will pay or deliver, as the case may be, cash, shares of common stock or a combination of cash and shares of common stock, at our election.

On a quarterly basis, we perform an assessment in order to determine whether the 2018 Notes or 2020 Notes have become convertible at the option of the holder, based on meeting any of the conversion criteria described above. Should either the 2018 Notes or the 2020 Notes become convertible, we then assess our intent and ability to settle the 2018 Notes or the 2020 Notes in cash, shares of common stock, or a combination of cash and shares of common stock, in order to determine the appropriate classification of the 2018 Notes and the 2020 Notes at the balance sheet date. On January 1, 2015, the 2018 Notes and 2020 Notes became convertible through at least March 31, 2015, based on meeting the conversion criteria related to the sale price of our common stock during the calendar quarter ended December 31, 2014 as described above. Management's intent is to settle any conversions of 2018 Notes or 2020 Notes in common shares and, therefore, the 2018 and 2020 Notes are reflected in long term liabilities on the consolidated balance sheet as of December 31, 2014.

**Results of Operations****Years Ended December 31, 2014 and 2013**

We recorded net losses for the years ended December 31, 2014 and 2013 of \$48.5 million and \$83.1 million, respectively. On a basic and diluted per share basis, net loss was \$0.29 and \$0.56 for the years ended December 31, 2014 and 2013, respectively.

**Revenues**

	For the Years Ended, December 31,	
	2014	2013
	(in millions)	
Product revenues, net	\$ 357.6	\$ 235.4
Product royalty revenues	49.0	28.3
Contract revenues	104.8	91.0
Other revenues	0.1	0.2
<b>Total revenues</b>	<b>\$ 511.5</b>	<b>\$ 354.9</b>

Our product revenues, net from JAKAFI for the years ended December 31, 2014 and 2013, were \$357.6 million and \$235.4 million, respectively. This increase was comprised of a volume increase of \$92.3 million and a price increase of \$29.9 million. Product revenues from the sale of JAKAFI are recorded net of estimated product returns, pricing discounts including rebates offered pursuant to mandatory federal and state government programs and chargebacks, prompt pay discounts and distribution fees and co-pay assistance. Our revenue recognition policies require estimates of the aforementioned sales allowances each period.

The following table provides a summary of activity with respect to our sales allowances and accruals for the year ended December 31, 2014:

Year Ended December 31, 2014	Discounts and Distribution Fees	Government Rebates and Chargebacks	Co-Pay Assistance and Other Discounts	Product Returns	Total
Balance at January 1, 2014	\$ 803	\$ 3,435	\$ 108	\$ 292	\$ 4,638
Allowances for current period sales	11,055	28,377	874	625	40,931
Allowances for prior period sales	—	(188)	—	370	182
Credits/payments for current period sales	(8,998)	(20,734)	(755)	(226)	(30,713)
Credits/payments for prior period sales	(803)	(2,984)	(108)	(662)	(4,557)
Balance at December 31, 2014	<u>\$ 2,057</u>	<u>\$ 7,906</u>	<u>\$ 119</u>	<u>\$ 399</u>	<u>\$ 10,481</u>

Government rebates and chargebacks are the most significant component of our sales allowances. Increases in certain government reimbursement rates are limited to a measure of inflation, and when the price of a drug increases faster than this measure of inflation it will result in a penalty adjustment factor that causes a larger sales allowance to those government related entities. We expect government rebates and chargebacks as a percentage of our gross product sales will continue to increase in connection with any future JAKAFI price increases greater than the rate of inflation, and any such increase in these government rebates and chargebacks will have a negative impact on our reported product revenues, net.

We expect our sales allowances to fluctuate from quarter to quarter as a result of the Medicare Part D Coverage Gap, the volume of purchases eligible for government mandated discounts and rebates as well as changes in discount percentages which are impacted by potential future price increases, rate of inflation, and other factors.



[Table of Contents](#)

Product royalty revenues on commercial sales for JAKAVI by Novartis are based on net sales of licensed products in licensed territories as provided by Novartis. Our net product royalty revenues for the years ended December 31, 2014 and 2013, were \$49.0 million and \$28.3 million, respectively. Future product royalty revenues on commercial sales for JAKAVI by Novartis could be impacted by foreign currency exchange rate fluctuations.

Our contract revenues were \$104.8 million and \$91.0 million in 2014 and 2013, respectively. For the years ended December 31, 2014 and 2013, contract revenues were derived from the straight line recognition of revenue associated with the Novartis and Lilly upfront fees over the estimated performance periods as well as milestone payments earned during the periods. The upfront fees related to the Novartis agreement included a \$150.0 million upfront payment received in 2009, a \$60.0 million immediate milestone payment received in 2010 and \$10.9 million of reimbursable costs incurred prior to the effective date of the agreement. The upfront fees related to the Lilly agreement consisted of a \$90.0 million upfront payment received in 2010. The increase from 2013 to 2014 primarily relates to recognition of \$92.0 million in milestone payments from Novartis in 2014 compared to the recognition of \$25.0 million from Novartis in 2013 and \$53.2 million of amortization of the Novartis upfront payment in 2013, through the substantive completion date of our performance obligation with Novartis.

#### ***Cost of Product Revenues***

We began capitalizing inventory in mid-November 2011 once the FDA approved JAKAVI as the related costs were expected to be recoverable through the commercialization of the product. Costs incurred prior to FDA approval of \$9.6 million were recorded as research and development expenses in our statements of operations prior to commercialization of JAKAVI. At December 31, 2014, inventory with \$2.3 million of product costs incurred prior to FDA approval had not yet been sold. We expect to sell the pre-commercialization inventory over the next 24 months; however, the time period over which this inventory is consumed will depend on a number of factors, including the amount of future JAKAVI sales, and the ability to utilize inventory prior to its expiration date. As a result, cost of product revenues for the next 24 months will reflect a lower average per unit cost of materials. Commencing in October 2014, we became obligated to pay tiered, low-single digit royalties to Novartis on all sales of JAKAVI in the United States, which is included in cost of product revenues.

Cost of product revenues was \$3.0 million and \$0.6 million for the years ended December 31, 2014 and 2013, respectively. Cost of product revenues increased from 2013 to 2014 due to increased JAKAVI sales and our obligation that commenced in October 2014 to pay royalties to Novartis on all JAKAVI sales in the United States. We expect future cost of product revenues to range in the mid-single digits as a percentage of net product sales subsequent to the utilization of all of the remaining pre-launch inventory.

#### ***Operating Expenses***

##### *Research and development expenses*

	For the Years Ended, December 31,	
	2014	2013
	(in millions)	
Salary and benefits related	\$ 92.5	\$ 73.3
Stock compensation	33.9	26.2
Clinical research and outside services	186.1	131.8
Occupancy and all other costs	35.0	29.1
Total research and development expenses	<u>\$ 347.5</u>	<u>\$ 260.4</u>

[Table of Contents](#)

We currently account for research and development costs by natural expense line and not costs by project. Salary and benefits related expense increased from 2013 to 2014 due primarily to increased development headcount to sustain our development pipeline. Stock compensation expense may fluctuate from period to period based on the number of options granted, stock price volatility and expected option lives, as well as expected option forfeiture rates which are used to value equity-based compensation. The increase in clinical research and outside services expense from 2013 to 2014 was primarily the result of increased development costs. Research and development expenses for the year ended December 31, 2014 and 2013 were net of \$4.3 million, \$5.1 million, respectively, of costs reimbursed by our collaborative partners. Research and development expenses may fluctuate from period to period depending upon the stage of certain projects and the level of pre-clinical and clinical trial related activities. Many factors can affect the cost and timing of our clinical trials, including requests by regulatory agencies for more information, inconclusive results requiring additional clinical trials, slow patient enrollment, adverse side effects among patients, insufficient supplies for our clinical trials and real or perceived lack of effectiveness or safety of our investigational drugs in our clinical trials. In addition, the development of all of our products will be subject to extensive governmental regulation. These factors make it difficult for us to predict the timing and costs of the further development and approval of our products.

In July 2010, we elected to co-develop baricitinib with Lilly in rheumatoid arthritis and we are responsible for funding 30% of the associated future global development costs for this indication from the initiation of the Phase IIb trial through regulatory approval. Research and development expenses recorded under the Lilly agreement representing 30% of the global development costs for baricitinib for the treatment of rheumatoid arthritis were \$49.3 million and \$52.4 million for the years ended December 31, 2014 and 2013, respectively. We have retained certain mechanisms to give us cost protection as baricitinib advances in clinical development. We can defer our portion of co-development study costs by indication if they exceed a predetermined level. This deferment would be credited against future milestones or royalties and we would still be eligible for the full incremental royalties related to the co-development option. In addition, even if we have started co-development funding for any indication, we can at any time opt out, which will stop future co-development cost sharing. If we elect to do this we would still be eligible for our base royalties plus an incremental pro-rated royalty commensurate with our contribution to the total co-development cost for those indications for which we contributed funding.

*Selling, general and administrative expenses*

	For the Years Ended, December 31,	
	2014	2013
	(\$ in millions)	
Salary and benefits related	\$ 52.7	\$ 35.2
Stock compensation	28.3	12.2
Other contract services and outside costs	84.8	62.6
Total selling, general and administrative expenses	<u>\$ 165.8</u>	<u>\$ 110.0</u>

Salary and benefits related expense increased from 2013 to 2014 due to increased headcount. This increased headcount was due primarily to the ongoing commercialization efforts related to JAKAFI for intermediate or high-risk myelofibrosis and preparation for the commercial launch in uncontrolled polycythemia vera in December 2014. Stock compensation expense may fluctuate from period to period based on the number of options granted, stock price volatility and expected option lives, as well as expected option forfeiture rates which are used to value equity-based compensation. The increase in other contract services and outside costs was primarily the result of marketing activities for JAKAFI for intermediate or high-risk myelofibrosis and preparation for the commercial launch in uncontrolled polycythemia vera in December 2014.

[Table of Contents](#)**Other income (expense)**

*Interest and other income, net.* Interest and other income, net, for the years ended December 31, 2014 and 2013 was \$3.4 million and \$1.3 million, respectively.

*Interest expense.* Interest expense for the years ended December 31, 2014 and 2013, was \$46.8 million and \$38.7 million, respectively. Included in interest expense for the years ended December 31, 2014 and 2013, were \$35.7 million and \$23.8 million, respectively, of non-cash charges to amortize the discounts on our 4.75% convertible senior notes due 2015 (the 2015 Notes), the 2018 Notes and the 2020 Notes.

*Debt exchange expense on senior note conversions.* Debt exchange expense on senior note conversions for the years ended December 31, 2014 and 2013 was \$0.3 million and \$11.5 million, respectively, and was related to the exchange of \$4.9 million and \$186.0 million, respectively, in aggregate principal amount of our 2015 Notes for the underlying shares of common stock and cash.

*Loss on repurchase of convertible senior notes.* Loss on repurchase of convertible senior notes for the year ended December 31, 2013, was \$17.9 million and was related to the repurchase of \$117.3 million in aggregate principal amount of our 2015 Notes.

**Years Ended December 31, 2013 and 2012**

We recorded net losses for the years ended December 31, 2013 and 2012 of \$83.1 million and \$44.3 million, respectively. On a basic and diluted per share basis, net loss was \$0.56 and \$0.34 for the years ended December 31, 2013 and 2012, respectively.

**Revenues**

	For the Years Ended, December 31,	
	2013	2012
	(in millions)	
Product revenues, net	\$ 235.4	\$ 136.0
Product royalty revenues	28.3	3.7
Contract revenues	91.0	156.9
Other revenues	0.2	0.5
Total revenues	<u>\$ 354.9</u>	<u>\$ 297.1</u>

Our product revenues, net from JAKAFI for the years ended December 31, 2013 and 2012, were \$235.4 million and \$136.0 million, respectively. This increase was comprised of a volume increase of \$82.0 million and a price increase of \$17.4 million.

Prior to the three months ended September 30, 2012, we used the sell-through method for revenue recognition as we had limited historical data on product returns. Under the sell-through method, we deferred revenue until the patients received JAKAFI. In the three months ended September 30, 2012, we determined that we had sufficient experience with product returns and transitioned to the sell-in method for recognizing revenue, under which we recognize revenue for product sales of JAKAFI at the time the product is received by our specialty pharmacy customers.

[Table of Contents](#)

The following table provides a summary of activity with respect to our sales allowances and accruals for the year ended December 31, 2013:

<b>Year Ended December 31, 2013</b>	<b>Discounts and Distribution Fees</b>	<b>Government Rebates and Chargebacks</b>	<b>Co-Pay Assistance and Other Discounts</b>	<b>Product Returns</b>	<b>Total</b>
Balance at January 1, 2013	\$ 464	\$ 1,815	\$ 103	\$ 256	\$ 2,638
Allowances for current period sales	6,877	14,558	616	445	22,496
Allowances for prior period sales	—	(461)	(4)	58	(407)
Credits/payments for current period sales	(6,439)	(11,203)	(541)	(144)	(18,327)
Credits/payments for prior period sales	(99)	(1,274)	(66)	(323)	(1,762)
Balance at December 31, 2013	<u>\$ 803</u>	<u>\$ 3,435</u>	<u>\$ 108</u>	<u>\$ 292</u>	<u>\$ 4,638</u>

Government rebates and chargebacks are the most significant component of our sales allowances. Increases in certain government reimbursement rates are limited to a measure of inflation, and when the price of a drug increases faster than this measure of inflation it will result in a penalty adjustment factor that causes a larger sales allowance to those government related entities.

Product royalty revenues on commercial sales for JAKAVI by Novartis are based on net sales of licensed products in licensed territories as provided by Novartis. Our net product royalty revenues for the years ended December 31, 2013 and 2012, were \$28.3 million and \$3.7 million, respectively.

Our contract revenues were \$91.0 million and \$156.9 million in 2013 and 2012, respectively. For the years ended December 31, 2013 and 2012, contract revenues were derived from the straight line recognition of revenue associated with the Novartis and Lilly upfront fees over the estimated performance periods as well as milestone payments earned during the periods. The upfront fees related to the Novartis agreement included a \$150.0 million upfront payment received in 2009, a \$60.0 million immediate milestone payment received in 2010 and \$10.9 million of reimbursable costs incurred prior to the effective date of the agreement. The upfront fees related to the Lilly agreement consisted of a \$90.0 million upfront payment received in 2010. The decrease from 2012 to 2013 primarily relates to recognition of \$90.0 million in milestone payments from Novartis and Lilly in 2012 compared to the recognition of \$25.0 million in milestone payments from Novartis in 2013.

#### ***Cost of Product Revenues***

We began capitalizing inventory in mid-November 2011 once the FDA approved JAKAFI as the related costs were expected to be recoverable through the commercialization of the product. Costs incurred prior to FDA approval of \$9.6 million were recorded as research and development expenses in our statements of operations prior to commercialization of JAKAFI. At December 31, 2013, inventory with \$4.3 million of product costs incurred prior to FDA approval had not yet been sold. Cost of product revenues was \$0.6 million and \$0.2 million for the years ended December 31, 2013 and 2012, respectively.

[Table of Contents](#)**Operating Expenses***Research and development expenses*

	For the Years Ended, December 31,	
	2013	2012
	(in millions)	
Salary and benefits related	\$ 73.3	\$ 62.3
Stock compensation	26.2	25.5
Clinical research and outside services	131.8	97.7
Occupancy and all other costs	29.1	24.9
Total research and development expenses	<u>\$ 260.4</u>	<u>\$ 210.4</u>

Salary and benefits related expense increased from 2012 to 2013 due to increased development headcount to sustain our development pipeline. Stock compensation expense may fluctuate from period to period based on the number of options granted, stock price volatility and expected option lives, as well as expected option forfeiture rates which are used to value equity-based compensation. The increase in clinical research and outside services expense from 2012 to 2013 was primarily the result of increased development costs. Research and development expenses for the years ended December 31, 2013 and 2012 were net of \$5.1 million, \$4.5 million, respectively, of costs reimbursed by our collaborative partners.

Research and development expenses recorded under the Lilly agreement representing 30% of the global development costs for baricitinib for the treatment of rheumatoid arthritis were \$52.4 million and \$18.5 million for the years ended December 31, 2013 and 2012, respectively.

*Selling, general and administrative expenses*

	For the Years Ended, December 31,	
	2013	2012
	(\$ in millions)	
Salary and benefits related	\$ 35.2	\$ 31.0
Stock compensation	12.2	13.0
Other contract services and outside costs	62.6	41.4
Total selling, general and administrative expenses	<u>\$ 110.0</u>	<u>\$ 85.4</u>

Salary and benefits related expense increased from 2012 to 2013 due to increased headcount. This increased headcount was due to the commercialization efforts related to JAKAFI for intermediate or high-risk myelofibrosis. Stock compensation expense may fluctuate from period to period based on the number of options granted, stock price volatility and expected option lives, as well as expected option forfeiture rates which are used to value equity-based compensation. The increase in other contract services and outside costs was primarily the result of marketing activities for JAKAFI for intermediate or high-risk myelofibrosis.

**Other income (expense)**

*Interest and other income, net.* Interest and other income, net, for the years ended December 31, 2013 and 2012 was \$1.3 million and \$0.8 million, respectively.

*Interest expense.* Interest expense for the years ended December 31, 2013 and 2012, was \$38.7 million and \$46.1 million, respectively. Included in interest expense for the years ended December 31, 2013 and

[Table of Contents](#)

2012, were \$23.8 million and \$27.1 million, respectively, of non-cash charges to amortize the discounts on our 2015 Notes, the 2018 Notes and the 2020 Notes.

*Debt exchange expense on senior note conversions.* Debt exchange expense on senior note conversions for the year ended December 31, 2013, was \$11.5 million and was related to the exchange of \$186.0 million in aggregate principal amount of our 2015 Notes for the underlying shares of common stock and cash.

*Loss on repurchase of convertible senior notes.* Loss on repurchase of convertible senior notes for the year ended December 31, 2013, was \$17.9 million and was related to the repurchase of \$117.3 million in aggregate principal amount of our 2015 Notes.

### Liquidity and Capital Resources

	2014	2013	2012
	(in millions)		
<b>December 31:</b>			
Cash, cash equivalents, and marketable securities	\$ 600.3	\$ 509.0	\$ 228.4
Working capital	\$ 477.7	\$ 447.8	\$ 173.4
<b>Year ended December 31:</b>			
Cash provided by (used in):			
Operating activities	\$ 26.3	\$ 9.2	\$ (94.8)
Investing activities	\$ (138.4)	\$ (37.4)	\$ (2.0)
Financing activities	\$ 93.1	\$ 275.6	\$ 47.7
Capital expenditures (included in investing activities above)	\$ (27.9)	\$ (4.3)	\$ (2.8)

#### *Sources and Uses of Cash.*

We had net losses from inception in 1991 through 1996 and in 1999 through December 31, 2014. Because of those losses, we had an accumulated deficit of \$1.8 billion as of December 31, 2014. We have funded our research and development operations through sales of equity securities, the issuance of convertible notes, cash received from customers, and collaborative arrangements. At December 31, 2014, we had available cash, cash equivalents and marketable securities of \$600.3 million. Our cash and marketable securities balances are held in a variety of interest-bearing instruments, including money market accounts, corporate debt securities and U.S. government agency and non-agency mortgage-backed securities. Available cash is invested in accordance with our investment policy's primary objectives of liquidity, safety of principal and diversity of investments.

*Cash provided by (used in) operating activities.* The \$17.1 million increase in cash provided by operating activities from 2013 to 2014 was due primarily due a lower net loss, increased non-cash depreciation and amortization and changes in working capital. The \$104.0 million decrease in cash used in operating activities from 2012 to 2013 was due primarily to timing of milestone receipts in 2013 and other changes in working capital.

*Cash used in investing activities.* Our investing activities, other than purchases, sales and maturities of marketable securities, have consisted predominantly of capital expenditures and sales and purchases of long-term investments. In the future, net cash used by investing activities may fluctuate significantly from period to period due to the timing of strategic equity investments, acquisitions and capital expenditures and maturities/sales and purchases of marketable securities.

*Cash provided by financing activities.* During 2014, net cash provided by financing activities was \$93.1 million, consisting primarily of proceeds from issuance of common stock under our stock plans and employee stock purchase plan. During 2013, net cash provided by financing activities was \$275.6 million, consisting of \$728.7 million of net proceeds from the issuance of our 2018 Notes and our 2020 Notes and

[Table of Contents](#)

\$73.2 million of proceeds from issuance of common stock under our stock plans and employee stock purchase plan, offset by \$500.0 million related to the repurchase of \$117.3 million aggregate principal amount of our 2015 Notes, \$11.5 million related to the exchange of \$186.0 million aggregate principal amount of our 2015 Notes for the underlying shares of common stock and cash, and \$15.0 million related to a letter of credit for the facility lease for the benefit of the landlord. During 2012, net cash provided by financing activities was \$47.7 million of proceeds from issuance of common stock under our stock plans and employee stock purchase plan.

The following summarizes our significant contractual obligations as of December 31, 2014 and the effect those obligations are expected to have on our liquidity and cash flow in future periods (in millions):

	Total	Less Than 1 Year	Years 1 - 3	Years 4 - 5	Over 5 Years
<b>Contractual Obligations:</b>					
Principal on convertible senior debt	\$ 840.9	\$ 90.9	\$ —	\$ 375.0	\$ 375.0
Interest on convertible senior debt	38.1	10.4	12.2	10.8	4.7
Non-cancelable lease obligations:					
Related to corporate headquarters	88.5	6.7	12.0	12.1	57.7
Total contractual obligations	<u>\$ 967.5</u>	<u>\$ 108.0</u>	<u>\$ 24.2</u>	<u>\$ 397.9</u>	<u>\$ 437.4</u>

We have entered into and may in the future seek to license additional rights relating to technologies or drug development candidates in connection with our drug discovery and development programs. Under these licenses, we may be required to pay up-front fees, milestone payments, and royalties on sales of future products. The table above does not reflect any future potential payments, including the Agenus upfront payment of \$25.0 million and related stock purchase of \$35.0 million which we expect to make in the first quarter of 2015.

We believe that our cash, cash equivalents and marketable securities will be adequate to satisfy our capital needs for at least the next twelve months. Our cash requirements depend on numerous factors, including our expenditures in connection with our drug discovery and development programs and commercialization operations; expenditures in connection with litigation or other legal proceedings; competing technological and market developments; the cost of filing, prosecuting, defending and enforcing patent claims and other intellectual property rights; our receipt of any milestone or other payments under any collaborative agreements we may enter into, including the agreements with Novartis, Lilly and Pfizer; the extent to which commercialization of JAKAFI is successful; expenditures in connection with potential exchanges of our outstanding convertible senior notes; and expenditures in connection with strategic relationships and license agreements, including our agreement with Agenus, strategic equity investments or potential acquisitions. Changes in our research and development or commercialization plans or other changes affecting our operating expenses may result in changes in the timing and amount of expenditures of our capital resources.

Until we can generate a sufficient amount of product revenues to finance our cash requirements, which we may never do, we expect to finance future cash needs primarily through public or private equity offerings, debt financings, borrowings or strategic collaborations. The sale of equity or additional convertible debt securities in the future may be dilutive to our stockholders, and may provide for rights, preferences or privileges senior to those of our holders of common stock. Debt financing arrangements may require us to pledge certain assets or enter into covenants that could restrict our operations or our ability to incur further indebtedness. We do not know whether additional funding will be available on acceptable terms, if at all. If we are not able to secure additional funding when needed, we may have to scale back our operations, delay or eliminate one or more of our research or development programs, or attempt to obtain funds by entering into an agreement with a collaborator or licensee that would result in

terms that are not favorable to us or relinquishing our rights in certain of our proprietary technologies or drug candidates.

**Off Balance Sheet Arrangements**

We have no off-balance sheet arrangements other than those that are discussed above.

**Item 7A. *Quantitative and Qualitative Disclosures About Market Risk***

Our investments in marketable securities, which are composed primarily of U.S. government agency and non-agency mortgage-backed securities and corporate debt securities, are subject to default, changes in credit rating and changes in market value. These investments are also subject to interest rate risk and will decrease in value if market rate interest rates increase. As of December 31, 2014, marketable securities were \$148.0 million. Due to the nature of these investments, if market interest rates were to increase immediately and uniformly by 10% from levels as of December 31, 2014, the decline in fair value would not be material.



**Item 8. *Financial Statements and Supplementary Data***

**INDEX**

	<u>Page</u>
<b>Consolidated Financial Statements of Incyte Corporation</b>	
<a href="#">Report of Ernst &amp; Young LLP, Independent Registered Public Accounting Firm</a>	<a href="#">72</a>
<a href="#">Consolidated Balance Sheets as of December 31, 2014 and 2013</a>	<a href="#">73</a>
<a href="#">Consolidated Statements of Operations for the years ended December 31, 2014, 2013 and 2012</a>	<a href="#">74</a>
<a href="#">Consolidated Statements of Comprehensive Loss for the years ended December 31, 2014, 2013 and 2012</a>	<a href="#">75</a>
<a href="#">Consolidated Statement of Stockholders' Deficit for the years ended December 31, 2014, 2013 and 2012</a>	<a href="#">76</a>
<a href="#">Consolidated Statements of Cash Flows for the years ended December 31, 2014, 2013 and 2012</a>	<a href="#">77</a>
<a href="#">Notes to the Consolidated Financial Statements</a>	<a href="#">78</a>
<a href="#">Interim Consolidated Financial Information (unaudited)</a>	<a href="#">104</a>

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Stockholders of Incyte Corporation

We have audited the consolidated balance sheets of Incyte Corporation as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive loss, stockholders' deficit and cash flows for each of the three years in the period ended December 31, 2014. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Incyte Corporation, at December 31, 2014 and 2013, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Incyte Corporation's internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 17, 2015 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Philadelphia, Pennsylvania  
February 17, 2015

**INCYTE CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**  
(in thousands, except number of shares and par value)

	December 31	
	2014	2013
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 452,297	\$ 471,429
Marketable securities—available-for-sale	147,966	37,575
Restricted investments	500	500
Accounts receivable	57,933	35,374
Inventory	358	406
Deferred income taxes	19,641	895
Prepaid expenses and other current assets	20,519	9,620
Total current assets	699,214	555,799
Restricted investments	14,000	14,500
Inventory	19,078	14,937
Property and equipment, net	81,790	26,848
Other assets, net	15,987	17,484
Total assets	<u>\$ 830,069</u>	<u>\$ 629,568</u>
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
Current liabilities:		
Accounts payable	\$ 24,462	\$ 19,102
Accrued compensation	34,422	28,079
Interest payable	1,841	1,909
Accrued and other current liabilities	62,270	46,062
Deferred revenue—collaborative agreements	12,880	12,890
Convertible senior notes	85,640	—
Total current liabilities	221,515	108,042
Convertible senior notes	603,478	661,567
Other liabilities	54,552	26,803
Deferred income taxes	19,641	895
Deferred revenue—collaborative agreements	12,511	25,369
Total liabilities	<u>911,697</u>	<u>822,676</u>
Stockholders' deficit:		
Preferred stock, \$0.001 par value; 5,000,000 shares authorized; none issued or outstanding as of December 31, 2014 and December 31, 2013	—	—
Common stock, \$0.001 par value; 400,000,000 shares authorized; 170,876,619 and 162,984,680 shares issued and outstanding as of December 31, 2014 and 2013, respectively	171	163
Additional paid-in capital	1,701,904	1,541,773
Accumulated other comprehensive income	1,815	1,993
Accumulated deficit	<u>(1,785,518)</u>	<u>(1,737,037)</u>
Total stockholders' deficit	<u>(81,628)</u>	<u>(193,108)</u>
Total liabilities and stockholders' deficit	<u>\$ 830,069</u>	<u>\$ 629,568</u>

See accompanying notes.

**INCYTE CORPORATION**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

(in thousands, except per share amounts)

	Year Ended December 31,		
	2014	2013	2012
<b>Revenues:</b>			
Product revenues, net	\$ 357,562	\$ 235,443	\$ 136,001
Product royalty revenues	48,966	28,251	3,652
Contract revenues	104,857	91,047	156,948
Other revenues	110	206	458
Total revenues	511,495	354,947	297,059
<b>Costs and expenses:</b>			
Cost of product revenues	3,004	630	157
Research and development	347,523	260,436	210,391
Selling, general and administrative	165,772	109,983	85,363
Total costs and expenses	516,299	371,049	295,911
Income (loss) from operations	(4,804)	(16,102)	1,148
Interest and other income, net	3,350	1,324	764
Interest expense	(46,828)	(38,652)	(46,058)
Debt exchange expense on senior note conversions	(265)	(11,484)	—
Loss on repurchase of convertible senior notes	—	(17,934)	—
Loss before provision for income taxes	(48,547)	(82,848)	(44,146)
(Benefit) provision for income taxes	(66)	299	174
Net loss	<u>\$ (48,481)</u>	<u>\$ (83,147)</u>	<u>\$ (44,320)</u>
Basic and diluted net loss per share	\$ (0.29)	\$ (0.56)	\$ (0.34)
Shares used in computing basic and diluted net loss per share	167,947	148,403	129,747

See accompanying notes.

**INCYTE CORPORATION**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**  
**(in thousands)**

	<u>Year Ended December 31,</u>		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Net loss	\$ (48,481)	\$ (83,147)	\$ (44,320)
Other comprehensive income (loss):			
Foreign currency translation loss	(6)	—	—
Unrealized gains (losses) on restricted investments and marketable securities, net of tax	(172)	115	788
Reclassification adjustment for realized gains on restricted cash and investments and marketable securities	—	—	(552)
Other comprehensive income (loss)	(178)	115	236
Comprehensive loss	<u>\$ (48,659)</u>	<u>\$ (83,032)</u>	<u>\$ (44,084)</u>

See accompanying notes.

**INCYTE CORPORATION**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT**

(in thousands, except number of shares)

	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Deficit
Balances at December 31, 2011	\$ 126	\$1,380,725	\$ 1,642	\$(1,609,570)	\$ (227,077)
Issuance of 5,150,649 shares of Common Stock upon exercise of stock options and restricted stock units and 378,041 shares of Common Stock under the ESPP	5	47,706	—	—	47,711
Issuance of 1,461,496 shares of Common Stock upon conversion of Pfizer Note	2	9,998	—	—	10,000
Stock compensation expense	—	38,493	—	—	38,493
Other comprehensive income	—	—	236	—	236
Net loss	—	—	—	(44,320)	(44,320)
Balances at December 31, 2012	\$ 133	\$1,476,922	\$ 1,878	\$(1,653,890)	\$ (174,957)
Issuance of 6,898,551 shares of Common Stock upon exercise of stock options and restricted stock units and 390,000 shares of Common Stock under the ESPP	7	73,150	—	—	73,157
Issuance of 1,025,641 shares of Common Stock upon conversion of Pfizer Note	1	9,372	—	—	9,373
Issuance of 21,208,303 shares of Common Stock upon conversion of Convertible Senior Notes due 2015	22	154,316	—	—	154,338
Reclassification to additional paid in capital in connection with repurchase of \$117.3 million aggregate principal of 4.75% convertible senior notes due 2015	—	(381,405)	—	—	(381,405)
Equity component of 0.375% convertible senior notes due 2018 and 1.25% convertible senior notes due 2020	—	170,806	—	—	170,806
Excess tax benefit from stock based compensation	—	214	—	—	214
Stock compensation expense	—	38,398	—	—	38,398
Other comprehensive income	—	—	115	—	115
Net loss	—	—	—	(83,147)	(83,147)
Balances at December 31, 2013	\$ 163	\$1,541,773	\$ 1,993	\$(1,737,037)	\$ (193,108)
Issuance of 7,044,844 shares of Common Stock upon exercise of stock options and 193,657 shares of Common Stock under the ESPP	7	92,837	—	—	92,844
Issuance of 653,438 shares of Common Stock upon conversion of Convertible Senior Notes due 2015	1	5,160	—	—	5,161
Excess tax provision from stock based compensation	—	(22)	—	—	(22)
Stock compensation expense	—	62,156	—	—	62,156

Other comprehensive loss	—	—	(178)	—	(178)
Net loss	—	—	—	(48,481)	(48,481)
Balances at December 31, 2014	<u>\$ 171</u>	<u>\$1,701,904</u>	<u>\$ 1,815</u>	<u>\$(1,785,518)</u>	<u>\$ (81,628)</u>

See accompanying notes.

**INCYTE CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in thousands)

	Year Ended December 31,		
	2014	2013	2012
<b>Cash flows from operating activities:</b>			
Net loss	\$ (48,481)	\$ (83,147)	\$ (44,320)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization of debt discounts	41,413	29,207	29,979
Stock-based compensation	62,156	38,398	38,493
Excess tax provision (benefit) from stock based compensation	22	(214)	—
Debt exchange expense on senior note conversions	265	11,484	—
Loss on repurchase of convertible senior notes	—	17,934	—
Realized (gain) loss on restricted cash and investments and marketable securities, net	—	—	(552)
Changes in operating assets and liabilities:			
Accounts receivable	(22,559)	35,577	(64,536)
Prepaid expenses and other assets	(30,489)	247	16,903
Inventory	(4,093)	(6,590)	(5,217)
Accounts payable	5,360	5,141	(978)
Accrued and other liabilities	35,530	27,189	4,668
Deferred revenue—product revenues	—	—	(2,332)
Deferred revenue—collaborative agreements	(12,868)	(66,046)	(66,938)
Net cash provided by (used in) operating activities	<u>26,256</u>	<u>9,180</u>	<u>(94,830)</u>
<b>Cash flows from investing activities:</b>			
Capital expenditures	(27,876)	(4,267)	(2,839)
Sales of marketable securities	—	—	(9)
Maturities of marketable securities	23,528	583	—
Purchases of marketable securities	(134,091)	(33,713)	860
Net cash used in investing activities	<u>(138,439)</u>	<u>(37,397)</u>	<u>(1,988)</u>
<b>Cash flows from financing activities:</b>			
Release (purchase) of restricted investments	500	(15,000)	—
Proceeds from issuance of common stock under stock plans	92,844	73,157	47,711
Excess tax provision (benefit) from stock based compensation	(22)	214	—
Proceeds from issuance of convertible senior notes, net of costs	—	728,696	—
Repurchase of convertible senior notes	—	(499,994)	—
Cash paid in connection with exchange of 4.75% convertible senior notes due 2015	(265)	(11,484)	—
Net cash provided by financing activities	<u>93,057</u>	<u>275,589</u>	<u>47,711</u>
Foreign currency translation change	(6)	—	—
Net (decrease) increase in cash and cash equivalents	(19,132)	247,372	(49,107)
Cash and cash equivalents at beginning of year	471,429	224,057	273,164
Cash and cash equivalents at end of year	<u>\$ 452,297</u>	<u>\$ 471,429</u>	<u>\$ 224,057</u>
<b>Supplemental Schedule of Cash Flow Information</b>			
Interest paid	<u>\$ 10,458</u>	<u>\$ 15,587</u>	<u>\$ 19,000</u>
Incomes taxes paid	<u>\$ 37</u>	<u>\$ 140</u>	<u>\$ 1</u>
Reclassification to common stock and additional paid in capital in connection with conversion of Pfizer convertible subordinated note due 2014	<u>\$ —</u>	<u>\$ 9,373</u>	<u>\$ —</u>
Reclassification to common stock and additional paid in capital in connection with exchange of 4.75% convertible senior notes due 2015	<u>\$ 5,161</u>	<u>\$ 154,338</u>	<u>\$ —</u>
Reclassification to additional paid in capital in connection with repurchase of 4.75% convertible senior notes due 2015	<u>\$ —</u>	<u>\$ (381,405)</u>	<u>\$ —</u>
Purchase of property and equipment financed by direct financing lease	<u>\$ 31,495</u>	<u>\$ 19,274</u>	<u>\$ —</u>

See accompanying notes.



INCYTE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Note 1. Organization and Summary of Significant Accounting Policies**

*Organization and Business.* Incyte Corporation ("Incyte," "we," "us," or "our") is a biopharmaceutical company focused on developing and commercializing proprietary therapeutics, primarily for oncology. Our pipeline includes compounds in various stages, ranging from preclinical to late stage development, and a commercialized product, JAKAFI® (ruxolitinib). Our operations are treated as one operating segment.

*Principles of Consolidation.* The consolidated financial statements include the accounts of Incyte Corporation and our wholly owned subsidiaries including Incyte Holdings Corporation, Incyte International Holdings Sàrl and Incyte Europe Sàrl. All inter-company accounts, transactions, and profits have been eliminated in consolidation.

*Use of Estimates.* The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

*Concentrations of Credit Risk.* Cash, cash equivalents, marketable securities, trade receivables and restricted investments are financial instruments which potentially subject us to concentrations of credit risk. The estimated fair value of financial instruments approximates the carrying value based on available market information. We primarily invest our excess available funds in notes and bills issued by the U.S. government and its agencies and corporate debt securities and, by policy, limit the amount of credit exposure to any one issuer and to any one type of investment, other than securities issued or guaranteed by the U.S. government. Our receivables mainly relate to our product sales of JAKAFI and collaborative agreements with pharmaceutical companies. We have not experienced any significant credit losses on cash, cash equivalents, marketable securities, trade receivables or restricted investments to date and do not require collateral on receivables.

*Cash and Cash Equivalents.* Cash and cash equivalents are held in U.S. banks or in custodial accounts with banks. Cash equivalents are defined as all liquid investments and money market funds with maturity from date of purchase of 90 days or less that are readily convertible into cash.

*Marketable Securities—Available-for-Sale.* All marketable securities are classified as available-for-sale. Available-for-sale securities are carried at fair value, based on quoted market prices and observable inputs, with unrealized gains and losses, net of tax, reported as a separate component of stockholders' deficit. We classify marketable securities that are available for use in current operations as current assets on the consolidated balance sheets. Realized gains and losses and declines in value judged to be other than temporary for available-for-sale securities are included in "Interest and other income, net." The cost of securities sold is based on the specific identification method.

*Accounts Receivable.* As of December 31, 2014 and 2013, we had no allowance for doubtful accounts. We provide an allowance for doubtful accounts based on experience and specifically identified risks. Accounts receivable are carried at fair value and charged off against the allowance for doubtful accounts when we determine that recovery is unlikely and we cease collection efforts.

*Inventory.* Inventories are determined at the lower of cost or market value with cost determined under the specific identification method and may consist of raw materials, work in process and finished goods. We began capitalizing inventory in mid-November 2011 once the U.S. Food and Drug

INCYTE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**Note 1. Organization and Summary of Significant Accounting Policies (Continued)**

Administration ("FDA") approved JAKAFI as the related costs were expected to be recoverable through the commercialization of the product. Costs incurred prior to approval of JAKAFI have been recorded as research and development expense in our statements of operations. As a result, cost of product revenues for the next 24 months will reflect a lower average per unit cost of materials.

The raw materials and work-in-process inventory is not subject to expiration and the shelf life for finished goods inventory is 36 months from the start of manufacturing of the finished goods. We evaluate for potential excess inventory by analyzing current and future product demand relative to the remaining product shelf life. We build demand forecasts by considering factors such as, but not limited to, overall market potential, market share, market acceptance and patient usage. We classify inventory as current on the consolidated balance sheets when we expect inventory to be consumed for commercial use within the next twelve months.

*Property and Equipment.* Property and equipment is stated at cost, less accumulated depreciation and amortization. Depreciation is recorded using the straight-line method over the estimated useful lives of the respective assets (generally three to five years). Leasehold improvements are amortized over the shorter of the estimated useful life of the assets or lease term.

Management continually reviews the estimated useful lives of technologically sensitive equipment and believes that those estimates appropriately reflect the current useful life of our assets. In the event that a currently unknown significantly advanced technology became commercially available, we would re-evaluate the value and estimated useful lives of our existing equipment, possibly having a material impact on the financial statements.

*Lease Accounting.* We account for operating leases by recording rent expense on a straight-line basis over the expected life of the lease, commencing on the date we gain possession of leased property. We include tenant improvement allowances and rent holidays received from landlords and the effect of any rent escalation clauses as adjustments to straight-line rent expense over the expected life of the lease.

Capital leases are reflected as a liability at the inception of the lease based on the present value of the minimum lease payments or, if lower, the fair value of the property. Assets under capital leases are recorded in property and equipment, net on the consolidated balance sheets and depreciated in a manner similar to other property and equipment.

Certain construction projects may be accounted for as direct financing arrangements, whereby we record, over the construction period, the full cost of the asset in property and equipment, net on the consolidated balance sheets. A corresponding liability is also recorded, net of leasehold improvements paid for by us, and is amortized over the expected lease term through monthly rental payments using the effective interest method.

*Income Taxes.* We account for income taxes using the asset and liability approach which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and amounts reportable for income tax purposes. In addition, we follow the guidance related to accounting for uncertainty in income taxes. This guidance creates a single model to address uncertainty in tax positions and clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before it is recognized in the financial statements.

INCYTE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**Note 1. Organization and Summary of Significant Accounting Policies (Continued)**

*Financing Costs Related to Long-term Debt.* Costs associated with obtaining long-term debt are deferred and amortized over the term of the related debt using the effective interest method. Such costs are included in other assets, net on the consolidated balance sheet.

*Grant Accounting.* Grant amounts received from government agencies for operations are deferred and are amortized into income over the service period of the grant. Grant amounts received for purchases of capital assets are deferred and amortized into interest and other income, net over the useful life of the related capital assets. Such amounts are recorded in other liabilities on the consolidated balance sheet.

*Net Loss Per Share.* Our basic and diluted losses per share are calculated by dividing the net loss by the weighted average number of shares of common stock outstanding during all periods presented. Options to purchase stock and shares issuable upon the conversion of convertible debt are included in diluted earnings per share calculations, unless the effects are anti-dilutive.

*Accumulated Other Comprehensive Income (Loss).* Accumulated other comprehensive income (loss) consists of unrealized gains or losses on marketable securities and restricted cash and investments and foreign currency translation adjustments.

*Revenue Recognition.* Revenues are recognized when (1) persuasive evidence of an arrangement exists, (2) delivery has occurred or services have been rendered, (3) the price is fixed or determinable and (4) collectability is reasonably assured. Revenues are deferred for fees received before earned or until no further obligations exist. We exercise judgment in determining that collectability is reasonably assured or that services have been delivered in accordance with the arrangement. We assess whether the fee is fixed or determinable based on the payment terms associated with the transaction and whether the sales price is subject to refund or adjustment. We assess collectability based primarily on the customer's payment history and on the creditworthiness of the customer. Our product revenues consist of U.S. sales of JAKAFI and are recognized once we meet all four revenue recognition criteria described above. In November 2011, we began shipping JAKAFI to our specialty pharmacy customers, which in turn dispense JAKAFI to patients in fulfillment of prescriptions.

We recognize revenues for product received by our specialty pharmacy customers net of allowances for customer credits, including estimated rebates, chargebacks, discounts, returns, distribution service fees, patient assistance programs, and Medicare Part D coverage gap reimbursements. Product shipping and handling costs are included in cost of product revenues.

*Customer Credits:* Our specialty pharmacy customers are offered various forms of consideration, including allowances, service fees and prompt payment discounts. We expect our specialty pharmacy customers will earn prompt payment discounts and, therefore, we deduct the full amount of these discounts from total product sales when revenues are recognized. Service fees are also deducted from total product sales as they are earned.

*Rebates:* Allowances for rebates include mandated discounts under the Medicaid Drug Rebate Program. Rebate amounts are based upon contractual agreements or legal requirements with public sector (e.g., Medicaid) benefit providers. Rebates are amounts owed after the final dispensing of the product to a benefit plan participant and are based upon contractual agreements or legal requirements with public sector benefit providers. The accrual for rebates is based on statutory discount rates and expected utilization as well as historical data we have accumulated since product launch. Our estimates for expected utilization of rebates are based on data received from our specialty pharmacy customers. Rebates are

INCYTE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**Note 1. Organization and Summary of Significant Accounting Policies (Continued)**

generally invoiced and paid in arrears so that the accrual balance consists of an estimate of the amount expected to be incurred for the current quarter's activity, plus an accrual balance for known prior quarters' unpaid rebates. If actual future rebates vary from estimates, we may need to adjust prior period accruals, which would affect revenue in the period of adjustment.

*Chargebacks:* Chargebacks are discounts that occur when contracted customers purchase directly from a specialty pharmacy, or an intermediary distributor. Contracted customers, which currently consist primarily of Public Health Service institutions, non-profit clinics, and Federal government entities purchasing via the Federal Supply Schedule, generally purchase the product at a discounted price. The specialty pharmacy or distributor, in turn, charges back to us the difference between the price initially paid by the specialty pharmacy or distributor and the discounted price paid to the specialty pharmacy or distributor by the customer. The accrual for chargebacks is based on the estimated contractual discounts on the inventory levels on hand in our distribution channel. If actual future chargebacks vary from estimates, we may need to adjust prior period accruals, which would affect revenue in the period of adjustment.

*Medicare Part D Coverage Gap:* Medicare Part D prescription drug benefit mandates manufacturers to fund 50% of the Medicare Part D insurance coverage gap for prescription drugs sold to eligible patients. Our estimates for the expected Medicare Part D coverage gap are based on historical invoices received and in part from data received from our specialty pharmacy customers. Funding of the coverage gap is generally invoiced and paid in arrears so that the accrual balance consists of an estimate of the amount expected to be incurred for the current quarter's activity, plus an accrual balance for known prior quarters. If actual future funding varies from estimates, we may need to adjust prior period accruals, which would affect revenue in the period of adjustment.

*Co-payment assistance:* Patients who have commercial insurance and meet certain eligibility requirements may receive co-payment assistance. We accrue a liability for co-payment assistance based on actual program participation and estimates of program redemption using data provided by third-party administrators.

*Product Royalty Revenues*

Royalty revenues on commercial sales for ruxolitinib (marketed as JAKAVI® outside the United States) by Novartis Pharmaceutical International Ltd. ("Novartis") are based on net sales of licensed products in licensed territories as provided by Novartis. We recognize royalty revenues in the period the sales occur.

*Cost of Product Revenues*

Cost of product revenues includes all JAKAFI related costs that are recoverable through the commercialization of the product. Beginning in October 2014, we became obligated to pay tiered, low-single digit royalties under our collaboration and license agreement to Novartis on all future sales of JAKAFI in the United States which are included in cost of product revenues.

*Contract and License Revenues*

Under agreements involving multiple deliverables, services and/or rights to use assets that we entered into prior to January 1, 2011, the multiple elements are divided into separate units of accounting when

INCYTE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**Note 1. Organization and Summary of Significant Accounting Policies (Continued)**

certain criteria are met, including whether the delivered items have stand-alone value to the customer and whether there is objective and reliable evidence of the fair value of the undelivered items. When separate units of accounting exist, consideration is allocated among the separate elements based on their respective fair values. The determination of fair value of each element is based on objective evidence from historical sales of the individual elements by us to other customers. If such evidence of fair value for each undelivered element of the arrangement does not exist, all revenue from the arrangement is deferred until such time that evidence of fair value for each undelivered element does exist or until all elements of the arrangement are delivered. When elements are specifically tied to a separate earnings process, revenue is recognized when the specific performance obligation tied to the element is completed. When revenues for an element are not specifically tied to a separate earnings process, they are recognized ratably over the term of the agreement. We assess whether a substantive milestone exists at the inception of our agreements. For all milestones within our arrangements that are considered substantive, we recognize revenue upon the achievement of the associated milestone. If a milestone is not considered substantive, we would recognize the applicable milestone payment over the remaining period of performance under the arrangement. As of December 31, 2014, all remaining potential milestones under our collaborative arrangements are considered substantive.

On January 1, 2011, updated guidance on the recognition of revenues for agreements with multiple deliverables became effective and applies to any agreements we may enter into on or after January 1, 2011. This updated guidance (i) relates to whether multiple deliverables exist, how the deliverables in a revenue arrangement should be separated and how the consideration should be allocated; (ii) requires companies to allocate revenues in an arrangement using estimated selling prices of deliverables if a vendor does not have vendor-specific objective evidence or third-party evidence of selling price; and (iii) eliminates the use of the residual method and requires companies to allocate revenues using the relative selling price method. During the years ended December 31, 2014, 2013 and 2012, we did not enter into any agreements that are subject to this updated guidance. If we enter into an agreement with multiple deliverables after January 1, 2011 or amend existing agreements, this updated guidance could have a material effect on our financial statements.

Our collaborations often include contractual milestones, which typically relate to the achievement of pre-specified development, regulatory and commercialization events. These three categories of milestone events reflect the three stages of the life-cycle of our drugs, which we describe in more detail in the following paragraphs.

The regulatory review and approval process, which includes preclinical testing and clinical trials of each drug candidate, is lengthy, expensive and uncertain. Securing approval by the FDA requires the submission of extensive preclinical and clinical data and supporting information to the FDA for each indication to establish a drug candidate's safety and efficacy. The approval process takes many years, requires the expenditure of substantial resources, involves post-marketing surveillance and may involve ongoing requirements for post-marketing studies. Before commencing clinical investigations of a drug candidate in humans, we must submit an Investigational New Drug application ("IND"), which must be reviewed by the FDA.

The steps generally required before a drug may be marketed in the United States include preclinical laboratory tests, animal studies and formulation studies, submission to the FDA of an IND for human clinical testing, performance of adequate and well-controlled clinical trials in three phases, as described below, to establish the safety and efficacy of the drug for each indication, submission of a new drug

INCYTE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**Note 1. Organization and Summary of Significant Accounting Policies (Continued)**

application ("NDA") or biologics license application ("BLA") to the FDA for review and FDA approval of the NDA or BLA.

Similar requirements exist within foreign regulatory agencies as well. The time required satisfying the FDA requirements or similar requirements of foreign regulatory agencies may vary substantially based on the type, complexity and novelty of the product or the targeted disease.

Preclinical testing includes laboratory evaluation of product pharmacology, drug metabolism, and toxicity, which includes animal studies, to assess potential safety and efficacy as well as product chemistry, stability, formulation, development, and testing. The results of the preclinical tests, together with manufacturing information and analytical data, are submitted to the FDA as part of an IND. The FDA may raise safety concerns or questions about the conduct of the clinical trials included in the IND, and any of these concerns or questions must be resolved before clinical trials can proceed. We cannot be sure that submission of an IND will result in the FDA allowing clinical trials to commence. Clinical trials involve the administration of the investigational drug or the marketed drug to human subjects under the supervision of qualified investigators and in accordance with good clinical practices regulations covering the protection of human subjects. Clinical trials typically are conducted in three sequential phases, but the phases may overlap or be combined. Phase I usually involves the initial introduction of the investigational drug into healthy volunteers to evaluate its safety, dosage tolerance, absorption, metabolism, distribution and excretion. Phase II usually involves clinical trials in a limited patient population to evaluate dosage tolerance and optimal dosage, identify possible adverse effects and safety risks, and evaluate and gain preliminary evidence of the efficacy of the drug for specific indications. Phase III clinical trials usually further evaluate clinical efficacy and safety by testing the drug in its final form in an expanded patient population, providing statistical evidence of efficacy and safety, and providing an adequate basis for labeling. We cannot guarantee that Phase I, Phase II or Phase III testing will be completed successfully within any specified period of time, if at all. Furthermore, we, the institutional review board for a trial, or the FDA may suspend clinical trials at any time on various grounds, including a finding that the subjects or patients are being exposed to an unacceptable health risk.

Generally, the milestone events contained in our collaboration agreements coincide with the progression of our drugs from development, to regulatory approval and then to commercialization. The process of successfully discovering a new development candidate, having it approved and successfully commercialized is highly uncertain. As such, the milestone payments we may earn from our partners involve a significant degree of risk to achieve. Therefore, as a drug candidate progresses through the stages of its life-cycle, the value of the drug candidate generally increases.

*Research and Development Costs.* Our policy is to expense research and development costs as incurred. We often contract with clinical research organizations (CROs) to facilitate, coordinate and perform agreed upon research and development of a new drug. To ensure that research and development costs are expensed as incurred, we record monthly accruals for clinical trials and preclinical testing costs based on the work performed under the contract.

These CRO contracts typically call for the payment of fees for services at the initiation of the contract and/or upon the achievement of certain clinical trial milestones. In the event that we prepay CRO fees, we record the prepayment as a prepaid asset and amortize the asset into research and development expense over the period of time the contracted research and development services are performed. Most professional fees, including project and clinical management, data management, monitoring, and medical

INCYTE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**Note 1. Organization and Summary of Significant Accounting Policies (Continued)**

writing fees are incurred throughout the contract period. These professional fees are expensed based on their percentage of completion at a particular date. Our CRO contracts generally include pass through fees. Pass through fees include, but are not limited to, regulatory expenses, investigator fees, travel costs, and other miscellaneous costs, including shipping and printing fees. We expense the costs of pass through fees under our CRO contracts as they are incurred, based on the best information available to us at the time. The estimates of the pass through fees incurred are based on the amount of work completed for the clinical trial and are monitored through correspondence with the CROs, internal reviews and a review of contractual terms. The factors utilized to derive the estimates include the number of patients enrolled, duration of the clinical trial, estimated patient attrition, screening rate and length of the dosing regimen. CRO fees incurred to set up the clinical trial are expensed during the setup period. Reimbursable costs incurred in connection with collaborative license agreements are recorded as a reduction of research and development expenses.

*Stock Compensation.* Share-based payment transactions with employees, which include stock options, restricted stock units ("RSUs") and performance shares ("PSUs"), are recognized as compensation expense over the requisite service period based on their estimated fair values as well as expected forfeiture rates. The stock compensation process requires significant judgment and the use of estimates, particularly surrounding Black-Scholes assumptions such as stock price volatility over the option term and expected option lives, as well as expected forfeiture rates and the probability of PSUs vesting. The fair value of stock options, which are subject to graded vesting, are recognized as compensation expense over the requisite service period using the accelerated attribution method. The fair value of RSUs, which are generally subject to cliff vesting, are recognized as compensation expense over the requisite service period using the straight line attribution method. The fair value of PSUs are recognized as compensation expense beginning at the time in which the performance conditions are deemed probable of achievement, over the remaining requisite service period. We recorded \$62.2 million, \$38.4 million and \$38.5 million of stock compensation expense for the years ended December 31, 2014, 2013 and 2012, respectively.

**Recent Accounting Pronouncements**

In August 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-15, "Presentation of Financial Statements—Going Concern", to provide guidance on management's responsibility in evaluating whether there is substantial doubt about a company's ability to continue as a going concern and about related footnote disclosures. For each reporting period, management will be required to evaluate whether there are conditions or events that raise substantial doubt about a company's ability to continue as a going concern within one year from the date the financial statements are issued. This guidance is effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. Early application is permitted. We do not believe the pending adoption of ASU No. 2014-15 will have a material impact on our consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers," which provides a five-step approach to be applied to all contracts with customers. ASU No. 2014-09 also requires expanded disclosures about revenue recognition. ASU No. 2014-09 is effective for annual reporting periods beginning after December 15, 2016, including interim periods. We are currently analyzing the impact of ASU No. 2014-09 on our results of operations and, at this time, we are unable to determine the impact on the new standard, if any, on our consolidated financial statements.

## INCYTE CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**Note 2. Marketable Securities**

The following is a summary of our marketable security portfolio as of December 31, 2014 and 2013, respectively.

	Amortized Cost	Net Unrealized Gains	Net Unrealized Losses	Estimated Fair Value
	(in thousands)			
December 31, 2014				
Corporate debt securities	\$ 144,684	\$ —	\$ (282)	\$ 144,402
Mortgage backed securities	1,461	2,103	—	3,564
	<u>\$ 146,145</u>	<u>\$ 2,103</u>	<u>\$ (282)</u>	<u>\$ 147,966</u>
December 31, 2013				
Corporate debt securities	\$ 33,683	\$ —	\$ (30)	\$ 33,653
Mortgage backed securities	1,899	2,023	—	3,922
	<u>\$ 35,582</u>	<u>\$ 2,023</u>	<u>\$ (30)</u>	<u>\$ 37,575</u>

Our corporate debt securities generally have contractual maturity dates of between 12 to 18 months. Because of the potential for prepayment on mortgage-backed securities, they are not categorized by contractual maturity.

**Fair Value Measurements**

FASB accounting guidance defines fair value as the price that would be received to sell an asset or paid to transfer a liability ("the exit price") in an orderly transaction between market participants at the measurement date. The standard outlines a valuation framework and creates a fair value hierarchy in order to increase the consistency and comparability of fair value measurements and the related disclosures. In determining fair value we use quoted prices and observable inputs. Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from sources independent of us. The fair value hierarchy is broken down into three levels based on the source of inputs as follows:

Level 1—Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2—Valuations based on observable inputs and quoted prices in active markets for similar assets and liabilities.

Level 3—Valuations based on inputs that are unobservable and models that are significant to the overall fair value measurement.

Our marketable securities consist of investments in U.S. government agencies, corporate debt securities and non-agency mortgage-backed securities that are classified as available-for-sale.

At December 31, 2014 and December 31, 2013, our Level 2 corporate debt securities and mortgage-backed securities are valued using readily available pricing sources which utilize market observable inputs, including the current interest rate and other characteristics for similar types of instruments.



INCYTE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**Note 2. Marketable Securities (Continued)**

The following fair value hierarchy table presents information about each major category of our financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2014 (in thousands):

	Fair Value Measurement at Reporting Date Using:			Balance as of December 31, 2014
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Cash and cash equivalents	\$ 452,297	\$ —	\$ —	\$ 452,297
Corporate debt securities	—	144,402	—	144,402
Mortgage-backed securities	—	3,564	—	3,564
Total assets	\$ 452,297	\$ 147,966	\$ —	\$ 600,263

The following fair value hierarchy table presents information about each major category of our financial assets measured at fair value on a recurring basis as of December 31, 2013 (in thousands):

	Fair Value Measurement at Reporting Date Using:			Balance as of December 31, 2013
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Cash and cash equivalents	\$ 471,429	\$ —	\$ —	\$ 471,429
Corporate debt securities	—	33,653	—	33,653
Mortgage-backed securities	—	3,922	—	3,922
Total assets	\$ 471,429	\$ 37,575	\$ —	\$ 509,004

Net realized gains of \$0.0 million, \$0.0 million and \$0.6 million from the sale of restricted cash and investment and marketable securities were included in "Interest and other income, net" in 2014, 2013 and 2012, respectively.

During 2014 there were no new measurements required for any assets, liabilities or equity components at fair value on a nonrecurring basis. During 2013, we measured the following assets, liabilities and equity components at fair value on a nonrecurring basis:

- Fair value of facility at lease inception (asset)—\$15.2 million (Note 6)
- Fair value of debt component of 0.375% Convertible Senior Notes due 2018 (the "2018 Notes") (liability)—\$299.4 million (Note 8)
- Fair value of debt component of 1.25% Convertible Senior Notes due 2020 (the "2020 Notes") (liability)—\$274.8 million (Note 8)
- Fair value of debt component of \$117.3 million of 4.75% Convertible Senior Notes due 2015 (the "2015 Notes") that were repurchased (liability)—\$118.6 million (Note 8)
- Fair value of equity component of \$117.3 million of the 2015 Notes that were repurchased (equity)—\$381.4 million (Note 8)

All of these non-recurring measurements utilized Level 3 unobservable inputs.

**INCYTE CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 2. Marketable Securities (Continued)**

In order to estimate the fair value of the facility at lease inception which consisted of the building valuation before improvements in October 2013, we performed a valuation analysis. The fair value of the facility was determined based on estimates for its current replacement cost, comparable market data for similar properties, and the present value of income derived from leasing the building.

In order to estimate the fair value of the debt components of the 2018 Notes and the 2020 Notes at issuance in November 2013, we performed a valuation analysis. For these instruments, we estimated the interest rate at the time of issuance for debt instruments that do not include an embedded conversion option in order to compute the fair value of the debt component. Significant assumptions within the valuation model included the risk-adjusted rate of return on the 2018 Notes and 2020 Notes, the expected volatility and dividend yield of our common stock and the risk free interest rate over the term of the 2018 Notes and 2020 Notes.

In order to estimate the fair value of the debt and equity components and resulting loss on repurchase of the 2015 Notes that were repurchased during 2013, we performed a valuation analysis. Significant assumptions within the valuation model for the debt and equity components included the risk-adjusted rate of return on the 2015 Notes, the intrinsic value of the equity component on the date of repurchase, the expected volatility and dividend yield of our common stock and the risk free interest rate over the term of the 2015 Notes.

**Note 3. Concentrations of Credit Risk**

In December 2009, we entered into a license, development and commercialization agreement with Eli Lilly and Company ("Lilly"). In November 2009, we entered into a collaboration and license agreement with Novartis. The concentration of credit risk related to our collaborative partners is as follows:

	Percentage of Total Contract Revenues for the Years Ended, December 31,		
	2014	2013	2012
	(in millions)		
Collaboration Partner A	88%	86%	60%
Collaboration Partner B	12%	14%	40%

Collaboration Partner A and Collaboration Partner B comprised in the aggregate 26% and 28% of the accounts receivable balance as of December 31, 2014 and 2013, respectively.

## INCYTE CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**Note 3. Concentrations of Credit Risk (Continued)**

In November 2011, we began commercialization and distribution of JAKAFI to a number of specialty pharmacies. Our product revenues are concentrated in a number of specialty pharmacy customers. The concentration of credit risk related to our specialty pharmacy customers is as follows:

	Percentage of Total Net Product Revenues for the Years Ended, December 31,		
	2014	2013	2012
	(in millions)		
Customer A	29%	29%	15%
Customer B	22%	17%	21%
Customer C	10%	11%	29%
Customer D	9%	11%	15%

We are exposed to risks associated with extending credit to specialty pharmacy customers related to the sale of products. Customer A, Customer B, Customer C and Customer D comprised in the aggregate 54% and 49% of the accounts receivable balance as of December 31, 2014 and December 31, 2013, respectively.

**Note 4. Inventory**

Our inventory balance consists of the following:

	December 31,	
	2014	2013
	(in thousands)	
Raw materials	\$ 591	\$ 591
Work-in-process	18,487	14,346
Finished goods	358	406
	19,436	15,343
Inventories—current	358	406
Inventories—non-current	\$ 19,078	\$ 14,937

Inventories, stated at the lower of cost or market, consist of raw materials, work in process and finished goods. At December 31, 2014, \$0.4 million of inventory was classified as current on the consolidated balance sheets as we expect this inventory to be consumed for commercial use within the next twelve months. At December 31, 2014, \$19.1 million of inventory was classified as non-current on the consolidated balance sheets as we did not expect this inventory to be consumed for commercial use within the next twelve months. We obtain a number of inventory components from single source suppliers due to technology, availability, price, quality or other considerations. The loss of a single source supplier, the deterioration of its relationship with a single source supplier, or any unilateral violation of the contractual terms under which we are supplied components by a single source supplier could adversely affect our total revenues and gross margins.

The raw materials and work-in-process inventory is not subject to expiration and the shelf life for finished goods inventory is 36 months from the start of manufacturing of the finished goods. We evaluate

INCYTE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**Note 4. Inventory (Continued)**

for potential excess inventory by analyzing current and future product demand relative to the remaining product shelf life. We build demand forecasts by considering factors such as, but not limited to, overall market potential, market share, market acceptance and patient usage.

**Note 5. License Agreements**

*Novartis*

In November 2009, we entered into a Collaboration and License Agreement with Novartis. Under the terms of the agreement, Novartis received exclusive development and commercialization rights outside of the United States to our JAK inhibitor ruxolitinib and certain back-up compounds for hematologic and oncology indications, including all hematological malignancies, solid tumors and myeloproliferative diseases. We retained exclusive development and commercialization rights to JAKAFI (ruxolitinib) in the United States and in certain other indications. Novartis also received worldwide exclusive development and commercialization rights to our c-MET inhibitor compound capmatinib and certain back-up compounds in all indications. We retained options to co-develop and to co-promote capmatinib in the United States.

Under this agreement, we received an upfront payment and immediate milestone payment totaling \$210.0 million and were initially eligible to receive up to \$1.2 billion in milestone payments across multiple indications upon the achievement of pre-specified events, including up to \$174.0 million for the achievement of development milestones, up to \$495.0 million for the achievement of regulatory milestones and up to \$500.0 million for the achievement of commercialization milestones. As of December 31, 2014, we have recognized in the aggregate \$97.0 million for the achievement of development milestones and \$135.0 million for the achievement of regulatory milestones.

During the year ended December 31, 2014, under this agreement, we recognized and received a \$60.0 million regulatory milestone related to reimbursement of JAKAVI (ruxolitinib) in Europe, recognized and received a \$25.0 million regulatory milestone for the approval of JAKAVI in Japan for the treatment of patients with myelofibrosis and a \$7.0 million development milestone based on the formal initiation by Novartis of a Phase II clinical trial evaluating capmatinib in non-small cell lung cancer. In 2013, we recognized and received a \$25.0 million development milestone payment under this agreement based on the formal initiation by Novartis of a Phase II clinical trial evaluating capmatinib. In 2012, we recognized and received a \$40.0 million regulatory milestone payment under this agreement for the achievement of a predefined milestone for the European Union regulatory approval of JAKAVI. In 2011, we recognized and received a \$15.0 million development milestone payment under this agreement for the achievement of a predefined milestone in the Phase I dose-escalation trial for capmatinib in patients with solid tumors and a \$10.0 million regulatory milestone payment for the approval of JAKAFI in the United States. We determined the 2014, 2013, 2012 and 2011 milestones to be substantive as their achievement required substantive efforts by us and was at risk until the milestones were ultimately achieved. We also are eligible to receive tiered, double-digit royalties ranging from the upper-teens to the mid-twenties on future JAKAVI net sales outside of the United States. Since the achievement of the \$60.0 million regulatory milestone related to reimbursement of JAKAVI in Europe in September 2014, we are now obligated to pay to Novartis tiered royalties in the low single digits on future JAKAFI net sales within the United States. During the year ended December 31, 2014, such royalties payable to Novartis on net sales within the United States totaled \$2.2 million and are reflected in cost of product revenues on the consolidated statement of operations. Each company is responsible for costs relating to the development and

INCYTE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**Note 5. License Agreements (Continued)**

commercialization of ruxolitinib in its respective territories, with costs of collaborative studies shared equally. Novartis is now responsible for all costs relating to the development and commercialization of capmatinib.

The Novartis agreement will continue on a program-by-program basis until Novartis has no royalty payment obligations with respect to such program or, if earlier, the termination of the agreement or any program in accordance with the terms of the agreement. Royalties are payable by Novartis on a product-by-product and country-by-country basis until the latest to occur of (1) the expiration of the last valid claim of the licensed patent rights covering the licensed product in the relevant country, (2) the expiration of regulatory exclusivity for the licensed product in such country and (3) a specified period from first commercial sale in such country of the licensed product by Novartis or its affiliates or sublicensees. The agreement may be terminated in its entirety or on a program-by-program basis by Novartis for convenience. The agreement may also be terminated by either party under certain other circumstances, including material breach.

We determined that there were two deliverables under the agreement: (i) the ex U.S. license for ruxolitinib and (ii) our obligations in connection with our participation on the joint development committee for myelofibrosis and polycythemia vera/essential thrombocythemia. We concluded that these deliverables should be accounted for as a single unit of accounting and the \$150.0 million upfront payment received in December 2009 and the immediate \$60.0 million milestone payment received in January 2010 should be recognized on a straight line basis through December 2013, when we estimated we would complete our obligations in connection with our participation on the joint development committee for myelofibrosis and polycythemia vera, our estimated performance period under the agreement. We completed this substantive performance obligation related to this arrangement in December 2013.

At December 31, 2009, we recorded \$10.9 million of reimbursable costs incurred prior to the effective date of the agreement as deferred revenue on the consolidated balance sheet. These costs were recognized on a straight line basis through December 2013 consistent with the aforementioned upfront and milestone payments. Future reimbursable costs incurred after the effective date of the agreement with Novartis will be recorded net against the related research and development expenses. At December 31, 2014 and December 31, 2013, \$0.3 million and \$1.7 million, respectively, of reimbursable costs were included in accounts receivable on the consolidated balance sheets. Research and development expenses for the years ended December 31, 2014, 2013 and 2012 were net of \$3.1 million, \$5.1 million, and \$4.4 million respectively, of costs reimbursed by Novartis.

Contract revenue under the Novartis agreement was \$92.0 million, \$78.2 million and \$94.1 million, respectively, for the years ended December 31, 2014, 2013 and 2012. Included in the amounts for December 31, 2014, 2013 and 2012, were \$92.0 million, \$25.0 million and \$40.0 million, respectively, in milestone payments received from Novartis. In addition, for the years ended December 31, 2014, 2013 and 2012, respectively, we recorded \$49.0 million, \$28.3 million and \$3.7 million, of product royalty revenues related to Novartis net sales of JAKAVI outside the United States. At December 31, 2014 and December 31, 2013, \$14.8 million and \$8.3 million, respectively, of product royalties were included in accounts receivable on the consolidated balance sheets.

**Lilly**

In December 2009, we entered into a License, Development and Commercialization Agreement with Lilly. Under the terms of the agreement, Lilly received exclusive worldwide development and

INCYTE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**Note 5. License Agreements (Continued)**

commercialization rights to our JAK inhibitor baricitinib, and certain back-up compounds for inflammatory and autoimmune diseases. We received an upfront payment of \$90.0 million, and were initially eligible to receive up to \$665.0 million in substantive milestone payments across multiple indications upon the achievement of pre-specified events, including up to \$150.0 million for the achievement of development milestones, up to \$365.0 million for the achievement of regulatory milestones and up to \$150.0 million for the achievement of commercialization milestones. As of December 31, 2014, we have recognized and received in the aggregate \$99.0 million for the achievement of development milestones.

In 2012, we recognized a \$50.0 million development milestone under this agreement for the achievement of a predefined milestone for the initiation of the rheumatoid arthritis Phase III program for baricitinib. In 2010, we recognized and received a \$30.0 million development milestone payment based upon the initial three month data in the Phase IIa clinical trial of baricitinib for the treatment of rheumatoid arthritis and a \$19.0 million development milestone payment for the Phase IIb clinical trial initiation of baricitinib for the treatment of rheumatoid arthritis. We determined the 2012 and 2010 milestones to be substantive as their achievement required substantive efforts by us and was at risk until the milestones were ultimately achieved. We also could receive tiered, double-digit royalty payments on future global net sales with rates ranging up to 20% if the product is successfully commercialized.

We retained options to co-develop our JAK inhibitors with Lilly on a compound-by-compound and indication-by-indication basis. Lilly is responsible for all costs relating to the development and commercialization of the compounds unless we elect to co-develop any compounds or indications. If we elect to co-develop any compounds and/or indications, we would be responsible for funding 30% of the associated future global development costs from the initiation of a Phase IIb trial through regulatory approval. We would receive an incremental royalty rate increase across all tiers resulting in effective royalty rates ranging up to the high twenties on potential future global net sales for compounds and/or indications that we elect to co-develop. We also retained an option to co-promote products in the United States. In July 2010, we elected to co-develop baricitinib with Lilly in rheumatoid arthritis and we are responsible for funding 30% of the associated future global development costs for this indication from the initiation of the Phase IIb trial through regulatory approval. Research and development expenses recorded under the Lilly agreement representing 30% of the global development costs for baricitinib for the treatment of rheumatoid arthritis were \$49.3 million, \$52.4 million and \$18.5 million for the years ended December 31, 2014, 2013 and 2012, respectively. We have retained certain mechanisms to give us cost protection as baricitinib advances in clinical development. We can defer our portion of co-development study costs by indication if they exceed a predetermined level. This deferment would be credited against future milestones or royalties and we would still be eligible for the full incremental royalties related to the co-development option. In addition, even if we have started co-development funding for any indication, we can at any time opt out and stop future co-development cost sharing. If we elect to do this we would still be eligible for our base royalties plus an incremental pro-rated royalty commensurate with our contribution to the total co-development cost for those indications for which we co-funded. The Lilly agreement will continue until Lilly no longer has any royalty payment obligations or, if earlier, the termination of the agreement in accordance with its terms. Royalties are payable by Lilly on a product-by-product and country-by-country basis until the latest to occur of (1) the expiration of the last valid claim of the licensed patent rights covering the licensed product in the relevant country, (2) the expiration of regulatory exclusivity for the licensed product in such country and (3) a specified period from first commercial sale in such country of the licensed product by Lilly or its affiliates or sublicensees. The agreement may be

## INCYTE CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**Note 5. License Agreements (Continued)**

terminated by Lilly for convenience, and may also be terminated under certain other circumstances, including material breach.

We determined that there were two deliverables under the agreement: (i) the worldwide license and (ii) our obligations in connection with a co-development option. We concluded that these deliverables should be accounted for as a single unit of accounting and the \$90.0 million upfront payment should be recognized on a straight line basis as revenue through December 2016, our estimated performance period under the agreement.

Contract revenue under the Lilly agreement was \$12.9 million, \$12.9 million and \$62.9 million, respectively, for the years ended December 31, 2014, 2013 and 2012. Included in the amount for the year ended December 31, 2012 was \$50.0 million in connection with milestone payments earned from Lilly.

**Pfizer**

In January 2006, we entered into a Collaborative Research and License Agreement with Pfizer for the pursuit of our CCR2 antagonist program. Pfizer gained worldwide development and commercialization rights to our portfolio of CCR2 antagonist compounds. Pfizer's rights extend to the full scope of potential indications, with the exception of multiple sclerosis and autoimmune nephritides, where 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. The agreement will terminate upon the expiration of the last to expire of patent rights licensed under the agreement. Prior to such expiration, either party can terminate the agreement for the uncured material breach of the agreement by the other party or for the insolvency of the other party. In addition, Pfizer may terminate the agreement at any time upon 90 days' notice. We received an upfront nonrefundable, non-creditable payment of \$40.0 million in January 2006 and are eligible to receive additional future development and milestone payments.

**Note 6. Property and Equipment**

Property and equipment consists of the following:

	December 31,	
	2014	2013
	(in thousands)	
Office equipment	\$ 6,090	\$ 2,332
Laboratory equipment	26,800	20,228
Computer equipment	18,648	13,930
Building and leasehold improvements	64,926	2,454
Assets under construction	—	20,377
	116,464	59,321
Less accumulated depreciation and amortization	(34,674)	(32,473)
	<u>\$ 81,790</u>	<u>\$ 26,848</u>

Depreciation expense, including amortization expense of leasehold improvements, was \$5.1 million, \$3.2 million and \$2.9 million for 2014, 2013 and 2012, respectively.

INCYTE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**Note 6. Property and Equipment (Continued)**

In 2013, we entered into a lease agreement for a new corporate headquarters, which consists of approximately 190,000 square feet of laboratory and office space located in Wilmington, Delaware. The term of this lease is 15 years from the date of commencement. The construction of the facility was completed and the lease commenced on October 1, 2014 with a monthly lease rate of \$0.5 million for the first 10 years of the lease and with the monthly lease rate increasing annually during the last five years of lease.

We are accounting for the lease as a direct financing arrangement whereby over the construction period, we recorded the value of the facility (consisting of the estimated fair value of the existing shell, plus construction costs incurred) as a capital asset, with a corresponding lease liability, net of build out costs paid for by us during the construction period. The lease liability will be amortized over the term of the lease using the effective interest method. In addition, we have posted a \$15.0 million letter of credit for the facility lease for the benefit of the landlord, which is collateralized by a restricted investments account for the same amount. This amount was recorded as restricted investments on the consolidated balance sheets and will be reduced over a period of time during the duration of the lease. The letter of credit could be subject to accelerated reductions if we meet certain pre-defined financial targets. Restricted investments on the consolidated balance sheet at December 31, 2014 and 2013, respectively was \$14.5 million and \$15.0 million.

**Note 7. Debt Issuance Costs**

Debt issuance costs, related primarily to costs incurred with the private placements of our 2015 Notes, 2018 Notes and 2020 Notes are included in other assets on the accompanying balance sheets and consist of the following (in thousands):

	December 31, 2014			December 31, 2013		
	Gross Carrying Amount	Accumulated Amortization	Other Assets, Net	Gross Carrying Amount	Accumulated Amortization	Other Assets, Net
Debt issuance costs	\$ 19,239	\$ (5,288)	\$ 13,951	\$ 19,424	\$ (2,340)	\$ 17,084

**Note 8. Convertible Notes**

The components of the convertible notes are as follows (in thousands):

Debt	Interest Rates	Maturities	Carrying Amount,	
			December 31,	
			2014	2013
4.75% Convertible Senior Notes due 2015	4.75%	2015	\$ 85,640	\$ 84,193
0.375% Convertible Senior Notes due 2018	0.375%	2018	314,752	301,037
1.25% Convertible Senior Notes due 2020	1.25%	2020	288,726	276,337
			689,118	661,567
Less current portion			85,640	—
			<u>\$ 603,478</u>	<u>\$ 661,567</u>



**INCYTE CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Note 8. Convertible Notes (Continued)**

Annual maturities of all convertible notes are as follows (in millions):

2015	\$ 90.9
2016	—
2017	—
2018	375.0
2019	—
Thereafter	375.0
	<u>\$ 840.9</u>

The carrying amount and fair value of our convertible notes are as follows (in thousands):

	December 31,			
	2014		2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
4.75% Convertible Senior Notes due 2015	\$ 85,640	\$ 755,143	\$ 84,193	\$ 556,272
0.375% Convertible Senior Notes due 2018	314,752	560,156	301,037	448,350
1.25% Convertible Senior Notes due 2020	288,726	577,736	276,337	454,913
	<u>\$ 689,118</u>	<u>\$ 1,893,035</u>	<u>\$ 661,567</u>	<u>\$ 1,459,535</u>

The fair values of the 2015 Notes, the 2018 Notes and the 2020 Notes are based on data from readily available pricing sources which utilize market observable inputs and other characteristics for similar types of instruments, and, therefore, these convertible senior notes are classified within Level 2 in the fair value hierarchy.

On November 14, 2013, we issued, in a private placement, \$375.0 million aggregate principal amount of the 2018 Notes and \$375.0 million aggregate principal amount of the 2020 Notes (together with the 2018 Notes, the "Notes"). Entities affiliated with Julian C. Baker, one of our directors and principal stockholders (the "Baker Entities"), purchased \$250.0 million aggregate principal amount of the 2018 Notes and \$250.0 million aggregate principal amount of the 2020 Notes in this private placement. The 2018 Notes bear interest at a rate of 0.375% per annum and the 2020 Notes bear interest at a rate of 1.25% per annum, in each case payable semi-annually in arrears in cash on May 15 and November 15 of each year, beginning on May 15, 2014. The 2018 Notes will mature on November 15, 2018 and the 2020 Notes will mature on November 15, 2020, in each case unless earlier purchased or converted. We may not redeem the Notes prior to their relevant scheduled maturity dates.

Prior to May 14, 2014, the Notes were not convertible except in connection with a make-whole fundamental change, as defined in the respective indentures. Beginning on, and including, May 15, 2014, the Notes are convertible prior to the close of business on the business day immediately preceding May 15, 2018, in the case of the 2018 Notes, and May 15, 2020, in the case of the 2020 Notes, only under the following circumstances: (1) during any calendar quarter commencing after the calendar quarter ending on March 31, 2014 (and only during such calendar quarter), if the last reported sale price of our common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price for the 2018 Notes or 2020 Notes, as applicable, on each applicable

INCYTE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**Note 8. Convertible Notes (Continued)**

trading day; (2) during the five business day period after any five consecutive trading day period (the "measurement period") in which the trading price per \$1,000 principal amount of 2018 Notes or 2020 Notes, as applicable, for each trading day of the measurement period was less than 98% of the product of the last reported sale price of our common stock and the conversion rate for the 2018 Notes or 2020 Notes, as applicable, on each such trading day; or (3) upon the occurrence of specified corporate events. On or after May 15, 2018, in the case of the 2018 Notes, and May 15, 2020, in the case of the 2020 Notes, until the close of business on the second scheduled trading day immediately preceding the relevant maturity date, the Notes are convertible at any time, regardless of the foregoing circumstances. Upon conversion we will pay or deliver, as the case may be, cash, shares of common stock or a combination of cash and shares of common stock, at our election.

On January 1, 2015, the 2018 Notes and 2020 Notes became convertible through at least March 31, 2015, based on the meeting the conversion criteria related to the sale price of our common stock during the calendar quarter ended December 31, 2014 as described in (1) above. Management's intent is to settle any conversions of 2018 Notes or 2020 Notes during this period in shares of our common stock and, therefore, the 2018 Notes and 2020 Notes are reflected in long term liabilities on the consolidated balance sheet at December 31, 2014.

The initial conversion rate for the 2018 Notes is 19.3207 shares of common stock per \$1,000 principal amount, equivalent to an initial conversion price of approximately \$51.76 per share. The initial conversion rate for the 2020 Notes is 19.3207 shares of common stock per \$1,000 principal amount, equivalent to an initial conversion price of approximately \$51.76 per share. The conversion rate for each series of the Notes will be subject to adjustment for certain events but will not be adjusted for any accrued and unpaid interest. Upon the occurrence of certain fundamental changes, the holders of the Notes may require us to purchase all or a portion of their Notes for cash at a price equal to 100% of the principal amount of the Notes, plus accrued and unpaid interest, including additional interest, if any, to, but excluding, the fundamental change purchase date. In addition, if, and to the extent, a holder elects to convert any Note in connection with a make-whole fundamental change transaction, as defined in the indenture, we will, under certain circumstances, increase the applicable conversion rate by a number of additional shares of our common stock.

Since the 2018 Notes and 2020 Notes can be settled in cash or common shares or a combination of cash and common shares at our option, we determined the embedded conversion options in the 2018 Notes and the 2020 Notes are not required to be separately accounted for as a derivative. However, since the 2018 Notes and the 2020 Notes are within the scope of the accounting guidance for cash convertible instruments, we are required to separate the 2018 Notes and 2020 Notes into a liability and equity component. The carrying amount of the liability component is calculated by measuring the fair value of a similar liability that does not have an associated equity component. The carrying amount of the equity component representing the embedded conversion option is determined by deducting the fair value of the liability component from the initial proceeds. The excess of the principal amount of the liability component over its carrying amount is amortized to interest expense over the expected life of a similar liability that does not have an associated equity component using the effective interest method. The equity component is not re-measured as long as it continues to meet the conditions for equity classification in the accounting guidance for contracts in an entity's own equity.

The liability component of the 2018 Notes on the date of issuance was estimated at \$299.4 million, and accordingly, the equity component on the date of issuance was \$75.6 million. The discount on the 2018

INCYTE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**Note 8. Convertible Notes (Continued)**

Notes is being amortized to interest expense over the term of the Notes, using the effective interest method. The carrying value of the 2018 Notes was \$314.8 million and \$301.0 million, respectively at December 31, 2014 and 2013.

The liability component of the 2020 Notes on the date of issuance was estimated at \$274.8 million, and accordingly, the equity component on the date of issuance was \$100.2 million. The discount on the 2020 Notes is being amortized to interest expense over the term of the Notes, using the effective interest method. The carrying value of the 2020 Notes was \$288.7 million and \$276.3 million, respectively, at December 31, 2014 and 2013.

The 2015 Notes bear interest at the rate of 4.75% per year, payable semi-annually on April 1 and October 1, and are due October 1, 2015. We may not redeem the 2015 Notes prior to their scheduled maturity date. If we undergo a fundamental change, as defined in the indenture, subject to certain conditions, holders may require us to repurchase their 2015 Notes at a purchase price equal to 100% of the principal amount being purchased, plus accrued and unpaid interest, up to the date of purchase. The 2015 Notes are convertible into shares of our common stock at an initial conversion rate of 113.9601 shares per \$1,000 principal amount, equivalent to an initial conversion price of approximately \$8.78 per share. In addition, if, and to the extent, a holder elects to convert any 2015 Notes in connection with a make-whole fundamental change transaction, as defined in the indenture, we will, under certain circumstances, increase the applicable conversion rate by a number of additional shares of our common stock. The carrying value of the 2015 Notes was \$85.6 million and \$84.2 million, respectively, at December 31, 2014 and 2013. We accrete the 2015 Notes up to their remaining face value of over the remaining term by recording interest expense under the effective interest method. During 2013, we entered into separately negotiated agreements with certain holders of the 2015 Notes pursuant to which such holders agreed to exchange a total of \$186.0 million in aggregate principal amount of the 2015 Notes for the shares of our common stock into which the 2015 Notes were convertible, aggregating 21.2 million shares, and \$11.5 million in cash. During 2014, we entered into separately negotiated agreements with certain holders of the 2015 Notes pursuant to which such holders agreed to exchange a total of \$4.9 million in aggregate principal amount of the 2015 Notes for the shares of our common stock into which the 2015 Notes were convertible, aggregating 0.7 million shares, and \$0.3 million in cash. We have recorded \$0.3 million and \$11.5 million, respectively, in debt exchange expense on senior note conversions for the years ended December 31, 2014 and 2013.

Also during 2013, we used a portion of the net proceeds from the 2018 Notes and the 2020 Notes to repurchase a portion of the outstanding 2015 Notes held by the Baker Entities, in privately negotiated transactions, for an aggregate consideration, including accrued interest, of approximately \$500.0 million. The repurchase resulted in the retirement of approximately \$117.3 million aggregate principal amount of the 2015 Notes. As the 2015 Notes could not be settled for cash under their original terms, the repurchase represents a modification of the original arrangement, and as the modification was deemed substantial, extinguishment accounting applies for both the liability and equity components of the 2015 Notes that were repurchased. In order to allocate the \$500.0 million repurchase price to the debt and equity components of the 2015 Notes that were repurchased, we estimated the relative fair value of these components. This fair value resulted in \$118.6 million attributed to the debt component and \$381.4 million attributed to the equity component. The difference between the \$118.6 million attributed to the debt component and the \$100.7 million carrying value of the repurchased 2015 Notes of \$17.9 million was recorded as a loss on debt repurchase of senior notes in our consolidated statement of operations for the year ended December 31,

**INCYTE CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Note 8. Convertible Notes (Continued)**

2013. The \$381.4 million of the repurchase price attributed to the equity component was recorded as a reduction of additional-paid-in-capital.

**Note 9. Stockholders' Deficit**

*Preferred Stock.* We are authorized to issue 5,000,000 shares of preferred stock, none of which was outstanding as of December 31, 2014 and 2013. The Board of Directors may determine the rights, preferences and privileges of any preferred stock issued in the future.

*Common Stock.* We are authorized to issue 400,000,000 shares of common stock.

*Stock Compensation Plans.* As of December 31, 2014, we had reserved a total of 16,359,131 shares of our common stock for future issuance related to our stock plans as described below.

*2010 Stock Incentive Plan.* In May 2010 the Board of Directors adopted the 2010 Stock Incentive Plan, which was amended and restated in April 2014 (the "2010 Plan") for issuance of common stock to employees, non-employee directors, consultants, and scientific advisors. Options granted to employees, consultants, and scientific advisors under the 2010 Plan vest over three years, pursuant to a formula determined by our Board of Directors, and expire after seven years. All options are exercisable at the fair market value of the stock on the date of grant. Non-employee director options expire after ten years. In May 2012, our stockholders approved an increase in the number of shares of common stock reserved for issuance under the 2010 Plan from 12,553,475 to 16,553,475. In May 2013, our stockholders approved an increase in the number of shares of common stock reserved for issuance under the 2010 Plan from 16,553,475 to 21,753,475. In May 2014, our stockholders approved an increase in the number of shares of common stock reserved for issuance under the 2010 Plan from 21,753,475 to 24,753,475.

Option activity under the 2010 Stock Plan was as follows:

	Shares Available for Grant	Shares Subject to Outstanding Options	
		Shares	Weighted Average Exercise Price
Balance at December 31, 2013	4,676,614	20,123,089	\$ 15.16
Additional authorization	2,300,000	—	—
Options granted	(1,864,296)	1,864,296	\$ 60.37
Options exercised	—	(7,044,844)	\$ 12.36
Options cancelled	287,498	(287,498)	\$ 30.06
Balance at December 31, 2014	5,399,816	14,655,043	\$ 21.96

Options to purchase a total of 10,486,757, 12,474,119 and 14,596,823 shares as of December 31, 2014, 2013 and 2012, respectively, were exercisable and vested. The aggregate intrinsic value of options exercised for the years ended December 31, 2014, 2013 and 2012 were \$359.7 million, \$141.8 million and \$61.3 million, respectively. At December 31, 2014 the aggregate intrinsic value of options outstanding and vested options are \$749.6 million and \$745.0 million, respectively.

**INCYTE CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Note 9. Stockholders' Deficit (Continued)**

The following table summarizes information about stock options outstanding as of December 31, 2014 for the 2010 Plan:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$2.80 - \$9.41	1,977,897	1.54	\$ 6.26	1,977,897	\$ 6.26
\$9.50 - \$14.60	861,113	2.32	12.46	861,113	12.46
\$14.72 - \$14.72	1,669,468	3.07	14.72	1,669,468	14.72
\$14.74 - \$17.50	450,244	4.05	16.38	323,432	16.17
\$17.79 - \$17.79	2,561,696	4.05	17.79	2,468,082	17.79
\$17.89 - \$18.30	307,089	4.33	18.12	244,391	18.14
\$18.32 - \$18.32	3,528,261	5.10	18.32	1,995,565	18.32
\$18.97 - \$40.85	1,471,736	5.51	28.09	880,999	25.04
\$47.24 - \$64.55	1,749,131	6.31	59.65	65,810	52.62
\$67.06 - \$74.20	78,408	6.84	68.12	—	—
	<u>14,655,043</u>			<u>10,486,757</u>	

*Restricted Stock Units and Performance Stock Units.*

In January 2014, we began granting RSUs and PSUs to our employees at the share price on the date of grant. Each RSU represents the right to acquire one share of our common stock. We granted a total of 363,179 RSUs during the year ended December 31, 2014 which will cliff vest in three years and will be recognized as stock compensation expense over this period. Also, in January 2014, Hervé Hoppenot, our President and Chief Executive Officer, was granted a one-time grant of 400,000 RSUs outside of our 2010 Stock Incentive Plan. Vesting of the RSUs will be subject to Mr. Hoppenot's continued employment on the applicable vesting dates, with one-sixth of the RSUs vesting at the end of each of the calendar years 2014 through 2019, subject to earlier acceleration of vesting upon the occurrence of certain events in accordance with the terms of his employment agreement.

We granted a total of 55,326 PSUs during the year ended December 31, 2014. At December 31, 2014, we have recognized stock compensation expense for these awards if the performance conditions were deemed probable of achievement at that date. For PSUs containing performance conditions which have not been deemed probable of achievement at December 31, 2014, no stock compensation expense has been recognized for these awards. The actual number of shares of our common stock into which each PSU may convert are subject to a multiplier of up to 125% based on the level at which the performance conditions are achieved.

Based on our historical experience of employee turnover, we have assumed an annualized forfeiture rate of 5% for our options, PSUs and RSUs. Under the true-up provisions of the stock compensation guidance, we will record additional expense as the awards vest if the actual forfeiture rate is lower than we estimated, and will record a recovery of prior expense if the actual forfeiture is higher than we estimated.

INCYTE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**Note 9. Stockholders' Deficit (Continued)**

RSU and PSU award activity under the 2010 Stock Plan was as follows:

	Shares Available for Grant	Shares Subject to Outstanding Awards	
		Shares	Weighted Average Exercise Price
Balance at December 31, 2013	700,000	—	—
Additional authorization	700,000	—	—
RSUs granted	(363,179)	363,179	\$ 57.02
PSUs granted	(55,326)	55,326	\$ 62.52
RSUs cancelled	14,984	(14,984)	—
PSUs cancelled	5,044	(5,044)	—
Balance at December 31, 2014	1,001,523	398,477	—

*Employee Stock Purchase Plan.* On May 21, 1997, our stockholders adopted the 1997 Employee Stock Purchase Plan (the "ESPP"). Each regular full-time and part-time employee working 20 hours or more per week is eligible to participate after one month of employment. We issued 193,657, 390,000 and 378,041 shares under the ESPP in 2014, 2013 and 2012, respectively. For the year ended December 31, 2014, 2013 and 2012 we recorded stock compensation expense of \$1.9 million, \$1.5 million and \$1.4 million, respectively, as the ESPP is considered compensatory under the FASB stock compensation rules. As of December 31, 2014, 905,611 shares remain available for issuance under the ESPP.

**Note 10. Stock Compensation**

We recorded \$62.2 million, \$38.4 million and \$38.5 million, respectively, of stock compensation expense for the years ended December 31, 2014, 2013 and 2012. We utilized the Black-Scholes valuation model for estimating the fair value of the stock options granted, with the following weighted-average assumptions:

	Employee Stock Options For the Year Ended			Employee Stock Purchase Plan For the Year Ended		
	December 31,			December 31,		
	2014	2013	2012	2014	2013	2012
Average risk-free interest rates	1.21%	0.62%	0.49%	0.55%	0.27%	0.28%
Average expected life (in years)	4.54	4.27	3.90	0.50	0.50	0.50
Volatility	51%	48%	57%	48%	49%	50%
Weighted-average fair value (in dollars)	25.65	8.18	7.73	9.56	4.22	3.68

The risk-free interest rate is derived from the U.S. Federal Reserve rate in effect at the time of grant. The expected life calculation is based on the observed and expected time to the exercise of options by our employees based on historical exercise patterns for similar type options. Expected volatility is based on the historical volatility of our common stock over the period commensurate with the expected life of the options. A dividend yield of zero is assumed based on the fact that we have never paid cash dividends and have no present intention to pay cash dividends.

## INCYTE CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**Note 10. Stock Compensation (Continued)**

Total compensation cost of options granted but not yet vested, as of December 31, 2014, was \$24.3 million, which is expected to be recognized over the weighted average period of 3.0 years. Total compensation cost of RSUs granted but not yet vested, as of December 31, 2014, was \$24.1 million, which is expected to be recognized over the weighted average period of 3.0 years. Total compensation cost of PSUs granted but not yet vested, as of December 31, 2014, was \$0.8 million, which is expected to be recognized over the weighted average period of 3.0 years, should the underlying performance conditions be deemed probable of achievement.

**Note 11. Income Taxes**

A reconciliation of income taxes at the U.S. federal statutory rate to the provision for income taxes is as follows (in thousands):

	Year Ended December 31,		
	2014	2013	2012
Benefit at U.S. federal statutory rate	\$ (16,992)	\$ (28,997)	\$ (15,451)
Unbenefitted net operating losses and tax credits	13,432	18,215	6,492
Non-deductible amortization of debt discount	2,294	6,645	8,347
Non-deductible interest expense	1	747	376
Non-deductible debt exchange expense and loss on repurchase of senior notes	—	7,985	—
Deferred tax impact of law change	—	(5,549)	—
Other	1,199	1,253	410
Provision for income taxes	<u>\$ (66)</u>	<u>\$ 299</u>	<u>\$ 174</u>

The provision for income taxes for the years ended December 31, 2014, 2013 and 2012 were for certain state income taxes.

## INCYTE CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**Note 11. Income Taxes (Continued)**

Significant components of our deferred tax assets and liabilities are as follows (in thousands):

	December 31,	
	2014	2013
Deferred tax assets:		
Federal and state net operating loss carry forwards	\$ 504,267	\$ 513,000
Federal and state research credits	165,352	122,000
Capitalized research and development	2,475	8,000
Deferred revenue and accruals	15,799	21,000
Non-cash compensation	31,248	23,000
Deferred financing obligation	20,383	8,000
Other	8,306	9,000
Total gross deferred tax assets	747,830	704,000
Less valuation allowance for deferred tax assets	(669,168)	(627,000)
Net deferred tax assets	<u>\$ 78,662</u>	<u>\$ 77,000</u>
Deferred tax liabilities:		
Property and equipment	\$ (19,925)	\$ (8,000)
Equity component of 2018 Notes and 2020 Notes	(58,737)	(69,000)
Total gross deferred tax liabilities	<u>(78,662)</u>	<u>(77,000)</u>
Net deferred income taxes	<u>\$ —</u>	<u>\$ —</u>

The valuation allowance for deferred tax assets increased by approximately \$42.2 million during the year ended December 31, 2014, decreased by approximately \$50.0 million during the year ended December 31, 2013 and decreased by approximately \$16.0 million during the year ended December 31, 2012. Management believes the uncertainty regarding the realization of net deferred tax assets requires a full valuation allowance against such net asset. We believe that a full valuation allowance continues to be appropriate given our history of net operating losses, cumulative book losses and uncertainties surrounding the timing and amount of future taxable income.

As of December 31, 2014, we had federal and state net operating loss carryforwards ("NOLs") of approximately \$1.8 billion. The federal and state NOLs will expire at various dates from 2020 through 2034, if not utilized. Our ability to utilize these NOLs may be limited under Internal Revenue Code Section 382 ("Section 382"). Section 382 imposes annual limitations on the utilization of NOL carryforwards and other tax attributes upon an ownership change. In general terms, an ownership change may result from transactions that increase the aggregate ownership of certain stockholders in our stock by more than 50 percentage points over a testing period (generally three years). These ownership changes may limit the amount of net operating loss and research and development credit carryforwards that can be utilized annually to offset future taxable income and tax, respectively.

We completed a Section 382 analysis through the year ended December 31, 2013. Based on this analysis, our NOLs and other tax attributes accumulated through 2013 should not be limited under Section 382. We have not yet updated our Section 382 analysis through 2014. Future utilization of NOLs and other tax attributes is dependent upon our ability to generate sufficient taxable income during the



INCYTE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**Note 11. Income Taxes (Continued)**

carryforward periods. When tax attributes are used, NOLs are used before tax credits and this will likely result in expiration of certain tax credits.

We have no unrecognized tax benefits as of December 31, 2014 and 2013.

Our policy is to recognize interest and penalties related to uncertain tax positions, if any, in income tax expense. As of December 31, 2014 and 2013, we did not accrue any interest related to uncertain tax positions. Due to NOL and tax credit carry forwards that remain unutilized, income tax returns for tax years 1997 through 2013 remain subject to examination by the taxing jurisdictions.

In connection with the adoption of stock-based compensation guidance in 2006, we elected to follow the with-and-without approach to determine the sequence in which deductions and NOL carryforwards are utilized. Accordingly, there have only been de minimis excess tax benefits related to stock option exercises in any year as a result of the utilization of NOL carryforwards to offset any taxable income. The table of deferred tax assets shown above does not include certain deferred tax assets at December 31, 2014 and 2013 that arose directly from tax deductions related to equity compensation in excess of compensation recognized for book purposes. Additional paid in capital will be increased by approximately \$249.5 million if and when such deferred tax assets are ultimately realized.

At December 31, 2014, we also had federal and state research and development tax credit and orphan drug credit carryforwards of approximately \$165.4 million that will expire at various dates from 2018 through 2034, if not utilized. The American Tax Relief Act of 2012, enacted January 2, 2013, retroactively reinstated the research and development credit for 2012 and 2013. Accordingly, in 2013 we recorded credits of approximately \$5.5 million related to 2012 as a result of the retroactive reinstatement. The Tax Increase Prevention Act of 2014, enacted December 19, 2014, reinstated the research and development credit for 2014.

**Note 12. Net Loss Per Share**

For all periods presented, both basic and diluted net loss per common share are computed by dividing the net loss by the number of weighted average common shares outstanding during the period. Stock options and potential common shares issuable upon conversion of the 2015 Notes, 2018 Notes, 2020 Notes and the convertible subordinated note issued to Pfizer (the "Pfizer Note") were excluded from the computation of diluted net loss per share, as their share effect was anti-dilutive for all periods presented.

## INCYTE CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**Note 12. Net Loss Per Share (Continued)**

The potential common shares that were excluded from the diluted net loss per share computation are as follows:

	2014	2013	2012
Outstanding stock awards	15,453,520	20,123,089	21,816,611
Common shares issuable upon conversion of 4.75% Convertible Senior Notes due 2015(1)	10,353,416	11,006,854	45,584,040
Common shares issuable upon conversion of Pfizer Note due 2014(2)	—	—	1,025,641
Common shares issuable upon conversion of 0.375% Convertible Senior Notes due 2018	7,245,263	7,245,263	—
Common shares issuable upon conversion of 1.25% Convertible Senior Notes due 2020	7,245,263	7,245,263	—
Total potential common shares excluded from diluted net loss per share computation	<u>40,297,462</u>	<u>45,620,469</u>	<u>68,426,292</u>

- (1) In 2013, we entered into separately negotiated agreements with certain holders of the 2015 Notes to exchange \$186.0 million principal amount for 21,208,303 shares of common stock and cash. Also in 2013, we used a portion of the net proceeds from the sale of the 2018 Notes and the 2020 Notes to repurchase \$117.3 million aggregate principal amount of the 2015 Notes held by the Baker Entities, a related party, in privately negotiated transactions, for an aggregate consideration, including accrued interest, of approximately \$500.0 million. The repurchase reduced common shares issuable upon conversion of the 2015 Notes by 13,368,883 shares.
- (2) In connection with the collaborative research and license agreement, Pfizer purchased the Pfizer Note, a \$10.0 million principal amount note that was due in 2014. In August 2013, the holder of the Pfizer Note elected to convert the \$10.0 million principal amount into 1,025,641 shares of common stock.

**Note 13. Defined Contribution Plan**

We have a defined contribution plan qualified under Section 401(k) of the Internal Revenue Code covering all domestic employees. Employees may contribute a portion of their compensation, which is then matched by us, subject to certain limitations. Defined contribution expense was \$2.4 million, \$1.9 million and \$1.7 million in 2014, 2013 and 2012, respectively.

**Note 14. Commitments and Contingencies**

As of December 31, 2014, we had a non-cancelable direct financing lease for our current corporate headquarters facility in Wilmington, Delaware. The term of this lease is 15 years from the date of commencement. The lease commenced in October 2014 with a monthly lease rate of \$0.5 million for the first 10 years of the lease with the monthly lease rate increasing annually during the last five years of lease. This lease expires in 2029.

INCYTE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**Note 14. Commitments and Contingencies (Continued)**

Rent expense for all leases for the years ended December 31, 2014, 2013 and 2012, was approximately \$7.0 million, \$6.4 million and \$6.1 million, respectively.

As of December 31, 2014, future non-cancelable minimum payments under operating, direct financing and capital leases, were as follows:

<u>Year ended December 31,</u>	<u>Operating Leases</u> <u>(in thousands)</u>	<u>Direct Financing</u> <u>(in thousands)</u>	<u>Capital Lease</u> <u>(in thousands)</u>
2015	\$ 0.6	\$ 6.1	\$ 0.2
2016	0.6	5.4	0.1
2017	0.6	5.4	—
2018	0.6	5.4	—
2019	0.7	5.4	—
Thereafter	0.1	57.6	—
<b>Total minimum lease payments</b>	<u>\$ 3.2</u>	<u>\$ 85.3</u>	<u>\$ 0.3</u>

The table above excludes certain commitments that are contingent upon future events. The most significant of these contractual commitments that we consider to be contingent obligations are summarized below.

We have entered into and may in the future seek to license additional rights relating to technologies or drug candidates in connection with our drug discovery and development programs. Under these licenses, we may be required to pay up-front fees, milestone payments, and royalties on sales of future products.

**Note 15. Interim Consolidated Financial Information (Unaudited)**

(in thousands, except per share data)

	<u>Fiscal 2014 Quarter Ended</u>			
	<u>March 31</u>	<u>June 30</u>	<u>September 30</u>	<u>December 31</u>
Revenues(1)	\$ 89,792	\$ 99,582	\$ 198,147	\$ 123,973
Net income (loss)	(33,957)	(36,873)	59,293	(36,944)
Basic net income (loss) per share	(0.21)	(0.22)	0.35	(0.22)
Diluted net income (loss) per share	(0.21)	(0.22)	0.33	(0.22)
Shares used in computation of basic net income (loss) per share	165,357	167,914	168,592	169,924
Shares used in computation of diluted net income (loss) per share	165,357	167,914	189,046	169,924

## INCYTE CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## Note 15. Interim Consolidated Financial Information (Unaudited) (Continued)

	Fiscal 2013 Quarter Ended			
	March 31	June 30	September 30	December 31
Revenues(2)	\$ 71,077	\$ 101,675	\$ 85,123	97,072
Net loss	\$ (15,669)	\$ (2,571)	\$ (22,037)	(42,870)
Basic and diluted net loss per share	\$ (0.12)	\$ (0.02)	\$ (0.14)	(0.26)
Shares used in computation of basic and diluted net loss per share	134,345	142,284	155,067	161,914

- (1) The quarters ended March 31, 2014, June 30, 2014, September 30, 2014 and December 31, 2014 include \$69.7 million, \$84.0 million, \$97.8 million and \$106.0 million, respectively of product revenues, net, relating to JAKAFI. The quarters ended March 31, 2014, June 30, 2014, September 30, 2014 and December 31, 2014 include \$9.8 million, \$12.3 million, \$12.1 million and \$14.7 million, respectively of product royalty revenues related to the sale of JAKAVI outside the United States. In November 2009 and December 2009, we entered into collaborative research and license agreements with Novartis and Lilly, respectively. The quarters ended March 31, 2014, June 30, 2014, September 30, 2014 and December 31, 2014 include \$10.2 million, \$3.2 million, \$88.2 million and \$3.2 million, respectively of contract revenues relating to these agreements.
- (2) The quarters ended March 31, 2013, June 30, 2013, September 30, 2013 and December 31, 2013 include \$48.3 million, \$54.1 million, \$60.2 million and \$72.8 million, respectively of product revenues, net, relating to JAKAFI. The quarters ended March 31, 2013, June 30, 2013, September 30, 2013 and December 31, 2013 include \$5.9 million, \$5.8 million, \$8.2 million and \$8.4 million, respectively of product royalty revenues related to the sale of JAKAVI outside the United States. In November 2009 and December 2009, we entered into collaborative research and license agreements with Novartis and Lilly, respectively. The quarters ended March 31, 2013, June 30, 2013, September 30, 2013 and December 31, 2013 include \$16.7 million, \$41.7 million, \$16.7 million and \$15.8 million, respectively of contract revenues relating to these agreements.

## Note 16. Subsequent Events

On January 9, 2015, we entered into a License, Development and Commercialization Agreement with Agenus Inc. and its wholly-owned subsidiary, 4-Antibody AG (together, "Agenus"). Under the agreement, the parties have agreed to collaborate on the discovery of novel immuno-therapeutics using Agenus' proprietary Retrocyte Display™ antibody discovery platform. The effectiveness of the agreement is conditioned on the expiration of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 (the "HSR Act").

Under the terms of the agreement, we received exclusive worldwide development and commercialization rights to four checkpoint modulators directed against GITR, OX40, LAG-3 and TIM-3. In addition to the initial four program targets, we and Agenus have the option to jointly nominate and pursue additional targets within the framework of the collaboration. These targets may be designated profit-share programs, where all costs and profits are shared equally by us and Agenus, or royalty-bearing programs, where we will be responsible for all costs associated with discovery, preclinical activities, clinical development and commercialization activities. The programs relating to GITR and OX40 are profit-share programs and the programs relating to LAG-3 and TIM-3 are royalty-bearing programs. All costs related to the collaboration are subject to a joint research plan. We agreed to pay Agenus upfront non-refundable

INCYTE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**Note 16. Subsequent Events (Continued)**

payments totaling \$25.0 million. For each royalty-bearing product, Agenus will be eligible to receive up to \$155.0 million in future contingent development, regulatory and commercialization milestones as well as tiered royalties on global net sales ranging from mid-single to low-double digit rates. For each profit-share product, Agenus will be eligible to receive up to \$20.0 million in future contingent development milestones. Additionally, Agenus retains co-promotion participation rights in the United States on any profit-share product. For each royalty-bearing product, Agenus has reserved the right to elect to co-fund 30% of development costs for a commensurate increase in royalties. The agreement may be terminated by us for convenience and may also be terminated under certain other circumstances, including material breach. Under the agreement, we have agreed to certain standstill provisions that allow us to acquire up to 15% of Agenus Inc.'s outstanding voting stock, including shares acquired pursuant to the Stock Purchase Agreement described below, solely for investment purposes.

We also entered into a Stock Purchase Agreement with Agenus Inc., pursuant to which we agreed to purchase, subject to expiration of the waiting period under the HSR Act, approximately 7.76 million shares of Agenus Inc. common stock for an aggregate purchase price of \$35.0 million in cash, or approximately \$4.51 per share. We will own approximately 11% of the outstanding shares of Agenus Inc. common stock after such purchase. Under the agreement, we have agreed not to dispose of any of the shares of common stock for a period of 12 months and Agenus Inc. has agreed to certain registration rights with respect to the shares of common stock.

In January 2015, we announced that we have earned a \$25.0 million milestone payment from Novartis. This payment was triggered by the Committee for Medicinal Products for Human Use of the European Medicines Agency adopting a positive opinion for JAKAVI (ruxolitinib) for the treatment of adult patients with polycythemia vera who are resistant to or intolerant of hydroxyurea. We expect to record this amount as contract revenue, and receive the \$25.0 million payment, in the first quarter of 2015.

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

Not applicable.

**Item 9A. Controls and Procedures**

*Evaluation of disclosure controls and procedures.* We maintain "disclosure controls and procedures," as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act"), that are designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognized that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Our disclosure controls and procedures have been designed to meet reasonable assurance standards. Additionally, in designing disclosure controls and procedures, our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Based on their evaluation as of the end of the period covered by this Annual Report on Form 10-K, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

*Changes in internal control over financial reporting.* There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) for the quarter ended December 31, 2014, that materially affected or are reasonably likely to materially affect our internal control over financial reporting.

*Management's annual report on internal control over financial reporting.* Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of the effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework). Based on our evaluation under the framework in *Internal Control—Integrated Framework*, our management concluded that our internal control over financial reporting was effective as of December 31, 2014. The effectiveness of our internal control over financial reporting as of December 31, 2014 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report which is included herein.

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders of Incyte Corporation

We have audited Incyte Corporation's internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control —Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Incyte Corporation's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Incyte Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Incyte Corporation as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive loss, stockholders' deficit and cash flows for each of the three years in the period ended December 31, 2014 of Incyte Corporation and our report dated February 17, 2015 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Philadelphia, Pennsylvania  
February 17, 2015

**Item 9B. Other Information**

None.

**PART III**

**Item 10. Directors, Executive Officers and Corporate Governance**

The information required by this item (with respect to Directors) is incorporated by reference from the information under the caption "Election of Directors" contained in our Proxy Statement to be filed with the Securities and Exchange Commission in connection with the solicitation of proxies for our 2015 Annual Meeting of Stockholders to be held on May 27, 2015 (the "Proxy Statement"). Certain information required by this item concerning executive officers is set forth in Part I of this Report under the caption "Executive Officers of the Registrant" and is incorporated herein by reference.

Item 405 of Regulation S-K calls for disclosure of any known late filing or failure by an insider to file a report required by Section 16(a) of the Exchange Act. This disclosure is contained in the section entitled "Section 16(a) Beneficial Ownership Reporting Compliance" in the Proxy Statement and is incorporated herein by reference.

We have adopted a Code of Business Conduct and Ethics that applies to all of our officers and employees, including our Chief Executive Officer, Chief Financial Officer, Corporate Controller and other employees who perform financial or accounting functions. The Code of Business Conduct and Ethics sets forth the basic principles that guide the business conduct of our employees. We have also adopted a Senior Financial Officers' Code of Ethics that specifically applies to our Chief Executive Officer, Chief Financial Officer, Corporate Controller, and others providing similar functions. Stockholders may request a free copy of our Code of Business Conduct and Ethics and our Senior Financial Officers' Code of Ethics by contacting Incyte Corporation, Attention: Investor Relations, 1801 Augustine Cut-Off, Wilmington, DE 19803.

To date, there have been no waivers under our Code of Business Conduct and Ethics or Senior Financial Officers' Code of Ethics. We intend to disclose future amendments to certain provisions of our Code of Business Conduct and Ethics or Senior Financial Officers' Code of Ethics or any waivers, if and when granted, of our Code of Business Conduct and Ethics or Senior Financial Officers' Code of Ethics on our website at <http://www.incyte.com> within four business days following the date of such amendment or waiver.

Our Board of Directors has appointed an Audit Committee of four directors, currently comprised of Mr. Barry M. Ariko, as Chairman, Mr. Paul J. Clancy, Mr. Richard U. De Schutter and Ms. Wendy Dixon. The Board of Directors has also determined that Mr. Ariko, Mr. Clancy and Mr. De Schutter are each qualified as Audit Committee Financial Experts under the definition outlined by the Securities and Exchange Commission. In addition, each of the members of the Audit Committee qualifies as an "independent director" under the applicable standards of The NASDAQ Stock Market.

**Item 11. Executive Compensation**

The information required by this item is incorporated by reference from the information under the captions "Election of Directors—Compensation of Directors" and "Executive Compensation" contained in the Proxy Statement.



[Table of Contents](#)

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The information required by this item is incorporated by reference from the information under the captions "Security Ownership of Certain Beneficial Owners and Management" and "Equity Compensation Plan Information" contained in the Proxy Statement.

**Item 13. Certain Relationships and Related Transactions, and Director Independence**

The information required by this item is incorporated by reference from the information under the captions "Certain Relationships and Related Transactions" and "Election of Directors—Director Independence" contained in the Proxy Statement.

**Item 14. Principal Accountant Fees and Services**

The information required by this item is incorporated by reference from the information under the caption "Principal Accountant Fees and Services" contained in the Proxy Statement.

**PART IV**

**Item 15. Exhibits, Financial Statement Schedules**

**(a) Documents filed as part of this report:**

- (1) Financial Statements

Reference is made to the Index to Consolidated Financial Statements of Incyte Corporation under Item 8 of Part II hereof.

- (2) Financial Statement Schedules

All financial statement schedules have been omitted because they are not applicable or not required or because the information is included elsewhere in the Consolidated Financial Statements or the Notes thereto.

- (3) Exhibits

See Item 15(b) below. Each management contract or compensatory plan or arrangement required to be filed has been identified.

**(b) Exhibits**

<u>Exhibit Number</u>	<u>Description of Document</u>
3(i)	Integrated copy of the Restated Certificate of Incorporation, as amended, of the Company (incorporated by reference to Exhibit 3(i) to the Company's Annual Report on Form 10-K for the year ended December 31, 2009).
3(ii)	Bylaws of the Company, as amended as of April 17, 2013 (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed April 18, 2013).
4.1	Form of Common Stock Certificate (incorporated by reference to the exhibit of the same number to the Company's Annual Report on Form 10-K for the year ended December 31, 2002).
4.2	Indenture, dated as of September 30, 2009, between the Company and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed September 30, 2009).

## [Table of Contents](#)

<b>Exhibit Number</b>	<b>Description of Document</b>
4.3	Indenture, dated as of November 14, 2013, between the Company and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed November 14, 2013).
4.4	Indenture, dated as of November 14, 2013, between the Company and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed November 14, 2013).
10.1#	1991 Stock Plan of Incyte Corporation, as amended (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2009).
10.2#	Form of Incentive Stock Option Agreement under the 1991 Plan (incorporated by reference to the exhibit of the same number to the Company's Registration Statement on Form S-1 (File No. 33-68138)).
10.3#	Form of Nonstatutory Stock Option Agreement under the 1991 Plan (incorporated by reference to the exhibit of the same number to the Company's Registration Statement on Form S-1 (File No. 33-68138)).
10.4#	1993 Directors' Stock Option Plan of Incyte Corporation, as amended (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2009).
10.5#	Form of Indemnity Agreement between the Company and its directors and officers (incorporated by reference to Exhibit 10.5 to the Company's Registration Statement on Form S-1 (File No. 33-68138)).
10.6#*	1997 Employee Stock Purchase Plan of Incyte Corporation, as amended.
10.7#	Offer of Employment Letter, dated November 21, 2001, from the Company to Paul A. Friedman (incorporated by reference to Exhibit 10.30 to the Company's Annual Report on Form 10-K for the year ended December 31, 2001).
10.8.1#	Employment Agreement, dated November 26, 2001, between Paul A. Friedman and the Company (incorporated by reference to Exhibit 10.32 to the Company's Annual Report on Form 10-K for the year ended December 31, 2001).
10.8.2#	Amendment to Employment Agreement, effective as of January 1, 2009, between the Company and Paul A. Friedman (incorporated by reference to Exhibit 10.10.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 2008).
10.9#	Offer of Employment Letter, dated September 2, 2003, from the Company to David C. Hastings (incorporated by reference to Exhibit 10.46 to the Company's Annual Report on Form 10-K for the year ended December 31, 2003).
10.10#	Offer of Employment Letter, dated October 12, 2012, from the Company to James M. Daly (incorporated by reference to Exhibit 10.13 to the Company's Annual Report on Form 10-K for the year ended December 31, 2012).
10.11#	Form of Employment Agreement between the Company and James M. Daly (effective as of October 22, 2012), Barry P. Flannelly (effective as of August 11, 2014), and David W. Gyska (effective as of October 31, 2014) (incorporated by reference to Exhibit 10.14 to the Company's Annual Report on Form 10-K for the year ended December 31, 2012).

## [Table of Contents](#)

<b>Exhibit Number</b>	<b>Description of Document</b>
10.12#	Form of Amended and Restated Employment Agreement, effective as of April 18, 2012, between the Company and David C. Hastings, Reid M. Huber, Richard S. Levy, Eric H. Siegel, Paula J. Swain and Wenqing Yao (incorporated by reference to Exhibit 10.14 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012).
10.13†	Collaborative Research and License Agreement, dated as of November 18, 2005, by and between the Company and Pfizer Inc. (incorporated by reference to Exhibit 10.49 to the Company's Annual Report on Form 10-K for the year ended December 31, 2005).
10.14#	Offer of Employment Letter, dated as of January 3, 2014, from the Company to Hervé Hoppenot (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed January 13, 2014).
10.15#	Employment Agreement between the Company and Hervé Hoppenot dated as of January 11, 2014 (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed January 13, 2014).
10.16#	Restricted Stock Unit Award Agreement between the Company and Hervé Hoppenot dated January 13, 2014 (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed January 13, 2014).
10.17	Letter Agreement dated September 24, 2009 among the Company and the entities named therein (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed September 30, 2009).
10.18†	Collaboration and License Agreement, entered into as of November 24, 2009, by and between the Company and Novartis International Pharmaceutical Ltd. (incorporated by reference to Exhibit 10.21 to the Company's Annual Report on Form 10-K for the year ended December 31, 2009).
10.19.1†	License, Development and Commercialization Agreement, entered into as of December 18, 2009, by and between the Company and Eli Lilly and Company (incorporated by reference to Exhibit 10.22 to the Company's Annual Report on Form 10-K for the year ended December 31, 2009).
10.19.2†	Amendment, dated June 22, 2010, to License, Development and Commercialization Agreement entered into as of December 18, 2009, by and between the Company and Eli Lilly and Company (incorporated by reference to Exhibit 10.6 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2010).
10.20#	Incyte Corporation Amended and Restated 2010 Stock Incentive Plan, as amended (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed May 29, 2014).
10.21#	Form of Nonstatutory Stock Option Agreement for Executive Officers under the 2010 Stock Incentive Plan (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2014).
10.22#	Form of Incentive Stock Option Agreement for Executive Officers under the 2010 Stock Incentive Plan (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2014).
10.23#	Form of Nonstatutory Stock Option Agreement under the 2010 Stock Incentive Plan (incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2014).

## [Table of Contents](#)

<b>Exhibit Number</b>	<b>Description of Document</b>
10.24#	Form of Incentive Stock Option Agreement under the 2010 Stock Incentive Plan (incorporated by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2014).
10.25#	Form of Nonstatutory Stock Option Agreement for Outside Directors under the 2010 Stock Incentive Plan (incorporated by reference to Exhibit 10.24 to the Company's Annual Report on Form 10-K for the year ended December 31, 2013).
10.26#	Form of Restricted Stock Unit Award Agreement under the 2010 Stock Incentive Plan (incorporated by reference to Exhibit 10.6 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2014).
10.27#	Form of Performance Share Award Agreement under the 2010 Stock Incentive Plan (incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2014).
10.28	Letter Agreement dated November 7, 2013 among the Company and the entities named therein (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed November 14, 2013).
10.29†	Lease Agreement by and between the Company and Augustine Land I, L.P., effective October 4, 2013 (incorporated by reference to Exhibit 10.27 to the Company's Annual Report on Form 10-K for the year ended December 31, 2013).
12.1*	Computation of Ratios of Earnings to Fixed Charges.
21.1*	Subsidiaries of the Company.
23.1*	Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm.
24.1*	Power of Attorney (see page 115 of this Form 10-K).
31.1*	Rule 13a-14(a) Certification of the Chief Executive Officer.
31.2*	Rule 13a-14(a) Certification of the Chief Financial Officer.
32.1**	Statement of the Chief Executive Officer under Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C Section 1350).
32.2**	Statement of the Chief Financial Officer under Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C Section 1350).
101.INS***	XBRL Instance Document
101.SCH***	XBRL Taxonomy Extension Schema Document
101.CAL***	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB***	XBRL Taxonomy Extension Label Linkbase Document
101.PRE***	XBRL Taxonomy Presentation Linkbase Document
101.DEF***	XBRL Taxonomy Definition Linkbase Document

\* Filed herewith.

\*\* In accordance with Item 601(b)(32)(ii) of Regulation S-K and SEC Release Nos. 33-8238 and 34-47986, Final Rule: Management's Reports on Internal Control Over Financial Reporting and Certification of Disclosure in Exchange Act Periodic Reports, the certifications furnished in

[Table of Contents](#)

Exhibits 32.1 and 32.2 hereto are deemed to accompany this Form 10-K and will not be deemed "filed" for purpose of Section 18 of the Exchange Act. Such certifications will not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that the registrant specifically incorporates it by reference.

\*\*\* In accordance with Rule 406T of Regulation S-T, the information furnished in these exhibits will not be deemed "filed" for purposes of Section 18 of the Exchange Act. Such exhibits will not be deemed to be incorporated by reference into any filing under the Securities Act or Exchange Act.

† Confidential treatment has been requested with respect to certain portions of these agreements.

# Indicates management contract or compensatory plan or arrangement.

Copies of above exhibits not contained herein are available to any stockholder upon written request to: Investor Relations, Incyte Corporation, 1801 Augustine Cut-Off, Wilmington, DE 19803.



[Table of Contents](#)

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<hr/> <u>/s/ PAUL J. CLANCY</u>		
Paul J. Clancy	Director	February 17, 2015
<hr/> <u>/s/ WENDY L. DIXON</u>		
Wendy L. Dixon	Director	February 17, 2015
<hr/> <u>/s/ PAUL A. FRIEDMAN</u>		
Paul A. Friedman	Director	February 17, 2015

**EXHIBIT INDEX**

<b>Exhibit Number</b>	<b>Description of Document</b>
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3(ii)	Bylaws of the Company, as amended as of April 17, 2013 (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed April 18, 2013).
4.1	Form of Common Stock Certificate (incorporated by reference to the exhibit of the same number to the Company's Annual Report on Form 10-K for the year ended December 31, 2002).
4.2	Indenture, dated as of September 30, 2009, between the Company and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed September 30, 2009).
4.3	Indenture, dated as of November 14, 2013, between the Company and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed November 14, 2013).
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10.3#	Form of Nonstatutory Stock Option Agreement under the 1991 Plan (incorporated by reference to the exhibit of the same number to the Company's Registration Statement on Form S-1 (File No. 33-68138)).
10.4#	1993 Directors' Stock Option Plan of Incyte Corporation, as amended (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2009).
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10.6#*	1997 Employee Stock Purchase Plan of Incyte Corporation, as amended.
10.7#	Offer of Employment Letter, dated November 21, 2001, from the Company to Paul A. Friedman (incorporated by reference to Exhibit 10.30 to the Company's Annual Report on Form 10-K for the year ended December 31, 2001).
10.8.1#	Employment Agreement, dated November 26, 2001, between Paul A. Friedman and the Company (incorporated by reference to Exhibit 10.32 to the Company's Annual Report on Form 10-K for the year ended December 31, 2001).



## [Table of Contents](#)

<b>Exhibit Number</b>	<b>Description of Document</b>
10.8.2#	Amendment to Employment Agreement, effective as of January 1, 2009, between the Company and Paul A. Friedman (incorporated by reference to Exhibit 10.10.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 2008).
10.9#	Offer of Employment Letter, dated September 2, 2003, from the Company to David C. Hastings (incorporated by reference to Exhibit 10.46 to the Company's Annual Report on Form 10-K for the year ended December 31, 2003).
10.10#	Offer of Employment Letter, dated October 12, 2012, from the Company to James M. Daly (incorporated by reference to Exhibit 10.13 to the Company's Annual Report on Form 10-K for the year ended December 31, 2012).
10.11#	Form of Employment Agreement between the Company and James M. Daly (effective as of October 22, 2012), Barry P. Flannelly (effective as of August 11, 2014), and David W. Gyska (effective as of October 31, 2014) (incorporated by reference to Exhibit 10.14 to the Company's Annual Report on Form 10-K for the year ended December 31, 2012).
10.12#	Form of Amended and Restated Employment Agreement, effective as of April 18, 2012, between the Company and David C. Hastings, Reid M. Huber, Richard S. Levy, Eric H. Siegel, Paula J. Swain and Wenqing Yao (incorporated by reference to Exhibit 10.14 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012).
10.13†	Collaborative Research and License Agreement, dated as of November 18, 2005, by and between the Company and Pfizer Inc. (incorporated by reference to Exhibit 10.49 to the Company's Annual Report on Form 10-K for the year ended December 31, 2005).
10.14#	Offer of Employment Letter, dated as of January 3, 2014, from the Company to Hervé Hoppenot (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed January 13, 2014).
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10.19.1†	License, Development and Commercialization Agreement, entered into as of December 18, 2009, by and between the Company and Eli Lilly and Company (incorporated by reference to Exhibit 10.22 to the Company's Annual Report on Form 10-K for the year ended December 31, 2009).

## [Table of Contents](#)

<b>Exhibit Number</b>	<b>Description of Document</b>
10.19.2†	Amendment, dated June 22, 2010, to License, Development and Commercialization Agreement entered into as of December 18, 2009, by and between the Company and Eli Lilly and Company (incorporated by reference to Exhibit 10.6 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2010).
10.20#	Incyte Corporation Amended and Restated 2010 Stock Incentive Plan, as amended (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed May 29, 2014).
10.21#	Form of Nonstatutory Stock Option Agreement for Executive Officers under the 2010 Stock Incentive Plan (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2014).
10.22#	Form of Incentive Stock Option Agreement for Executive Officers under the 2010 Stock Incentive Plan (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2014).
10.23#	Form of Nonstatutory Stock Option Agreement under the 2010 Stock Incentive Plan (incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2014).
10.24#	Form of Incentive Stock Option Agreement under the 2010 Stock Incentive Plan (incorporated by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2014).
10.25#	Form of Nonstatutory Stock Option Agreement for Outside Directors under the 2010 Stock Incentive Plan (incorporated by reference to Exhibit 10.24 to the Company's Annual Report on Form 10-K for the year ended December 31, 2013).
10.26#	Form of Restricted Stock Unit Award Agreement under the 2010 Stock Incentive Plan (incorporated by reference to Exhibit 10.6 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2014).
10.27#	Form of Performance Share Award Agreement under the 2010 Stock Incentive Plan (incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2014).
10.28	Letter Agreement dated November 7, 2013 among the Company and the entities named therein (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed November 14, 2013).
10.29†	Lease Agreement by and between the Company and Augustine Land I, L.P., effective October 4, 2013 (incorporated by reference to Exhibit 10.27 to the Company's Annual Report on Form 10-K for the year ended December 31, 2013).
12.1*	Computation of Ratios of Earnings to Fixed Charges.
21.1*	Subsidiaries of the Company.
23.1*	Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm.
24.1*	Power of Attorney (see page 115 of this Form 10-K).
31.1*	Rule 13a-14(a) Certification of the Chief Executive Officer.
31.2*	Rule 13a-14(a) Certification of the Chief Financial Officer.

[Table of Contents](#)

<b>Exhibit Number</b>	<b>Description of Document</b>
32.1**	Statement of the Chief Executive Officer under Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C Section 1350).
32.2**	Statement of the Chief Financial Officer under Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C Section 1350).
101.INS***	XBRL Instance Document
101.SCH***	XBRL Taxonomy Extension Schema Document
101.CAL***	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB***	XBRL Taxonomy Extension Label Linkbase Document
101.PRE***	XBRL Taxonomy Presentation Linkbase Document
101.DEF***	XBRL Taxonomy Definition Linkbase Document

\* Filed herewith.

\*\* In accordance with Item 601(b)(32)(ii) of Regulation S-K and SEC Release Nos. 33-8238 and 34-47986, Final Rule: Management's Reports on Internal Control Over Financial Reporting and Certification of Disclosure in Exchange Act Periodic Reports, the certifications furnished in Exhibits 32.1 and 32.2 hereto are deemed to accompany this Form 10-K and will not be deemed "filed" for purpose of Section 18 of the Exchange Act. Such certifications will not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that the registrant specifically incorporates it by reference.

\*\*\* In accordance with Rule 406T of Regulation S-T, the information furnished in these exhibits will not be deemed "filed" for purposes of Section 18 of the Exchange Act. Such exhibits will not be deemed to be incorporated by reference into any filing under the Securities Act or Exchange Act.

† Confidential treatment has been requested with respect to certain portions of these agreements.

# Indicates management contract or compensatory plan or arrangement.

Copies of above exhibits not contained herein are available to any stockholder upon written request to: Investor Relations, Incyte Corporation, 1801 Augustine Cut-Off, Wilmington, DE 19803.



**1997 EMPLOYEE STOCK PURCHASE PLAN OF  
INCYTE CORPORATION  
(As amended and restated effective November 5, 2014)**

The following constitute the provisions of the 1997 Employee Stock Purchase Plan of Incyte Corporation, as amended and restated effective November 5, 2014.

1. Purpose. The purpose of the Plan is to provide employees of the Company and its Designated Subsidiaries with an opportunity to purchase Common Stock of the Company through accumulated payroll deductions. It is the intention of the Company to have the Plan qualify as an "Employee Stock Purchase Plan" under Section 423 of the Internal Revenue Code of 1986, as amended. The provisions of the Plan, accordingly, shall be construed so as to extend and limit participation in a manner consistent with the requirements of that section of the Code.

2. Definitions.

(a) "Administrator" shall mean the Board or a committee consisting exclusively of members of the Board that has been appointed by the Board and authorized to administer the Plan.

(b) "Board" shall mean the Board of Directors of the Company.

(c) "Code" shall mean the Internal Revenue Code of 1986, as amended.

(d) "Common Stock" shall mean the Common Stock, \$.001 par value, of the Company.

(e) "Company" shall mean Incyte Corporation.

(f) "Compensation" shall mean all cash salary, wages, commissions and bonuses, but shall not include any imputed income or income arising from the exercise or disposition of equity compensation.

(g) "Effective Date" shall mean November 5, 2014.

(h) "Designated Subsidiary" shall mean any Subsidiary which has been designated by the Board or by an executive officer of the Company, from time to time in the Board's or such officer's sole discretion, as eligible to participate in the Plan. A listing of Designated Subsidiaries shall be maintained as Appendix A to the Plan.

(i) "Employee" shall mean any individual who is an Employee of the Company or its Designated Subsidiaries for tax purposes whose customary employment is at least twenty (20) hours per week and more than five (5) months in any calendar year. For purposes of the Plan, the employment relationship shall be treated as continuing intact while the individual is on sick leave or other leave of absence approved by the Company or its Designated Subsidiaries, as applicable. Where the period of leave exceeds 90 days and the individual's right to reemployment is not guaranteed either by statute or by contract, the employment relationship shall be deemed to have terminated on the 91st day of such leave.

(j) "Enrollment Date" shall mean the first day of each Offering Period.

(k) "Exercise Date" shall mean the last Trading Day of each Purchase Period.

(l) "Fair Market Value" shall mean, as of any date, the value of Common Stock determined as follows:

(1) If the Common Stock is listed on any established stock exchange other than The NASDAQ Stock Market, its Fair Market Value shall be the last reported sale price for the Common Stock reported

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by the applicable composite transactions report for such exchange on the date of determination, as reported on such stock exchange's website or such other source, including *The Wall Street Journal*, as the Administrator deems reliable; or

(2) If the Common Stock is listed on The NASDAQ Stock Market, its Fair Market Value shall be the last reported sale price for the Common Stock quoted on The NASDAQ Stock Market on the date of determination, as reported on www.nasdaq.com or such other source, including *The Wall Street Journal*, as the Administrator deems reliable;

(3) If the Common Stock is traded over-the-counter and is quoted on the OTC Bulletin Board, its Fair Market Value shall be the last transaction price for the Common Stock quoted by the OTC Bulletin Board on the date of determination, as reported on www.otcbb.com or such other source as the Administrator deems reliable;

(4) If the Common Stock is traded over-the-counter but is not quoted on the OTC Bulletin Board, its Fair Market Value shall be the mean of the closing bid and asked prices for the Common Stock on the date of determination, as reported on www.pinksheets.com or such other source as the Administrator deems reliable; or

(5) In the absence of an established market for the Common Stock, the Fair Market Value thereof shall be determined in good faith by the Board.

(m) "Offering Periods" shall mean the periods of approximately twenty-four (24) months during which an option granted pursuant to the Plan may be exercised, commencing on the first Trading Day on or after May 1 and November 1 of each year and terminating on the last Trading Day in the periods ending twenty-four months later. The duration and timing of Offering Periods may be changed pursuant to Section 4 of this Plan.

(n) "Plan" shall mean this 1997 Employee Stock Purchase Plan of Incyte Corporation.

(o) "Purchase Price" shall mean an amount equal to 85% of the Fair Market Value of a share of Common Stock on the Enrollment Date or on the Exercise Date, whichever is lower.

(p) "Purchase Period" shall mean the approximately six-month period commencing after one Exercise Date and ending with the next Exercise Date, except that the first Purchase Period of any Offering Period shall commence on the Enrollment Date and end with the next Exercise Date. The duration and timing of Purchase Periods may be changed pursuant to Section 4 of this Plan.

(q) "Reserves" shall mean the number of shares of Common Stock covered by each option under the Plan which have not yet been exercised and the number of shares of Common Stock which have been authorized for issuance under the Plan but not yet placed under option.

(r) "Subsidiary" shall mean a corporation (as defined in Treasury Regulation section 1.421-1(i)), domestic or foreign, of which not less than 50% of the voting shares are held by the Company or a Subsidiary, whether or not such corporation now exists or is hereafter organized or acquired by the Company or a Subsidiary.

(s) "Trading Day" shall mean a day on which the national securities exchange or stock market on which the Common Stock is principally traded, or, if the Common Stock is not listed or quoted on any securities exchange or stock market, the New York Stock Exchange, is open for trading.

### 3. Eligibility.

(a) Any Employee who has been employed for one month or more on a given Enrollment Date shall be eligible to participate in the Plan.

(b) Any provisions of the Plan to the contrary notwithstanding, no Employee shall be granted an option under the Plan (i) to the extent that, immediately after the grant, such Employee (or any other

person whose stock would be attributed to such Employee pursuant to Section 424(d) of the Code) would own stock and/or hold outstanding options to purchase such stock possessing five percent (5%) or more of the total combined voting power or value of all classes of stock of the Company, its parent or any Subsidiary, or (ii) to the extent that his or her rights to purchase stock under all employee stock purchase plans of the Company, its parent and Subsidiaries accrues at a rate which exceeds Twenty-Five Thousand Dollars (\$25,000) worth of stock (determined at the fair market value of the shares at the time such option is granted) for each calendar year in which such option is outstanding at any time.

4. Offering Periods. The Plan shall be implemented by consecutive, overlapping Offering Periods with a new Offering Period commencing on the first Trading Day on or after May 1 and November 1 each year, or on such other dates as the Board shall determine, and continuing thereafter until terminated in accordance with Section 19 hereof. The Board or a committee thereof shall have the power to change the duration of Offering Periods (including the commencement dates thereof) and Purchase Periods thereunder with respect to future offerings without stockholder approval if such change is announced at least five (5) days prior to the scheduled beginning of the first Offering Period to be affected thereafter.

5. Participation.

(a) An eligible Employee may become a participant in the Plan by completing a subscription agreement authorizing payroll deductions substantially in the form of Exhibit A to this Plan and filing it with the Company's stock administrator not later than ten (10) business days prior to the applicable Enrollment Date.

(b) Payroll deductions for a participant shall commence on the first payroll following the Enrollment Date and shall end on the last payroll in the Offering Period to which such authorization is applicable, unless sooner terminated by the participant as provided in Section 10 hereof.

6. Payroll Deductions.

(a) At the time a participant files his or her subscription agreement, he or she shall elect to have payroll deductions made on each pay day during the Offering Period in an amount not less than one percent (1%) and not more than ten percent (10%) of the participant's Compensation, with such amount designated in integral multiples of one percent (1%); provided, however, that the aggregate of such payroll deductions during any Offering Period shall not exceed ten percent (10%) of the participant's aggregate Compensation during such Offering Period.

(b) All payroll deductions made for a participant shall be credited to his or her account under the Plan and shall be withheld in whole percentages only. A participant may not make any additional payments into such account.

(c) A participant may discontinue his or her participation in the Plan as provided in Section 10, or may increase or decrease the rate of his or her payroll deductions as provided in this Section 6(c). A participant may increase the rate of his or her payroll deductions only as of the beginning of a Purchase Period. Such increase shall take effect with the first payroll following the beginning of the new Purchase Period provided the participant has completed and delivered to the Company's stock administrator a new subscription agreement authorizing the increase in the payroll deduction rate at least ten (10) business days prior to the beginning of the new Purchase Period. A participant may decrease the rate of his or her payroll deductions each month. Any decrease shall become effective as of the first payroll of the next calendar month following the date that the participant completes and delivers to the Company's stock administrator a new subscription agreement authorizing the decrease in the payroll deduction rate. However, if the subscription agreement is not received at least five (5) business days prior to such payroll, the decrease shall become effective as of the first payroll of the second succeeding calendar month. The Administrator may, in its discretion, limit the number of participation rate changes during any Offering Period. Subject to the foregoing, a participant's subscription agreement shall remain in effect for successive Offering Periods unless terminated as provided in Section 10 hereof.

(d) Notwithstanding the foregoing, to the extent necessary to comply with Section 423(b)(8) of the Code and Section 3(b) hereof, a participant's payroll deductions may be decreased to zero

percent (0%) at any time during a Purchase Period. Such a decrease shall not be treated as a withdrawal from the Plan subject to Section 10, unless the participant elects to withdraw pursuant to Section 10. Payroll deductions shall recommence at the rate provided in such participant's subscription agreement at the beginning of the first Purchase Period which is scheduled to end in the following calendar year, unless the participant elects to withdraw from the Plan as provided in Section 10 hereof.

(e) At the time the option is exercised, in whole or in part, or at the time some or all of the Common Stock issued under the Plan is disposed of, the participant must make adequate provision for the federal, state, or other tax withholding obligations, if any, which arise upon the exercise of the option or the disposition of the Common Stock. At any time, the Company or a Designated Subsidiary, as applicable, may, but shall not be obligated to, withhold from the participant's compensation the amount necessary to meet applicable withholding obligations, including any withholding required to make available any tax deductions or benefits attributable to sale or early disposition of Common Stock by the Employee.

7. Grant of Option. On the Enrollment Date of each Offering Period, each eligible Employee participating in such Offering Period shall be granted an option to purchase on each Exercise Date during such Offering Period (at the applicable Purchase Price) up to a number of shares of Common Stock determined by dividing such Employee's payroll deductions accumulated prior to such Exercise Date and retained in the Participant's account as of the Exercise Date by the applicable Purchase Price; provided that in no event shall an Employee be permitted to purchase during each Purchase Period more than eight thousand (8,000) shares of Common Stock (subject to any adjustment pursuant to Section 18) on the Enrollment Date, and provided further that such purchase shall be subject to the limitations set forth in Sections 3(b) and 13 hereof. Exercise of the option shall occur as provided in Section 8 hereof, unless the participant has withdrawn pursuant to Section 10 hereof. The option shall expire on the last day of the Offering Period.

8. Exercise of Option. Unless a participant withdraws from the Plan as provided in Section 10 hereof, his or her option for the purchase of shares of Common Stock shall be exercised automatically on the Exercise Date, and the maximum number of full shares of Common Stock subject to option shall be purchased for such participant at the applicable Purchase Price with the accumulated payroll deductions in his or her account. No fractional shares shall be purchased; any payroll deductions accumulated in a participant's account which are not sufficient to purchase a full share shall be retained in the participant's account for the subsequent Purchase Period or Offering Period, subject to earlier withdrawal by the participant as provided in Section 10 hereof. Any other monies left over in a participant's account after the Exercise Date shall be returned to the participant. During a participant's lifetime, a participant's option to purchase shares hereunder is exercisable only by him or her.

9. Delivery. As promptly as practicable after each Exercise Date on which a purchase of shares occurs, a share certificate or certificates representing the number of shares of Common Stock so purchased shall be delivered to a brokerage account designated by the Company and kept in such account pursuant to a subscription agreement between each participant and the Company and subject to the conditions described therein which may include a requirement that shares be held and not sold for certain time periods, or the Company shall establish some other means for such participants to receive ownership of the shares.

10. Discontinuation; Withdrawal.

(a) A participant may discontinue his or her participation in the Plan only by withdrawing from the Plan as provided in this Section 10. A participant may withdraw all but not less than all the payroll deductions credited to his or her account and not yet used to exercise his or her option under the Plan by giving written notice to the Company substantially in the form of Exhibit B to this Plan. Such notice must be received by the Company no later than 2:00 p.m. Pacific Standard Time on the second Trading Day preceding the Exercise Date. All of the participant's payroll deductions credited to his or her account shall be paid to such participant promptly after receipt of notice of withdrawal and such participant's option for the Offering Period shall be automatically terminated, and no further payroll deductions for the purchase of shares shall be made for such Offering Period. If a participant withdraws from an Offering Period, payroll deductions shall not resume at the beginning of the succeeding Offering Period unless the participant delivers to the Company a new subscription agreement in accordance with Section 5(a).



(b) A participant's withdrawal from an Offering Period shall not have any effect upon his or her eligibility to participate in any similar plan which may hereafter be adopted by the Company or in succeeding Offering Periods which commence after the participant withdraws from the Plan, subject to compliance with Section 5(a).

11. Termination of Employment.

Upon a participant's ceasing to be an Employee, for any reason, he or she shall be deemed to have elected to withdraw from the Plan and the payroll deductions credited to such participant's account during the Offering Period but not yet used to exercise the option shall be returned to such participant or, in the case of his or her death, to the person or persons entitled thereto under Section 15 hereof, and such participant's option shall be automatically terminated.

12. Interest. No interest shall accrue on the payroll deductions of a participant in the Plan.

13. Stock.

(a) The maximum number of shares of Common Stock which shall be made available for sale under the Plan shall be eight million three hundred fifty thousand (8,350,000) shares, subject to adjustment upon changes in capitalization of the Company as provided in Section 18 hereof. If, on a given Exercise Date, the number of shares with respect to which options are to be exercised exceeds the number of shares then available under the Plan, the Company shall make a pro rata allocation of the shares remaining available for purchase in as uniform a manner as shall be practicable and as it shall determine to be equitable.

(b) The participant shall have no interest or voting right in shares covered by his option until such option has been exercised.

(c) Shares purchased by a participant under the Plan shall be registered in the name of the participant or in the name of the participant and his or her spouse.

14. Administration. The Plan shall be administered by the Administrator. The Administrator shall have full and exclusive discretionary authority to adopt such rules, guidelines and forms as it deems appropriate to implement the Plan, to construe, interpret and apply the terms of the Plan, to determine eligibility and to adjudicate all disputed claims filed under the Plan. Every finding, decision and determination made by the Administrator shall, to the full extent permitted by law, be final and binding upon all parties.

15. Designation of Beneficiary.

(a) A participant may file a written designation of a beneficiary who is to receive any shares and cash, if any, from the participant's account under the Plan in the event of such participant's death subsequent to an Exercise Date on which the option is exercised but prior to delivery to such participant of such shares and cash. In addition, a participant may file a written designation of a beneficiary who is to receive any cash from the participant's account under the Plan in the event of such participant's death prior to exercise of the option. If a participant is married and the designated beneficiary is not the spouse, spousal consent shall be required for such designation to be effective.

(b) Such designation of beneficiary may be changed by the participant at any time by written notice. In the event of the death of a participant and in the absence of a beneficiary validly designated under the Plan who is living at the time of such participant's death, the Company shall deliver such shares and/or cash to the executor or administrator of the estate of the participant, or if no such executor or administrator has been appointed (to the knowledge of the Company), the Company, in its discretion, may deliver such shares and/or cash to the spouse or to any one or more dependents or relatives of the participant, or if no spouse, dependent or relative is known to the Company, then to such other person as the Company may designate.

16. Transferability. Neither payroll deductions credited to a participant's account nor any rights with regard to the exercise of an option or to receive shares under the Plan may be assigned, transferred, pledged or

otherwise disposed of in any way (other than by will, the laws of descent and distribution or as provided in Section 15 hereof) by the participant. Any such attempt at assignment, transfer, pledge or other disposition shall be without effect, except that the Company may treat such act as an election to withdraw funds from an Offering Period in accordance with Section 10 hereof.

17. Use of Funds. All payroll deductions received or held by the Company under the Plan may be used by the Company for any corporate purpose, and the Company shall not be obligated to segregate such payroll deductions.

18. Adjustments Upon Changes in Capitalization, Dissolution, Liquidation, Merger or Asset Sale.

(a) Changes in Capitalization. Subject to any required action by the stockholders of the Company, the Reserves, the maximum number of shares each participant may purchase each Purchase Period (pursuant to Section 7), as well as the Purchase Price per share and the number of shares of Common Stock covered by each option under the Plan which has not yet been exercised shall be proportionately adjusted for any increase or decrease in the number of issued shares of Common Stock resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Common Stock, or any other increase or decrease in the number of outstanding shares of Common Stock effected without receipt of consideration by the Company; provided, however, that conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration". Such adjustment shall be made by the Board, whose determination in that respect shall be final, binding and conclusive. Except as expressly provided herein, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares of Common Stock subject to an option.

(b) Dissolution or Liquidation. In the event of the proposed dissolution or liquidation of the Company, the Offering Periods shall terminate immediately prior to the consummation of such proposed action, unless otherwise provided by the Board.

(c) Merger or Asset Sale. In the event of a proposed sale of all or substantially all of the assets of the Company, or the merger of the Company with or into another corporation, limited liability company or other entity, the Plan shall terminate upon the date of the consummation of such transaction and any Purchase Periods then in progress shall be shortened by setting a new Exercise Date (the "New Exercise Date") and any Offering Periods then in progress shall end on the New Exercise Date, unless the plan of merger, consolidation or reorganization provides otherwise. The New Exercise Date shall be determined by the Board in its sole discretion; provided, that the New Exercise Date shall be before the date of the Company's proposed sale or merger. The Administrator shall notify each participant in writing, at least ten (10) business days prior to the New Exercise Date, that the Exercise Date for the participant's option has been changed to the New Exercise Date and that the participant's option shall be exercised automatically on the New Exercise Date, unless prior to such date the participant has withdrawn from the Offering Period as provided in Section 10 hereof. The Plan shall in no event be construed to restrict the Company's right to undertake any liquidation, dissolution, merger, consolidation or other reorganization.

19. Amendment or Termination.

(a) The Board may at any time and for any reason terminate or amend the Plan. Except as provided in Section 18 hereof, no such termination can affect options previously granted, provided that an Offering Period may be terminated by the Board on any Exercise Date if the Board determines that the termination of the Plan is in the best interests of the Company and its stockholders. Except as provided in Section 18 hereof, no amendment may make any change in any option theretofore granted which adversely affects the rights of any participant. To the extent necessary to comply with Section 423 of the Code (or any successor rule or provision or any other applicable law, regulation or stock exchange rule), the Company shall obtain stockholder approval in such a manner and to such a degree as required.

(b) Without stockholder consent and without regard to whether any participant rights may be considered to have been "adversely affected," the Administrator shall be entitled to change the Offering Periods or Purchase Periods, limit the frequency and/or number of changes in the amount withheld during an Offering Period,

establish the exchange ratio applicable to amounts withheld in a currency other than U.S. dollars, permit payroll withholding in excess of the amount designated by a participant in order to adjust for delays or mistakes in the Company's processing of properly completed withholding elections, establish reasonable waiting and adjustment periods and/or accounting and crediting procedures to ensure that amounts applied toward the purchase of Common Stock for each participant properly correspond with amounts withheld from the participant's Compensation, and establish such other limitations or procedures as the Administrator determines in its sole discretion advisable which are consistent with the Plan.

20. Notices. All notices or other communications by a participant to the Company under or in connection with the Plan shall be deemed to have been duly given when received in the form specified by the Company at the location, or by the person, designated by the Company for the receipt thereof.

21. Conditions Upon Issuance of Shares. Shares shall not be issued with respect to an option unless the exercise of such option and the issuance and delivery of such shares pursuant thereto shall comply with all applicable provisions of law, domestic or foreign, including, without limitation, the Securities Act of 1933, as amended, the Securities Exchange Act of 1934, as amended, the rules and regulations promulgated thereunder, and the requirements of any stock exchange or stock market upon which the shares may then be listed, and shall be further subject to the approval of counsel for the Company with respect to such compliance.

As a condition to the exercise of an option, the Company may require the person exercising such option to represent and warrant at the time of any such exercise that the shares are being purchased only for investment and without any present intention to sell or distribute such shares if, in the opinion of counsel for the Company, such a representation is required by any of the aforementioned applicable provisions of law.

22. No Rights As An Employee. Nothing in the Plan or in any right granted under the Plan shall confer upon a participant any right to continue in the employ of the Company or any Designated Subsidiary for any period of specific duration or interfere with or otherwise restrict in any way the rights of the Company or any Designated Subsidiary or of a participant, which rights are hereby expressly reserved by each, to terminate his or her employment at any time and for any reason, with or without cause.

23. Term of Plan. The Plan, as amended and restated, shall become effective upon the Effective Date. It shall continue until terminated under Section 19 hereof.

24. Automatic Transfer to Low Price Offering Period. To the extent permitted by any applicable laws, regulations, or stock exchange rules, if the Fair Market Value of the Common Stock on any Exercise Date in an Offering Period is lower than the Fair Market Value of the Common Stock on the Enrollment Date of such Offering Period, then all participants in such Offering Period shall be automatically withdrawn from such Offering Period immediately after the exercise of their option on such Exercise Date and automatically re-enrolled in the immediately following Offering Period as of the first day thereof.

COMPUTATION OF RATIOS OF EARNINGS TO FIXED CHARGES

	Year Ended December 31,				
	2010	2011	2012	2013	2014
	(in thousands)				
Loss before provision for income taxes	\$ (31,846)	\$ (186,540)	\$ (44,146)	\$ (82,848)	\$ (48,547)
Fixed charges	24,047	22,653	22,818	17,131	11,793
Total earnings and fixed charges	(7,799)	\$ (163,887)	\$ (21,328)	\$ (65,717)	\$ (36,754)
Fixed charges	24,047	22,653	22,818	17,131	11,793
Ratio of earnings to fixed charges(1)(2)	NM	NM	NM	NM	NM

- (1) The ratio of earnings to fixed charges is computed by dividing loss before provision for income 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 \$211.9 million, \$31.8 million, \$186.5 million, \$44.1 million, \$82.8 million and \$48.5 million for the years ended December 31, 2010, 2011, 2012, 2013 and 2014 respectively.
- (2) NM—Not meaningful.
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QuickLinks

[EXHIBIT 12.1](#)

[COMPUTATION OF RATIOS OF EARNINGS TO FIXED CHARGES](#)

[QuickLinks](#) -- Click here to rapidly navigate through this document

**Exhibit 21.1**

**SUBSIDIARIES**

<u>Subsidiary</u>	<u>Jurisdiction of Incorporation</u>
Incyte Holdings Corporation	Delaware
Incyte International Holdings Sàrl	Luxembourg
Incyte Europe Sàrl	Switzerland

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QuickLinks

[Exhibit 21.1](#)

[SUBSIDIARIES](#)

[QuickLinks](#) -- Click here to rapidly navigate through this document

**Exhibit 23.1**

**Consent of Independent Registered Public Accounting Firm**

We consent to the incorporation by reference in the Registration Statements (Form S-8 Nos. 33-93668, 333-91556, 333-125995, and 333-160006) pertaining to the 1993 Directors' Stock Option Plan of Incyte Corporation, (Form S-8 Nos. 333-47178, 333-63069, 333- 67598, 333-83291, 333-91542, 333-143753, 333-151716, and 333-160005) pertaining to the 1991 Stock Plan of Incyte Corporation, (Form S-8 Nos. 333-108013, 333-134472, 333-151715, 333-160007, 333-167528 and 333-174919) pertaining to the 1997 Employee Stock Purchase Plan of Incyte Corporation, (Form S-8 Nos. 333-167526, 333-174918, 333-182218, 333-189424 and 333-197907) pertaining to the 2010 Stock Incentive Plan of Incyte Corporation, and (Form S-8 No. 333-193333) pertaining to the Restricted Stock Unit Award Agreement between Incyte Corporation and Hervé Hoppenot, as applicable, of our reports dated February 17, 2015, with respect to the consolidated financial statements of Incyte Corporation and the effectiveness of internal control over financial reporting of Incyte Corporation, included in this Annual Report (Form 10-K) for the year ended December 31, 2014.

/s/ ERNST & YOUNG LLP

Philadelphia, Pennsylvania  
February 17, 2015

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QuickLinks

[Exhibit 23.1](#)

[Consent of Independent Registered Public Accounting Firm](#)

**CERTIFICATION**

I, Hervé Hoppenot, certify that:

1. I have reviewed this annual report on Form 10-K of Incyte Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or cause such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 17, 2015

/s/ HERVÉ HOPPENOT

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Hervé Hoppenot  
*Chief Executive Officer*

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QuickLinks

[Exhibit 31.1](#)

[CERTIFICATION](#)

**CERTIFICATION**

I, David W. Gryska, certify that:

1. I have reviewed this annual report on Form 10-K of Incyte Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or cause such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 17, 2015

/s/ DAVID W. GRYSKA

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David W. Gryska  
*Chief Financial Officer*

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[Exhibit 31.2](#)

[CERTIFICATION](#)

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**Exhibit 32.1**

**STATEMENT PURSUANT TO  
18 U.S.C. SECTION 1350**

With reference to the Annual Report of Incyte Corporation (the "Company") on Form 10-K for the year ended December 31, 2014 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Hervé Hoppenot, Chief Executive Officer of the Company, certify, for the purposes of 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

- (1) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ HERVÉ HOPPENOT

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Hervé Hoppenot  
*Chief Executive Officer*  
February 17, 2015

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QuickLinks

[Exhibit 32.1](#)

[STATEMENT PURSUANT TO 18 U.S.C. SECTION 1350](#)

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**Exhibit 32.2**

**STATEMENT PURSUANT TO  
18 U.S.C. SECTION 1350**

With reference to the Annual Report of Incyte Corporation (the "Company") on Form 10-K for the year ended December 31, 2014, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David W. Gyska, Chief Financial Officer of the Company, certify, for the purposes of 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

- (1) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ DAVID W. GRYSKA

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David W. Gyska  
*Chief Financial Officer*  
February 17, 2015

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[Exhibit 32.2](#)

[STATEMENT PURSUANT TO 18 U.S.C. SECTION 1350](#)

