

ARRAY BIOPHARMA INC  
Form 10-Q  
May 03, 2012  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

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

For the quarterly period ended March 31, 2012

or

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

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

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**Commission File Number: 001-16633**

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# Array BioPharma Inc.

*(Exact Name of Registrant as Specified in Its Charter)*

**Delaware**

*(State or Other Jurisdiction of  
Incorporation or Organization)*

**84-1460811**

*(I.R.S. Employer Identification No.)*

**3200 Walnut Street, Boulder, CO**

*(Address of Principal Executive Offices)*

**80301**

*(Zip Code)*

**(303) 381-6600**

*(Registrant's Telephone Number, Including Area Code)*

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 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 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.

Large Accelerated Filer  Accelerated Filer

Non-Accelerated Filer  Smaller Reporting Company

*(do not check if 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

As of April 30, 2012, the registrant had 89,136,268 shares of common stock outstanding.



Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. CONDENSED FINANCIAL STATEMENTS****ARRAY BIOPHARMA INC.****Condensed Balance Sheets****(Amounts in Thousands, Except Share and Per Share Amounts)****(Unaudited)**

	<b>March 31, 2012</b>	<b>June 30, 2011</b>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 63,025	\$ 48,099
Marketable securities	36,411	15,986
Prepaid expenses and other current assets	4,680	6,477
Total current assets	104,116	70,562
<b>Long-term assets</b>		
Marketable securities	423	623
Property and equipment, net	12,931	15,698
Other long-term assets	2,570	2,491
Total long-term assets	15,924	18,812
Total assets	\$ 120,040	\$ 89,374
<b>LIABILITIES AND STOCKHOLDERS DEFICIT</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 4,593	\$ 4,460
Accrued outsourcing costs	5,798	5,248
Accrued compensation and benefits	5,661	6,431
Other accrued expenses	8,898	2,312
Deferred rent	3,450	3,333
Deferred revenue	47,147	47,874
Current portion of long-term debt	150	150
Total current liabilities	75,697	69,808
<b>Long-term liabilities</b>		
Deferred rent	12,353	14,968
Deferred revenue	18,704	39,306
Long-term debt, net	90,900	91,390
Derivative liabilities	733	540
Other long-term liabilities	423	4,220
Total long-term liabilities	123,113	150,424
Total liabilities	198,810	220,232
<b>Commitments and contingencies</b>		
<b>Stockholders deficit</b>		
Preferred stock, \$0.001 par value; 10,000,000 shares authorized, 10,135 shares designated as Series B convertible preferred stock; 5,562 and 10,135 shares issued and outstanding as of March 31, 2012 and June 30, 2011, respectively	16,463	30,000
Common stock, \$0.001 par value; 120,000,000 shares authorized; 89,129,918 and 57,020,003 shares issued and outstanding, as of March 31, 2012 and June 30, 2011, respectively	89	57

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Additional paid-in capital	428,004	346,853
Warrants	39,385	39,385
Accumulated other comprehensive income (loss)	(1)	3
Accumulated deficit	(562,710)	(547,156)
Total stockholders' deficit	(78,770)	(130,858)
Total liabilities and stockholders' deficit	\$ 120,040	\$ 89,374

*The accompanying notes are an integral part of these condensed financial statements.*

Table of Contents**ARRAY BIOPHARMA INC.****Condensed Statements of Operations and Comprehensive Loss****(Amounts in Thousands, Except Per Share Data)****(Unaudited)**

	<b>Three Months Ended March 31,</b>		<b>Nine Months Ended March 31,</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
<b>Revenue</b>				
License and milestone revenue	\$ 15,970	\$ 13,907	\$ 53,627	\$ 37,831
Collaboration revenue	3,143	3,934	10,844	15,024
Total revenue	19,113	17,841	64,471	52,855
<b>Operating expenses</b>				
Cost of revenue	5,291	6,617	18,002	21,281
Research and development for proprietary programs	16,094	15,883	41,842	44,219
General and administrative	3,226	3,795	10,728	11,969
Total operating expenses	24,611	26,295	70,572	77,469
<b>Loss from operations</b>	<b>(5,498)</b>	<b>(8,454)</b>	<b>(6,101)</b>	<b>(24,614)</b>
<b>Other income (expense)</b>				
Realized gains on auction rate securities, net	-	1,093	-	1,891
Interest income	8	31	17	391
Interest expense	(2,678)	(4,172)	(9,470)	(12,240)
Total other expenses, net	(2,670)	(3,048)	(9,453)	(9,958)
<b>Net loss</b>	<b>\$ (8,168)</b>	<b>\$ (11,502)</b>	<b>\$ (15,554)</b>	<b>\$ (34,572)</b>
Change in unrealized gains and losses on marketable securities	1	(4,304)	(4)	(5,525)
<b>Comprehensive loss</b>	<b>\$ (8,167)</b>	<b>\$ (15,806)</b>	<b>\$ (15,558)</b>	<b>\$ (40,097)</b>
<b>Weighted average shares outstanding - basic and diluted</b>	<b>74,817</b>	<b>56,129</b>	<b>63,909</b>	<b>54,934</b>
<b>Net loss per share - basic and diluted</b>	<b>\$ (0.11)</b>	<b>\$ (0.20)</b>	<b>\$ (0.24)</b>	<b>\$ (0.63)</b>

*The accompanying notes are an integral part of these condensed financial statements.*

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## ARRAY BIOPHARMA INC.

## Condensed Statement of Stockholders Deficit

(Amounts in Thousands)

(Unaudited)

	Preferred Stock		Common Stock		Additional	Warrants	Accumulated Other Comprehensive	Accumulated	Total
	Shares	Amounts	Shares	Amounts	Paid-in Capital		Income	Deficit	
<b>Balance as of July 1, 2011</b>	10	\$ 30,000	57,020	\$ 57	\$ 346,853	\$ 39,385	\$ 3	\$ (547,156)	\$ (130,858)
Issuance of common stock under stock option and employee stock purchase plans	-	-	488	-	896	-	-	-	896
Share-based compensation expense	-	-	-	-	1,632	-	-	-	1,632
Issuance of common stock for cash, net of offering costs	-	-	25,936	26	63,123	-	-	-	63,149
Conversion of Preferred Stock to Common	(5)	(13,537)	4,573	5	13,532	-	-	-	-
Payment of employee bonus with stock	-	-	1,113	1	1,968	-	-	-	1,969
Change in unrealized gain on marketable securities	-	-	-	-	-	-	(4)	-	(4)
Net loss	-	-	-	-	-	-	-	(15,554)	(15,554)
<b>Balance as of March 31, 2012</b>	5	\$ 16,463	89,130	\$ 89	\$ 428,004	\$ 39,385	\$ (1)	\$ (562,710)	\$ (78,770)

The accompanying notes are an integral part of these condensed financial statements.

Table of Contents**ARRAY BIOPHARMA INC.****Condensed Statements of Cash Flows****(Amounts in Thousands)****(Unaudited)**

	<b>Nine Months Ended March 31,</b>	
	<b>2012</b>	<b>2011</b>
<b>Cash flows from operating activities</b>		
Net loss	\$ (15,554)	\$ (34,572)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization expense	3,865	4,366
Non-cash interest expense	3,277	5,119
Loss on prepayment of long-term debt	942	-
Share-based compensation expense	1,632	2,770
Payment of employee bonus with stock	1,969	3,982
Realized gains on auction rate securities, net	-	(1,891)
Changes in operating assets and liabilities:		
Prepaid expenses and other assets	1,404	(11,129)
Accounts payable	133	(705)
Accrued outsourcing costs	550	(276)
Accrued compensation and benefits	(770)	(3,239)
Deferred rent	(2,498)	(2,382)
Deferred revenue	(21,329)	(18,541)
Other liabilities and accrued expenses	2,811	2,326
Net cash used in operating activities	(23,568)	(54,172)
<b>Cash flows from investing activities</b>		
Purchases of property and equipment	(1,098)	(1,319)
Purchases of marketable securities	(41,182)	(53,355)
Proceeds from sales and maturities of marketable securities	20,931	107,477
Net cash provided by (used in) investing activities	(21,349)	52,803
<b>Cash flows from financing activities</b>		
Proceeds from exercise of stock options and shares issued under the employee stock purchase plan	896	1,491
Proceeds from the issuance of common stock for cash	67,144	4,610
Payment of offering costs	(3,997)	(224)
Payment of principal of long-term debt	(4,200)	-
Net cash provided by financing activities	59,843	5,877
<b>Net increase in cash and cash equivalents</b>	<b>14,926</b>	<b>4,508</b>
Cash and cash equivalents as of beginning of period	48,099	32,846
<b>Cash and cash equivalents as of end of period</b>	<b>\$ 63,025</b>	<b>\$ 37,354</b>
<b>Supplemental disclosure of cash flow information</b>		
Cash paid for interest	\$ 5,277	\$ 7,094

*The accompanying notes are an integral part of these condensed financial statements.*





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**NOTE 1 - OVERVIEW AND BASIS OF PRESENTATION**

**Organization**

Array BioPharma Inc. is a biopharmaceutical company focused on the discovery, development and commercialization of targeted small-molecule drugs to treat patients afflicted with cancer and inflammatory diseases. Array has four core proprietary clinical programs: ARRY-614 for myelodysplastic syndromes, ARRY-520 for multiple myeloma, ARRY-797 for pain and ARRY-502 for asthma. In addition, Array has 10 partner-funded clinical programs including two MEK inhibitors in Phase 2: selumetinib with AstraZeneca and MEK162 with Novartis.

**Basis of Presentation**

We follow the accounting guidance outlined in the Financial Accounting Standards Board Codification. The accompanying unaudited Condensed Financial Statements have been prepared without audit and do not include all of the disclosures required by the Financial Accounting Standards Board Codification, which have been omitted pursuant to the rules and regulations of the Securities and Exchange Commission, whom we refer to as the SEC, relating to requirements for interim reporting. The June 30, 2011 Condensed Balance Sheet data were derived from audited financial statements but do not include all disclosures required by generally accepted accounting principles in the United States, commonly referred to as GAAP. The unaudited Condensed Financial Statements reflect all adjustments (consisting only of normal recurring adjustments) that, in the opinion of management, are necessary to present fairly our financial position as of March 31, 2012 and June 30, 2011, and our results of operations and our cash flows for the three and nine months ended March 31, 2012 and 2011. Operating results for the three and nine months ended March 31, 2012 are not necessarily indicative of the results that may be expected for the year ending June 30, 2012.

These unaudited Condensed Financial Statements should be read in conjunction with our audited Financial Statements and the notes thereto included in our Annual Report on Form 10-K for the year ended June 30, 2011 filed with the SEC on August 12, 2011.

**Use of Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Although management bases these estimates on historical data and other assumptions believed to be reasonable under the circumstances, actual results could differ significantly from these estimates under different assumptions or conditions.

We believe the accounting estimates having the most significant impact on the financial statements relate to (i) estimating the stand-alone value of deliverables for purposes of determining revenue recognized under collaborations involving multiple elements; (ii) estimating the periods over which upfront and milestone payments from collaboration agreements are recognized;

(iii) estimating accrued outsourcing costs for clinical trials and preclinical testing; and (iv) estimating the fair value of our long-term debt that has associated warrants and embedded derivatives, and the separate estimated fair value of those warrants and embedded derivatives.

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**Liquidity**

We have incurred operating losses and have an accumulated deficit as a result of ongoing research and development spending. As of March 31, 2012, we had an accumulated deficit of \$562.7 million. We had net losses of \$8.2 million for the quarter and \$15.6 million for the nine months ended March 31, 2012. We had net losses of \$56.3 million, \$77.6 million and \$127.8 million for the fiscal years ended June 30, 2011, 2010 and 2009, respectively.

During the first nine months of fiscal 2012, our net cash used in operations was \$23.6 million. We have historically funded our operations from upfront fees, license and milestone revenue received under collaborations and out-licensing transactions; from the issuance and sale of equity securities; and through debt provided by our credit facilities. In February 2012, we received approximately \$56.1 million, after underwriting discounts and commissions and related offering expenses, in a public offering of our Common Stock. Since December 2009, we have received approximately \$165.5 million under our collaborations, including the following payments:

- In December 2009, we received a \$60 million upfront payment from Amgen Inc. under a Collaboration and License Agreement.
- In May and June 2010, we received a total of \$45 million in upfront and milestone payments under a License Agreement with Novartis Pharmaceutical International Ltd.
- In December 2010, we received \$10 million in a milestone payment under a License Agreement with Celgene Corporation.
- In May 2011, we received \$10 million in a milestone payment under a License Agreement with Novartis.
- In September 2011, we received \$28 million in an upfront payment from Genentech under a License Agreement.

Until we can generate sufficient levels of cash from operations, which we do not expect to achieve in the foreseeable future, we will continue to utilize existing cash, cash equivalents and marketable securities, and will continue to depend on funds provided from the sources mentioned above, which may not be available or forthcoming.

Management believes that the cash, cash equivalents and marketable securities as of March 31, 2012, as well as milestone payments that we expect to receive from existing collaborations in the remainder of fiscal 2012, will enable us to continue to fund operations in the normal course of business for at least the next 12 months. Because sufficient funds may not be available to us when needed from existing collaborations, we expect that we will be required to continue to fund our operations in part through the sale of debt or equity securities and through licensing select programs that include upfront and/or milestone payments.

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Our ability to successfully raise sufficient funds through the sale of debt or equity securities when needed is subject to many risks and uncertainties and, even if we are successful, future equity issuances would result in dilution to our existing stockholders. We also may not successfully consummate new collaborations that provide for additional upfront fees or milestone payments or we may not earn milestone payments under such collaborations when anticipated or at all.

If we are unable to obtain additional funding from these or other sources when needed, or to the extent needed, it may be necessary to significantly reduce the current rate of spending through further reductions in staff and delaying, scaling back, or stopping certain research and development programs, including more costly Phase 2 and Phase 3 clinical trials on our wholly-owned programs as these programs progress into later stage development. Insufficient liquidity may also require us to relinquish greater rights to product candidates at an

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earlier stage of development or on less favorable terms to us and our stockholders than we would otherwise choose in order to obtain upfront license fees needed to fund operations. These events could prevent us from successfully executing our operating plan and in the future could raise substantial doubt about our ability to continue as a going concern. Further, as discussed in Note 5

*Long-term Debt*, the entire debt balance of \$92.6 million outstanding with Deerfield Private Design Fund, L.P. and certain of its affiliates (collectively referred to as Deerfield) becomes due and payable if our total cash, cash equivalents and marketable securities falls below \$20 million at the end of a fiscal quarter. Based on our current forecasts and expectations, which are subject to many factors outside of our control, we do not anticipate that our cash and cash equivalents and marketable securities will fall below this level prior to maturity of such debt.

## **Income Taxes**

As of March 31, 2012, we had available total net operating loss (NOL) carryforwards of approximately \$347.0 million which expire in the years 2022 through 2031 and federal research and experimentation credit carryforwards of \$23.2 million, which will expire in the years 2022 through 2032. Capital loss carryforwards begin to expire in 2015. Future realization of these carryforwards and credits depends on our future earnings, if any, and the timing and amount of which are uncertain as of March 31, 2012. Based upon the levels of historical taxable loss and projections of future taxable losses over the periods in which these deferred tax assets are deductible, management believes that it is more likely than not that the company will not realize the benefits of these deductible differences and accordingly has established a full valuation allowance as of March 31, 2012.

Utilization of NOLs and research and development credit carryforwards may be subject to a substantial annual limitation in the event of an ownership change that has occurred previously or could occur in the future pursuant to Section 382 of the Internal Revenue Code (IRC) of 1986, as amended, as well as similar state provisions. An ownership change may limit the amount of NOLs and research and development credit carryforwards that can be utilized annually to offset future taxable income and tax, and may, in turn, result in the expiration of a portion of those carryforwards before utilization. In general, an ownership change, as defined by Section 382, results from transactions that increase the ownership of certain shareholders or public groups in the stock of a corporation by more than 50 percentage points over a three year period.

We recently completed a detailed study of our NOLs and research and development credit carryforwards to determine whether such amounts are likely to be limited by IRC Section 382. We determined that there have not been any material Section 382 limitations that will significantly impact our ability to offset income with available NOLs and research and development credit carryforwards. Future ownership changes as defined by IRC Section 382 may limit our ability to fully utilize these tax benefits.

## **Revenue Recognition**

We follow ASC 605-25 *Revenue Recognition - Multiple-Element Arrangements* to determine the recognition of revenue under collaboration agreements that include multiple elements, including research and development services, milestone payments and drug product manufacturing. This standard provides guidance on the accounting for arrangements involving the delivery of multiple revenue elements when delivery of separate units of accounting occurs in different reporting periods. This standard addresses the determination of the units of accounting for multiple-element arrangements and how the arrangement's consideration should be allocated to each unit of accounting. We adopted this accounting standard on a prospective basis for all multiple-element arrangements entered into on or after July 1, 2010 and for any multiple-element arrangements that were entered into prior to July 1, 2010 but materially modified on or after July 1, 2010. The adoption of this standard may result in revenue recognition patterns for

future agreements that are materially different from those recognized for our past collaboration arrangements.

For our multiple element transactions entered into on or after July 1, 2010, we evaluate the deliverables to determine if they have stand-alone value and we allocate revenue to the elements based on their relative selling prices. We treat deliverables in an arrangement that do not meet the separation criteria in this standard as a single unit of accounting, generally applying applicable revenue recognition guidance for the final deliverable to the combined unit of accounting. Since the adoption of this standard, we have entered into one agreement with

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multiple-elements. We have had no material modifications to arrangements that were entered into prior to July 1, 2010.

We recognize revenue from non-refundable upfront payments and license fees on a straight-line basis over the term of performance under the agreement. When the performance period is not specifically identifiable from the agreement, we estimate the performance period based upon provisions contained within the agreement, such as the duration of the research or development term, the existence, or likelihood of achievement of development commitments and any other significant commitments. For agreements entered into prior to July 1, 2010, the performance period is generally the estimated research or development term. For agreements entered into after this date, the performance period for upfront license fees may be shorter because the performance period, measured as the time between the execution date and the completion of the inseparable technology transfer, is typically a shorter period, generally up to six months.

We defer the upfront payments and record them as Deferred Revenue upon receipt, pending recognition. The deferred portions of payments are classified as a short-term or long-term liability in the accompanying Condensed Balance Sheets, depending on the period over which revenue is expected to be recognized.

Most of our agreements provide for milestone payments. In certain cases, we recognize all or a portion of each milestone payment as revenue when the specific milestone is achieved based on the applicable percentage earned of the estimated research or development effort, or other performance obligation that has elapsed, to the total estimated research and/or development effort. In other cases, when the milestone payment is attributed to our future development obligations, we recognize the revenue on a straight-line basis over the estimated remaining development effort.

We periodically review the expected performance periods under each of our agreements that provide for non-refundable upfront payments and license fees and milestone payments. We adjust the amortization periods when appropriate to reflect changes in assumptions relating to the duration of expected performance periods. We could accelerate revenue recognition for non-refundable license fees, upfront payments and milestone payments in the event of early termination of programs. Alternatively, we could decelerate such revenue recognition if programs are extended. While changes to such estimates have no impact on our reported cash flows, our reported revenue is significantly influenced by our estimates of the period over which our obligations are expected to be performed.

**Cost of Revenue and Research and Development Expenses for Proprietary Programs**

Where our collaboration agreements provide for us to conduct research and development and for which our partner has an option to obtain the right to conduct further development and to commercialize a product, we attribute a portion of our research and development costs to Cost of Revenue based on the percentage of total programs under the agreement that we conclude is likely to continue to be funded by the partner. These costs may not be incurred equally across all programs. In addition, we continually evaluate the progress of development activities under these agreements and if events or circumstances change in future periods that we reasonably believe would make it unlikely that a collaborator would continue to fund the same percentage of programs, we will adjust the allocation accordingly. See *Note 4 Deferred Revenue*, for further information about our collaborations.





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**Recent Accounting Pronouncements**

In May 2011, the Financial Accounting Standards Board (FASB) issued FASB ASU No. 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements* in U.S. GAAP and IFRS. This ASU provides a consistent definition of fair value between U.S. GAAP and International Financial Reporting Standards. Additionally, the ASU changes certain fair value measurement principles and expands the disclosures for fair value measurements. ASU 2011-04 is effective for interim and annual periods beginning after December 15, 2011 and is to be applied prospectively. We adopted this disclosure standard in the third quarter of fiscal 2012 and it did not have a material impact on our financial position or results of operations.

In June 2011, the FASB issued FASB ASU No. 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income in U.S. GAAP and IFRS*. This ASU provides companies the option to present the components of net income and other comprehensive income either as one continuous statement of comprehensive income or as two separate but consecutive statements. It eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity. The provisions of this new guidance are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The adoption of this new guidance will not impact our financial position, results of operations or cash flows.

Other recent accounting pronouncements issued by the FASB (including its Emerging Issues Task Force) and the SEC did not or are not believed by management to have a material impact on our present or future financial statements.

**NOTE 2 SEGMENTS, GEOGRAPHIC INFORMATION AND SIGNIFICANT COLLABORATORS**

**Segments**

All operations of Array are considered to be in one operating segment and, accordingly, no segment disclosures have been presented. The physical location of all of our equipment, leasehold improvements and other fixed assets is within the U.S.

**Geographic Information**

All of our collaboration agreements are denominated in U.S. dollars. The following table details revenue from collaborators by geographic area based on the country in which collaborators are located or the ship-to destination for compounds (dollars in thousands):

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	Three Months Ended March 31,		Nine Months Ended March 31,	
	2012	2011	2012	2011
North America	\$ 15,650	\$ 12,456	\$ 53,697	\$ 41,285
Europe	3,463	5,381	10,531	11,555
Asia Pacific	-	4	243	15
	\$ 19,113	\$ 17,841	\$ 64,471	\$ 52,855

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The following table identifies collaborators that contributed greater than 10% of total revenue during the periods set forth below.

	<b>Three Months Ended March 31,</b>		<b>Nine Months Ended March 31,</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Genentech, Inc.	46%	14%	42%	20%
Amgen, Inc.	26%	34%	34%	37%
Novartis International Pharmaceutical Ltd.	18%	30%	13%	22%
Celgene Corporation	9%	21%	9%	21%
	99%	99%	98%	100%

The loss of one or more of our significant collaborators could have a material adverse effect on our business, operating results or financial condition. We do not require collateral from our collaborators, and most pay in advance. Although we are impacted by economic conditions in the biotechnology and pharmaceutical sectors, management does not believe significant credit risk exists as of March 31, 2012.

**NOTE 3 - MARKETABLE SECURITIES**

Marketable securities consisted of the following as of March 31, 2012 (dollars in thousands):

	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
Short-term available-for-sale securities:				
Mutual fund securities	36,412	-	(1)	36,411
Long-term available-for-sale securities:				
Mutual fund securities	423	-	-	423
Total	\$ 36,835	\$ -	\$ (1)	\$ 36,834

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Marketable securities consisted of the following as of June 30, 2011 (dollars in thousands):

	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
Short-term available-for-sale securities:				
U.S. Government agency securities	15,598	3	-	15,601
Mutual fund securities	385	-	-	385
Sub-total	15,983	3	-	15,986
Long-term available-for-sale securities:				
Mutual fund securities	623	-	-	623
Sub-total	623	-	-	623
Total	\$ 16,606	\$ 3	\$ -	\$ 16,609

The estimated fair values of these marketable securities were classified into the following fair value measurement categories (dollars in thousands):

	<b>March 31, 2012</b>	<b>June 30, 2011</b>
Quoted prices in active markets for identical assets (Level 1)	\$ 36,834	\$ 16,609
Observable inputs other than quoted prices in active markets (Level 2)	-	-
Significant unobservable inputs (Level 3)	-	-
	\$ 36,834	\$ 16,609

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Deferred revenue consisted of the following (dollars in thousands):

	<b>March 31 2012</b>	<b>June 30, 2011</b>
Novartis International Pharmaceutical Ltd.	\$ 28,225	\$ 38,537
Amgen, Inc.	14,774	30,674
Celgene Corporation	12,284	15,741
Genentech, Inc.	9,318	2,228
DNA BioPharma LLC	1,250	-
<b>Total deferred revenue</b>	<b>65,851</b>	<b>87,180</b>
Less: Current portion	(47,147)	(47,874)
<b>Deferred revenue, long term</b>	<b>\$ 18,704</b>	<b>\$ 39,306</b>

**Amgen Inc.**

In December 2009, Array granted Amgen the exclusive worldwide right to develop and commercialize our small molecule glucokinase activator, AMG 151/ARRY-403. Under the Collaboration and License Agreement, we are responsible for completing Phase 1 clinical trials on AMG 151. We will also conduct further research funded by Amgen to create second generation glucokinase activators. Amgen is responsible for further development and commercialization of AMG 151 and any resulting second generation compounds. The agreement also provides us with an option to co-promote any approved drugs with Amgen in the U.S. with certain limitations.

In partial consideration for the rights granted to Amgen under the agreement, Amgen paid us an upfront fee of \$60 million. Amgen paid us for research on second generation compounds based on the number of full-time-equivalent scientists working on the discovery program.

Array is also entitled to receive up to approximately \$666 million in aggregate milestone payments if all clinical and commercialization milestones specified in the agreement for AMG 151 and at least one backup compound are achieved. We will also receive royalties on sales of any approved drugs developed under the agreement.

We estimate that our obligations under the agreement will continue until December 31, 2012 and, therefore, are recognizing the upfront fee over that three-year period on a straight-line basis from the date of the agreement. This fee is recorded in License and Milestone Revenue in the accompanying Condensed Statements of Operations and Comprehensive Loss. We recognized \$4.9 million and \$14.8 million of revenue under the agreement for the three and nine months ended March 31, 2012, respectively, and the same amounts for the same time periods in fiscal 2011.

We record revenue for research performed by our scientists working on second generation compounds in Collaboration Revenue in the accompanying Condensed Statements of Operations and Comprehensive Loss. We recognized no revenue during the current quarter and \$2.2 million of revenue under the agreement for the nine months ended March 31, 2012. We recognized \$1.2 million and \$3.6 million of revenue under this agreement for the three and nine months ended March 31, 2011, respectively. We do not expect to be paid additional amounts or to recognize additional revenue for research because we completed most of the required deliverables under this agreement during the second quarter of fiscal 2012.

We are reimbursed for certain development activities, which is recorded in Collaboration Revenue and Cost of Sales in the accompanying Condensed Statements of Operations and Comprehensive Loss. During the nine months ended March 31, 2011, we recognized \$1.4 million in Collaboration Revenue and Cost of Sales. The development phase of this agreement has ended and there were, therefore, no development costs incurred or

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reimbursed for the three and nine months ended March 31, 2012 and we do not expect any costs to be incurred or reimbursed in the future. Either party may terminate the agreement in the event of a material breach of a material obligation under the agreement by the other party upon 90 days prior notice. Amgen may terminate the agreement at any time upon notice of 60 or 90 days depending on the development activities in progress at the time of such notice. The parties have also agreed to indemnify each other for certain liabilities arising under the agreement.

**Novartis International Pharmaceutical Ltd.**

Array and Novartis entered into a License Agreement in April 2010, granting Novartis the exclusive worldwide right to co-develop and commercialize MEK162/ARRY-162, as well as other specified MEK inhibitors. Under the agreement, we are responsible for completing the on-going Phase 1b expansion trial of MEK162 in patients with KRAS or BRAF mutant colorectal cancer and for the further development of MEK162 for up to two indications. Novartis is responsible for all other development activities and for the commercialization of products under the agreement, subject to our option to co-detail approved drugs in the U.S.

In consideration for the rights granted to Novartis under the agreement, we received \$45 million, comprising an upfront and milestone payment, in the fourth quarter of fiscal 2010. In March 2011, we earned a \$10 million milestone payment which was received in the fourth quarter of fiscal 2011. We are also entitled to receive up to approximately \$412 million in aggregate milestone payments if all clinical, regulatory and commercial milestones specified in the agreement are achieved. Novartis will also pay us royalties on worldwide sales of any approved drugs. In addition, so long as we continue to co-develop products under the program, the royalty rate on U.S. sales is significantly higher than the rate on sales outside the U.S. as described below.

We estimate that the obligations under the agreement will continue until April 2014 and, therefore, we are recognizing the upfront fee and milestone payments on a straight-line basis from the date the agreement was signed in April 2010 over that four-year period. These amounts are recorded in License and Milestone Revenue in the accompanying Condensed Statements of Operations and Comprehensive Loss.

In both fiscal 2011 and 2012, we recognized \$2.5 million and \$7.5 million of license fee revenue under this agreement for the three- and nine- months ended March 31, respectively. We recognized \$938 thousand and \$2.8 million in revenue related to the milestone payments during the three and nine months ended March 31, 2012, respectively. We recognized \$2.7 million and \$3.3 million in revenue related to the milestone payments during the three and nine months ended March 31, 2011, respectively.

The Novartis agreement also contains co-development rights whereby we can elect to pay a percentage share of the combined total development costs. During the first two years of the co-development period, Novartis will reimburse us for 100% of our development costs. Beginning in the first quarter of fiscal 2013, we will begin paying our percentage share of the combined development costs since inception of the program, up to a maximum amount with annual caps, unless we opt out of paying our percentage share of these costs. If we opt out of paying our share of combined development costs with respect to one or more products, the U.S. royalty rate would then be reduced for any such product based on a specified formula, subject to a minimum that equals the royalty rate on sales outside the U.S. In this event, we would no longer have the right to develop or detail such product.



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We record a receivable in the accompanying Condensed Balance Sheets for the amounts due from Novartis for the reimbursement of our development costs. We accrue our percentage share of the combined development costs in the accompanying Condensed Balance Sheets as a current liability in Other Accrued Expenses. We incurred reimbursable development costs of \$678 thousand and \$1.9 million during the three and nine months ended March 31, 2012, respectively. We incurred reimbursable development costs for the same time periods in fiscal 2011 of \$1.4 million and \$5.3 million.

Our share of the combined development costs for the three and nine months ended March 31, 2012 was \$1.4 million and \$3.8 million, respectively. For the same time periods in fiscal 2011, we incurred \$1.0 million and \$2.6 million, respectively, as our share of the combined development costs. These amounts are recorded in Cost of

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Revenue in the accompanying Condensed Statements of Operations and Comprehensive Loss. Additionally, we recorded a corresponding payable for our portion of the development costs of \$7.4 million in Other Accrued Expenses as of March 31, 2012 and \$3.6 million in Other Long-Term Liabilities as of June 30, 2011 in the accompanying Condensed Balance Sheets. The \$7.4 million amount is due and payable to Novartis in the first quarter of fiscal year 2013. In addition, we have a related receivable of \$678 thousand and \$1.0 million in Prepaid and Other Current Assets in the accompanying Condensed Balance Sheets as of March 31, 2012 and June 30, 2011, respectively.

The agreement will be in effect on a product-by-product and country-by-country basis until no further payments are due with respect to the applicable product in the applicable country, unless terminated earlier. Either party may terminate the agreement in the event of an uncured material breach of a material obligation under the agreement by the other party upon 90 days prior notice. Novartis may terminate portions of the agreement following a change in control of Array and may terminate the agreement in its entirety or on a product-by-product basis with 180 days prior notice. Array and Novartis have each further agreed to indemnify the other party for manufacturing or commercialization activities conducted by us under the agreement: negligence, willful misconduct or breach of covenants, warranties or representations made by us under the agreement.

**Celgene Corporation**

In September 2007, Array entered into a worldwide strategic collaboration with Celgene focused on the discovery, development and commercialization of novel therapeutics in cancer and inflammation. Under the agreement, Celgene made an upfront payment of \$40 million to us in part to provide research funding for activities we conducted. We are responsible for all discovery development through Phase 1 or Phase 2a. Celgene has an option to select a limited number of drugs developed under the collaboration that are directed to up to two of four mutually selected discovery targets and will receive exclusive worldwide rights to these two drugs, except for limited co-promotional rights in the U.S. Array retains all rights to the programs for which Celgene does not exercise its option.

In June 2009, the agreement was amended to substitute a new discovery target in place of an existing target and Celgene paid us \$4.5 million in consideration for the amendment. No other terms of the agreement with Celgene were modified by the amendment. The option term for this target will expire on or before June 2016, and the option term for the other targets will expire on the earlier of completion of Phase 1 or Phase 2a trials for the applicable drug or September 2014. In September 2009, Celgene notified Array that it was waiving its rights to one of the discovery targets under the collaboration, leaving Celgene the option to select two of the remaining three targets.

In January 2012, the agreement was further amended to continue drug discovery activities we were conducting on one of the existing targets. Celgene paid us \$1.0 million during the third quarter of fiscal 2012 as compensation for the additional research and we recognized \$750 thousand of this payment as Collaboration Revenue during the quarter.

Array is entitled to receive, for each drug for which Celgene exercises an option, potential milestone payments of \$200 million if certain discovery, development and regulatory milestones are achieved and an additional \$300 million if certain commercial milestones are achieved. In November 2010, we earned and subsequently received a \$10 million milestone payment upon securing an Investigational New Drug (IND) application for one of the programs. We are also entitled to receive royalties on net sales of any drugs.

We regularly review and adjust the estimated period of the discovery obligations to determine the period over which license fees and milestone payments will be recognized. Upon execution of the agreement, we estimated that the discovery obligations under the agreement would continue through September 2014 and accordingly began recognizing as revenue the upfront fees received from the date of receipt through September 2014. During the quarter ended September 30, 2011, we estimated that the remaining period for our discovery obligations under the agreement was likely to be only through June 2013. Therefore, in the second quarter of fiscal 2011 we began recognizing the remaining unamortized balance of the upfront fees through this shorter period on a straight-line basis.

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We recognized \$943 thousand and \$3.7 million in revenue related to the license fee and milestone payments during the three and nine months ended March 31, 2012, respectively, and \$3.7 million and \$11.0 million for the three and nine months ended March 31, 2011, respectively.

We review and adjust as appropriate the allocation of research and development expenses under our agreement with Celgene based on the likelihood that Celgene will continue funding development of the programs for which Celgene has an option under the agreement. We initially concluded that Celgene was likely to continue funding two of the four programs by paying the Phase 1 milestone. Accordingly, upon execution of the agreement, we began reporting costs associated with the Celgene collaboration as 50% to Cost of Revenue, with the remaining 50% to Research and Development Expenses for Proprietary Programs. In the second quarter of fiscal 2011, we concluded that Celgene is likely to continue funding two of the remaining three programs by paying the Phase 1 milestone. Accordingly, beginning October 1, 2010, we began reporting costs associated with the Celgene collaboration as 66.7% to Cost of Revenue, with the remaining 33.3% to Research and Development Expenses for Proprietary Programs. During the third quarter of fiscal 2012, research was active on only one of the remaining programs and management concluded it is more likely than not that Celgene will continue funding that program and pay the Phase 1 milestone. Consequently, we recorded all costs for our Celgene programs as Cost of Revenue for the quarter end March 31, 2012.

Celgene can terminate any drug development program for which it has not exercised an option at any time, provided that it gives us prior notice. In this event, all rights to the program remain with Array and we would no longer be entitled to receive milestone payments for further development or regulatory milestones that it could have achieved had Celgene continued development of the program. Celgene may terminate the agreement in whole, or in part with respect to individual drug development programs for which Celgene has exercised an option, upon six months written notice to Array. In addition, either party may terminate the agreement, following certain cure periods, in the event of a breach by the other party of its obligations under the agreement.

**Genentech, Inc.**

In addition to our ongoing agreements with Genentech, we entered into an additional oncology partnership for the development of each company's small-molecule Checkpoint kinase 1 (Chk-1) program in August 2011. The partnered drugs include Genentech's compound GDC-0425 and Array's compound ARRY-575. Under the terms of the agreement, Genentech acquired a license to Array's compound ARRY-575 and is responsible for all research, clinical development and commercialization activities of the partnered drugs. We received an upfront payment of \$28.0 million during the first quarter of fiscal 2012 and are eligible to receive payments of up to \$685.0 million based on the achievement of clinical and commercial milestones under the agreement. We will also receive up to a double-digit royalty on sales of any drugs resulting from the partnership.

Pursuant to the accounting guidance for revenue recognition for multiple element arrangements, we determined that Array is obligated to deliver two non-contingent deliverables related to the agreement that meet the separation criteria and therefore are treated as separate units of accounting. The two deliverables are (1) the delivery of specified clinical materials for GDC-0575 (ARRY-575) for use in future clinical trials and (2) the transfer of the license and related technology with ongoing regulatory services to assist in filing the IND application and providing supporting data.

This agreement also includes a contingent deliverable whereby Genentech could, at its sole option, require us to perform chemical and manufacturing control (CMC) activities for additional drug product or improved processes. This CMC option is not considered a deliverable because the scope, likelihood and timing of the potential services are unclear. Certain critical terms of the services

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have not yet been negotiated, including the fee that we would receive for the service and Genentech could elect to acquire the drug materials without our assistance either by manufacturing them in-house or utilizing a third-party vendor. Therefore, no portion of the \$28.0 million upfront payment has been allocated to the contingent CMC services that we may be obligated to perform in the future.

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The first non-contingent deliverable required Array to prepare specified clinical materials for delivery to Genentech, and we completed this delivery in December 2011, by the date specified in the agreement. The second and final obligation related to the non-contingent deliverable of assisting in the filing of the IND application has been completed as of March 31, 2012. The agreement provides for no general right of return for any non-contingent deliverable. Consequently, the amount of revenue allocated to each deliverable was determined using the relative selling price method under which revenue is allocated to each identified deliverable based on its estimated stand-alone value in relation to the combined estimated stand-alone value of all deliverables. The allocated consideration for each deliverable is then recognized over the related obligation period for that deliverable.

The determination of the stand-alone value for each non-contingent deliverable requires the use of significant estimates by management, including estimates of the time to complete the transfer of related technology and assist in filing the IND. Further, to determine the stand-alone value of the license and initial milestone, we considered the negotiation discussions that lead to the final terms of the agreement, publically available data for similar licensing arrangements between other companies and the economic terms of previous collaborations Array has entered into with other partners.

We recognized \$6.7 million in license and milestone revenue and \$2.1 million in collaboration revenue from the partnership with Genentech during the quarter ended March 31, 2012. We recognized \$24.8 million in license and milestone revenue and \$7.1 million in collaboration revenue related to the partnership with Genentech during the nine month period ended March 31, 2012.

We recognized \$69 thousand in license and milestone revenue and \$2.5 million in collaboration revenue from the partnership with Genentech during the three months ended March 31, 2011. We recognized \$1.2 million in license and milestone revenue and \$9.1 million in collaboration revenue related to the partnership with Genentech during the nine month period ended March 31, 2011.

**NOTE 5 LONG-TERM DEBT**

Long-term debt consists of our credit facilities with Deerfield and our term loan with Comerica Bank in the following amounts (dollars in thousands):

	<b>March 31, 2012</b>	<b>June 30, 2011</b>
Credit Facilities	\$ 92,562	\$ 96,762
Term Loan	14,850	14,850
<b>Long-term debt</b>	<b>107,412</b>	<b>111,612</b>
Less: Unamortized discount on the Credit Facilities	(16,362)	(20,072)
<b>Long-term debt, net</b>	<b>91,050</b>	<b>91,540</b>
Less: Current portion of long-term debt	(150)	(150)
	<b>\$ 90,900</b>	<b>\$ 91,390</b>

**Deerfield Credit Facilities**

As of March 31, 2012 we had \$92.6 million in principal outstanding under the Deerfield credit facilities. This compares to \$96.8 million in principal outstanding as of June 30, 2011.

Interest and principal may be repaid at our option at any time with cash or shares of our Common Stock that have been registered under the Securities Act of 1933, as amended, with certain restrictions. We are also required, subject to certain exceptions and conditions, to make payments of principal equal to 15% of certain amounts we receive under new licensing, partnering and other similar arrangements up to the full value of the

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principal and accrued interest outstanding. We received a \$28 million upfront payment from a qualifying new collaboration with Genentech in September 2011. As a result in October 2011, we paid \$4.2 million to Deerfield which was applied against the principal balance.

If our total Cash, Cash Equivalents and Marketable Securities at the end of a fiscal quarter falls below \$20 million, all amounts outstanding under the credit facilities become immediately due and payable.

*Embedded Derivatives*

The credit facilities contain two embedded derivatives: (1) a variable interest rate structure that is based on our available cash, cash equivalents and marketable securities and (2) Deerfield's right to accelerate the loan upon certain changes of control of Array, which is considered a significant transaction contingent put option. We refer to these embedded derivatives collectively as the Embedded Derivatives.

The forecasts used by management in determining the estimated fair value of the Embedded Derivatives are inherently subjective and may not reflect actual results, although management believes the assumptions upon which they are based are reasonable. Management will continue to assess the assumptions used in the determination of the fair value of the Embedded Derivatives, and future changes affecting these assumptions could materially affect their estimated fair value, with a corresponding impact on our reported results of operations.

The estimated fair value of the Embedded Derivatives was determined based on management's judgment and assumptions. The use of different assumptions could result in significantly different estimated fair values. For example, the value of the embedded derivative relating to the variable interest rate feature as of March 31, 2012 of \$733 thousand is based on the assumption that our total cash and marketable securities balance could fall to between \$40 million and \$50 million as of the end of a month for ten months out of the remaining 51 months of the facility. If conditions and the resulting assumptions were to change such that it was assumed that the total cash and marketable securities balance could fall to between \$40 million and \$50 million as of the end of a month for a total of 30 months out of the remaining 51 months of the facility, the average effective interest rate would increase to 8.1%. This change would cause the Embedded Derivative value to increase by approximately \$830 thousand and would result in a charge of the same amount to the Statement of Operations and Comprehensive Loss. Further, if conditions and the resulting assumptions were to change such that it was assumed that our total cash and marketable securities balance could fall to between \$40 million and \$50 million as of the end of a month for total of the same 30 months and also fall further to between \$30 and \$40 million as of the end of a month for a total of eight additional months, the effective interest rate would increase to 8.7%. This change would cause the embedded derivative value to increase by \$2.1 million from the current level and would result in a charge of the same amount to the Statement of Operations and Comprehensive Loss.

*Fair Value of the Debt*

We estimate the fair value of the Deerfield debt using a combination of a discounted cash flow analysis and the Black-Derman-Toy interest rate model that incorporates the estimates discussed above for the Embedded Derivatives. The fair value of the debt was



determined to be \$71.2 million and \$72.6 million at March 31, 2012 and June 30, 2011, respectively.

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Interest expense for the Deerfield credit facilities follows (dollars in thousands):

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2012	2011	2012	2011
Simple interest	\$ 1,608	\$ 2,250	\$ 4,883	\$ 6,750
Amortization of the transaction fees	58	140	181	426
Amortization of the debt discounts	864	1,668	2,823	4,976
Loss on early principal payment of debt	-	-	942	-
Change in value of the Embedded Derivatives	(1)	(32)	192	(364)
<b>Total interest expense on the Deerfield Credit Facility</b>	<b>\$ 2,529</b>	<b>\$ 4,026</b>	<b>\$ 9,021</b>	<b>\$ 11,788</b>

In October 2011 we made an early principal payment to Deerfield of \$4.2 million which resulted in a proportional write-off of unamortized debt issuance costs and debt discount fees in the amount of \$942 thousand. This amount is shown above as a Loss on early principal payment of debt which is included in Interest expense.

**Comerica Term Loan**

As of March 31, 2012, the term loan with Comerica Bank had an interest rate of 3.25% per annum. The following table shows actual interest paid and amortization of loan transaction fees that were charged to Interest expense.

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2012	2011	2012	2011
Simple interest	\$ 122	\$ 119	\$ 368	\$ 371
Amortization of the transaction fees	27	27	81	81
<b>Total interest expense on Comerica Loan</b>	<b>\$ 149</b>	<b>\$ 146</b>	<b>\$ 449</b>	<b>\$ 452</b>

The estimated fair value of the term loan was determined using a discounted cash flow model and was calculated at \$14.9 million as of March 31, 2012 and June 30, 2011.

**Commitment Schedule**

Array is required to make principal payments under the Deerfield credit facilities and the Comerica term loan as follows (dollars in thousands):

**For the twelve months ended March 31.**

2013	\$	150
2014		14,700
2015		-
2016		72,562
2017		20,000
	\$	107,412

Table of Contents**NOTE 6 SHARE-BASED COMPENSATION EXPENSE**

All share-based payments to employees are recognized in the Condensed Statements of Operations and Comprehensive Loss based on the fair value of the award on the grant date. Share-based compensation arrangements include stock option grants under the Option Plan and the ability to purchase common stock at a discount under the Employee Stock Purchase Plan, or ESPP. The fair value of all stock options granted by Array and shares issued under the ESPP is estimated on the date of grant using the Black-Scholes option-pricing model. We recognize share-based compensation expense on a straight-line basis over the vesting term of stock option grants. See *Note 12 - Employee Compensation Plans* to our audited financial statements included in our Annual Report on Form 10-K for the year ended June 30, 2011 for more information about the assumptions we used under this valuation methodology. During the quarters ended March 31, 2012 and 2011, we made no material changes to these assumptions.

The table below shows options issued to purchase additional shares and compensation expense for the periods indicated.

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2012	2011	2012	2011
Shares of stock authorized to be issued under new options	1,229,889	1,083,025	1,501,489	1,296,325
Stock option compensation expense (in thousands)	414	640	1,465	2,298
ESPP compensation expense (in thousands)	63	129	167	472

As of March 31, 2012, there was \$3.2 million of unrecognized compensation expense, including the impact of expected forfeitures, for unvested share-based compensation awards granted under our equity plans, which we expect to recognize over a weighted-average period of 2.9 years.

**NOTE 7 EQUITY DISTRIBUTION AGREEMENT**

On September 18, 2009, we entered into an Equity Distribution Agreement with Piper Jaffray & Co. (the Agent) pursuant to which we were able to sell, from time to time, up to an aggregate of \$25 million in shares of our common stock, through the Agent that were registered on a registration statement on Form S-3 (File No. 333-155221). Sales of the shares made pursuant to the Equity Distribution Agreement were made on the NASDAQ Stock Market by means of ordinary brokers' transactions at market prices. This agreement terminated when all of the remaining shares authorized under the agreement were sold in November 2011.

**Three Months Ended**

**Nine Months Ended**

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		March 31,			March 31,		
	2012		2011	2012		2011	
Number of shares sold		-	524,184	2,935,830		1,444,677	
Average price per share	\$	-	\$ 3.06	\$ 2.50	\$	\$ 3.19	
Gross proceeds (in thousands)	\$	-	\$ 1,603	\$ 7,344	\$	\$ 4,610	
Commissions (in thousands)	\$	-	\$ (48)	\$ (220)	\$	\$ (138)	
Other costs (in thousands)	\$	-	\$ (27)	\$ (75)	\$	\$ (86)	

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**NOTE 8 SHAREHOLDERS EQUITY**

*Preferred Stock*

On May 3, 2011, we issued and sold to Deerfield 10,135 shares of our Series B Convertible Preferred Stock, for an aggregate purchase price of \$30 million, pursuant to the terms of a Securities Purchase Agreement as discussed in *Note 8 Long-Term Debt* in our Annual Report on Form 10-K for the fiscal year ended June 30, 2011 filed with the Securities and Exchange Commission on August 12, 2011. Each share of Series B Convertible Preferred Stock is convertible into 1,000 shares of common stock at the election of Deerfield.

During the quarter ended March 31, 2012, Deerfield converted 4,573.271 shares of Series B Convertible Preferred Stock into 4,573,271 shares of common stock in a non-cash transaction pursuant to the terms of the Certificate of Designation of Preferences, Rights and Limitations of the Series B Convertible Preferred Stock.

*Common Stock*

On February 14, 2012, we sold 23 million shares of our common stock at a public offering price of \$2.60 per share. We received net proceeds from the sale of the shares, after underwriting discounts and commissions and related offering expenses, of approximately \$56.1 million. We intend to use the net proceeds from this offering to fund research and development efforts, including clinical trials for Array's proprietary candidates, and for general corporate purposes.

**NOTE 9 EMPLOYEE BONUS**

We have an annual performance bonus program for our employees in which employees may receive a bonus payable in cash or in shares of common stock if we meet certain financial, discovery, development and partnering goals during a fiscal year. The bonus is typically paid in the second quarter of the next fiscal year, and we accrue an estimate of the expected aggregate bonus in Accrued Compensation and Benefits in the accompanying Condensed Balance Sheets.

As of March 31, 2012, we accrued \$2.9 million in Accrued Compensation and Benefits for the fiscal 2012 Performance Bonus Program. As of June 30, 2011, we had accrued in Accrued Compensation and Benefits \$3.3 million for the Performance Bonus Programs.

On October 4, 2011, we paid bonuses to approximately 250 eligible employees having an aggregate value of \$3.1 million under the fiscal 2011 Performance Bonus Program through the issuance of a total of 1,112,577 shares of our common stock valued at \$2.0

million and a payment of cash to satisfy related withholding taxes.

Table of Contents**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including statements about our expectations related to the progress and success of drug discovery activities conducted by Array and by our collaborators, our ability to obtain additional capital to fund our operations and/or reduce our research and development spending, realizing new revenue streams and obtaining future out-licensing collaboration agreements that include upfront, milestone and/or royalty payments, our ability to realize upfront milestone and royalty payments under our existing or any future agreements, future research and development spending and projections relating to the level of cash we expect to use in operations, our working capital requirements and our future headcount requirements. In some cases, forward-looking statements can be identified by the use of terms such as may, will, expects, intends, plans, anticipates, estimates, potential, or continue, or the negative thereof or other comparable terms. These statements are based on current expectations, projections and assumptions made by management and are not guarantees of future performance. Although we believe that the expectations reflected in the forward-looking statements contained herein are reasonable, these expectations or any of the forward-looking statements could prove to be incorrect and actual results could differ materially from those projected or assumed in the forward-looking statements. Our future financial condition, as well as any forward-looking statements are subject to significant risks and uncertainties, including but not limited to the factors set forth under the heading "Risk Factors" in Item 1A of the Annual Report on Form 10-K for the fiscal year ended June 30, 2011 we filed with the Securities and Exchange Commission on August 12, 2011, under the heading "Risk Factors" in Item 1A under Part II of this Quarterly Report, and in other reports we file with the Securities and Exchange Commission. All forward-looking statements are made as of the date hereof and, unless required by law, we undertake no obligation to update any forward-looking statements.

The following discussion of our financial condition and results of operations should be read in conjunction with the financial statements and notes to those statements included elsewhere in this Quarterly Report. The terms we, us, our and similar terms refer to Array BioPharma Inc.

**Overview**

Array BioPharma Inc. is a biopharmaceutical company focused on the discovery, development and commercialization of targeted small-molecule drugs to treat patients afflicted with cancer and inflammatory diseases. Array has four core proprietary clinical programs: ARRY-614 for myelodysplastic syndromes, ARRY-520 for multiple myeloma, ARRY-797 for pain and ARRY-502 for asthma. In addition, Array has 10 partner-funded clinical programs including two MEK inhibitors in Phase 2: selumetinib with AstraZeneca and MEK162 with Novartis.

The five wholly owned programs that we are developing internally are:

	<b>Program</b>	<b>Target and Indication</b>	<b>Clinical Status</b>
1.	ARRY-520	KSP inhibitor for multiple myeloma or MM	Phase 2
2.	ARRY-797	p38 inhibitor for pain	Phase 2
3.	ARRY-502	CRTh2 inhibitor for asthma	Phase 2



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4.	ARRY-614	Dual p38/Tie2 inhibitor for myelodysplastic syndromes	Phase 1
5.	ARRY-981	GPR-119 inhibitor for the treatment of diabetes	GLP Tox

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In addition to these development programs, our most advanced partnered drugs in clinical development are:

	<b>Program</b>	<b>Target and Indication</b>	<b>Partner</b>	<b>Clinical Status</b>
1	Selumetinib (AZD6244)	MEK inhibitor for cancer	AstraZeneca	Phase 2
2.	MEK162 (ARRY-162)	MEK inhibitor for cancer	Novartis	Phase 2
3.	AMG 151 (ARRY-403)	Glucokinase activator for Type 2 diabetes	Amgen	Phase 2
4.	ASLAN001 (ARRY-543)	HER2/EGFR inhibitor for cancer	ASLAN	Phase 2
5.	Danoprevir (RG7227)	Protease inhibitor for Hepatitis C virus	InterMune - developed by Roche	Phase 2
6.	LY2603618	Chk-1 inhibitor for cancer	Eli Lilly	Phase 2
8	GDC-0068	AKT inhibitor for cancer	Genentech	Phase 2
7.	VTX-2337	Toll-like receptor for cancer	VentiRx	Phase 1b/2
9	GDC-0575 (ARRY-575) and GDC-0425	Chk-1 inhibitors for cancer	Genentech	Phase 1
10.	ARRY-382	cFMS inhibitor for cancer	Celgene (option)	Phase 1

Any information we report about the development plans or the progress or results of clinical trials or other development activities of our partners is based on information that is publicly disclosed.

Under our partnered drug discovery programs, we are generally entitled to receive payments upon achievement of clinical development and commercialization milestones and royalties based on sales of any resulting drugs. Under our existing partnered program agreements, we have the potential to earn over \$3.4 billion in additional milestone payments if we or our collaborators achieve the drug discovery, development and commercialization objectives detailed in those agreements. We also have the potential to earn royalties on any resulting product sales or share in the proceeds from development or commercialization arrangements resulting from 12 drug research and development programs.

Additionally, we have a portfolio of proprietary and partnered drug discovery programs generated by our internal efforts. Our internal drug discovery programs include inhibitors that target Trk receptors for the treatment of pain and G-protein coupled receptor 119, or GPR-119, for the treatment of diabetes. We may choose to out-license select promising candidates through research partnerships.

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We have built our proprietary clinical and discovery pipeline programs through spending \$504.5 million from our inception in 1998 through March 31, 2012. During the first nine months of fiscal 2012, we spent \$41.8 million in research and development for proprietary programs. In fiscal 2011, we spent \$63.5 million in research and development expenses for proprietary drug discovery, compared to \$72.5 million and \$89.6 million for fiscal years 2010 and 2009, respectively. Since December 2009, we signed strategic collaborations with Amgen, Genentech and Novartis. Together these collaborations entitled Array to \$133.0 million in initial payments, over \$2.2 billion in potential milestone payments if all clinical and commercialization milestones under the agreements are achieved plus double digit royalties and/or commercial co-detailing rights. We currently expect to earn approximately \$20.0 to \$30.0 million in milestones from existing collaborations during calendar year 2012. We have received a total of \$566.0 million in research funding and in upfront and milestone payments from our collaboration partners from inception through March 31, 2012.

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Our significant and / or recent collaborators under our partnered programs include:

- *Amgen* We entered into a worldwide strategic collaboration with Amgen in December 2009 to develop and commercialize our glucokinase activator, AMG 151, and to discover potential back-up compounds for AMG 151. AMG 151 is currently advancing in a Phase 2 trial in patients with Type 2 diabetes.
- *ASLAN Pharmaceuticals* We entered into a collaboration and license agreement with ASLAN Pharmaceuticals in July 2011 to develop our HER2 / EGFR inhibitor, ASLAN001/(ARRY-543), which is currently advancing in a Phase 2 trial for solid tumors.
- *AstraZeneca* In December 2003, we entered into a collaboration and license agreement with AstraZeneca under which AstraZeneca received a license to three of our MEK inhibitors for cancer, including selumetinib, which is currently in multiple Phase 2 clinical trials.
- *Celgene* We entered into a worldwide strategic collaboration agreement with Celgene in September 2007 focused on the discovery, development and commercialization of novel therapeutics in cancer and inflammation. The most advanced drug is ARRY-382, a cFMS inhibitor for cancer, which is currently in a Phase 1 clinical trial.
- *Genentech* We entered into a worldwide strategic collaboration agreement with Genentech in January 2003, which was expanded in 2005, 2008, 2009 and 2011, and is focused on the discovery, development and commercialization of novel therapeutics. The most advanced drug is GDC-0068, an AKT inhibitor for cancer currently in a Phase 2 trial. The other programs under this collaboration are in preclinical development. In August 2011, we entered into an oncology partnership with Genentech for the development of each company's small-molecule Checkpoint kinase 1 (Chk-1) program. The programs include Genentech's compound GDC-0425 (RG7602), currently in Phase 1, and our compound, GDC-0575 (ARRY-575), which is entering a Phase 1 trial in cancer patients.
- *InterMune (program acquired by Roche)* We entered into a collaboration with InterMune in 2002, which resulted in the joint discovery of danoprevir, a novel small molecule inhibitor of the Hepatitis C Virus NS3/4A protease. Roche acquired danoprevir from InterMune in 2010. Danoprevir is currently in Phase 2b clinical trials.
- *Novartis* We entered into a worldwide strategic collaboration with Novartis in April 2010 to develop and commercialize our MEK inhibitor, MEK162, and other MEK inhibitors identified in the agreement. Novartis is planning or currently recruiting patients for nine clinical trials, including two Phase 2 trials and six Phase 1b trials in combination with other targeted agents in selected patients and two Phase 1 trials.

## **Fiscal Periods**

Our fiscal year ends on June 30. When we refer to a fiscal year or quarter, we are referring to the year in which the fiscal year ends and the quarters during that fiscal year. Therefore, fiscal 2012 refers to the fiscal year ending June 30, 2012 and the third or current quarter refers to the quarter ended March 31, 2012.

## **Business Development and Collaborator Concentrations**

We currently license or partner certain of our compounds and/or programs and enter into collaborations directly with pharmaceutical and biotechnology companies through opportunities identified by our business development group, senior management, scientists and customer referrals.

In general, our collaborators may terminate their collaboration agreements with 90 to 180 days prior notice. Our agreement with Genentech can be terminated with 120 days notice. Celgene may terminate its agreement with us with six months notice. Amgen may terminate its agreement with us at any time upon notice of 60 or 90 days

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depending on the development activities in progress at the time of such notice. Novartis may terminate portions of the agreement following a change in control of Array and may terminate the agreement in its entirety or on a product-by-product basis with 180 days prior notice.

Additional information related to the concentration of revenue among our collaborators is reported in *Note 2 Segments, Geographic Information and Significant Collaborations* to the financial statements included elsewhere in this Quarterly Report.

All of our collaboration agreements are denominated in U.S. dollars.

**Critical Accounting Policies and Estimates**

Management's discussion and analysis of financial condition and results of operations are based upon our accompanying financial statements, which have been prepared in accordance with GAAP. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses as well as the disclosure of contingent assets and liabilities. We regularly review our estimates and assumptions. These estimates and assumptions, which are based upon historical experience and on various other factors believed to be reasonable under the circumstances, form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Reported amounts and disclosures may have been different had management used different estimates and assumptions or if different conditions had occurred in the periods presented.

***Revenue Recognition***

We follow ASC 605-25 *Revenue Recognition - Multiple-Element Arrangements* to determine the recognition of revenue under collaboration agreements that include multiple elements, including research and development services, milestone payments and drug product manufacturing. This standard provides guidance on the accounting for arrangements involving the delivery of multiple revenue elements when delivery of separate units of accounting occurs in different reporting periods. This standard addresses the determination of the units of accounting for multiple-element arrangements and how the arrangement's consideration should be allocated to each unit of accounting. We adopted this accounting standard on a prospective basis for all multiple-element arrangements entered into on or after July 1, 2010 and will apply this standard to any multiple-element arrangements that were entered into prior to July 1, 2010 that are materially modified on or after July 1, 2010. The adoption of this standard may result in revenue recognition patterns for future agreements that are materially different from those recognized for our past collaboration arrangements.

For our multiple element transactions entered into on or after July 1, 2010, we evaluate the deliverables to determine if they have stand-alone value and we allocate revenue to the elements based on their relative selling prices. We treat deliverables in an arrangement that do not meet the separation criteria in this standard as a single unit of accounting, generally applying applicable revenue recognition guidance for the final deliverable to the combined unit of accounting. Since the adoption of this standard, we have entered into one agreement with multiple-elements. We have had no material modifications to arrangements that were entered into prior to July 1, 2010. For our multiple element transactions entered into before July 1, 2010, we recognize revenue

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from non-refundable upfront payments and license fees on a straight-line basis over the term of the performance period of the agreement. If the performance period is not specifically identifiable from the agreement, we estimate the performance period based upon provisions contained in the agreement such as the duration of the research or development term, the existence or likelihood of achievement of development commitments and any other significant commitments.

For agreements entered into prior to July 1, 2010, the performance period is generally the estimated research or development term. For agreements entered into after this date, the performance period for upfront license fees may be shorter because the performance period, measured as the time between the execution date and the completion of the inseparable technology transfer, is typically a shorter period, generally up to six months.

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We defer the upfront development payments and record them as Deferred Revenue upon receipt, pending recognition. The deferred portion of these payments is classified as a short-term or long-term liability in the accompanying Condensed Balance Sheets, depending on the period over which revenue is expected to be recognized.

**Long-term Debt and Embedded Derivatives**

The terms of our long-term debt are discussed in detail in *Note 5 Long-term Debt* to the financial statements in this Quarterly Report on Form 10-Q and in *Note 8 Long-Term Debt* to the financial statements in our Annual Report on Form 10-K for the fiscal year ended June 30, 2011 as filed with the SEC on August 12, 2011. The accounting for these arrangements is complex and is based upon significant estimates by management. We review all debt agreements to determine the appropriate accounting treatment when the agreement is entered into and review all amendments to determine if the changes require accounting for the amendment as a modification of the debt, or as an extinguishment and issuance of new debt.

We currently have two embedded derivatives related to our long-term debt with Deerfield, which we collectively refer to as the Embedded Derivatives, consisting of (1) a variable interest rate structure that is based on our available cash, cash equivalents and marketable securities and (2) Deerfield's right to accelerate the loan upon certain changes of control of Array, which is considered a significant transaction contingent put option.

The estimated fair value of the Embedded Derivatives was determined based on management's judgment and assumptions and the use of different assumptions could result in significantly different estimated fair values. For example, the value of the Embedded Derivatives as of March 31, 2012 of \$733 thousand is based on the assumption that our total cash and marketable securities balance could fall to between \$40 million and \$50 million as of the end of ten months out of the remaining 54 months of the facility. If conditions and the resulting assumptions were to change such that it was assumed that the total cash and marketable securities balance could fall to between \$40 million and \$50 million as of the end of a total of 30 months out of the remaining 54 months of the facility, the average effective interest rate would increase to 8.1%. This change would cause the Embedded Derivative value to increase by approximately \$830 thousand and would result in a charge of the same amount to the Statement of Operations and Comprehensive Loss. Further, if conditions and the resulting assumptions were to change such that it was assumed that our total cash and marketable securities balance could fall to between \$40 million and \$50 million as of the end of a total of the same 30 months and also fall further to between \$30 and \$40 million as of the end of a total of eight additional months, the effective interest rate would increase to 8.7%. This change would cause the embedded derivative value to increase by \$2.1 million from the current level and would result in a charge of the same amount to the Statement of Operations and Comprehensive Loss.

**Recent Accounting Pronouncements**

In May 2011, the Financial Accounting Standards Board (FASB) issued FASB ASU No. 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS*. This ASU provides a consistent definition of fair value between U.S. GAAP and International Financial Reporting Standards. Additionally, the ASU changes certain fair value measurement principles and expands the disclosures for fair value measurements. ASU 2011-04 is effective for interim and annual periods beginning after December 15, 2011 and is to be applied prospectively. We adopted this disclosure standard in the third quarter of fiscal 2012 and adoption of this standard did not have a material impact on our financial condition or results of operations.



In June 2011, the FASB issued FASB ASU No. 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income in U.S. GAAP and IFRS*. This ASU provides companies the option to present the components of net income and other comprehensive income either as one continuous statement of comprehensive income or as two separate but consecutive statements. It eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity. The provisions of this new guidance are effective for fiscal years, and interim periods.

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within those years, beginning after December 15, 2011. The adoption of this new guidance will not impact our financial position, results of operations or cash flows.

Other recent accounting pronouncements issued by the FASB (including its Emerging Issues Task Force) and the Securities Exchange Commission did not or are not believed by management to have a material impact on our present or future financial statements.

**Results of Operations*****License and Milestone Revenue***

License and Milestone Revenue is combined and consists of upfront license fees and ongoing milestone payments from collaborators.

Below is a summary of our license and milestone revenue (dollars in thousands):

	Three Months Ended		Change 2012 vs. 2011		Nine Months		Change 2012 vs. 2011	
	2012	March 31, 2011	\$	%	Ended March 31, 2012	2011	\$	%
License revenue	\$ 12,589	\$ 10,225	2,364	23%	43,485	32,319	11,166	35%
Milestone revenue	3,381	3,682	(301)	-8%	10,142	5,512	4,630	84%
Total revenue	\$ 15,970	\$ 13,907	\$ 2,063	15%	\$ 53,627	\$ 37,831	\$ 15,796	42%

License revenue increased \$2.4 million, or 23%, for the current quarter compared to the same period last year. During the current quarter and year to date, we recognized \$5.2 million and \$20.3 million, respectively, under the August 2011 Chk-1 license agreement with Genentech. These increases were partially offset by less revenue recognized under the Celgene collaboration due to our revised estimate of the remaining performance period effective October 1, 2011 as discussed in *Note 4 Deferred Revenue* to the accompanying Condensed Financial Statements.

Milestone Revenue increased for the current quarter and year to date compared to the same periods last year due to recognition of milestone payments during those periods from Celgene and Genentech that exceeded milestone payments recognized during the comparable periods in fiscal 2011 and the accelerated recognition of Celgene milestone revenue as discussed in *Note 4 Deferred Revenue* to the accompanying Condensed Financial Statements. These increases were partially offset by reduced milestone revenue from our collaboration with Novartis in fiscal 2012 compared to fiscal 2011.

**Collaboration Revenue**

Collaboration Revenue consists of revenue for our performance of drug discovery and development activities in collaboration with partners, which include co-development of proprietary drug candidates we out-license as well as screening, lead generation and lead optimization research, custom synthesis and process research and to a small degree the development and sale of chemical compounds.

Below is a summary of our collaboration revenue (dollars in thousands):

	<b>Three Months Ended</b>		<b>Change 2012 vs. 2011</b>		<b>Nine Months</b>		<b>Change 2012 vs. 2011</b>	
	<b>2012</b>	<b>March 31, 2011</b>	<b>\$</b>	<b>%</b>	<b>2012</b>	<b>2011</b>	<b>\$</b>	<b>%</b>
Collaboration revenue	\$ 3,143	\$ 3,934	\$ (791)	-20%	\$ 10,844	\$15,024	\$ (4,180)	-28%

Collaboration revenue decreased in the current quarter and year to date compared to the same periods last year due to having fewer scientists engaged on the Genentech program, the completion of funded discovery

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research under our collaboration with Amgen, as well as less revenue from Amgen and Novartis for reimbursed development activities. These decreases were partially offset by revenue recognized under a new collaboration with DNA BioPharma and additional funded research under our collaboration with Celgene during the current quarter.

**Cost of Revenue**

Cost of Revenue represents costs attributable to discovery and development including preclinical and clinical trials we may conduct for our collaborators and the cost of chemical compounds sold from our inventory. These costs consist mainly of compensation, associated fringe benefits, share-based compensation, preclinical and clinical outsourcing costs and other collaboration related costs, including supplies, small tools, travel and meals, facilities, depreciation, recruiting and relocation costs and other direct and indirect chemical handling and laboratory support costs.

Below is a summary of our Cost of Revenue (dollars in thousands):

	Three Months Ended		Change 2012 vs. 2011		Nine Months		Change 2012 vs. 2011	
	2012	2011	\$	%	2012	2011	\$	%
Cost of revenue	\$ 5,291	\$ 6,617	\$ (1,326)	-20%	\$ 18,002	\$ 21,281	\$ (3,279)	-15%
Cost of revenue as a percentage of total revenue	28%	37%			28%	40%		

Cost of Revenue decreased for both the current quarter and year to date compared to the same periods in the prior year. The decrease was partially due to the progression of our partnered program with Amgen to develop AMG 151/ARRY-403. We completed our obligations for the program during the first half of fiscal 2011 and therefore have no comparable costs in the current period. Additionally, during the current quarter and year to date we incurred fewer costs under our agreement with Celgene and had fewer scientists engaged on our collaboration with Genentech compared to the prior year. Partially offsetting these decreased costs was an increase in our share of the costs to co-develop MEK162 with Novartis.

Cost of Revenue as a percentage of total revenue for the three and nine months ended March 31, 2012 decreased because of increased License and Milestone Revenue recognized during the period, as well as a reduction in total costs.

**Research and Development for Proprietary Programs**

Our Research and Development Expenses for Proprietary Drug Discovery include costs associated with our proprietary drug programs for scientific and clinical personnel, supplies, inventory, equipment, small tools, travel and meals, depreciation, consultants, sponsored research, allocated facility costs, costs related to preclinical and clinical trials and share-based compensation. We manage our proprietary programs based on scientific data and achievement of research plan goals. Our scientists record their time to specific projects when possible; however, many activities simultaneously benefit multiple projects and

cannot be readily attributed to a specific project. Accordingly, the accurate assignment of time and costs to a specific project is difficult and may not give a true indication of the actual costs of a particular project. As a result, we do not report costs on a program basis.

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Below is a summary of our research and development expenses by categories of costs for the periods presented (dollars in thousands):

	<b>Three Months Ended</b>		<b>Change 2012 vs. 2011</b>		<b>Nine Months</b>		<b>Change 2012 vs. 2011</b>	
	<b>2012</b>	<b>March 31, 2011</b>	<b>\$</b>	<b>%</b>	<b>2012</b>	<b>2011</b>	<b>\$</b>	<b>%</b>
Salaries, benefits and share-based compensation	\$ 6,002	\$ 7,184	\$ (1,182)	-16%	\$ 16,600	\$ 20,373	\$ (3,773)	-19%
Outsourced services and consulting	5,944	3,739	2,205	59%	13,255	9,548	3,707	39%
Laboratory supplies	1,742	2,435	(693)	-28%	4,864	7,028	(2,164)	-31%
Facilities and depreciation	2,043	2,154	(111)	-5%	6,055	6,155	(100)	-2%
Other	363	371	(8)	-2%	1,068	1,115	(47)	-4%
Total research and development for proprietary programs	\$ 16,094	\$ 15,883	\$ 211	1%	\$ 41,842	\$ 44,219	\$ (2,377)	-5%

Research and Development for Proprietary Programs decreased for the current quarter and year to date compared to the same periods in the prior year because we shifted development costs incurred for our Chk-1 inhibitor GDC-0575 (ARRY-575) and our HER2/EGFR inhibitor for cancer ASLAN001/(ARRY-543) to Cost of Revenue when these programs were licensed to Genentech and ASLAN, respectively, during fiscal 2012. In addition, we spent a limited amount on these programs while the technology transfer was ongoing. Compensation-related expenses also decreased as a result of our reduction in force in June 2011.

### **General and Administrative Expenses**

General and Administrative Expenses consist mainly of compensation and associated fringe benefits not included in Cost of Revenue or Research and Development Expenses for Proprietary Drug Discovery and include other management, business development, accounting, information technology and administration costs, including patent filing and prosecution, recruiting and relocation, consulting and professional services, travel and meals, sales commissions, facilities, depreciation and other office expenses.

Below is a summary of our General and Administrative Expenses (dollars in thousands):

	<b>Three Months Ended</b>		<b>Change 2012 vs. 2011</b>		<b>Nine Months</b>		<b>Change 2012 vs. 2011</b>	
	<b>2012</b>	<b>March 31, 2011</b>	<b>\$</b>	<b>%</b>	<b>2012</b>	<b>2011</b>	<b>\$</b>	<b>%</b>
General and administrative	\$ 3,226	\$ 3,795	\$ (569)	-15%	\$ 10,728	\$ 11,969	\$ (1,241)	-10%

General and administrative expenses decreased during the three and nine months ended March 31, 2012 compared to the same periods in the prior year. The decreases were primarily the result of reduced compensation related expenses related to our reduction in force in June 2011 and reduced costs incurred during the periods to obtain and protect our patents.

**Other Income (Expense)**

Below is a summary of our Other Income (Expense) (dollars in thousands):

	Three Months Ended March 31,		Change 2012 vs. 2011		Nine Months Ended March 31,		Change 2012 vs. 2011	
	2012	2011	\$	%	2012	2011	\$	%
Realized gains on auction rate securities, net	\$ -	\$ 1,093	\$ (1,093)	-100%	\$ -	\$ 1,891	\$ (1,891)	-100%
Interest income	8	31	(23)	-74%	17	391	(374)	-96%
Interest expense	(2,678)	(4,172)	1,494	-36%	(9,470)	(12,240)	2,770	-23%
Total other expense, net	\$ (2,670)	\$ (3,048)	\$ 378	-12%	\$ (9,453)	\$ (9,958)	\$ 505	-5%

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Below is a summary of the components of Interest Expense under our credit facilities with Deerfield and our term loan with Comerica Bank (dollars in thousands):

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2012	2011	2012	2011
<b>Credit Facilities:</b>				
Simple interest	\$ 1,608	\$ 2,250	\$ 4,883	\$ 6,750
Amortization of the transaction fees	58	140	181	426
Amortization of the debt discounts	864	1,668	2,823	4,976
Loss on early principal payment of debt	-	-	942	-
Change in value of the Embedded Derivatives	(1)	(32)	192	(364)
Total interest expense on Deerfield Credit Facility	2,529	4,026	9,021	11,788
<b>Term Loan:</b>				
Simple interest and amortization of transaction fees	149	146	449	452
Total interest expense on Comerica Loan	149	146	449	452
<b>Total interest expense</b>	<b>\$ 2,678</b>	<b>\$ 4,172</b>	<b>\$ 9,470</b>	<b>\$ 12,240</b>

Interest expense was lower in the third quarter of fiscal 2012 compared with the same period in fiscal 2011 as a result of reduced interest paid on the Deerfield credit facilities following the \$30 million reduction of principal in May 2011, and the additional principal payment of \$4.2 million in October 2011.

Interest income was lower for the quarter and year-to-date because of lower average cash balances available to invest.

**Liquidity and Capital Resources**

We have incurred operating losses and have an accumulated deficit as a result of ongoing research and development spending. As of March 31, 2012, we had an accumulated deficit of \$562.7 million. We had net losses of \$8.2 million for the quarter and \$15.6 million for the nine months ended March 31, 2012. We had net losses of \$56.3 million, \$77.6 million and \$127.8 million for the fiscal years ended June 30, 2011, 2010 and 2009, respectively.

During the first nine months of fiscal 2012, our net cash used in operations was \$23.6 million. We have historically funded our operations from upfront fees, license and milestone revenue received under collaborations and out-licensing transactions; from the issuance and sale of equity securities; and through debt provided by our credit facilities. In February 2012, we received approximately \$56.1 million, after underwriting discounts and commissions and related offering expenses, in a public offering of our Common Stock. Since December 2009, we have received approximately \$165.5 million under our collaborations, including the following payments:



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- In December 2009, we received a \$60 million upfront payment from Amgen Inc. under a Collaboration and License Agreement.
- In May and June 2010, we received a total of \$45 million in upfront and milestone payments under a License Agreement with Novartis Pharmaceutical International Ltd.
- In December 2010, we received \$10 million in a milestone payment under a License Agreement with Celgene Corporation.
- In May 2011, we received \$10 million in a milestone payment under a License Agreement with Novartis.

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- In September 2011, we received \$28 million in an upfront payment from Genentech under a License Agreement.

Until we can generate sufficient levels of cash from operations, which we do not expect to achieve in the foreseeable future, we will continue to utilize existing cash, cash equivalents and marketable securities, and will continue to depend on funds provided from the sources mentioned above, which may not be available or forthcoming.

Management believes that the cash, cash equivalents and marketable securities as of March 31, 2012, as well as milestone payments that we expect to receive from existing collaborations in the remainder of fiscal 2012, will enable us to continue to fund operations in the normal course of business for at least the next 12 months. Because sufficient funds may not be available to us when needed from existing collaborations, we expect that we will be required to continue to fund our operations in part through the sale of debt or equity securities and through licensing select programs that include upfront and/or milestone payments.

Our ability to successfully raise sufficient funds through the sale of debt or equity securities when needed is subject to many risks and uncertainties and, even if we are successful, future equity issuances would result in dilution to our existing stockholders. We also may not successfully consummate new collaborations that provide for additional upfront fees or milestone payments, or we may not earn milestone payments under such collaborations, when anticipated or at all.

Our ability to realize milestone or royalty payments under existing collaboration agreements and to enter into new partnering arrangements that generate additional revenue through upfront fees and milestone or royalty payments is subject to a number of risks, many of which are beyond our control and include the following:

- The drug development process is risky and highly uncertain and we may not be successful in generating proof-of-concept data to create partnering opportunities and, even if we are, we or our collaborators may not be successful in commercializing drug candidates we create;
- Our collaborators have substantial control and discretion over the timing and continued development and marketing of drug candidates we create and, therefore, we may not receive milestone, royalty or other payments when anticipated or at all;
- The drug candidates we develop may not obtain regulatory approval;
- If regulatory approval is received, drugs we develop will remain subject to regulation or may not gain market acceptance, which could delay or prevent us from generating milestone, royalty revenue or product revenue from the commercialization of these drugs; and

- The spending priorities and willingness of pharmaceutical companies to in-license drugs for further development and commercialization may change or decrease.

If we are unable to obtain additional funding from these or other sources when needed, or to the extent needed, it may be necessary to significantly reduce the current rate of spending through further reductions in staff and delaying, scaling back, or stopping certain research and development programs, including more costly Phase 2 and Phase 3 clinical trials on our wholly-owned programs as these programs progress into later stage development. Insufficient liquidity may also require us to relinquish greater rights to product candidates at an earlier stage of development or on less favorable terms to us or our stockholders than we would otherwise choose in order to obtain upfront license fees needed to fund operations. These events could prevent us from successfully executing on our operating plan and in the future could raise substantial doubt about our ability to continue as a going concern in future periods. Further, as discussed in Note 5 *Long-term Debt*, the entire debt balance of \$92.6 million outstanding with Deerfield becomes due and payable if cash, cash equivalents and marketable securities falls below \$20 million at the end of a fiscal quarter.

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Our assessment of our future need for funding is a forward-looking statement that is based on assumptions that may prove to be wrong and that involve substantial risks and uncertainties. Our actual future capital requirements could vary as a result of a number of factors, including:

- Our ability to enter into agreements to out-license, co-develop or commercialize our proprietary drug candidates and the timing of payments under those agreements throughout each candidate's development stage;
- The number and scope of our research and development programs;
- The progress and success of our preclinical and clinical development activities;
- The progress and success of the development efforts of our collaborators;
- Our ability to maintain current collaboration agreements;
- The costs involved in enforcing patent claims and other intellectual property rights;
- The costs and timing of regulatory approvals; and/or
- The expenses associated with unforeseen litigation, regulatory changes, competition and technological developments, general economic and market conditions and the extent to which we acquire or invest in other businesses, products and technologies.

***Cash, Cash Equivalents and Marketable Securities***

Cash equivalents are short-term, highly liquid financial instruments that are readily convertible to cash and have maturities of 90 days or less from the date of purchase.

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Short-term marketable securities consist primarily of U.S. government agency obligations with maturities of greater than 90 days when purchased. Long-term marketable securities as of March 31, 2012 are primarily related to our Deferred Compensation Plan.

Below is a summary of our cash, cash equivalents and marketable securities (dollars in thousands):

	<b>March 31, 2012</b>	<b>June 30, 2011</b>	<b>\$ Change</b>
Cash and cash equivalents	\$ 63,025	\$ 48,099	\$ 14,926
Marketable securities - short-term	36,411	15,986	20,425
Marketable securities - long-term	423	623	(200)
Total	\$ 99,859	\$ 64,708	\$ 35,151

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Below is a summary of our cash flows (dollars in thousands):

	<b>Nine Months Ended March 31,</b>		
	<b>2012</b>	<b>2011</b>	<b>\$ Change</b>
Cash flows provided by (used in):			
Operating activities	\$ (23,568)	\$ (54,172)	\$ 30,604
Investing activities	(21,349)	52,803	(74,152)
Financing activities	59,843	5,877	53,966
Total	\$ 14,926	\$ 4,508	\$ 10,418

Net cash used in operating activities for the nine months ended March 31, 2012 decreased \$30.6 million over the same period in the prior year. This was primarily due to the \$28.0 million upfront license fee we received from Genentech in September 2011. There was no similar payment during the corresponding period in fiscal 2011.

Net cash used in investing activities was \$21.3 million compared to net cash provided by investing activities of \$52.8 million in the nine months ended March 31, 2012 and 2011, respectively. The increased use of approximately \$74.2 million is because we did not purchase additional marketable securities upon the maturity of the securities we held. As a result, cash flows provided by investing activities reflected mostly cash received upon the maturities of fewer marketable securities.

Net cash provided by financing activities was \$59.8 million and \$5.9 million in the nine months ended March 31, 2012 and 2011, respectively. The difference between the periods is primarily attributable to \$56.1 million net proceeds received for the sale of 23 million shares of our common stock in a public offering during February 2012 and \$7.0 million received for the sale of 2.9 million shares of our common stock under our Equity Distribution Agreement with Piper Jaffray & Co during the current fiscal year as discussed in *Note 7 Equity Distribution Agreement*. This increase in net cash provided by financing activities was reduced by the \$4.2 million payment of principal under the Deerfield credit facilities.

**Obligations and Commitments**

The following table shows our contractual obligations and commitments as of March 31, 2012 (dollars in thousands):

<b>Less Than 1 Year</b>	<b>1 to 3 Years</b>	<b>4 to 5 Years</b>	<b>Over 5 Years</b>	<b>Total</b>
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Debt obligations (1)	\$	150	\$	14,700	\$	92,562	\$	-	\$	107,412
Interest on debt obligations (3) (4)		6,913		13,149		3,109		-		23,171
Operating lease commitments (2)		8,148		16,466		10,687		-		35,301
Purchase obligations (2)		16,622		1,903		-		-		18,525
Total	\$	31,833	\$	46,218	\$	106,358	\$	-	\$	184,409

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- (1) Reflected in the accompanying Condensed Balance Sheets.
- (2) These obligations are not reflected in the accompanying Condensed Balance Sheets.
- (3) Interest on the variable debt obligations under the term loan with Comerica Bank is calculated at 3.25%, the interest rate in effect as of March 31, 2012.
- (4) Interest on the variable debt obligation under the credit facilities with Deerfield is calculated at 7.5%, the interest rate in effect as of March 31, 2012.

We are obligated under non-cancelable operating leases for all of our facilities and to a limited degree, equipment leases. Original lease terms for our facilities in effect as of March 31, 2012 were five to ten years and generally require us to pay the real estate taxes, certain insurance and other operating costs. Equipment lease terms generally range from three to five years.

Purchase obligations totaling \$16.0 million are for outsourced services for clinical trials and other research and development costs. Purchase obligations totaling \$740 thousand are for software related expenses. The remaining \$1.8 million is for all other purchase commitments.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Market risk represents the risk of loss that may impact our financial position, results of operations or cash flows due to adverse changes in financial and commodity market prices and fluctuations in interest rates. All of our collaboration agreements and nearly all purchase orders are denominated in U.S. dollars. As a result, historically and as of March 31, 2012, we have had little or no exposure to market risk from changes in foreign currency or exchange rates.

Our investment portfolio is comprised primarily of readily marketable, high-quality securities diversified and structured to minimize market risks. We target our average portfolio maturity at one year or less. Our exposure to market risk for changes in interest rates relates primarily to our investments in marketable securities. Marketable securities held in our investment portfolio are subject to changes in market value in response to changes in interest rates and liquidity. A significant change in market interest rates could have a material impact on interest income earned from our investment portfolio. A theoretical 100 basis point (1%) change in interest rates and security prices would impact our annual net loss positively or negatively by approximately \$999 thousand based on the current balance of \$99.9 million of investments classified as cash and cash equivalents and short-term and long-term marketable securities available for sale.

As of March 31, 2012, we had \$107.4 million of debt outstanding, exclusive of the debt discount of \$16.4 million. The term loan with Comerica Bank of \$14.9 million is variable rate debt. Assuming constant debt levels, a theoretical change of 100 basis points (1%) on our current interest rate of 3.25% on the Comerica debt as of March 31, 2012 would result in a change in our annual interest expense of \$149 thousand. The interest rate on our long-term debt under the credit facilities with Deerfield is variable based on our total cash, cash equivalents and marketable securities balances. However, as long as our total cash, cash equivalents and marketable securities balances remain above \$50 million, our interest rate is fixed at 7.5%. Assuming constant debt levels, a



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theoretical change of 100 basis points on our current rate of interest of 7.5% on the Deerfield credit facilities as of March 31, 2012 would result in a change in our annual interest expense of \$926 thousand.

Historically and as of March 31, 2012, we have not used foreign currency derivative instruments or engaged in hedging activities.

### **ITEM 4. CONTROLS AND PROCEDURES**

#### **Evaluation of Disclosure Controls and Procedures**

Under the supervision and with the participation of our Chief Executive Officer, Chief Financial Officer and other senior management personnel, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q (as defined

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in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934). Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures as of March 31, 2012 were effective to provide a reasonable level of assurance that the information we are required to disclose in reports that we submit or file under the Securities Act of 1934 (i) is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms; and (ii) 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. Our disclosure controls and procedures are designed to provide reasonable assurance that such information is accumulated and communicated to management. Our disclosure controls and procedures include components of our internal control over financial reporting. Management's assessment of the effectiveness of our disclosure controls and procedures is expressed at a reasonable level of assurance because an internal control system, no matter how well designed and operated, can provide only reasonable, but not absolute, assurance that the internal control system's objectives will be met.

**Changes in Internal Control over Financial Reporting**

There were no changes in our internal control over financial reporting during the quarter ended March 31, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II. OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

None

**ITEM 1A. RISK FACTORS**

Investing in our common stock is subject to a number of risks and uncertainties. You should carefully consider the risk factors described under the heading "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended June 30, 2011 and in other reports we file with the Securities and Exchange Commission. There have been no changes to the risk factors described in our Annual Report on Form 10-K during the third quarter of fiscal 2012 that we believe are material. Additional risks and uncertainties not presently known to us or that we currently believe are immaterial also may negatively impact our business.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

None

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None

**ITEM 4. MINE SAFETY DISCLOSURES**

Not Applicable

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**ITEM 5. OTHER INFORMATION**

None

**ITEM 6. EXHIBITS**

<b><u>Exhibit Number</u></b>	<b><u>Description of Exhibit</u></b>
10.1*	Second Amendment to Drug Discovery and Development Agreement, effective as of January 8, 2012 by and between Celgene Corporation and Array BioPharma Inc.
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended.
32.1	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
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 Extension Presentation Linkbase Document**
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document**

\* Confidential treatment of redacted portions has been applied for.

\*\* Furnished electronically with this report.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Boulder, State of Colorado, on this 3rd day of May 2012.

ARRAY BIOPHARMA INC.

By: /s/ R. Michael Carruthers  
R. Michael Carruthers  
*Chief Financial Officer*  
*(Principal Financial and*  
*Accounting Officer and Duly Authorized Officer)*