ARRAY BIOPHARMA INC
Form 10-K
August 15, 2014

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K
[ü] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended June 30, 2014
or
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number: 001-16633

Array BioPharma Inc.
(Exact name of registrant as specified in its charter)

Delaware	84-1460811
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
3200 Walnut Street, Boulder, CO	80301
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (303) 381-6600

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

Title of each class	Name of each exchange on which registered
Common Stock, par value $0.001 per share	The NASDAQ Stock Market LLC (NASDAQ Global Market)

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ¨ Yes þ No
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. ¨ Yes þ No
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. þ Yes ¨ No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). þ Yes ¨ No
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ
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 þ	Non-Accelerated Filer ¨ (do not check if smaller reporting company)	Smaller Reporting Company ¨

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

The aggregate market value of the voting common equity held by non-affiliates of the registrant as of December 31, 2013, was $616,083,027, based on the closing sale price of the registrant's common stock as reported on the NASDAQ Global Market on such date. Shares of the registrant's common stock held by each executive officer and director have been excluded for purposes of this calculation. This number is provided only for purposes of this Annual Report on Form 10-K and does not represent an admission that any particular person or entity is an affiliate of the registrant.

As of July 31, 2014, the registrant had 131,822,939 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the Registrant's 2014 Annual Meeting of Stockholders are incorporated by reference into Part III of this Annual Report on Form 10-K.

ARRAY BIOPHARMA INC.
ANNUAL REPORT ON FORM 10-K
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PART I

Array BioPharma Inc. and the Array BioPharma Inc. logo are trademarks of Array BioPharma Inc. All other brand names or trademarks appearing in this report are the property of their respective holders. Unless the context requires otherwise, references in this report to "Array," "we," "us," and "our" refer to Array BioPharma Inc.

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 2014 refers to the fiscal year ended June 30, 2014.

FORWARD-LOOKING STATEMENTS

This Annual Report filed on Form 10-K and other documents we file with the Securities and Exchange Commission, or SEC, contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that involve significant risks and uncertainties. In addition, we may make forward-looking statements in our press releases or in other oral or written communications with the public. These forward-looking statements include, but are not limited to, statements concerning the future drug development plans and projected timelines for the initiation and completion of preclinical and clinical trials by Array or our partners; the potential for the results of ongoing preclinical or clinical trials conducted by Array or our partners to support regulatory approval or the marketing success of drug candidates; our plans with respect to the timing and scope of the expansion of our clinical and commercialization capabilities; other statements regarding our future product development and regulatory strategies, including with respect to specific indications; the ability of third-party contract manufacturing parties to support our drug development activities; any statements regarding our future financial performance, results of operations or sufficiency of capital resources to fund our operating requirements; and any other statements which are other than statements of historical fact.

Although we believe the assumptions upon which our forward-looking statements are based currently are reasonable, our actual results could differ materially from those anticipated in these forward-looking statements as a result of many factors. These factors include, but are not limited to, our ability to continue to fund and successfully progress internal research and development efforts and to create effective, commercially-viable drugs; our ability to effectively and timely conduct clinical trials in light of increasing costs and difficulties in locating appropriate trial sites and in enrolling patients who meet the criteria for certain clinical trials; the extent to which the pharmaceutical and biotechnology industries are willing to in-license drug candidates for their product pipelines and to collaborate with and fund third parties on their drug discovery activities; our ability to out-license our proprietary candidates on favorable terms; risks associated with our dependence on our partners for the clinical development and commercialization of our out-licensed drug candidates; the ability of our partners and of Array to meet objectives tied to milestones and royalties; our ability to attract and retain experienced scientists and management; our ability to achieve and maintain profitability; and the risk factors set forth below under the caption "Item 1A. Risk Factors." We are providing this information as of the date of this report. We undertake no duty to update any forward-looking statements to reflect the occurrence of events or circumstances after the date of such statements or of anticipated or unanticipated events that alter any assumptions underlying such statements.

Market and Industry Data

Unless otherwise indicated, information contained or incorporated by reference in this Annual Report on Form 10 K concerning the cancer market, the asthma market, the drug market and our other markets, including our general expectations and market position, market opportunity and market share, is based on information from independent industry analysts and third-party sources and management estimates. Management estimates are derived from publicly-available information released by independent industry analysts and third-party sources, as well as data from

our internal research, and are based on assumptions made by us based on such data and our knowledge of such industry and markets, which we believe to be reasonable.

We have not independently verified or verified with any independent source any third-party information and cannot assure you of its accuracy or completeness. In addition, while we believe the market position, market opportunity and market share information included in this Annual Report on Form 10-K is generally reliable, such

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information is inherently imprecise. Such data involves risks and uncertainties and is subject to change based on various factors, including those discussed under the heading "Item 1A. Risk Factors."

ITEM 1. BUSINESS

Our Business

Array is a biopharmaceutical company focused on the discovery, development and commercialization of targeted small molecule drugs to treat patients afflicted with cancer. Seven Phase 3 studies are in progress, or are planned to begin this year. These programs include the wholly-owned hematology drug, filanesib (ARRY-520) for multiple myeloma, or MM, and two partnered cancer drugs, selumetinib, partnered with AstraZeneca, and binimetinib (MEK162), partnered with Novartis.

Our most advanced wholly-owned clinical stage drugs include:

	Proprietary Program	Indication	Clinical Status
1.	Filanesib	Kinesin spindle protein, or KSP, inhibitor for MM	Phase 2
2.	ARRY-797	p38 inhibitor for Lamin A/C-related dilated cardiomyopathy, or LMNA-DCM	Phase 2
3.	ARRY-502	CRTh2 antagonist for asthma	Phase 2
4.	ARRY-614	p38/Tie2 dual inhibitor for myelodysplastic syndromes, or MDS	Phase 1

With our progress on filanesib for MM we believe hematology/oncology is the area of greatest opportunity for Array and where we intend to concentrate our resources and build on our capabilities in fiscal 2015 and beyond. We continue to progress select other programs, however, and initiated a Phase 2 trial with ARRY-797 in a rare cardiovascular disease based on scientific rationale, in vivo data and a single-patient investigational new drug, or IND, application. We are seeking a partner to advance our asthma program for ARRY-502 and, as we announced in August 2014, we have no plans to invest internally at this time in ARRY-614.

In addition, we have 11 ongoing partner-funded clinical programs, including two MEK inhibitors, which are both in Phase 3 clinical trials, binimetinib with Novartis and selumetinib with AstraZeneca:

	Drug Candidate	Indication	Partner	Clinical Status
1.	Binimetinib	MEK inhibitor for cancer	Novartis International Pharmaceutical Ltd.	Phase 3
2.	Selumetinib	MEK inhibitor for cancer	AstraZeneca, PLC	Phase 3
3.	ASLAN001/ARRY-543	HER2 / EGFR inhibitor for gastric cancer	ASLAN Pharmaceuticals Pte Ltd.	Phase 2
4.	Ipatasertib/GDC-0068	AKT inhibitor for cancer	Genentech, Inc.	Phase 2
5.	VTX-2337	Toll-like receptor for cancer	VentiRx Pharmaceuticals, Inc.	Phase 2
6.	Danoprevir	Hepatitis C virus protease inhibitor	InterMune (danoprevir now owned by Roche Holding AG)	Phase 2
7.	LY2606368	Chk-1 inhibitor for cancer	Eli Lilly and Company	Phase 2
8.	GDC-0575	Chk-1 inhibitor for cancer	Genentech, Inc.	Phase 1b
9.	ARRY-380/ONT-380	HER2 inhibitor for breast cancer	Oncothyreon Inc.	Phase 1b
10.	GDC-0994	ERK inhibitor for cancer	Genentech, Inc.	Phase 1
11.	LOXO-101	PanTrk inhibitor for cancer	Loxo Oncology, Inc.	Phase 1

We also have a portfolio of proprietary and partnered preclinical drug discovery programs, including inhibitors that target Trk receptors for the treatment of oncology and other indications. Our most significant discovery collaborations are with Celgene Corporation (inflammation program), Loxo (oncology program/LOXO-101) and

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Biogen Idec (auto-immune disorder program). We may out-license other select promising candidates through research collaborations in the future.

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.

Our significant clinical stage partners include:

- ASLAN – We entered into a Collaboration and License Agreement with ASLAN in July 2011 to develop Array's HER2 / EGFR inhibitor, ASLAN001/ARRY-543, which is currently in a Phase 2 clinical trial in patients with gastric cancer.
- 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 numerous clinical trials, including three Phase 3 trials.
- Genentech – We entered into a worldwide strategic Drug Discovery Collaboration Agreement with Genentech in January 2003, which was expanded in 2005, 2008, and 2009, and is focused on the discovery, development and commercialization of novel therapeutics. The most advanced drugs are ipatasertib/GDC-0068, an AKT inhibitor for cancer, which is currently in Phase 2 and GDC-0994, an ERK inhibitor for cancer, which is currently in Phase 1. We also entered into a License Agreement with Genentech in August 2011 for the development of each company's small-molecule Chk-1 program in oncology. The program included Genentech's compound GDC-0425 (RG7602) and Array's compound GDC-0575 (previously known as ARRY-575). Genentech selected GDC-0575 to advance into further clinical trials in patients with cancer.
- InterMune (program acquired by Roche) – We entered into a Drug Discovery Collaboration Agreement 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 Holding AG acquired danoprevir from InterMune in 2010. Danoprevir is currently in Phase 2 clinical trials.
- Novartis – We entered into a License Agreement with Novartis in April 2010 for the worldwide development and commercialization of our MEK inhibitor, binimetinib, and other MEK inhibitors identified in the agreement. Binimetinib is currently in numerous clinical trials, including three Phase 3 trials in patients with cancer.
- Oncothyreon – We entered into a Development and Commercialization Agreement with Oncothyreon in May 2013 to collaborate on the development and commercialization of ARRY-380, an orally active, reversible and selective small-molecule HER2 inhibitor, for the treatment of cancer, including breast cancer. Oncothyreon is continuing development of ARRY-380 in a defined set of proof-of-concept trials in patients with metastatic breast cancer, including patients with brain metastases.
- Loxo – We entered into a Drug Discovery Collaboration Agreement with Loxo in July 2013 and granted Loxo exclusive rights to develop and commercialize certain Array-invented compounds targeted at the tropomyosin kinase, or Trk, family of receptors, including LOXO-101, which is currently in a Phase 1 clinical trial.

- VentiRx – We entered into a Collaboration and License Agreement with VentiRx in February 2007 and granted VentiRx exclusive worldwide rights to certain molecules from our Toll-Like Receptor, or TLR, program, including VTX-2337, which is currently in Phase 2 clinical trials.

Business History

We have received a total of $636.2 million in research funding and in up-front and milestone payments from partners from inception through June 30, 2014, including $154 million in initial payments from strategic agreements with Amgen, Celgene, Genentech, Novartis and Oncothyreon that we entered into over the last five years. Our existing partnered programs entitle Array to receive a total of approximately $1.8 billion in additional milestone payments if we or our partners 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

licensing or commercialization from 12 partnered programs.

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Our Strategy

We are building a fully-integrated, commercial-stage biopharmaceutical company that discovers, develops and markets safe and effective small molecule drugs to treat patients afflicted with cancer. We intend to accomplish this through the following strategies:

- Invent targeted small molecule drugs that are either first-in-class or second generation drugs that have little or no competition, or demonstrate a competitive advantage over drugs currently on the market or in clinical development.
- Develop and commercialize our drugs to maximize their overall value. As our first drug nears approval, we plan to build a therapeutically-focused sales force to commercialize or co-promote drugs we wholly own, or for which we retain development rights in major geographic areas.
- Implement a partnering strategy in which we out-license drugs outside our therapeutic or geographic focus and partner select early-stage programs for continued research and development to receive research funding plus significant milestone payments and royalties.

Our out-license and collaboration agreements typically provide for up-front payments, research funding, success-based milestone payments, co-detailing rights and/or royalties on product sales. These agreements may also be structured to share in the proceeds received from a collaborator resulting from the further development or commercialization of resulting drugs.

Drug Discovery and Clinical Development Programs

We have collaborations with leading pharmaceutical and biotechnology companies under which we have out-licensed certain proprietary drug programs for further research, development and commercialization. Our largest or most advanced clinical stage collaborations currently include our agreements with ASLAN, AstraZeneca, Genentech, Loxo, InterMune/Roche, Novartis, Oncothyreon and VentiRx. Under some of these collaborations, such as with Novartis for binimetinib, we continue development work that is funded all or in part by our partners. Under some of our other partnered programs, our involvement in the development or research phase has ended, but we retain the right to receive clinical, regulatory and commercialization milestones and/or royalties on sales of any products covered by the collaboration. We also have research collaborations with leading pharmaceutical and biotechnology companies for which we design, create and optimize drug candidates and conduct preclinical testing across a broad range of therapeutic areas on targets selected by our partners. In certain of these collaborations, we also perform process research and development, perform clinical development and manufacture clinical supplies.

Information about our partners that comprise 10% or more of our total revenue and information about revenue we receive within and outside the U.S. can be found in Note 1 – Overview and Basis of Presentation – Concentration of Business Risks to the accompanying audited financial statements included elsewhere in this Annual Report on Form 10-K.

Proprietary Programs

Below is a description of our most advanced, wholly-owned clinical programs, their stage in the drug development process and our expected future development plans for fiscal 2015.

1. Filanesib — KSP Program for Multiple Myeloma

Filanesib is a highly selective, targeted KSP inhibitor with a mechanism of action distinct from currently available myeloma therapies such as immunomodulatory drugs, or IMiDs®, and proteasome inhibitors. Across multiple studies, filanesib has demonstrated activity in heavily pretreated MM patients, with a consistent safety profile including no drug-induced peripheral neuropathy and limited non-hematologic toxicity. Adverse events are generally limited to

transient, non-cumulative and predominantly asymptomatic myelosuppression (decreases in blood counts) when supportive measures are used. Alpha 1-acid glycoprotein, or AAG, a plasma protein, is a potential patient selection marker for filanesib. AAG is undergoing further investigation in pivotal trials and could represent the first patient selection marker for a myeloma therapy.

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Based on the strength of data from ongoing or completed clinical trials, and recent discussions with the U.S. Food and Drug Administration, or FDA, Array is developing filanesib in combination with the novel proteasome inhibitor Kyprolis® (carfilzomib). To support the potential approval of filanesib, our development plan includes three current or planned trials:

- The FACTOR trial, a planned global Phase 3 study comparing Kyprolis plus filanesib to Kyprolis alone in several hundred patients with relapsed/refractory multiple myeloma, or RRMM. The primary endpoint of the FACTOR trial will be progression-free survival, or PFS. To date, there are no successful drug combinations for Kyprolis in patients who have previously been treated with both Revlimid® (lenalidomide) and Velcade® (bortezomib).
- The AfFIRM trial, a global Phase 2 study that began in May 2014 with single-agent filanesib in 160 patients with RRMM. While the trial will enroll patients regardless of AAG status, the primary endpoint is objective response rate, or ORR, in patients with low AAG levels at baseline. The AfFIRM trial is also designed to support future regulatory submissions and validation of AAG as a patient selection marker and will include important safety and pharmacological data.
- The ARRAY-520-216 trial, a randomized Phase 2 trial that began in November 2013 comparing Kyprolis plus filanesib versus Kyprolis alone in 75 RRMM patients. The primary endpoint is PFS, and this trial will provide important safety and efficacy data to support the overall development plan, including data to support AAG as a patient selection marker in the combination of Kyprolis plus filanesib. In addition, published results from this trial may enhance Phase 3 enrollment.

Development Plan: During fiscal 2015, we plan to:

- report interim results from the ongoing Phase 1b study of filanesib in combination with Velcade and dexamethasone;
- report interim results from the Phase 1b and ARRAY-520-216 studies of filanesib in combination with Kyprolis; and
- initiate the Phase 3 FACTOR trial of filanesib in combination with Kyprolis in patients with RRMM.

2. ARRY-797 — p38 Program for Lamin A/C-related dilated cardiomyopathy

ARRY-797 is a selective, oral inhibitor of the p38 mitogen activated protein kinase, or MAPK. LMNA-DCM is a rare, degenerative cardiovascular disease caused by genetic mutations in the lamin A/C gene. These mutations lead to loss of functional lamin proteins resulting in activation of the p38 MAPK pathway and leading to structural changes in cardiac tissue such as:

- alterations to cardiomyocyte and A/V nodal cell nuclei, which leads to apoptosis and cardiac tissue remodeling, and
- sarcomere reorganization, which affects the heart’s contractile function.

While other MAPK pathways have been implicated in this disease, nonclinical data suggest that the p38 pathway is a key driver.

In vivo studies of ARRY-797 in models of LMNA-DCM demonstrated reversal of cardiac remodeling and significant improvements in heart function, general well-being and survival. Data from a physician-sponsored single-patient IND application indicated that ARRY-797 treatment has been associated with echocardiographic improvements and was well tolerated. Based on these encouraging data and discussions with U.S. regulatory authorities, a 12-patient Phase 2 study has been initiated to study the effectiveness and safety of ARRY-797 in patients with LMNA-DCM. The primary endpoint is the change from baseline in a 6-minute walk test at 12 weeks. Other endpoints include left and right ventricular function, quality of life assessments, safety and pharmacokinetics.

Development Plan: During Fiscal 2015, we plan to continue the Phase 2 study and have preliminary study results.

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3. ARRY-502 — CRTh2 Program for Asthma

ARRY-502 is an oral, potent and highly selective CRTh2 antagonist designed to treat patients with Th2-driven allergic diseases. The CRTh2 receptor is expressed on Th2 T cells, basophils and eosinophils, and its ligand, prostaglandin D2, or PGD2, is released by mast cells. Results of a Phase 2 study with ARRY-502 in patients with mild to moderate Th2-driven asthma demonstrate that antagonism of the PGD2/CRTh2 axis results in significant improvements in lung function, asthma control, symptoms, and patient-reported quality of life outcomes. ARRY-502 provided control of allergic inflammation and clinically meaningful benefit to these asthma patients. Because current asthma therapies do not fully control the Th2 pathophysiology, antagonism of CRTh2 represents an exciting new approach to enhance disease control in asthma and other allergic inflammatory diseases.

Based on its mechanism of action, we believe ARRY-502 will provide the greatest patient benefit in a Th2 signature-enriched population. Several baseline Th2-related biomarkers were evaluated in the Phase 2 study, including fractional exhaled nitric oxide. The Th2 signature, which is present in about half of the asthma population, spans mild, moderate and severe disease and suggests broad applicability for ARRY-502 in these patients, as well as in other Th2-driven diseases such as allergic rhinitis and atopic dermatitis.

Current Status: Based on the promising results of the proof-of-concept study in persistent asthma and our decision to focus on our hematology/oncology programs, Array is seeking a partner for further development of ARRY-502.

4. ARRY-614 — p38/Tie2 Program for Myelodysplastic Syndromes

ARRY-614, a potent, small-molecule dual p38/Tie2 inhibitor, is being studied in patients with International Prognostic Scoring System, or IPSS, low and intermediate-1 risk MDS. In an initial dose-escalation study using a powder-in-capsule formulation of ARRY-614, multi-lineage activity was observed. The most promising effects were seen in patients with thrombocytopenia and neutropenia, with transfusion independence frequently observed in platelet transfusion-dependent patients. As presented at the American Society for Hematology meeting in December 2013, multi-lineage responses, as well as platelet transfusion independence have again been observed in this study.

Current Status: We have no plans to invest internally at this time in ARRY-614.

Partnered Development Programs

Below are summaries of our most advanced, ongoing partnered development programs. 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 has been reported to us or is otherwise publicly disclosed by our collaboration partners, and therefore may not reflect changes to any information that may have occurred since the date it was reported to us or of its public disclosure.

1. Novartis — Binimetinib — MEK Inhibitor Program

Array entered into a License Agreement with Novartis in April 2010, which grants Novartis the exclusive worldwide right to develop and commercialize binimetinib, as well as other specified MEK inhibitors. Under the agreement, we have elected to conduct further development of binimetinib as a single agent in a Phase 3 trial of patients with low-grade serous ovarian cancer, or LGSOC. 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 connection with signing the agreement, Novartis paid us $45 million, comprising an up-front fee and an initial milestone payment. In May 2011, we received a $10 million clinical research milestone from Novartis after Novartis

had its first patient visit in a Phase 2 clinical trial. In June 2013, we earned a $5 million clinical research milestone from Novartis after Array had its first patient visit in a Phase 3 clinical trial. We are also eligible under the agreement to receive up to approximately $408 million in additional aggregate milestone payments if all clinical, regulatory and commercial milestones specified in the agreement are achieved for binimetinib. The agreement provides Array with double-digit royalties on worldwide sales of any approved drugs, with royalties on

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U.S. sales at a significantly higher level. We are paying a percentage of development costs up to a maximum amount with annual caps to maintain the maximum U.S. royalty rate for binimetinib. We paid $9.2 million and $11.3 million to Novartis during fiscal 2013 and fiscal 2014, respectively, for our share of the combined development costs. During fiscal 2014, we committed to continue our co-development contribution through fiscal 2015. We have the right to opt out of paying our share of the combined development costs on an annual basis after fiscal 2015, in which case, the U.S. royalty rate would then be reduced for any such product based on a pre-specified formula, subject to a minimum that equals the royalty rate on sales outside the U.S. Additionally, we would no longer have the right to develop or co-detail such product.

The Novartis 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 it under the agreement, or for negligence, willful misconduct or breach of covenants, warranties or representations made by it under the agreement.

Following the April 2014 announcement by Novartis and GlaxoSmithKline that they have entered into a definitive agreement to exchange certain assets, Array reported that Novartis has indicated it will continue to honor its obligations under the License Agreement relating to binimetinib, including obligations relating to support for ongoing clinical trials. If Novartis' binimetinib development and commercialization rights are returned to Array as a result of this transaction or otherwise, Novartis is required to provide support for ongoing clinical studies as specified in the License Agreement.

Development Status: Three Phase 3 trials with binimetinib in advanced cancer patients continue to enroll: NRAS-mutant melanoma (NEMO), LGSOC (MILO) and BRAF-mutant melanoma (COLUMBUS). NRAS-mutant melanoma represents the first potential indication for binimetinib, with a projected regulatory filing estimated in 2015.

- The MILO trial, which Array is conducting, began in June 2013 and will evaluate the efficacy and safety of binimetinib compared to standard chemotherapy treatments in 300 patients with recurrent or persistent LGSOC following at least one prior platinum-based chemotherapy regimen and no more than three lines of prior chemotherapy regimens. The primary endpoint is PFS, and the key secondary endpoint is overall survival. The projected regulatory filing for the MILO study is estimated to be in 2016.

- The NEMO trial, which Novartis is conducting, began in July 2013 and will evaluate the efficacy and safety of binimetinib compared to dacarbazine in 393 patients with advanced (Stage IIIC) unresectable or metastatic (Stage IV) NRAS-mutant melanoma. The primary endpoint is PFS, and the key secondary endpoint is overall survival.

- The COLUMBUS trial, which is also being conducted by Novartis, began in September 2013 and will evaluate the efficacy and safety of the combination of Novartis BRAF inhibitor encorafenib (LGX818) with binimetinib and encorafenib as a single agent compared to Zelboraf® (vemurafenib) in 900 patients with advanced, unresectable or metastatic BRAF-mutant melanoma. The primary endpoint is PFS, and the key secondary endpoint is overall survival. The projected regulatory filing for the COLUMBUS study is estimated to be in 2016.

2. AstraZeneca — Selumetinib — MEK Program

In December 2003, we entered into a Collaboration and License Agreement with AstraZeneca to develop our MEK program. Under the agreement, AstraZeneca acquired exclusive worldwide rights to our clinical development candidate, selumetinib (previously known as AZD6244, or ARRY-142886), together with two other compounds for oncology indications which we invented during the collaboration. We retained the rights to all therapeutic indications for MEK compounds not selected by AstraZeneca for development, subject to the parties' agreement to work exclusively together. In April 2009, the exclusivity of the parties' relationship ended, and both companies are now free to independently research, develop and commercialize small molecule MEK inhibitors in

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the field of oncology. Our research obligations ended in 2004 and AstraZeneca is responsible for all future development and commercialization of the compounds under the collaboration. To date, we have earned $26.5 million in up-front and milestone payments. The agreement also provided for research funding, which is now complete, and provides potential additional development milestone payments of approximately $30 million and royalties on product sales.

MEK is a key protein kinase in the RAS/RAF/MEK/ERK pathway, which signals cancer cell proliferation and survival. MEK has been shown to be frequently activated in cancer, in particular in tumors that have mutations, including BRAF and NRAS, in the RAS and RAF pathways. Selumetinib is a small molecule MEK inhibitor that targets a key position in this pathway.

Development Status: AstraZeneca is continuing to advance selumetinib in three Phase 3 trials in advanced cancer patients: second-line KRAS-mutant advanced or metastatic non-small cell lung cancer, or NSCLC (SELECT-1), differentiated thyroid cancer (ASTRA) and metastatic uveal melanoma (SUMIT). Uveal melanoma represents the first potential indication for selumetinib, with a projected regulatory filing estimated in late 2015.

- The SELECT-1 trial began in September 2013 and will evaluate the efficacy and safety of selumetinib in combination with docetaxel compared to placebo and docetaxel in 634 patients with locally advanced or metastatic KRAS-mutant NSCLCs. The primary endpoint is PFS, and the key secondary endpoint is overall survival. The estimated primary completion date for the SELECT-1 study is July 2016.

- The ASTRA trial began in June 2013 and will evaluate the efficacy and safety of selumetinib with radioactive iodine therapy compared to placebo and radioactive iodine therapy in 304 patients with differentiated thyroid cancer. The primary endpoint is complete remission rate. The estimated primary completion date for the ASTRA study is June 2016.

- The SUMIT trial began in April 2014 and will evaluate the efficacy and safety of selumetinib in combination with dacarbazine compared to placebo and dacarbazine in 152 patients with metastatic uveal melanoma. The primary endpoint is PFS.

3. InterMune (program now owned by Roche) — Danoprevir Hepatitis C Virus NS3/4 Protease Program

In 2002, we entered into a Drug Discovery Collaboration Agreement with InterMune for the discovery of novel small molecule inhibitors of the Hepatitis C Virus, or HCV, NS3/4A protease. As a result of drug discovery activities under this collaboration, scientists at Array and InterMune jointly discovered danoprevir. In October 2010, Roche expanded its portfolio of investigational medicines for HCV through the purchase of danoprevir from InterMune for $175 million. InterMune thereafter ceased all further development efforts under the collaboration. Under the terms of Array's collaboration agreement with InterMune, InterMune has an obligation to make milestone payments to us based on the selection and progress of danoprevir, as well as royalties on commercial sales of danoprevir. To date, we have received $1.8 million in milestone payments and have the potential to earn an additional $7.5 million if all clinical and commercialization milestones for danoprevir are achieved under the agreement. The hepatitis market is evolving and, to meet the different needs of people infected with HCV, future treatment options are likely to include interferon-free, as well as interferon-containing triple- and quadruple-combination therapy regimens. Roche has several oral, direct-acting antiviral agents in late-stage development for HCV, including danoprevir, which is currently in Phase 2.

In April 2013, Roche and Ascletis announced that they will collaborate to develop and commercialize danoprevir in China. It is estimated that over 10 million patients in China are chronically infected with HCV. The majority of these patients are genotype 1b, which has been shown to be responsive to danoprevir. Ascletis will fund and be responsible for the development, regulatory affairs and manufacturing of danoprevir in greater China and will receive payments

upon reaching certain development and commercial milestones from Roche. Ascletis and Roche will collaborate for the clinical development and commercialization.

Development Status: Danoprevir is being studied in the following Phase 2 trials: MATTERHORN, which compares interferon-free, interferon-based triple- and interferon-based quadruple-regimens in patients who failed interferon/RBV and ANNAPURNA, which is an interferon-free combination of different direct-acting antivirals in treatment naive patients. Roche also conducted Phase 2 trials with danoprevir, DAUPHINE and INFORM-SVR.

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4. ASLAN — ASLAN001/ARRY-543 — HER2/EGFR Program

In July 2011, we entered into a Collaboration and License Agreement with ASLAN to develop Array's HER2/EGFR inhibitor, ASLAN001/ARRY-543, which is currently in Phase 2 development in patients with gastric cancer in Asia. ASLAN001 is a novel, selective and oral HER2/EGFR inhibitor, and has shown clinical activity in both HER2-positive and EGFR-positive tumors. Under the agreement, ASLAN is funding and developing ASLAN001 through clinical proof-of-concept. Upon achievement of proof-of-concept, ASLAN will identify a global partner for Phase 3 development and commercialization. Array will share a significant portion of the proceeds of such partnering transaction.

The agreement with ASLAN will remain in effect for two years after conclusion of the initial development plan, unless ASLAN has entered into a license agreement with a third party for the further development and commercialization of the program, in which case the agreement shall remain in force and effect. Either party may terminate the agreement prior to expiration of the term following breach of the agreement by the other party. ASLAN is responsible for diligently advancing development of ASLAN001 under an agreed-upon development plan.

Gastric cancer is a major public health problem in East Asia. Patients with locally advanced, metastatic or recurrent disease have a poor prognosis, with an overall median survival of approximately 11 months. EGFR and HER2 receptors are commonly overexpressed together in gastric cancer. Data from pivotal studies of Herceptin® (trastuzumab), indicate that the activity of this drug is limited to the subset of patients whose disease has amplified copies of the HER2 gene. We believe ASLAN001 has the potential to augment or supersede the activity of Herceptin in this population, and in the broader population of gastric cancers that co-express both EGFR and HER2 receptors.

Development Status: In July 2014, ASLAN initiated a Phase 1b trial to evaluate safety of the combination of ASLAN001 with standard of care chemotherapy in patients with first line gastric cancer. Pending appropriate results, ASLAN intends to begin a randomized Phase 2b study in gastric cancer and is exploring the use of ASLAN001 in other indications.

5. Genentech — Ipatasertib/GDC-0068 and GDC-0994

We entered into a Drug Discovery Collaboration Agreement with Genentech, a member of the Roche Group, in December 2003 to develop small molecule drugs against multiple therapeutic targets in the field of oncology. We initiated this collaboration to advance two of our proprietary oncology programs into clinical development. These programs included small molecule leads we had developed along with additional, related intellectual property. Under the agreement, Genentech made an up-front payment, provided research funding and to date has paid us milestone payments for nominating a clinical candidate and advancing it into regulated safety assessment testing and a Phase 1 trial. In addition, Genentech has agreed to make additional potential development milestone payments and pay us royalties on certain resulting product sales. Genentech is solely responsible for clinical development and commercialization of the resulting products.

In 2005, 2008, and 2009, we expanded our collaboration with Genentech to develop clinical candidates directed against additional targets. Under the agreement, we received additional research funding, as well as potential research and development milestone payments and product royalties based on the success of each new program. In September 2010, we and Genentech extended the agreement for an additional two years of funded research through January 2013. Genentech may terminate the agreement upon four months' written notice. Genentech has paid Array a total of $23.5 million in up-front and milestone payments, and we have the potential to earn an additional $24.0 million for all programs if Genentech continues development and achieves the remaining clinical milestones set forth in the agreement.

Development Status: Genentech is advancing one collaborative drug, ipatasertib, an AKT inhibitor, in clinical development, including three Phase 2 trials:

- Phase 2 trial with ipatasertib in combination with paclitaxel as front-line treatment for patients with metastatic triple-negative breast cancer.

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- Phase 2 trial (JAGUAR) with ipatasertib in combination with fluropyrimidine plus oxaliplatin in patients with advanced or metastatic gastric or gastroesophageal junction cancer.
- Phase 1b/2 trial (A.MARTIN) with ipatasertib or GDC-0980, a PI3 kinase/mTor dual inhibitor, with abiraterone acetate versus abiraterone acetate in patients with locally advanced castration-resistant prostate cancer.

In addition, in July 2013, Genentech advanced a second collaborative drug, GDC-0994, an ERK inhibitor, in a Phase 1 dose-escalation study in patients with locally advanced or metastatic solid tumors.

6. Genentech — GDC-0575 — Checkpoint kinase 1, or Chk-1, Inhibitor Program

In August 2011, Array and Genentech entered into a License Agreement for the development of each company's small-molecule Chk-1 program in oncology. The programs included Genentech's compound GDC-0425 (RG7602) and Array's compound GDC-0575 (previously known as ARRY-575), both of which are being tested in Phase 1 trials in patients with cancer. Under the terms of the agreement, Genentech is responsible for all clinical development and commercialization activities. Array received an up-front payment of $28 million and is eligible to receive clinical and commercial milestone payments up to $380 million and up to double-digit royalties on sales of any resulting drugs. The agreement will remain in effect until Genentech's obligations to make milestone or royalty payments have passed or expired.

Either party may terminate the agreement upon a material breach by the other party that is not cured within a specified time period, and Genentech may terminate the agreement upon at least 60 days' written notice to Array. If Genentech terminates the agreement due to a material breach by Array, the license Array granted to Genentech becomes irrevocable and the royalty to Array will be reduced to a specified percentage. If the agreement is terminated by Genentech for convenience or by Array due to a material breach by Genentech, the license Array granted to Genentech will terminate, Genentech will continue to be required to pay milestone and royalty payments on any programs for which Genentech had initiated clinical development and Array's exclusivity obligations will continue so long as Genentech is developing or commercializing at least one product subject to the agreement. Array and Genentech have also agreed to indemnify the other party for breaches of representations or warranties made under the agreement and for certain of their respective activities under the agreement.

Development Status: In 2014, Genentech selected GDC-0575 over GDC-0425 to advance into further clinical trials. Genentech is continuing a Phase 1 multiple ascending dose trial to evaluate GDC-0575 alone and in combination with Gemzar® (gemcitabine) in approximately 90 patients with refractory solid tumors or lymphoma.

7. Lilly — LY2606368 — Chk-1 Inhibitor Program

In 1999 and 2000, Array entered into collaboration agreements involving small-molecule Chk-1 inhibitors with ICOS Corporation. LY2603618 and LY2606368 resulted from the collaboration between Array and ICOS. Eli Lilly and Company acquired ICOS in 2007. Array received a $250 thousand milestone payment after the first patient was dosed with LY2603618 in a Phase 1 clinical trial in early 2007. The agreements provided research funding, which has now ended. Array achieved a $125 thousand milestone payment after the first patient was dosed with LY2606368 in a Phase 1 clinical trial in early 2010. Array is entitled to receive additional milestone payments totaling $3.5 million based on Lilly's achievement of clinical and regulatory milestones with the molecules.

Development Status: While there are currently three on-going LY2603618 Phase 1b/2 clinical trials in cancer, Lilly has communicated that it does not intend to pursue further development of the drug. LY2606368 is in Phase 2 development, with two on-going trials for cancer.

8. VentiRx — VTX-2337 — TLR Program

In February 2007, we entered into a Collaboration and License Agreement with the privately-held biopharmaceutical company VentiRx, under which we granted VentiRx exclusive worldwide rights to certain molecules from our TLR program. The program contains a number of compounds targeting TLRs to activate innate immunity, including VTX-2337. We received equity in VentiRx, as well as an up-front payment and the right

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to receive potential milestone payments and royalties on product sales. To date, we have received $2.6 million in milestone payments and have the potential to earn $56.0 million if VentiRx achieves the remaining clinical and commercial milestones under the agreement. See Note 1 — Overview and Basis of Presentation — Equity Investment to the accompanying audited financial statements included elsewhere in this Annual Report on Form 10-K for a description of the equity interest we received in VentiRx as a result of this agreement.

In October 2012, VentiRx announced the formation of an exclusive, worldwide collaboration with Celgene for the development of VTX-2337. As part of the agreement, Celgene will retain the exclusive option to acquire VentiRx. In addition, Celgene provided a $35 million up-front payment to fund further research and development of VTX-2337 through pre-defined clinical endpoints. During the option period, VentiRx will be eligible to receive additional funding, including a potential equity investment by Celgene.

VTX-2337 directly activates multiple components of the innate immune system, including activation of human myeloid dendritic cells, monocytes and natural killer, or NK, cells resulting in the production of high levels of mediators known to orchestrate the integration of innate and adaptive anti-tumor responses. Results from preclinical models suggest that combining VTX-2337 with some chemotherapies and monoclonal antibodies demonstrate a synergistic effect in stimulating a variety of immune pathways associated with anti-tumor activity including antibody-directed cellular cytotoxicity. Early data from an ongoing Phase 1 trial in squamous cell carcinoma of the head and neck, or SCCHN, demonstrated that the combination was safe and well tolerated, and demonstrated activation of NK cells following dosing with VTX-2337.

Development Status: VTX-2337 is being evaluated in the following randomized, placebo-controlled Phase 2 trials:

- Phase 2 trial (GOG-3003) with VTX-2337 in combination with pegylated liposomal doxorubicin, or PLD, standard second-line chemotherapy for patients with recurrent or persistent ovarian cancer versus PLD alone.
- Phase 2 trial (ACTIVE8) with VTX-2337 in combination with a standard of care regimen, cetuximab, platinum and 5 Fluorouracil, or 5-FU, in patients with recurrent or metastatic SCCHN.

9. Oncothyreon — ARRY-380/ONT-380 — HER2 Inhibitor Program

In May 2013, we entered into a Development and Commercialization Agreement with Oncothyreon Inc. to collaborate on the development and commercialization of ARRY-380, an orally active, reversible and selective small-molecule HER2 inhibitor, for the treatment of cancer, including breast cancer.

Under the terms of the agreement, Oncothyreon paid Array a one-time up-front fee of $10 million. Oncothyreon will be responsible for conducting the clinical development of ARRY-380 through a defined set of proof-of-concept trials in patients with metastatic breast cancer, including patients with brain metastases. Oncothyreon will be responsible for all development costs incurred by or on behalf of either party with respect to these proof-of-concept trials. Unless Array opts out of further development and commercialization, as described below, Array will reimburse Oncothyreon for these costs through a mechanism whereby Array bears a disproportionate amount of Phase 3 development costs and Oncothyreon receives a disproportionate amount of the profits in the U.S. until Oncothyreon is repaid a percentage of the amounts it has spent on the proof-of-concept trials. Oncothyreon and Array will jointly conduct any Phase 3 development supported by the proof-of-concept studies. Subject to certain exceptions primarily related to the repayment provisions described above, Oncothyreon and Array will each be responsible for 50% of the development costs incurred with respect to any Phase 3 development.

In 2013, Array completed a Phase 1 clinical trial of ARRY-380 in patients with heavily pre-treated metastatic breast cancer which demonstrated that the compound was well tolerated and had anti-tumor activity. ARRY-380 has demonstrated superior activity, based on overall survival, compared to Tykerb® (lapatinib) and to the investigational drug, neratinib, in an intracranial HER2+ breast cancer xenograft model. This provides a strong rationale to explore

whether ARRY-380 can provide benefit to patients with brain metastases, which occur in approximately one-third of women with metastatic HER2+ breast cancer.

Array is responsible for worldwide commercialization of the product. Oncothyreon has a 50% co-promotion right in the U.S. Each party also retains the right to opt out of further development and commercialization in exchange for a royalty. Subject to certain exceptions, Oncothyreon and Array will bear, or be entitled to, 50% of the profit or

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loss from commercializing the product in the U.S. Outside of the U.S., Oncothyreon will receive a double-digit royalty on net sales intended to approximate a 50% profit share, and the two companies will share equally the proceeds from any sublicense of marketing rights.

The agreement will continue on a country-by-country basis until the termination of the royalty payment obligations, or if earlier, the termination of the agreement in accordance with its terms. The agreement may be terminated by Array upon Oncothyreon's uncured failure to timely initiate committed trials or complete certain development activities, and may also be terminated under certain other circumstances, including material breach, as set forth in the agreement. Array and Oncothyreon have also agreed to indemnify the other party for certain of their respective activities under the agreement.

Development Status: ARRY-380 is being evaluated in three clinical trials:

- Phase 1 trial with ARRY-380 in combination with Herceptin® (trastuzumab) in patients with brain metastases from HER2+ breast cancer (Dana Farber sponsored).
- Phase 1 trial with ARRY-380 in combination with Kadcyla ® (T-DM1) in patients with HER2+ breast cancer (Oncothyreon sponsored).
- Phase 1 trial with ARRY-380 in combination with Herceptin plus Xeloda ® (capecitabine) in patients with HER2+ breast cancer (Oncothyreon sponsored).

10. Loxo — LOXO-101 — PanTrk Inhibitor Program

In July 2013, Array entered into a Drug Discovery Collaboration Agreement with Loxo and granted Loxo exclusive rights to develop and commercialize certain Array-invented compounds targeted at the Trk family of receptors, including LOXO-101, which is currently in a Phase 1 clinical trial. In April 2014, Array and Loxo amended the agreement and, as a result, the research activities under the agreement were expanded. There is a growing body of scientific literature implicating Trk alterations in diverse tumor types, including neuroblastoma and lung, thyroid and breast cancer. Many downstream pathways important in cancer are stimulated by activated Trk, such as the PI3-kinase and MAP-kinase pathways. Drugs targeting these pathways have generated responses in both solid and hematologic tumors.

Under the terms of the agreement, Loxo will fund further preclinical research to be conducted by Array during a three-year discovery research phase, which may be extended by Loxo for up to two additional one-year renewal periods. In addition, Loxo will fund further discovery and preclinical research to be conducted by Array directed at other targets during the research phase of the agreement. Loxo will be responsible for all additional preclinical and clinical development and commercialization.

In consideration of the exclusive license and rights granted to Loxo under the agreement, Array received shares of Loxo non-voting preferred stock representing an initial 19.9% interest in the newly-formed entity; following additional financings by Loxo, Array's ownership interest in Loxo as of June 30, 2014 was 15.3%. All of the shares of preferred stock held by Array converted automatically into shares of common stock on July 31, 2014, the effective date of Loxo's initial public offering, or IPO, and now represent an approximately 10% ownership interest in Loxo. See Note 13 – Subsequent Event to the accompanying audited financial statements included elsewhere in this Annual Report on Form 10 K for additional information about our equity investment in Loxo following Loxo's IPO.

Array also receives advance payments for preclinical research and other services that Array is providing during the term of the discovery program and is eligible to receive up to $435 million in milestone payments if certain clinical, regulatory and sales milestones are achieved plus royalties on sales of any resulting drugs.

The Loxo agreement will continue on a country-by-country basis until the termination of the royalty payment obligations, unless terminated earlier by the parties in accordance with its terms. The agreement may be terminated by either party upon the failure of the other party to cure any material breach of its obligations under the agreement, provided that, so long as Loxo is reasonably able to pay its debts as they are due, Array will only be entitled to seek monetary damages, and will not have the right to terminate the agreement in the event of Loxo's breach after expiration of the discovery program term. Loxo also has the right to terminate the agreement

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or to terminate discovery research with respect to any targets under development with six months' notice to Array. If Loxo terminates the agreement for convenience, all licenses granted to Loxo will terminate and Array will have all rights to further develop and commercialize the licensed programs. The period of exclusivity to be observed by Array under the Loxo agreement will continue as long as Loxo either has an active research and/or development program for a target and the program could result in the receipt of milestones or royalties under the program by Array, or as long as Loxo is commercializing a product for a target under the agreement.

Market Opportunity

Our proprietary pipeline is focused on targeted drugs that treat cancer. We believe there is a substantial opportunity in creating drugs for these diseases that meet the demand from the medical community for targeted therapies that treat both the underlying disease, as well as control symptoms more effectively and/or more safely than drugs that are currently available. We believe future patient care will improve with the use of screening to select targeted therapies for more effective disease treatment. Also, clinical trials aimed at well-defined patient populations may show improved response rates and may thereby increase the chances for approval with regulatory agencies such as the FDA. This approach may result in a greater number of marketed drugs each aimed at a smaller subset of patients.

The worldwide market for targeted cancer drugs, the cancer drug market's fastest growing segment, is forecast to grow from $35.0 billion in 2010 to $81.1 billion in 2018. The inflammatory disease market is highly diverse and includes respiratory diseases such as asthma, allergic rhinitis and chronic obstructive pulmonary disease; dermatological conditions such as psoriasis and atopic dermatitis; gastrointestinal disorders such as Crohn's disease and ulcerative colitis; musculoskeletal disorders such as rheumatoid arthritis, systemic lupus erythematosus and gout; and spondyloarthropathies such as psoriatic arthritis and ankylosing spondylitis. The inflammatory disease market is forecast to grow from $72.1 billion in 2010 to $97.5 billion in 2018.

In addition, the pharmaceutical industry has an ongoing need to fill clinical development pipelines with new drugs to drive future revenue growth. Despite increased spending on internal research, the industry has been unable to meet this demand. As a result, it has become increasingly reliant on biotech companies to acquire new drugs. Due to the scarcity of later-stage clinical assets available for in-licensing, these companies have been willing to enter into licensing deals at early stages, including the preclinical stage. However, once a drug has entered clinical development, companies generally require proof-of-concept data, which includes both efficacy and safety data, before they will consider licensing a drug candidate. Accordingly, we believe there is an opportunity to license drugs at several stages during the drug development process.

Cancer Market

Despite a wide range of available cancer therapies, patients' treatment responses remain limited and variable. As a result, oncologists are increasingly using combination therapies and drug dosing regimens tailored for individual tumor types and patients. Targeted therapies are able to specifically target the underlying mechanisms of the disease by regulating discrete aspects of cellular function affecting cancer cells to a greater extent than normal cells. As such, they hold the promise of being more efficacious with fewer side effects than cytotoxic chemotherapy drugs. Further, biomarkers are increasingly playing a role in both patient prognosis and drug selection. We believe certain cancers will eventually become chronic diseases, treated with a combination of targeted therapies. Our research strategy in the cancer market is to build a pipeline of targeted therapies.

According to estimates contained in the American Cancer Society, Cancer Facts and Figures 2014, in the U.S. there will be an estimated 1.7 million new cases of cancer in 2014 and nearly 600 thousand cancer-related deaths. The five-year relative survival rate for all cancers diagnosed between 2003 and 2009 is 68%, up from 49% in 1975-1977. The improvement in survival reflects both progress in diagnosing certain cancers at an earlier stage and improvements

in treatment.

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The following table shows estimated new cases diagnosed and estimated deaths in the U.S. during 2014 by major cancer types of interest to Array:

Type of Cancer	Estimated 2014 New Cases	Deaths
Lung	224,210	159,260
Breast	235,030	40,430
Colorectal	136,830	50,310
Melanoma	76,100	9,710
Thyroid	62,980	1,890
Pancreas	46,420	39,590
Ovarian	21,980	14,270
Stomach	22,220	10,990
Myeloma	24,050	11,090
Eye and Orbit	2,730	310
Gallbladder and Other Biliary	10,650	3,630
	863,200	341,480

The use of targeted therapies has the potential to change the focus of cancer treatment away from categorization and treatment modality by organ type and towards categorization and treatment modalities by level of gene expression in individual patients, or “personalized medicine.” Targeted therapies and personalized medicine hold the promise of increased survival with improved quality of life.

Oncology, both in treating cancer itself and as palliative therapy, has been a major therapeutic category for biotechnology companies since the inception of the industry. Recently, major pharmaceutical companies have increased their research and development and in-licensing investment in this market, particularly the targeted cancer therapy market. Some of the targeted therapies currently on the market that have been successful include Avastin® (bevacizumab), Xalcori® (crizotinib), Herceptin®(trastuzumab), Rituxan® (rituximab), and Zelboraf® (vemurafenib).

Multiple Myeloma, or Myeloma (Filanesib — KSP inhibitor)

MM is a hematological cancer characterized by the neoplastic proliferation of plasma cells which accumulate in the bone marrow and produce a monoclonal immunoglobulin (Ig) - heavy and/or light chain (paraprotein, M-protein). Plasma cells normally produce antibodies to fight infection and disease. In MM, plasma cells proliferate in the bone marrow, which often leads to extensive bone destruction, including osteolytic lesions, osteopenia, hypercalcemia, fractures and myelosuppression. Myelosupression can lead to anemia, recurrent bacterial infections and bleeding. The deposition of immunoglobulin (M-protein) can lead to renal failure.

MM is the second most common hematologic malignancy, and treatments garner significant sales due to the cost of treatment regimens and relatively long life expectancies of patients. Despite advances in therapy over the last decade, it remains an incurable, fatal disease in nearly all patients. It primarily afflicts the elderly with median age at diagnosis of 68 for men and 70 for women in the U.S. The annual incidence of newly-diagnosed MM patients is approximately 48 thousand in the seven major global markets (U.S., France, Germany, Italy, Spain, the U.K. and Japan) with approximately 24 thousand in the U.S. Survival has increased in recent years to approximately five years for patients able to undergo stem cell transplant in combination with high-dose targeted drug therapy. There were over 83 thousand patients with MM in the U.S. in 2011.

Market growth of therapies that treat MM is expected to be strong, with sales across the seven major pharmaceutical markets forecasted to grow annually by 5.6% from $3.6 billion in 2010 to $6.2 billion in 2020. This growth will be driven by three factors:

1. Increased efficacy of current treatments, notably the leading targeted therapies, including the proteasome inhibitor Velcade® (bortezomib), and the IMiDs, Revlimid® (lenalidomide) and Thalomid® (thalidomide),

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leading to longer life expectancy and allowing for more drug therapy to be administered over the disease course;
2. Increased use of existing and new drug combinations, particularly combinations with Velcade and Revlimid, leading to higher overall regimen costs; and
3. Introduction and uptake of new, higher-cost therapies, particularly greater uptake of Revlimid and anticipated launch of premium priced next generation proteasome inhibitors and IMiDs such as Kyprolis® (carfilzomib) and Pomalyst® (pomalidomide).

Despite progress in treating MM, current treatments do not cure the disease and are accompanied by high toxicity. Patients who have become refractory to both IMiD and proteasome inhibitor therapy have a particularly poor outcome, with a median overall survival of six to nine months. Therefore, opportunities remain for drug therapies with novel mechanisms of action and/or drugs that can treat refractory patients and can act synergistically with existing leading therapies.

Filanesib targets KSP, a novel mechanism of action in MM, distinct from the approved proteasome inhibitors and IMiDs. Preclinically, filanesib showed significant single-agent activity in disease models resistant to standard-of-care drugs. Furthermore, filanesib was highly active in vivo in preclinical MM models, and demonstrated synergy with proteasome inhibitors and IMiDs, suggesting the potential to combine filanesib with these standard-of-care therapies. In clinical trials, filanesib has demonstrated single-agent activity in heavily pretreated patients; it is one of the few non-IMiD or proteasome inhibitor drugs to show single-agent activity in this patient population. Filanesib has also demonstrated clinical activity in MM patients when combined with dexamethasone, Kyprolis or Velcade in disease refractory to Revlimid and Velcade. This clinical activity supports the potential for further development of filanesib in patients refractory to other therapies.

Based on the strength of data from ongoing or completed clinical trials, and recent discussions with the FDA, Array is developing filanesib in combination with the novel proteasome inhibitor Kyprolis. To support the potential approval of filanesib, our development plan includes three current or planned trials:

- The FACTOR trial, a planned global Phase 3 study comparing Kyprolis plus filanesib to Kyprolis alone in several hundred patients with RRMM. The primary endpoint of the FACTOR trial will be PFS. To date, there have been no successful drug combinations for Kyprolis in patients who have previously been treated with both Revlimid and Velcade.
- The AfFIRM trial, a global Phase 2 study that began in May 2014 with single-agent filanesib in 160 patients with RRMM. While the trial will enroll patients regardless of AAG status, the primary endpoint is ORR in patients with low AAG levels at baseline. The AfFIRM trial is also designed to support future regulatory submissions and validation of AAG as a patient selection marker and will include important safety and pharmacological data.
- The ARRAY-520-216 trial, a randomized Phase 2 trial that began in November 2013 comparing Kyprolis plus filanesib versus Kyprolis alone in 75 RRMM patients. The primary endpoint is PFS, and this trial will provide important safety and efficacy data to support the overall development plan, including data to support AAG as a patient selection marker in the combination of Kyprolis plus filanesib. In addition, published results from this trial may enhance Phase 3 enrollment.

Myelodysplastic Syndromes (ARRY-614 — p38/Tie2 inhibitor)

Formerly known as “pre-leukemia”, MDS are a spectrum of diseases in which the bone marrow does not make enough normal blood cells. Patients with MDS develop severe anemia, and platelet and neutrophil cytopenias, due to bone marrow failure. As MDS progresses, patients require frequent blood and platelet transfusions, and are prone to severe and fatal infections and bleeding episodes. Approximately 30% of MDS patients progress to Acute Myeloid Leukemia, which is estimated at over 10 thousand deaths in 2013 in the U.S. MDS primarily afflicts the elderly, with a median age at diagnosis of 71 years.

According to an article published in the Journal of Clinical Oncology, in June 2010, there were 45 thousand new cases of MDS during 2003 in the U.S. This is four to five times greater than official estimates of MDS incidence based on the National Cancer Institute Surveillance, Epidemiology and End Results Program. The analysis also

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concluded that MDS patients have debilitating comorbidities, with significantly greater frequency than the overall population, such as cardiac complications (73%), dyspnea (49%), diabetes (40%) and severe infections (22%). Further, over a three-year period, 40% of MDS patients died compared with 15% for the overall population of the same age. These findings on the significance of comorbidities have been demonstrated in other studies. Notably, in a recent subpopulation study of "low" grade MDS patients at M.D. Anderson Cancer Center, infections were the most common cause of disease-related death (38%), with hemorrhage (13%) also significant. These findings underscore the importance of addressing aspects of the disease such as neutrophil and platelet deficiencies and may support earlier therapeutic interventions.

Market growth of therapies that treat MDS is forecast to grow by almost 8% annually from 2010 to 2017; total sales of existing therapies are projected to increase from approximately $750 million in 2010 to $1.3 billion in 2017 across the seven major pharmaceutical markets. This forecast does not include additional potential growth resulting from any novel, emerging therapies. Current approved therapies on the market include Vidaza® (azacitidine), Revlimid and Dacogen® (decitabine), although a complete response following treatment with these agents is rare. We expect the recent approvals of these agents for MDS to also drive an increase in the overall drug-treated population, because access to these agents will encourage treatment and because there are no other therapeutic drug options currently available.

A limited number of other therapies which target key players in the underlying biology of MDS are being investigated in MDS including p38 MAPK and Tie2. p38 is well-known for its role in the regulation of cytokine and chemokine signaling and production. There is a growing understanding of the role of p38 in the modulation of apoptosis and survival. Tie2 has an emerging role in the pathology of MDS including regulation of stem cell quiescence and as a negative prognostic factor.

We believe ARRY-614, a potent, small-molecule dual p38/Tie2 inhibitor, may be effective in the treatment of MDS, particularly in settings where hypomethylating agents such as Vidaza and Dacogen have failed, by providing clinical benefit through multi-lineage hematologic improvement (i.e. an increase in red blood cells, neutrophil cells and platelets), thereby reducing the need for red blood cell and platelet transfusions. A Phase 1, dose-escalation/expansion study of single-agent ARRY-614 was conducted in patients with IPSS low or intermediate-1 risk MDS, for whom treatment with approved therapies, including hypomethylating agents and lenalidomide, had failed. Clinical activity including hematologic improvement was demonstrated. A second Phase 1 trial in a similar patient population with an optimized formulation of ARRY-614 completed enrollment.

Lung Cancer (Binimetinib and Selumetinib — MEK inhibitors)

Lung cancer is the leading cause of cancer-related mortality in the U.S. Lung cancer forms in the tissues of the lung, usually in the cells lining air passages. The two main types of lung cancer are NSCLC, which represents about 85%, and small cell lung cancer, or SCLC, which represents about 15% of lung cancer. In 2014, the estimated new cases and deaths from all lung cancer in the U.S. were approximately 224 thousand and 159 thousand, respectively. Globally, over 1.6 million new cases of lung cancer are diagnosed every year and nearly 1.4 million people die as a result of this devastating disease; more than breast, colon and prostate cancer combined. The overall five-year relative survival rate for the period of 2003 to 2009 for patients with lung cancer was 17%. The five-year relative survival rate varies markedly depending on the stage at diagnosis, from 52% to 25% to 4% for patients with local, regional and metastatic disease, respectively.

Patients with resectable disease may be cured by surgery or surgery plus adjuvant chemotherapy. Local control can be achieved with radiation therapy in a large number of patients with unresectable disease, but a cure is seen only in a small number of patients. Patients with locally advanced, unresectable disease may have long-term survival with radiation therapy combined with chemotherapy. Patients with advanced metastatic disease may achieve improved

survival and palliation of symptoms with chemotherapy, however metastatic NSCLC remains a fatal disease.

Market growth of NSCLC drug therapies is expected to grow annually by 4% from $4.9 billion in 2012 to $7.0 billion in 2022. We believe generic price erosion of key agents such as Alimta® (pemetrexed) and Tarceva® (erlotinib) will be offset by the recent approvals by the FDA of Xalkori® (crizotinib), Gliotrif® (afatinib), Zykadia™ (ceritinib), and the anticipated introduction of several novel classes of agents. The need for more effective and less toxic therapies as alternatives to, or in combination with, chemotherapy has led to the investigation of

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targeted therapies. Mutations in the KRAS gene are amongst the most common mutations in NSCLC, being found in approximately 26% of patients, which amounts to approximately 415 thousand patients globally. Typically, KRAS mutations activate the RAS/RAF/MEK/ERK pathway, contributing to unregulated cell growth and survival. Therapies that target this aberrant pathway, including MEK inhibitors, would therefore be expected to have therapeutic activity in patients with mutated KRAS.

Promising data from a double-blind, randomized Phase 2 study comparing the efficacy of selumetinib, a MEK inhibitor we licensed to AstraZeneca, in combination with docetaxel versus docetaxel alone in second-line patients with KRAS mutation-positive locally advanced or metastatic NSCLC were presented at the 2012 American Society of Clinical Oncology, or ASCO, Annual Meeting. This study showed statistically significant improvement in PFS, ORR, and alive and progression-free at six months, as well as a trend for improvement in overall survival in favor of selumetinib in combination with docetaxel versus docetaxel alone. Based on this data, AstraZeneca has initiated the pivotal Phase 3 SELECT-1 trial comparing selumetinib in combination with docetaxel versus docetaxel alone in second line patients with KRAS mutation-positive locally advanced or metastatic NSCLC.

Melanoma (Binimetinib and Selumetinib — MEK inhibitors)

Melanoma is the deadliest form of skin cancer. The number of new malignant melanoma cases has been increasing substantially over the past 30 years and at a rate that is among the fastest growing of any human cancer. According to the American Cancer Society, the estimated new cases and deaths from melanoma in the U.S. in 2014 are approximately 76 thousand and 10 thousand, respectively. Prognosis is heavily dependent upon stage of the disease. The outlook for patients with metastatic disease is poor, with a five-year survival rate of approximately 16%.

The optimal treatment for melanoma varies with the stage of the disease. In patients with early disease, surgical excision is the treatment of choice with some of these patients receiving adjuvant therapy with interferon alfa. Surgical excision of limited distant metastatic disease can occasionally produce durable benefit, but most patients with distant metastases require systemic therapy. Systemic therapies include chemotherapy and immunotherapy, used either alone or in combination.

Market growth of melanoma drug therapies is expected to be strong, with sales across the seven major pharmaceutical markets forecasted to grow annually by over 11% from $950 million in 2012 to $2.75 billion in 2022. This forecasted growth is driven largely by recent and anticipated launches of several novel, high-priced therapies expected to capture substantial market share over time.

Mutations that activate the RAS/RAF/MEK/ERK pathway are common in melanoma, with BRAF mutations in 40% to 60%, and NRAS mutations in 15-20% of melanoma patients, suggesting the therapeutic potential for agents that target this pathway in melanoma. Following Roche's launch of the BRAF inhibitor Zelboraf (vemurafenib) in 2011, several additional therapies that target this pathway are under study. Included amongst these are several MEK inhibitors. Recently, both Mekinist™ (trametinib), a MEK inhibitor and Tafinlar® (dabrafenib), a BRAF inhibitor from GlaxoSmithKline were approved by the FDA for patients with BRAF mutated melanoma, both as monotherapy and in combination.

As MEK inhibitors target the RAS/RAF/MEK/ERK pathway, which is activated with BRAF mutation, they may also have the potential for activity not only in patients with BRAF-mutant melanoma, but also in patients with tumors that harbor mutations in the NRAS gene, who currently have no adequate treatment option and poor prognosis. Promising data on binimetinib in an ongoing Phase 2 trial of patients with BRAF and NRAS mutated advanced melanoma was presented at the 2012 ASCO Annual Meeting. Binimetinib showed clinical activity and good tolerability in this patient population. This is the first targeted therapy to show activity in patients with NRAS mutated melanoma. Based on this data, Novartis has initiated two pivotal Phase 3 trials. The NEMO trial compares binimetinib to dacarbazine in

patients with NRAS mutation-positive advanced, unresectable or metastatic melanoma. The COLUMBUS trial compares binimetinib in combination with encorafenib to encorafenib as monotherapy and to vemurafenib as monotherapy in patients with newly-diagnosed BRAF inhibitor naïve, BRAF V600E or V600K mutant advanced, unresectable or metastatic melanoma.

An additional area of interest regarding the inhibition of MEK is metastatic uveal melanoma. Uveal melanoma is rare, with only 2,500 cases diagnosed in the U.S. each year. Almost half of those patients will develop metastatic

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disease and survival for patients with advanced disease is only 9-12 months. Uveal melanoma patients have a very high unmet clinical need since the disease does not respond to the drugs used to treat melanoma on the skin.

Data was presented at the 2013 ASCO Annual Meeting by Memorial Sloan-Kettering Cancer Center, which showed selumetinib to be the first targeted therapy to demonstrate a more than doubling of PFS compared with temozolomide for patients with gnaq/Gna11 mutant metastatic uveal melanoma. Based on this data, AstraZeneca has initiated the pivotal SUMIT trial comparing selumetinib in combination with dacarbazine versus dacarbazine as monotherapy in patients with metastatic uveal melanoma who have not previously been treated with systemic anti-cancer therapy. There is no drug approved specifically for treatment of metastatic uveal melanoma, and the indication may serve as a fast-to-patient strategy for selumetinib.

Thyroid Cancer (Selumetinib — MEK inhibitor)

Thyroid cancer has become the fastest-increasing cancer in the U.S. with estimates of almost 63 thousand new cases and 1,890 deaths in 2014. The rapid increase in incidence rates is thought to be largely due to increased and earlier detection. Thyroid cancer strikes relatively young patients, with most initial diagnoses between ages 20 and 54, and occurs two to three times more often in women than in men, placing it as the fifth most common malignancy diagnosed in women.

Most thyroid cancers can be treated successfully with an overall five-year survival rate of 96%. However, even when therapy is successful, the disease remains burdensome and potentially lethal; patients must be tested routinely for the rest of their life, with as many as 35% of thyroid cancers recurring, one-third of which occur more than 10 years after initial treatment.

In disease that has not metastasized, partial or total surgical excision of the thyroid gland is the primary treatment, followed by radioiodine therapy, or RAI, to kill off residual cancer cells, and usually thyroid hormone suppression therapy for maintenance to prevent recurrence. For metastatic disease, RAI is the leading therapeutic option. However, a significant number of patients have disease not receptive to RAI therapy, or RAI-refractory disease, and have few effective treatment alternatives. This remains a significant unmet need, as distant metastases are the most frequent cause of death for patients with papillary or follicular thyroid cancers which account for 90% of thyroid tumors, and decreased RAI incorporation into metastatic sites has been shown to be associated with higher mortality.

Novel therapies that target the RAS/RAF/MEK/ERK pathway and specific molecular abnormalities such as BRAF and NRAS mutations have a strong scientific underpinning for activity in this disease, with BRAF mutations in approximately 39%, and NRAS mutations in approximately 7% of thyroid cancers. In a pilot study published in the February 14, 2013 edition of the New England Journal of Medicine, selumetinib has shown positive therapeutic activity in patients with RAI-refractory disease. Based on these results, AstraZeneca has initiated a Phase 3 trial comparing selumetinib combined with single dose adjuvant radioactive iodine to single dose adjuvant radioactive iodine in patients with differentiated thyroid cancer who have had a previous thyroidectomy.

Low-Grade Serous Ovarian Cancer (Binimetinib — MEK Inhibitor)

Ovarian cancer is the ninth most common cancer among women, the fifth leading cause of cancer-related death among women and is the deadliest of gynecologic cancers. Serous ovarian cancer represents the largest group of ovarian cancer and is considered to consist of two main subtypes: low-grade and high-grade. LGSOC represents up to 10% of ovarian cancer diagnoses and it is estimated that over 10 thousand women are living with the disease in the U.S. and Europe.

Women diagnosed with LGSOC are generally diagnosed at a younger age and live longer, but have a lower response rate to conventional chemotherapy compared to high-grade serous ovarian cancer patients. Treatment for these patients involves surgery and multiple anti-cancer regimens for advanced disease. Following first-line treatment with a platinum-based regimen, less than 4% of patients show a response to additional rounds of chemotherapy. Historic data suggest a median PFS of only seven months for this population. This along with the relative chemo-resistant nature of this disease underscores the high unmet need among these patients.

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At the 2012 American Association for Cancer Research Annual Meeting, proof-of-concept data on selumetinib was presented showing an ORR of 15% and clinical benefit rate of 81% in patients with platinum-resistant LGSOC. When compared with historic data related to chemotherapy and hormonal therapy, two commonly used treatments for LGSOC, treatment with a MEK inhibitor demonstrated improved clinical activity and in a more heavily pre-treated population.

Based on this data and other research, Array has advanced binimetinib in this extremely high unmet need patient population with the MILO study under our License Agreement with Novartis. In the MILO study, binimetinib will be compared to physicians choice chemotherapy (paclitaxel, topotecan, or liposomal doxorubicin) in patients with recurrent or persistent low-grade serous carcinomas of the ovary, fallopian tube or primary peritoneum who have received prior platinum containing therapy.

Lamin A/C-Related Dilated Cardiomyopathy (ARRY-797 — p38 inhibitor)

LMNA-DCM is a rare, degenerative cardiovascular disease caused by genetic mutations in the lamin A/C gene. These mutations lead to loss of functional lamin proteins resulting in activation of the p38 MAPK pathway and leading to structural changes in cardiac tissue such as alterations to cardiomyocyte and A/V nodal cell nuclei, which leads to apoptosis and cardiac tissue remodeling, and sarcomere reorganization, which affects the heart's contractile function. While other MAPK pathways have been implicated in this disease, nonclinical data suggest that the p38 pathway is a key driver.

Patients with LMNA-DCM typically begin experiencing symptoms in their twenties or thirties, and by age 45 nearly 70% have undergone a heart transplant, experienced a major cardiac event, or have died. Currently, there are no disease-specific treatments approved for LMNA-DCM. Treatment is limited to symptomatic and supportive care, and a significant unmet medical need remains for therapies that can halt disease progression or improve cardiac function. Patients diagnosed with LMNA-DCM are treated using the same practices as patients diagnosed with dilated cardiomyopathy arising from other causes. It is estimated that 5,000 to 9,000 patients are living with LMNA-DCM, but due to infrequent genetic testing, far fewer are actually diagnosed. No available treatments are curative, and given the relentless progression of disease and poor prognosis of LMNA-DCM, novel drugs that can target the molecular mechanism underlying cardiac dysfunction in this disease are warranted. Thus, there is a high unmet need for patients who are diagnosed with LMNA-DCM, and inhibition of p38 MAPK may offer an important therapeutic option for these patients.

Array is currently developing ARRY-797, a selective, oral inhibitor of the p38 MAPK pathway. Based on encouraging data and discussions with U.S. regulatory authorities, a 12-patient Phase 2 study has been initiated to study the effectiveness and safety of ARRY-797 in patients with LMNA-DCM.

Asthma (ARRY-502 — CRTh2 antagonist)

Asthma is a chronic condition of the airways that currently poses one of the more significant public health burdens. According to the American Lung Association, in 2009 an estimated 25 million individuals had asthma, resulting in approximately 3,500 deaths per year and nearly $56 billion in medical treatment and lost productivity. Worldwide, approximately 235 million people experience asthma and around 180 thousand deaths are attributed to the disease annually.

Asthma is a heterogeneous disease, caused by a combination of environmental and genetic factors, which can wax and wane, with varying frequency and severity among individual patients. Asthma triggers include: indoor allergens, outdoor allergens, tobacco smoke, chemical irritants, air pollution, cold air, extreme emotional arousal, aspirin, beta blockers and physical exercise. Many asthmatics have a genetic disposition for the disease. Allergic asthma represents

approximately half of the asthma population and is associated with elevated IgE, mast cell degranulation, and activation of Th2, and eosinophils. The PGD2/CRTh2 axis plays a key role in the migration and activation of inflammatory cells leading to many symptoms of asthma including coughing, difficulty breathing and exacerbations.

Currently, for chronic treatment of asthma, there are a wide range of treatment options with a variety of delivery mechanisms. Despite the range of available therapies, there remains a significant need for a convenient, safe

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and effective therapy for patients with asthma. Specifically, oral medications may provide improved adherence relative to inhaled therapies.

The asthma market is projected to be flat through 2021, with sales of $14.7 billion in 2011 and $14.9 billion in 2021. Pricing pressure due to generic and/or branded-generic price erosion and increased product competition will constrain the market, but the uptake of high-priced, once-daily, long-acting beta2 agonist, or LABA/inhaled corticosteroid combinations and novel anticytokine agents will help offset these constraining factors from 2014 to 2021.

Although there are a number of drug classes being explored for the treatment of asthma, there are currently no approved drugs directly targeting the PGD2/CRTh2 axis, which is present in about half of the asthma population. Array is seeking a partner to develop its novel oral drug, ARRY-502, an antagonist of the CRTh2 receptor, which, if proven safe and effective, could allow for targeted treatment for asthma patients with the Th2 gene signature across mild, moderate, and severe disease.

Research and Development for Proprietary Drug Discovery

Our primary research efforts during fiscal 2014 were focused on development of our hematology/oncology programs. Our research focuses on biologic functions, or pathways, that have been identified as important in the treatment of human disease based on human clinical, genetic or preclinical data. Within these pathways, we seek to create first-in-class drugs regulating important therapeutic targets to treat patients with serious or life-threatening conditions, primarily in cancer. In addition, we seek to identify opportunities to improve upon existing therapies or drugs in clinical development by creating clinical candidates with superior, or best-in-class, drug characteristics, including efficacy, tolerability or dosing to provide safer, more effective drugs. During fiscal years 2014, 2013 and 2012, we spent $49.8 million, $59.4 million and $56.7 million, respectively, on research and development for proprietary drug discovery, which consist of costs associated with our proprietary drug programs for, among other things, salaries and benefits for scientific personnel, consulting and outsourced services, laboratory supplies, allocated facilities costs and depreciation.

Drug Discovery and Development Timeline

The drug development process is highly uncertain and subject to a number of risks that are beyond our control and takes many years to complete. The following table outlines each phase in the drug development process. Completion times are difficult to estimate and can vary greatly based on the drug and indication. Therefore, the duration times shown in the table below are estimates only.

Phase	Objective	Estimated Duration
Discovery	Lead identification and target validation.	2 to 4 years
Preclinical	Initial toxicology for preliminary identification of risks for humans; gather early pharmacokinetic data.	1 to 2 years
Phase 1	Evaluate the safety and tolerability of the drug in human subjects and find the maximum tolerated dose. The pharmacokinetics of the drug are examined after single and multiple doses, the effects of food on the pharmacokinetics may be evaluated and drug metabolites may be monitored.	1 to 2 years
Phase 2	Establish effectiveness of the drug and its optimal dosage; continue safety evaluation.	2 to 4 years
Phase 3	Confirm efficacy, dosage regime and safety profile of the drug; submit new drug application, or NDA.	2 to 4 years
FDA Approval	Approval by the FDA to sell and market the drug under approved labeling.	8 months to 2 years

Some non-clinical studies, including animal studies, are often conducted during the course of human clinical studies. Proof-of-concept for a drug candidate generally occurs during Phase 2, after initial safety and efficacy data are established.

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Our Research and Development Technologies and Expertise

We are continuing to improve our comprehensive research and development capabilities, consisting of four integrated areas of expertise:

- Discovery Research — Biology, Pharmacology, Toxicology, Chemistry and Translational Medicine;
- Process Research, Development, Formulation and Manufacturing;
- Clinical Development — Clinical Science, Clinical Operations, Drug Safety, Translational Medicine, Biostatistics and Data Management, Regulatory Affairs and Program Management; and
- Information Systems.

Discovery Research

We have a broad drug discovery platform with all the necessary capabilities to efficiently invent new chemical compounds. We continue to add to our breadth of knowledge, refine our processes and engage key scientists who enhance our current capabilities. Our translational medicine team designs and runs mechanistic studies in cell biology and pharmacology to provide insight into clinical development strategy, product differentiation and biomarker support for clinical development. Our discovery group has created high quality clinical candidates for our proprietary and partnered programs that have been shown to modulate their mechanistic target, as measured by an appropriate clinical biomarker.

Process Research, Development, Formulation and Manufacturing

We have built and we continue to enhance our process research and development and current Good Manufacturing Practices, or cGMP, manufacturing capabilities to accommodate the productivity of our research platform and support our clinical development plans. Our capabilities include formulations, physical form characterization and aspects of clinical supply manufacturing.

Clinical Development

Our current key capabilities within clinical development include clinical science, clinical operations, clinical pharmacology, safety monitoring, biostatistics, programming and data management, regulatory strategy and program management. This group leads the development and implementation of our clinical and regulatory strategies. The clinical group designs, directs and implements all clinical operations, including identifying and selecting clinical investigators, recruiting study subjects to participate in our clinical trials, biostatistics, data management, drug safety evaluation and adverse event reporting. The clinical group also is responsible for ensuring that our development programs are conducted in compliance with applicable regulatory requirements. The group also works closely with the cross functional project and clinical teams to facilitate the appropriate and efficient development of our diverse product pipeline.

Our near-term focus is on bringing our most promising drugs through proof-of-concept and Phase 3 clinical trials. Our proof-of-concept strategy is to efficiently conduct studies to demonstrate the value of each program in a therapeutic area so that decisions to continue, modify or cease development of a program can be made early in the development process. We believe that our broad development pipeline and productive discovery platform provide an incentive to design trials for each program with high hurdles to demonstrate the potential of the drug or to "fail early."

Information Systems

We believe that our Information Systems, or IS, capabilities provide a competitive advantage to our core business. Our IS capabilities increase productivity and enable rapid decision making through the delivery of effective business,

discovery science and clinical systems. We are completing a comprehensive update of our Enterprise Resource Planning platform and our Contract Management system to provide business efficiency and scalability for future growth. We are developing a regulatory document management system to enhance our IND and filing processes. Our intranet portal platform is providing document management and workflow efficiencies to enable our staff to streamline business processes across functions. We are also decreasing risk through implementation

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of a comprehensive disaster recovery strategy that combines cloud and in-house system diversity. We accomplished our goal of creating a paperless discovery research environment, which has empowered our scientists to improve real-time decision making at the bench. Array has completed a clinical information system that parallels the comprehensive capabilities of our discovery system, providing company-wide access to real-time information for each clinical trial, as well as the entire drug portfolio. In addition to real-time study data, the system's information includes planned and actual screening/enrollment at the site level, budget and actual costs by types of activities, important events and milestones.

Competitors

The pharmaceutical and biotechnology industries are characterized by rapid and continuous technological innovation. We compete with companies worldwide that are engaged in research and discovery, licensing, development and commercialization of drug candidates, including large pharmaceutical companies with internal discovery and development functions, biotech companies with competing products in the therapeutic areas we are targeting and contract research organizations, or CROs, that perform many of the functions we perform under our collaborations. In addition, we face competition from other pharmaceutical and biotechnology companies seeking to out-license drugs targeting the same disease class or condition as our drug candidates are based on, among other things, patent position, product efficacy, safety, reliability, availability, patient convenience, price and reimbursement potential. Therefore, we may be unable to enter into collaboration, partnering or out-licensing agreements on terms that are acceptable to us, or at all. We also compete with other clinical trials for patients who are eligible to be enrolled in clinical trials we or our partners are conducting, which may limit the number of patients who meet the criteria for enrollment and delay or prevent us or our partners from completing trials when anticipated. Because the timing of entry of a drug in the market presents important competitive advantages, the speed with which we are able to complete drug development and clinical trials, obtain regulatory approval and supply commercial quantities of drugs to the market will affect our competitive position. Some of our competitors have a broader range of capabilities and have greater access to financial, technical, scientific, regulatory, business development, recruiting and other resources than we do. Their access to greater resources may allow them to develop processes or products that are more effective, safer or less costly, or gain greater market acceptance, than products we develop or for which they obtain FDA approval more rapidly than we do. We anticipate that we will face increased competition in the future as new companies enter the market and advanced technologies become available.

Government Regulation

Biopharmaceutical companies are subject to substantial regulation by governmental agencies in the U.S. and other countries. Virtually all pharmaceutical products are subject to extensive pre- and post-market regulation, including regulation governing the testing, manufacturing, distribution, approval, labeling, storage, record keeping, reporting, advertising and promotion, and import and export of such products under the Federal Food, Drug, and Cosmetic Act, or the FDC Act, and its implementing regulations, and by comparable agencies and laws in foreign countries. Failure to comply with applicable foreign regulatory agency or FDA requirements may result in enforcement action, including warning letters, fines, civil or criminal penalties, suspension or delays in clinical development, recall or seizure of products, partial or total suspension of production or withdrawal of a product from the market. Although the discussion below focuses on regulation in the U.S., which is our primary initial focus, we and our partners anticipate seeking approval to market our products in other countries. Generally, our activities in other countries will be subject to regulation that is similar in nature and scope as that imposed in the U.S., although there can be important differences.

Development and Approval

In the U.S., prescription drug products are subject to rigorous preclinical and clinical testing and other approval procedures by the FDA. Under the FDC Act, the FDA must approve any new drug, including a new dosage form or new use of a previously approved drug, prior to marketing in the U.S. Approval requires extensive studies and submission of a large amount of data by the company. The approval process requires substantial time, effort and financial resources, and we cannot be certain that the FDA will grant approval for any of our product candidates on a timely basis, if at all.

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Preclinical Testing. Before testing any drug in human subjects in the U.S., a company must develop extensive preclinical data. Preclinical testing generally includes laboratory evaluation of product chemistry and formulation, as well as toxicological and pharmacological studies in several animal species to assess the quality and safety of the product. Animal studies must be performed in compliance with the FDA's Good Laboratory Practice, or GLP, regulations and the U.S. Department of Agriculture's Animal Welfare Act.

IND Application. Human clinical trials cannot commence until an IND application is submitted and becomes effective. A company must submit, among other information, preclinical testing results to the FDA as part of the IND, and the FDA must evaluate whether there is an adequate basis for testing the drug in initial clinical studies in human volunteers. Unless the FDA raises concerns, the IND becomes effective 30 days following its receipt by the FDA.

Clinical Trials. Clinical trials involve the administration of the drug to healthy human volunteers or to patients under the supervision of a qualified investigator. The conduct of clinical trials is subject to extensive regulation, including compliance with the FDA's bioresearch monitoring regulations and Good Clinical Practice, or GCP, requirements, which establish standards for conducting, recording data from, and reporting the results of clinical trials, and are intended to assure that the data and reported results are credible and accurate, and that the rights, safety, and well-being of study participants are protected. Clinical trials must be conducted under protocols that detail the study objectives, parameters for monitoring safety, and the efficacy criteria, if any, to be evaluated. Each protocol is reviewed by the FDA as part of the IND. In addition, each clinical trial must be reviewed and approved by, and conducted under the auspices of, an Institutional Review Board, or IRB, at an institution conducting the clinical trial. Companies sponsoring the clinical trials, investigators, and IRBs also must comply with regulations and guidelines for obtaining informed consent from the study subjects, complying with the protocol and investigational plan, adequately monitoring the clinical trial, and timely reporting of adverse events. Foreign studies conducted under an IND must meet the same requirements that apply to studies being conducted in the U.S. Data from a foreign study not conducted under an IND may be submitted in support of an NDA if the study was conducted in accordance with GCP and, if necessary, the FDA is able to validate the data through an on-site inspection.
Human clinical trials typically are conducted in three sequential phases, although the phases may overlap with one another. Phase 1 clinical trials involve the initial introduction of a drug in humans on a small scale, and are generally intended to develop data regarding metabolism, pharmacologic action and safety, as well as helping determine the maximum tolerated dose. They also may provide early information regarding effectiveness. Phase 2 trials typically are controlled studies conducted in larger numbers of patients to gather effectiveness and safety data for specific indications. Phase 3 studies usually are intended to develop additional effectiveness and safety data, in order to allow evaluation of the drug’s overall benefit/risk profile and provide a basis for labeling.

During any of these phases, the sponsoring company, the FDA, or an IRB may suspend or terminate a clinical trial at any time for a variety of reasons, including a finding that the subjects or patients are being exposed to an unacceptable health risk. Further, success in early-stage clinical trials does not assure success in later-stage clinical trials. Data obtained from clinical activities are not always conclusive and may be subject to alternative interpretations that could delay, limit or prevent regulatory approval.

NDA Submission and Review. After completing clinical testing of an investigational drug, a sponsor must prepare and submit an NDA for review and approval by the FDA. When an NDA is submitted, the FDA conducts a preliminary review to determine whether the application is sufficiently complete to be accepted for filing. If it is not, the FDA may refuse to file the application and request additional information, in which case the application must be resubmitted with the supplemental information, and review of the application is delayed.
As part of its review, the FDA may refer an NDA to an advisory committee for evaluation and a recommendation as to whether the application should be approved. Although the FDA is not bound by the recommendation of an advisory committee, the agency usually has followed such recommendations. Under the Pediatric Research Equity Act, certain applications for approval must include an assessment, generally based on clinical study data, of the safety and

effectiveness of the subject drug or biological product in relevant pediatric populations. The FDA may waive or defer the requirement for a pediatric assessment, either at the company's request or by the agency's initiative. The FDA may determine that a Risk Evaluation and Mitigation Strategy, or REMS, is necessary to ensure that the benefits of a new product outweigh its risks. A REMS may include various elements,

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ranging from a medication guide or patient package insert to limitations on who may prescribe or dispense the drug, depending on what the FDA considers necessary for the safe use of the drug.

Before approving an NDA, the FDA will inspect the facilities at which the product is to be manufactured. The FDA will not approve the product unless it determines that the manufacturing processes and facilities are in compliance with cGMP requirements and adequate to assure consistent production of the product within required specifications. If the FDA concludes that an NDA does not meet the regulatory standards for approval, the FDA typically issues a Complete Response letter communicating the agency's decision not to approve the application and outlining the deficiencies in the submission. The Complete Response letter also may request further information, including additional preclinical or clinical data. Even if such additional information and data are submitted, the FDA may decide that the NDA still does not meet the standards for approval.

Data from clinical trials are not always conclusive and the FDA may interpret data differently than the sponsor. Obtaining regulatory approval often takes a number of years, involves the expenditure of substantial resources, and depends on a number of factors, including the nature of the disease or condition the drug is intended to address, the availability of alternative treatments, and the risks and benefits demonstrated in clinical trials. Additionally, as a condition of approval, the FDA may impose restrictions that could affect the commercial success of a drug or require post-approval commitments, including the completion within a specified time period of additional clinical studies, which often are referred to as "Phase 4" or "post-marketing" studies.

Post-approval modifications to the drug product, such changes in indications, labeling, or manufacturing processes or facilities, may require a sponsor to develop additional data or conduct additional preclinical or clinical trials, to be submitted in a new or supplemental NDA, which would require FDA approval.

Post-Approval Regulation

Even if regulatory approvals are granted, a marketed product is subject to continuing comprehensive requirements under federal, state and foreign laws and regulations, including reporting adverse events, recordkeeping and compliance with cGMP and marketing requirements. Adverse events reported after approval of a drug can result in additional restrictions on the use of a drug, requirements for additional post-marketing studies or clinical trials, and, possibly, withdrawal of the drug from the market. The FDA or similar agencies in other countries may also require labeling changes to products at any time based on new safety information. If ongoing regulatory requirements are not met or if safety problems occur after the product reaches the market, the FDA or similar agencies in other countries may at any time withdraw product approval or take actions that would suspend marketing or approval.

Good Manufacturing Practices. Companies engaged in manufacturing drug products or their components must comply with applicable cGMP requirements and product-specific regulations enforced by the FDA and other regulatory agencies. If, after receiving approval, a company makes a material change in manufacturing equipment, location, or process (all of which are, to some degree, incorporated in the NDA), additional regulatory review and approval may be required. The FDA also conducts regular, periodic visits to re-inspect equipment, facilities, and processes following the initial approval of a product. Failure to comply with applicable cGMP requirements and conditions of product approval may lead the FDA to seek sanctions, including fines, civil penalties, injunctions, suspension of manufacturing operations, operating restrictions, withdrawal of FDA approval, seizure or recall of products, and criminal prosecution.

Advertising and Promotion. The FDA and other federal regulatory agencies closely regulate the marketing and promotion of drugs through, among other things, standards and regulations for advertising, and promotion to physicians and patients, communications regarding unapproved uses, and industry-sponsored scientific and educational activities. Failure to comply with applicable FDA requirements and restrictions in this area may subject a company to adverse publicity and enforcement action by the FDA, the Department of Justice, or the Office of the Inspector General of the Department of Health and Human Services, and state authorities, as well as civil and criminal fines and agreements that materially restrict the manner in which a company promotes or distributes drug products.

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Other Requirements. In addition, companies that manufacture or distribute drug products or that hold approved NDAs must comply with other regulatory requirements, including submitting annual reports, reporting information about adverse drug experiences, submitting establishment registrations and drug listings, and maintaining certain records.

Hatch-Waxman Act

If drug candidates we develop are approved for commercial marketing under an NDA by the FDA, they would be subject to the provisions of the Drug Price Competition and Patent Term Restoration Act of 1984, known as the "Hatch-Waxman Act." The Hatch-Waxman Act establishes two abbreviated approval pathways for drug products that are in some way follow-on versions of already approved NDA products. In addition, the Hatch-Waxman Act provides companies with marketing exclusivity for new chemical entities and allows companies to apply to extend for up to five additional years of patent term lost during product development and FDA review of an NDA. It also provides a means for approving generic versions of a drug product once the marketing exclusivity period has ended and all relevant patents have expired (or have been successfully challenged and defeated). The period of marketing exclusivity may be shortened, however, by a successful patent challenge. The laws of other key markets likewise create both opportunities for exclusivity periods and patent protections and the possibility of generic competition once such periods or protections have either expired or have been successfully challenged by generic entrants.

Orphan Drug Exclusivity

The Orphan Drug Act provides incentives for the development of drugs intended to treat rare diseases or conditions, which generally are diseases or conditions affecting less than 200 thousand individuals in the U.S. at the time of the request for orphan designation. If a sponsor demonstrates that a drug is intended to treat a rare disease or condition and meets other applicable requirements, the FDA grants orphan drug designation to the product for that use. The FDA granted our requests for orphan drug designation in recent months for the following: i) filanesib for use in treating MM in May 2014; ii) ARRY-797 for use in treating LMNA-DCM in May 2014; and iii) binimetinib for use in treating LGSOC in July 2014. The benefits of orphan drug designation include tax credits for clinical testing expenses and exemption from user fees. A drug that is approved for the orphan drug designated use is granted seven years of orphan drug exclusivity. During that period, the FDA generally may not approve any other application for the same product for the same indication, although there are exceptions, most notably when the later product is shown to be clinically superior to the product with exclusivity.

Pediatric Exclusivity

Section 505A of the FDC Act provides for six months of additional exclusivity if an NDA sponsor submits pediatric data that fairly respond to a written request from the FDA for such data. The data do not need to show the product to be safe and effective in the pediatric population studied; rather, if the clinical trial is deemed to fairly respond to the FDA’s request, the additional protection is granted. If reports of requested pediatric studies are submitted to and accepted by the FDA within the statutory time limits, whatever statutory or regulatory periods of exclusivity or Orange Book listed patent protection that cover the drug are extended by six months. This is not a patent term extension, but it effectively extends the regulatory period during which the FDA cannot approve an ANDA or 505(b)(2) application owing to regulatory exclusivity or listed patents. When any of our products is approved, we anticipate seeking pediatric exclusivity when it is appropriate.

Fast Track and Breakthrough Therapy Designations.

Certain of our product candidates may qualify for Fast Track designation. The Fast Track program is intended to expedite or facilitate the process for reviewing new drugs that demonstrate the potential to address unmet medical needs involving serious or life-threatening diseases or conditions. If a drug receives Fast Track designation, the FDA may consider reviewing sections of the NDA on a rolling basis, rather than requiring the entire application to be

submitted to begin the review. Products with Fast Track designation also may be eligible for more frequent meetings and correspondence with the FDA about the product's development, and may benefit from other FDA programs intended to expedite development and review, such as priority review (i.e., a six-month review goal, rather than the standard 10-month timeframe) and accelerated approval (i.e., approval on the basis of a surrogate endpoint that is reasonably likely to predict clinical benefit).

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Certain of our product candidates also may qualify for Breakthrough Therapy designation, which is intended to expedite the development and review of drugs for serious or life-threatening conditions. The criteria for breakthrough therapy designation require preliminary clinical evidence showing that the drug may have substantial improvement on at least one clinically significant endpoint over available therapy. If a drug receives Breakthrough Therapy designation, it will be eligible for all of the benefits of Fast Track designation. In addition, such designated drugs are eligible for more intensive guidance from the FDA on an efficient drug development program and a commitment from the agency to involve senior FDA managers in such guidance.

Even if a product qualifies for Fast Track designation or Breakthrough Therapy designation, the FDA may later decide that the product no longer meets the conditions for qualification, and/or may determine that the product does not meet the standards for approval.

Biological Samples

In the course of our business, we handle, store and dispose of chemicals and biological samples. We are subject to various federal, state and local laws and regulations relating to the use, manufacture, storage, handling and disposal of hazardous materials and waste products. These environmental laws generally impose liability regardless of the negligence or fault of a party and may expose us to liability for the conduct of, or conditions caused by, others.

Privacy

Most health care providers, including research institutions from whom we or our partners obtain patient information, are subject to privacy and security rules under the Health Insurance Portability and Accountability Act of 1996, or HIPAA, and the recent amendments to HIPAA under the Health Information Technology for Economic and Clinical Health Act, or HITECH. Additionally, strict personal privacy laws in other countries affect pharmaceutical companies' activities in other countries. Such laws include the European Union, or EU, Directive 95/46/EC on the protection of individuals with regard to the processing of personal data, as well as individual EU Member States, implementing laws and additional laws. Although our clinical development efforts are not barred by these privacy regulations, we could face substantial criminal penalties if we knowingly receive individually identifiable health information from a health care provider that has not satisfied HIPAA's or the EU's disclosure standards. Failure by EU clinical trial partners to obey requirements of national laws on private personal data, including laws implementing the EU Data Protection Directive, might result in liability and/or adverse publicity. In addition, certain privacy laws and genetic testing laws may apply directly to our operations and/or those of our partners and may impose restrictions on the use and dissemination of individuals' health information.

United States Healthcare Reform

In March 2010, the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010, together the Healthcare Reform Act, was adopted in the U.S. This law substantially changes the way healthcare is financed by both governmental and private insurers, and significantly impacts the pharmaceutical industry. The Healthcare Reform Act contains a number of provisions that are expected to impact our business and operations, in some cases in ways we cannot currently predict. Changes that may affect our business if we or our partners commercialize our products in the future include those governing enrollment in federal healthcare programs, reimbursement changes, rules regarding prescription drug benefits under the health insurance exchanges, and fraud and abuse and enforcement. In addition, continued implementation of the Healthcare Reform Act may result in the expansion of new programs such as Medicare payment for performance initiatives, and may impact existing government healthcare programs, such as by improving the physician quality reporting system and feedback program.

Additional provisions of the Healthcare Reform Act, some of which became effective in 2011, may negatively affect our revenues from products that we or our partners commercialize in the future. For example, as part of the Healthcare Reform Act's provisions closing a coverage gap that currently exists in the Medicare Part D prescription drug program, manufacturers of branded prescription drugs are required to provide a 50% discount on branded prescription

drugs dispensed to beneficiaries within this coverage gap. Medicare Part D is a prescription drug benefit available to all Medicare beneficiaries. It is a voluntary benefit that is implemented through private plans under contractual arrangements with the federal government. Similar to pharmaceutical

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coverage through private health insurance, Part D plans negotiate discounts from drug manufacturers and pass on some of those savings to Medicare beneficiaries. The Healthcare Reform Act also makes changes to the Medicaid Drug Rebate Program, discussed in more detail below, including increasing the minimum rebate from 15.1% to 23.1% of the average manufacturer price for most innovator products. The Centers for Medicare & Medicaid Services, or CMS, the federal agency that administers the Medicaid program, currently is expected to issue a final regulation later in 2014 to implement changes made to the Medicaid Drug Rebate Program by the Healthcare Reform Act.

Many of the Healthcare Reform Act's most significant reforms do not take effect until 2014 and thereafter, and their details will be shaped significantly by implementing regulations, some of which have yet to be finalized. It is unclear how many states will expand their Medicaid programs by raising the income limit to 133% of the federal poverty level, as allowed by the Healthcare Reform Act. For each state that does not choose to expand its Medicaid program, there likely will be fewer insured patients overall, which could impact the sales, business and financial condition of manufacturers of branded prescription drugs.

Pharmaceutical Pricing and Reimbursement

In U.S. markets, our ability and that of our partners to commercialize our products successfully, and to attract commercialization partners for our products, depends in significant part on the availability of adequate financial coverage and reimbursement from third-party payors, including, in the U.S., governmental payors such as the Medicare and Medicaid programs, managed care organizations, and private health insurers.

Once we have an approved drug, we intend to participate in the Medicaid Drug Rebate Program. Under the Medicaid Drug Rebate Program, we will be required to pay a rebate to each state Medicaid program for our covered outpatient drugs that are dispensed to Medicaid beneficiaries and paid for by a state Medicaid program as a condition of having federal funds being made available to the states for our drugs under Medicaid and Medicare Part B. Those rebates are based on pricing data that would be reported by us on a monthly and quarterly basis to CMS. Federal law requires that any company that participates in the Medicaid Drug Rebate Program also participate in the Public Health Service’s 340B drug pricing discount program, or the 340B program, in order for federal funds to be available for the manufacturer’s drugs under Medicaid and Medicare Part B. The 340B program requires participating manufacturers to agree to charge statutorily-defined covered entities no more than the 340B “ceiling price” for the manufacturer’s covered outpatient drugs. The ceiling price can represent a significant discount and is based on the pricing data reporting to the Medicaid Drug Rebate Program.

The Healthcare Reform Act expanded the 340B program to include additional entity types: certain free-standing cancer hospitals, critical access hospitals, rural referral centers and sole community hospitals, each as defined by the Healthcare Reform Act. The Healthcare Reform Act exempts drugs designated under section 526 of the FDC Act as “orphan drugs” from the ceiling price requirements for these newly-eligible entities. The Health Resources and Services Administration, or HRSA, which administers the 340B program, previously had issued a final regulation to implement the orphan drug exception that interpreted the orphan drug exception narrowly. That final regulation was vacated by the U.S. District Court for the District of Columbia on May 23, 2014 on the ground that HRSA did not have the authority to issue a regulation on this topic. It is not yet clear whether HRSA will appeal the court’s decision. On July 21 2014, HRSA issued an “interpretive” rule that again interprets the orphan drug exception narrowly, consistent with the invalidated final rule. Like the invalidated final rule, it exempts orphan drugs from the ceiling price requirements for the newly-eligible entities only when the orphan drug is used for its orphan indication. Under the interpretive rule, the newly-eligible entities are entitled to purchase orphan drugs at the ceiling price when the orphan drug is not used for its orphan indication. The legal challenge to the final rule remains ongoing and has been extended to challenge the July 21 interpretive rule as well. The uncertainty regarding how the statutory orphan drug exception will be applied will increase the complexity of compliance, will make compliance more time-consuming, and could negatively impact our results of operations. HRSA previously was expected to issue a comprehensive proposed regulation in 2014 that

would have addressed many aspects of the 340B program. However, the invalidation of the orphan drug regulation on the ground that HRSA did not have rulemaking authority for that topic has raised questions regarding whether HRSA has the authority to issue the comprehensive regulation. Therefore, it is unclear if HRSA now will issue this proposed regulation in 2014. If that regulation is proposed and finalized, it could affect our obligations under the 340B program in ways we cannot anticipate.

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Pricing and rebate calculations vary among products and programs. The calculations are complex and will often be subject to interpretation by us, governmental or regulatory agencies and the courts. If we become aware that our reporting of pricing data for a prior quarter was incorrect, we will be obligated to resubmit the corrected data for a period not to exceed 12 quarters from the quarter in which the data originally were due. Such restatements and recalculations increase our costs for complying with the laws and regulations governing the Medicaid Drug Rebate Program.

We may be liable for errors associated with our submission of pricing data. If we are found to have knowingly submitted false pricing data to the Medicaid program, we may be liable for civil monetary penalties in the amount of up to $100,000 per item of false information. Our failure to submit pricing data to the Medicaid program on a timely basis could result in a civil monetary penalty of $10,000 per day for each day the information is late. Such failure also could be grounds for CMS to terminate our Medicaid drug rebate agreement, which is the agreement under which we would participate in the Medicaid Drug Rebate Program. In the event that CMS terminates our rebate agreement, federal payments may not be available under Medicaid or Medicare Part B for our covered outpatient drugs. We cannot assure you that our submissions will not be found by CMS to be incomplete or incorrect.

Third-party payors decide which drugs they will pay for and establish reimbursement and co-pay levels. Third-party payors are increasingly challenging the prices charged for medical products and services and examining their cost effectiveness, in addition to their safety and efficacy. We may need to conduct expensive pharmacoeconomic studies in order to demonstrate the cost effectiveness of our products. Even with such studies, any of our products that are commercialized may be considered less safe, less effective or less cost-effective than other products, and third-party payors may not provide coverage and reimbursement, in whole or in part, for our products.

Political, economic and regulatory influences are subjecting the healthcare industry in the U.S. to fundamental changes. There have been, and we expect there will continue to be, legislative and regulatory proposals to change the healthcare system and reimbursement systems in ways that could impact our ability and that of our partners to profitably sell commercialized products.

Payors also are increasingly considering new metrics as the basis for reimbursement rates, such as average sales price, average manufacturer price and actual acquisition cost. It is difficult to project the impact of these evolving reimbursement mechanics on the willingness of payors to cover any of our products that are commercialized.

In addition, we anticipate that a significant portion of our or our partners' revenue from sales of commercialized products will be obtained through government payors, including Medicaid, and any failure to qualify for reimbursement for products we are able to commercialize under those programs would have a material adverse effect on revenues and royalties from sales of such products.

Interactions with Healthcare Providers

Healthcare providers, physicians and others often play a primary role in the recommendation and prescription of pharmaceutical products. Manufacturers of branded prescription drugs are subject to broadly applicable fraud and abuse and other healthcare laws and regulations that may constrain the business or financial arrangements and relationships through which manufacturers market, sell and distribute the products for which they obtain marketing approval. Restrictions under applicable federal and state healthcare laws and regulations include the following:

- The federal Anti-Kickback Statute prohibits, among other things, persons from knowingly and willfully offering, paying, soliciting, or receiving remuneration, directly or indirectly, in cash or in kind, to induce or reward the purchasing, leasing, ordering or arranging for the purchase, lease, or order of any health care item or service reimbursable under federal healthcare programs such as Medicare and Medicaid. This statute has been interpreted to apply to arrangements between pharmaceutical manufacturers on the one hand and prescribers, purchasers and formulary managers on the other. The Healthcare Reform Act amends the intent requirement of the federal

Anti-Kickback Statute. A person or entity no longer needs to have actual knowledge of this statute

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or specific intent to violate it. There are a number of statutory exceptions and regulatory safe harbors protecting certain common activities from prosecution or other regulatory sanctions, however, the exceptions and safe harbors are drawn narrowly, and practices that do not fit squarely within an exception or safe harbor may be subject to scrutiny.

- The federal False Claims Act imposes criminal and civil penalties and provides for civil whistleblower or qui tam actions, against individuals or entities for knowingly presenting, or causing to be presented, to the federal government, claims for payment that are false or fraudulent or knowingly making, or causing to be made, a false record or statement material to a false or fraudulent claim to avoid, decrease, or conceal an obligation to pay money to the federal government. In addition, federal Anti-Kickback Statute violations and certain marketing practices, including off-label promotion, may also implicate the federal False Claims Act.
- The federal Physician Payment Sunshine Act, being implemented as the Open Payments Program, requires pharmaceutical manufacturers to engage in extensive tracking of physician and teaching hospital payments, maintenance of a payments database, and public reporting of the payment data.
- Analogous state laws and regulations, such as state anti-kickback and false claims laws, apply to sales or marketing arrangements and activities, including the provision of gifts, meals, or other items to certain health care providers, and claims involving healthcare items or services reimbursed by Medicaid or other state programs apply regardless of the payor.

Additionally, the U.S. Foreign Corrupt Practices Act, or FCPA, prohibits U.S. corporations and their representatives from offering, promising, authorizing or making payments to any foreign government official, government staff member, political party or political candidate in an attempt to obtain or retain business abroad. The scope of the FCPA includes interactions with certain healthcare professionals in many countries. Other countries have enacted similar anti-corruption laws and/or regulations.

Efforts to ensure that business activities and business arrangements comply with applicable healthcare laws and regulations can be costly for manufacturers of branded prescription products. If a manufacturer's operations, including activities conducted by its sales team, are found to be in violation of any of these laws or any other governmental regulations that apply to the company, the company may be subject to significant civil, criminal and administrative penalties, damages, fines, exclusion from government funded healthcare programs, such as Medicare and Medicaid, and the curtailment or restructuring of operations.

Other Regulatory Requirements

We are also subject to regulation by other regional, national, state and local agencies, including the U.S. Department of Justice, the Office of Inspector General of the U.S. Department of Health and Human Services and other regulatory bodies. Our current and future partners are subject to many of the same requirements.

In addition, we are subject to other regulations, including regulations under the Occupational Safety and Health Act, regulations promulgated by the U.S. Department of Agriculture, or USDA, the Toxic Substance Control Act, the Resource Conservation and Recovery Act, and regulations under other federal, state and local laws.

Violations of any of the foregoing requirements could result in penalties being assessed against us.

Intellectual Property

Our success depends in part on our ability to protect our potential drug candidates, other intellectual property rights and our proprietary software technologies. To establish and protect our proprietary technologies and products, we rely on a combination of patent, copyright, trademark and trade secret laws, as well as confidentiality provisions in our contracts with collaborators.

Our patent strategy is designed to protect inventions, technology and improvements to inventions that are commercially important to our business in countries where we believe it is commercially reasonable and advantageous to do so. We have numerous U.S. patents and patent applications related to our clinical-stage

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programs as well as numerous patent applications and counterpart patent filings which relate to our preclinical programs and proprietary technologies. These patents and patent applications include claims directed to compositions of matter, pharmaceutical compositions, methods of treatment, and methods of making these compositions for multiple applications.

We have two issued U.S patents covering filanesib and related molecules, and their equivalent counterparts issued or pending in dozens of countries. These patents include composition of matter, method of treatment and combination therapy claims, which will expire on various dates in 2025. We believe that patent term extension under the Hatch-Waxman Act could be available to extend our patent exclusivity for filanesib to at least 2030 in the United States depending on timing of our first approval. In Europe, we believe that patent term extension under a supplementary protection certificate could be available for an additional five years to at least 2030. Additionally, other patent applications are directed to methods of using filanesib and other combination therapies, which, if issued, have expiration dates between 2033 and 2034, excluding any patent term adjustment.

We have issued U.S. patents covering binimetinib, selumetinib and related molecules and their equivalent counterparts issued or pending in dozens of countries. These patents include composition of matter, method of treatment and synthetic method claims, which will expire on various dates in 2023 and 2024. We have also filed patent applications directed to methods of manufacturing, and to intermediates useful for manufacturing, binimetinib and selumetinib, which will expire on various dates in 2026 and 2027. Additionally, Novartis and AstraZeneca have filed other patent applications directed to binimetinib and selumetinib, respectively, including patent applications of which we are not aware. Patent term extension under the Hatch-Waxman Act in the United States and in Europe under a supplementary protection certificate could be available for each of our partners to extend patent exclusivity for these clinical candidates. Each partner is entitled to decide which patent covering its product candidate will be subject to such efforts and whether to file other patent applications directed at its product candidate. Our partners do not share information with us about the status or results of their respective efforts to seek additional patent protection. Therefore, information we report regarding the patent status of these partnered drug development programs is limited to our efforts to obtain patent protection.

In addition, we have several hundred additional patents and patent applications filed worldwide, substantially all of which pertain to our product development programs. Any patents that may issue from our pending patent applications would expire no earlier than 2023, excluding any patent term extension. These patents and patent applications disclose compositions of matter, pharmaceutical compositions, methods of use and synthetic methods, as well as various salt and polymorphic forms of clinical candidates.

U.S. patents issued from applications filed on or after June 8, 1995, have a term of 20 years from the application filing date or earlier claimed priority. All of our patent applications were filed after June 8, 1995. Patents in most other countries have a term of 20 years from the date of filing of the patent application. Because the time from filing patent applications to issuance of patents is often several years, this process may result in a period of patent protection significantly shorter than 20 years, which may adversely affect our ability to exclude competitors from our markets. Currently, none of our patents covering drugs currently under development will expire prior to 2023. Our success will depend in part upon our ability to develop proprietary products and technologies and to obtain patent coverage for these products and technologies. We intend to continue to file patent applications covering newly-developed products and technologies. We may not, however, commercialize the technology underlying any or all of our existing or future patent applications.

Patents provide some degree of protection for our proprietary technology. However, the pursuit and assertion of patent rights, particularly in areas like pharmaceuticals and biotechnology, involve complex legal and factual determinations and, therefore, are characterized by some uncertainty. In addition, the laws governing patentability and the scope of patent coverage continue to evolve, particularly in biotechnology. As a result, patents may not be issued from any of

our patent applications or from applications licensed to us. The scope of any of our patents, if issued, may not be sufficiently broad to offer meaningful protection. In addition, our patents or patents licensed to us, if they are issued, may be successfully challenged, invalidated, circumvented or rendered unenforceable so that our patent rights might not create an effective competitive barrier. Moreover, the laws of some foreign countries may not protect our proprietary rights to the same extent as do the laws of the U.S. Any patents issued to us or our strategic partners may not provide a legal basis for establishing an exclusive market for our products or provide us with any competitive advantages. Moreover, the patents held by others may

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adversely affect our ability to do business or to continue to use our technologies freely. In view of these factors, our intellectual property positions bear some degree of uncertainty.

The source code for our proprietary software programs is protected both as a trade secret and as a copyrighted work. We attempt to protect our trade secrets by entering into confidentiality agreements with our employees, third parties and consultants. Our employees also sign agreements requiring that they assign to us their interests in inventions, original expressions and any corresponding patents and copyrights arising from their work for us. However, it is possible that these agreements may be breached, invalidated or rendered unenforceable and if so, we may not have an adequate remedy available. Despite the measures we have taken to protect our intellectual property, parties to our agreements may breach the confidentiality provisions or infringe or misappropriate our patents, copyrights, trademarks, trade secrets and other proprietary rights. In addition, third parties may independently discover or invent competing technologies or reverse-engineer our trade secrets or other technology. The failure of our employees, our consultants or third parties to maintain secrecy of our drug discovery and development efforts may compromise or prevent our ability to obtain patent coverage for our invention.

Employees

On August 5, 2013, we reduced our workforce by approximately 20% through a reduction of 37 employees in research and development-related departments and 15 employees in general and administrative-related departments. As of June 30, 2014, we had 198 full-time employees. None of our employees are covered by collective bargaining agreements and we consider our employee relations to be good.

Our Corporate Information

Our principal executive offices are located at 3200 Walnut Street, Boulder, Colorado 80301 and our phone number is (303) 381-6600. We were founded in 1998 and became a public company in November 2000. Our stock is listed on the NASDAQ Global Market under the symbol "ARRY."

Available Information

Electronic copies of our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and other documents we file with or furnish to the SEC are available free of charge: (i) on the "Investor Relations" section of our website at http://www.arraybiopharma.com; or (ii) by sending a written request to Investor Relations at our corporate headquarters. Information on our website is not incorporated by reference into this report.

Additionally, the documents we file or furnish with the SEC are available free of charge at the SEC's Public Reference Room at 100 F Street, NE, Washington D.C. 20549, or can be accessed free of charge on the website maintained by the SEC at http://www.sec.gov. Other information on the operation of the Public Reference Room is available by calling the SEC at (800) SEC-0330.

ITEM 1A. RISK FACTORS

In addition to the other factors discussed elsewhere in this report and in other reports we file with the SEC, the following factors could cause our actual results or events to differ materially from those contained in any forward-looking statements made by us or on our behalf. In addition, other risks and uncertainties not presently known to us or that we currently deem immaterial may impair our business and operations. If any of the following risks or such other risks occur, it could adversely affect our business, operating results and financial condition, as well as cause the value of our common stock to decline.

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Risks Related to Our Business

If we need but are unable to obtain additional funding to support our operations, we could be required to reduce our research and development activities or curtail our operations and it may lead to uncertainty about our ability to continue to operate as a going concern.

We have expended substantial funds to discover and develop our drug candidates and additional substantial funds will be required for further development, including preclinical testing and clinical trials, of any product candidates we develop internally. Additional funds will be required to manufacture and market any products we own or retain rights to that are approved for commercial sale. Because the successful development of our products is uncertain, we are unable to precisely estimate the actual funds we will require to develop and potentially commercialize them.

We have historically funded our operations from up-front fees and license and milestone payments received under our drug collaborations and license agreements, the sale of equity securities, and debt provided by convertible debt and other credit facilities. Management believes that our cash, cash equivalents and marketable securities as of June 30, 2014 will enable us to continue to fund operations in the normal course of business for at least the next 12 months. Until we can generate sufficient levels of cash from current operations, which we do not expect to achieve in the foreseeable future, and 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 up-front and/or milestone payments. Our ability to obtain additional funding when needed, changes to our operating plans, our existing and anticipated working capital needs, the acceleration or modification of our planned research and development activities or expenditures, increased expenses or other events may affect our need for additional capital in the future and may require us to seek additional funding sooner than anticipated.

Our ability to successfully raise sufficient funds through the sale of debt or equity securities or from debt financing from lenders 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 collaboration or license agreements that provide for up-front fees or milestone payments, or we may not earn milestone payments under such agreements when anticipated, or at all. Our ability to realize milestone or royalty payments under existing agreements and to enter into new arrangements that generate additional revenue through up-front fees and milestone or royalty payments is subject to a number of risks, many of which are beyond our control. For example, although following the recently announced transaction by Novartis to exchange certain assets with GlaxoSmithKline, Novartis has indicated that it will continue to honor its obligations under its License Agreement with Array for the development of binimetinib, including the three Phase 3 trials currently underway; however, the transaction could affect the program in ways we may not anticipate. For example, the program could revert to Array, and development efforts, and any potential future milestone or royalty revenue, may be affected by this transaction. Additionally, in August 2013, we reduced our workforce by approximately 20% as part of our efforts to fund our discovery organization with strategic collaborations and focus internally on progressing our hematology and oncology programs to later stage development. If we are unable to generate enough revenue from our existing or new collaborations when needed or secure additional sources of funding, it may be necessary to significantly reduce our 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 or co-development programs as these programs progress into later stage development. These events may result in an inability to maintain a level of liquidity necessary to continue operating our business and the loss of all or a part of the investment of our stockholders in our common stock and may result in a reduction in the value of our 3.00% Convertible Senior Notes due 2020. In addition, if we are unable to maintain certain levels of cash and marketable securities, our obligations under our loan agreement with Comerica Bank may be accelerated.

We have a history of operating losses and may not achieve or sustain profitability.

We have incurred significant operating and net losses and negative cash flows from operations since our inception. As of June 30, 2014, we had an accumulated deficit of $717.9 million. We had net losses of $85.3 million, $61.9 million, and $23.6 million for the fiscal years ended June 30, 2014, 2013 and 2012, respectively. We expect to incur additional losses and negative cash flows in the future, and these losses may continue or

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increase in part due to anticipated levels of expenses for research and development, particularly clinical development and expansion of our clinical and scientific capabilities to support ongoing development of our programs. As a result, we may not be able to achieve or maintain profitability.

We may not receive royalty or milestone revenue under our collaboration and license agreements for several years, or at all.

Much of our current revenue is non-recurring in nature and unpredictable as to timing and amount. Several of our collaboration and license agreements provide for royalties on product sales. However, because none of our drug candidates have been approved for commercial sale, our drug candidates are at early stages of development and drug development entails a high risk of failure, we may never realize much of the milestone revenue provided for in our collaboration and license agreements and we do not expect to receive any royalty revenue for several years, if at all. Similarly, drugs we select to commercialize ourselves or partner for later stage co-development and commercialization may not generate revenue for several years, or at all.

We or our partners may choose not to commercialize a drug candidate at any time during development, which would reduce or eliminate our potential return on investment for that drug.

At any time, we or our partners may decide to discontinue the development of a drug candidate or not to commercialize a candidate. If we terminate a program in which we have invested significant resources, we will not receive any return on our investment and we will have missed the opportunity to have allocated those resources to potentially more productive uses. If one of our partners terminates a program, we will not receive any future milestone payments or royalties relating to that program under our agreement with that party. Even if one of our drug candidates receives regulatory approval for marketing, physicians or consumers may not find that its effectiveness, ease of use, side-effect profile, cost or other factors make it effective in treating disease or more beneficial than, or preferable to, other drugs on the market. Additionally, third-party payors, such as government health plans and health insurance plans or maintenance organizations, may choose not to include our drugs on their formulary lists for reimbursement. As a result, our drugs may not be used or may be used only for restricted applications.

Our partners have substantial control and discretion over the timing and the continued development and marketing of drug candidates we have licensed to them and, therefore, over the timing and whether we receive anticipated milestone payments and/or royalties.

Our partners have significant discretion in determining the efforts and amount of resources that they dedicate to our collaborations and, therefore, whether we will receive milestone payments and any royalties when anticipated, or at all. Our partners may decide not to proceed with clinical development or commercialization of a particular drug candidate for any number of reasons that are beyond our control, even under circumstances where we might have continued such a program. In addition, our receipt of milestone payments and royalties from our partners depends on their abilities to establish the safety and efficacy of our drug candidates, obtain regulatory approvals and achieve market acceptance of products developed from our drug candidates. We also depend on our partners to manufacture clinical scale quantities of some of our drug candidates and would depend on them in the future for commercial scale manufacture, distribution and direct sales. In addition, we may not be apprised of the development or commercialization activities or strategies of our partners and, as a result, our assumptions regarding the anticipated receipt of milestone payments or royalties may be incorrect.

We face additional risks in connection with our collaborations, including the following:

- partners may develop and commercialize, either alone or with others, products and services that are similar to, or competitive with, the products that are the subject of the collaboration with us;
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partners may not commit sufficient resources to the testing, marketing, distribution or other development of our drug candidates;

- partners may not properly maintain or defend intellectual property rights we license to them or they may utilize our proprietary information in such a way as to invite litigation that could jeopardize or potentially invalidate our intellectual property or proprietary information or expose us to potential liability;

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- partners may encounter conflicts of interest, changes in business strategy or other business issues which could adversely affect their willingness or ability to fulfill their obligations to us (for example, pharmaceutical and biotechnology companies historically have re-evaluated their priorities following mergers and consolidations, which have been common in recent years in these industries);
- partners are subject to many of the risks described under the heading below "Risks Related to Our Industry" and any adverse effects on our partners in connection with their regulatory obligations could have a material adverse effect on our business, financial condition and ability to commercialize our products; and
- disputes may arise between us and our partners delaying or terminating the research, development or commercialization of our drug candidates, resulting in significant litigation or arbitration that could be time-consuming and expensive, or causing partners to act in their own self-interest and not in the interest of holders of our securities.

We may not be successful in entering into additional out-license agreements on favorable terms, which may adversely affect our liquidity or require us to change our spending priorities on our proprietary programs.

We are committing significant resources to create our own proprietary drug candidates and to build a commercial-stage biopharmaceutical company. We have built our clinical and discovery programs through spending $627.8 million from our inception through June 30, 2014. In fiscal 2014, we spent $49.8 million in research and development for proprietary programs, compared to $59.4 million and $56.7 million for fiscal years 2013 and 2012, respectively. Many of our proprietary drug discovery programs are in an early stage of development and are unproven. Our ability to continue to fund our planned spending on our proprietary drug programs and in building our commercial capabilities depends to a large degree on up-front fees, milestone payments and other revenue we receive as a result of our partnered programs. We have 11 ongoing partner-funded clinical programs, and we plan to continue initiatives during fiscal 2015 to partner select clinical and preclinical stage programs to obtain additional capital or fund further development.

We may not be successful, however, in entering into additional out-licensing agreements with favorable terms, including up-front, milestone, royalty and/or license payments and the retention of certain valuable commercialization or co-promotion rights, as a result of factors, many of which are outside of our control. These factors include:

- our ability to create valuable proprietary drugs targeting large market opportunities;
- research and spending priorities of potential licensing partners;
- willingness of, and the resources available to, pharmaceutical and biotechnology companies to in-license drug candidates to fill their clinical pipelines;
- the success or failure, and timing, of preclinical and clinical trials for our proprietary programs we intend to out-license; or
- our ability or inability to generate proof-of-concept data and to agree with a potential partner on the value of proprietary drug candidates we are seeking to out-license, or on the related terms.

If we are unable to enter into out-licensing agreements and realize milestone, license and/or up-front fees when anticipated, it may adversely affect our liquidity and we may be forced to curtail or delay development of all or some of our proprietary programs, which in turn may harm our business and the value of our stock and our 3% Convertible Senior Notes due 2020. In addition, insufficient funds may require us to relinquish greater rights to product candidates at an earlier stage of development or on less favorable terms to us or holders of our securities than we would otherwise choose to obtain funding for our operations.

We may not out-license our proprietary programs at the most appropriate time to maximize the total value or return of these programs to us.

A critical aspect of our business strategy is to out-license drug candidates for further development, co-development and/or commercialization to obtain the highest possible value while also evaluating earlier out-

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licensing opportunities to maximize our risk-adjusted return on our investment in proprietary research. Because the costs and risk of failure of bringing a drug to market are high, the value of out-licensing a drug candidate generally increases as it successfully progresses through clinical trials.

We may choose or be forced to out-license a drug candidate or program on terms that require us to relinquish commercial or market rights or at a point in the research and development process that does not provide as great a value or return than what might have been obtained if we had further developed the candidate or program internally. Likewise, we may decline, or be unable to obtain favorable, early out-licensing opportunities in programs that do not result in a commercially viable drug, which could leave the resulting program with little or no value even though significant resources were invested in its development. Our inability to successfully out-license our programs on favorable terms could materially adversely affect our results of operations and cash flows.

Servicing our debt requires a significant amount of cash, and we may not have sufficient cash flow from our business to pay our substantial debt.

In June 2013, we issued $132.3 million aggregate principal amount of 3.00% Convertible Senior Notes due 2020, or the 2020 Notes, to investors pursuant to an effective shelf registration statement filed with the SEC. Interest is payable on the 2020 Notes semi-annually and the 2020 Notes mature on June 1, 2020, unless redeemed or converted prior to that date. In addition, if a Fundamental Change occurs, holders of the 2020 Notes may require us to purchase for cash all or any portion of their 2020 Notes at a purchase price equal to 100% of the principal amount of the 2020 Notes to be purchased plus accrued and unpaid interest, if any, to, but excluding, the Fundamental Change purchase date. As of June 30, 2014, all $132.3 million principal amount of the 2020 Notes remained outstanding. We also have a term loan outstanding with Comerica Bank under which $14.6 million is outstanding as of June 30, 2014.

Our ability to make scheduled payments of interest and principal on our indebtedness, including the 2020 Notes, or to pay the redemption price for the 2020 Notes on a Fundamental Change, depends on our future performance, which is subject to economic, financial, competitive and other factors beyond our control. We may not have sufficient cash in the future to service our debt and make necessary capital expenditures. If we are unable to generate such cash flow or secure additional sources of funding, we may be required to adopt one or more alternatives, such as significantly reducing our current rate of spending through further reductions in staff, delaying, scaling back or stopping certain research and development programs, restructuring debt or obtaining additional equity capital on terms that may be onerous or highly dilutive. Our ability to refinance our indebtedness will depend on the capital markets and our financial condition at such time. We may not be able to engage in any of these activities or engage in these activities on desirable terms, which could result in a default on our debt obligations.

Many of our drug candidates are at early stages of development and we may not successfully develop a drug candidate that becomes a commercially viable drug.

The drug discovery and development process is highly uncertain and we have not developed, and may never develop, a drug candidate that ultimately leads to a commercially viable drug. Many of our drug candidates are in the early stages of development, and our most advanced drug candidates are in early Phase 3 studies. We do not have any drugs approved for commercial sale. Before a drug product is approved by the FDA for commercial marketing, it is tested for safety and effectiveness in clinical trials that can take up to six years or longer. Promising results in preclinical development or early clinical trials may not be predictive of results obtained in later clinical trials. A number of pharmaceutical companies have experienced significant setbacks in advanced clinical trials, even after obtaining promising results in earlier preclinical studies and clinical trials. At any time, we, the FDA or an IRB, may temporarily or permanently stop the trial, for a variety of reasons, principally for safety concerns. We or our partners may experience numerous unforeseen events during, or as a result of, the clinical development process that could delay or prevent our drug candidates from being approved, including:

- failure to achieve clinical trial results that indicate a candidate is effective in treating a specified condition or illness in humans;
- presence of harmful side effects;
- determination by the FDA that the submitted data do not satisfy the criteria for approval;

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- lack of commercial viability of the drug;
- failure to acquire, on reasonable terms, intellectual property rights necessary for commercialization; and
- existence of alternative therapeutics that are more effective.

As our product candidates advance to later stage clinical trials, it is customary that various aspects of the development program, such as manufacturing, formulation and other processes, and methods of administration, are altered to optimize the candidates and processes as part of scale-up necessary for later stage clinical trials, approval and commercialization. These changes may not produce the intended optimization, including production of drug substance and drug product of a quality and in a quantity sufficient for Phase 3 clinical stage development or for commercialization, which may cause delays in the initiation or completion of clinical trials and greater costs. We may also need to conduct "bridging studies" to demonstrate comparability between newly manufactured drug substance and/or drug product for commercialization relative to previously manufactured drug substance and/or drug product for clinical trials. Demonstrating comparability may require us to incur additional costs or delay initiation or completion of clinical trials and, if unsuccessful, could require us to complete additional preclinical studies or clinical trials.

Our capital requirements could significantly increase if we choose to develop more of our proprietary programs internally.

We believe that the maximum value for certain proprietary drug candidates is best achieved by retaining the rights to develop and commercialize the candidate and not seeking a partner or by waiting until later in the development process to seek a partner to co-develop and commercialize or co-promote a product. It is difficult to predict which of our proprietary programs are likely to yield higher returns if we elect to develop them further before seeking a partner or to not seek a partner at all as a result of many factors, including the competitive position of the product, our capital resources, the perceived value among potential partners of the product and other factors outside of our control. Therefore, we may undertake and fund, solely at our expense, further development, clinical trials, manufacturing and marketing activities for a greater number of proprietary candidates than we planned, which may not result in a greater return to Array than if we had chosen to out-license those programs. In addition, we may choose not to out-license certain of our proprietary programs if we are unable to do so on terms that are favorable to us. As a result, our requirements for capital could increase significantly. We may be unable to raise additional required capital to fund this additional development on favorable terms, or at all, however, or we may be required to substantially reduce our development efforts, which would delay, limit or prevent our ability to commercialize and realize revenue from our drug candidates.

Because we rely on a small number of partners for a significant portion of our revenue, if one or more of our major partners terminates or reduces the scope of its agreement with us, our revenue may significantly decrease.

A relatively small number of partners account for a significant portion of our revenue. AstraZeneca, Loxo and Novartis accounted for 12%, 23% and 29%, respectively, of our total revenue for fiscal 2014. In fiscal 2013, Amgen, Celgene, Genentech, Novartis and Oncothyreon accounted for 16%, 21%, 11%, 26% and 14%, respectively, of our total revenue. We expect that revenue from a limited number of partners, including Biogen, Celgene and Loxo will account for a large portion of our revenue in future quarters. In general, our partners may terminate their contracts with us upon 60 to 180 days’ notice for a number of reasons or no reason, which would eliminate future milestone or royalty revenue under the collaboration. In addition, certain of our partners do not generate revenue or sufficient revenue to cover their operating expenses and their ability to continue to fund milestone and other payments under our agreements with them depends on their ability to raise funds through the issuance of debt or equity securities or from other sources. To the extent such funding is not available to these partners when needed. they may not be able to fund their obligations to us and we would therefore not realize revenue when anticipated or at all under our agreement with them.

If our drug discovery and development programs do not progress as anticipated, our revenue, stock price and the value of the 2020 Notes could be negatively impacted.

We estimate the timing of a variety of preclinical, clinical, regulatory and other milestones for planning purposes, including when a drug candidate is expected to enter clinical trials, when a clinical trial will be completed, when

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and if additional clinical trials will commence, or when an application for regulatory approval will be filed. We base our estimates on facts that are currently known to us and on a variety of assumptions that may prove not to be correct for a variety of reasons, many of which are beyond our control. For example, delays in the development of drugs by Array or our partners may be caused by regulatory or patent issues, negative or inconclusive interim or final results of on-going clinical trials, scheduling conflicts with participating clinics and the availability of patients who meet the criteria for and the rate of patient enrollment in, clinical trials and the development priorities of our partners. In addition, in preparing these estimates we rely on the timeliness and accuracy of information and estimates reported or provided to us by our partners concerning the timing, progress and results of clinical trials or other development activities they conduct under our collaborations with them. If we or our partners do not achieve milestones when anticipated, or if our partners choose to terminate a program, we may not achieve our planned revenue and our stock price could decline. In addition, any delays in obtaining approvals to market and sell drugs may result in the loss of competitive advantages in being on the market sooner than, or in advance of, competing products, which may reduce the value of these products and the potential revenue we receive from the eventual sale of these products, either directly or under agreements with our partners.

We may not be able to recruit and retain the experienced scientists and management we need to compete in the drug research and development industry.

We have 198 full-time employees as of June 30, 2014, and our future success depends upon our ability to attract, retain and motivate highly-skilled scientists and management. Our ability to achieve our business strategies, including progressing drug candidates through later stage development or commercialization, attracting new partners and retaining, renewing and expanding existing collaborations, depends on our ability to hire and retain high caliber scientists and other qualified experts, particularly in clinical development and commercialization. We compete with pharmaceutical and biotechnology companies, contract research companies and academic and research institutions to recruit personnel and face significant competition for qualified personnel, particularly clinical development personnel. We may incur greater costs than anticipated, or may not be successful, in attracting new scientists or management or in retaining or motivating our existing personnel. In addition, we periodically review our existing workforce in light of the current and anticipated needs of our business and may make strategic changes to its size and scope in an effort to use our capital more efficiently.

Our future success also depends on the personal efforts and abilities of the principal members of our senior management and scientific staff to provide strategic direction, manage our operations and maintain a cohesive and stable environment. In particular, we rely on the services of Ron Squarer, our Chief Executive Officer; Dr. Michael Needle, our Chief Medical Officer; Dr. Nicholas Saccomano, our Chief Scientific Officer; Dr. David L. Snitman, our Chief Operating Officer and Vice President, Business Development; R. Michael Carruthers, our Chief Financial Officer; and John R. Moore, our Vice President and General Counsel. We have employment agreements with each of these employees that are terminable upon 30 days' prior notice.

Risks Related to Our Clinical Development Activities and Obtaining Regulatory Approval for Our Programs

We have limited clinical development and commercialization experience.

One of our business strategies is to develop select drug candidates through later stage clinical trials before out-licensing them to a pharmaceutical or biotechnology partner for further clinical development and commercialization and to commercialize select drug candidates ourselves. We began a Phase 3 trial in June 2013 on binimetinib in LGSOC, but we have not previously conducted a Phase 3 or later stage clinical trial ourselves, nor have we commercialized a drug. We have limited experience conducting clinical trials and obtaining regulatory approvals and we may not be successful in some or all of these activities. In addition, in deciding to pursue development of ovarian cancer in the Phase 3 MILO study, we relied on broad-based activity that has been shown for binimetinib in

other indications and known prior results with other inhibitors, including MEK inhibitors that have shown activity in ovarian cancer. Consequently, we do not have direct clinical information that binimetinib will be effective in treating the proposed patient population. We expect to spend significant amounts to recruit and retain high quality personnel with clinical development experience. We have no experience as a company in the sales, marketing and distribution of pharmaceutical products and do not currently have a sales and marketing organization. Developing commercialization capabilities would be expensive and time-consuming and could delay any product launch, and we may never be able to develop this capacity. To the

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extent we are unable to or determine not to develop these resources internally, we may be forced to rely on third-party clinical investigators, or clinical research or marketing organizations, which could subject us to costs and to delays that are outside our control. If we are unable to establish adequate capabilities independently or with others, we may be unable to generate product revenues for certain candidates.

If we or our partners fail to adequately conduct clinical trials, regulatory approvals necessary for the sale of drugs may not be obtained when anticipated, or at all, which would reduce or eliminate our potential return on that program.

Before any of our drug candidates can be sold commercially, we or our partners must conduct clinical trials that demonstrate that the drug is safe and effective for use in humans for the indications sought. The results of these clinical trials are the basis to obtain regulatory approval from government authorities such as the FDA. Conducting clinical trials is a complex, time-consuming and expensive process that requires an appropriate number of trial sites and patients to support the product label claims being sought. The length of time, number of trial sites and number of patients required for clinical trials vary substantially according to their type, complexity, novelty and the drug candidate's intended use and therefore, we may spend as much as several years completing certain trials. Further, the time within which we or our partners can complete our clinical trials depends in large part on the ability to enroll eligible patients who meet the enrollment criteria and who are in proximity to the trial sites. We and our partners also face competition with other clinical trials for eligible patients. As a consequence, there may be limited availability of eligible patients, which can result in increased development costs, delays in regulatory approvals and associated delays in drug candidates reaching the market. Patients may also suffer adverse medical events or side effects in the course of clinical trials that may delay or prohibit regulatory approval of our drug candidates. Even if we or our partners successfully conduct clinical trials, we or our partners may not obtain favorable clinical trial results and may not be able to obtain regulatory approval on this basis.

In addition, we plan to conduct further clinical trial activities in territories outside the U.S. through third-party clinical trial service providers that contract with clinical sites and enroll patients in foreign jurisdictions, including Eastern Europe and South America, and may do so in new geographic locations where our experience conducting clinical trials is more limited. Some of these foreign jurisdictions may impose requirements on us or our third-party clinical trial service providers or contract manufacturers that are more stringent than those imposed by the FDA, which may delay the development and approval of our drug candidates.

If we or our partners fail to adequately manage the increasing number, size and complexity of clinical trials, the clinical trials and corresponding regulatory approvals may be delayed or we or our partners may fail to gain approval for our drug candidates altogether. If we or our partners are unable to market and sell our drug candidates or are unable to obtain approvals in the time frame needed to execute our product strategies, our business and results of operations would be materially adversely affected.

Delays in the commencement or completion of clinical testing could result in increased costs to us and delay or limit our ability to generate revenues.

Delays in the commencement or completion of clinical testing of our products or products of our partners, including any Phase 3 or pivotal trials for binimetinib (partnered with Novartis), filanesib, selumetinib (partnered with AstraZeneca) and danoprevir (partnered with Intermune/Roche Holding AG), could significantly affect our product development costs and our ability to generate revenue. We do not know whether the FDA will agree with the trial designs for ongoing and planned clinical trials or whether planned clinical trials will begin on time or be completed on schedule, if at all. The commencement and completion of clinical trials can be delayed for a number of reasons, including delays related to the ability of Array or our partners to do the following:

- provide sufficient safety, efficacy or other data regarding a drug candidate to support the commencement of a Phase 3 or other clinical trial;

- reach agreement on acceptable terms with prospective contract manufacturers, CROs and trial sites, the terms of which can be subject to extensive negotiation and may vary significantly among different third parties;
- select CROs, trial sites and, where necessary, contract manufacturers that do not encounter any regulatory compliance problems;

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- manufacture sufficient quantities of a product candidate for use in clinical trials;
- obtain IRB approval to conduct a clinical trial at a prospective site;
- recruit and enroll patients to participate in clinical trials, which can be impacted by many factors outside our or our partners' control, including competition from other clinical trial programs for the same or similar indications; and
- retain patients who have initiated a clinical trial but may be prone to withdraw due to side effects from the therapy, lack of efficacy or personal issues.

Clinical trials may also be delayed as a result of ambiguous or negative interim results. In addition, a clinical trial may be suspended or terminated by us or our partner, the FDA, an IRB, a clinical trial site with respect to that site, or other regulatory authorities due to a number of factors, including:

- failure to conduct the clinical trial in accordance with regulatory requirements, including GCP, or our protocols;
- inspection of the clinical trial operations, trial sites or manufacturing facility by the FDA or other regulatory authorities resulting in findings of non-compliance and the imposition of a clinical hold;
- unforeseen safety issues or results that do not demonstrate efficacy; and
- lack of adequate funding to continue the clinical trial.

Additionally, we or our partners may need to amend clinical trial protocols for a variety of reasons, including to reflect changes in regulatory requirements and guidance. Such amendments may require us to, for example, resubmit our clinical trial protocols to IRBs for reexamination, which may impact the costs, timing or successful completion of a clinical trial. If we experience delays in completion of, or if we terminate, any of our clinical trials, the commercial prospects for our product candidates may be harmed and our ability to generate product revenues will be delayed and/or reduced. In addition, many of the factors that cause, or lead to, a delay in the commencement or completion of clinical trials may also ultimately lead to the denial of regulatory approval of a product candidate.

Drug candidates that we develop with our partners or on our own may not receive regulatory approval.

The development and commercialization of drug candidates with our partners and through our own internal drug discovery efforts are subject to regulation. Pharmaceutical products require lengthy and costly testing in animals and humans and regulatory approval by governmental agencies prior to commercialization. It takes several years to complete testing and failure can occur at any stage of the testing. Results attained in preclinical testing and early clinical trials for any of our drug candidates may not be indicative of results that are obtained in later studies and significant setbacks in advanced clinical trials may arise, even after promising results in earlier studies. Clinical trials may not demonstrate sufficient safety and efficacy to obtain the requisite regulatory approvals or result in marketable products. Furthermore, data obtained from preclinical and clinical studies are susceptible to varying interpretations that may delay, limit or prevent regulatory approval. In addition, the administration of any drug candidate we develop may produce undesirable side effects or safety issues that could result in the interruption, delay or suspension of clinical trials, or the failure to obtain FDA or other regulatory approval for any or all targeted indications. Based on results at any stage of testing, we or our partners may decide to repeat or redesign a trial or discontinue development of a drug candidate.

Approval of a drug candidate as safe and effective for use in humans is never certain and regulatory agencies may delay or deny approval of drug candidates for commercialization. These agencies may also delay or deny approval based on additional government regulation or administrative action, changes in regulatory policy during the period of clinical trials in humans and regulatory review, or the availability of alternative treatments. None of our partners has obtained regulatory approval to manufacture and sell drug candidates owned by us or identified or developed under an agreement with us. If we or our partners cannot obtain this approval, we will not realize milestone or royalty payments based on commercialization goals for these drug candidates.

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Even if our drug candidates obtain regulatory approval, we and our partners will be subject to ongoing government regulation.

Even if regulatory authorities approve any of our drug candidates, the manufacture, labeling, storage, recordkeeping, reporting, distribution, advertising, promotion, marketing and sale of these drugs will be subject to strict and ongoing regulation. If we, our partners, our product candidates or the manufacturing facilities for our product candidates fail to comply with applicable regulatory requirements, a regulatory agency may suspend any ongoing clinical trials; issue warning letters or untitled letters; suspend or withdraw regulatory approval; refuse to approve pending applications or supplements to applications; suspend or impose restrictions on operations; seize or detain products, prohibit the export or import of products, or require us to initiate a product recall; or seek other monetary or injunctive remedies.

Compliance with ongoing regulation consumes substantial financial and management resources and may expose us and our partners to the potential for other adverse circumstances. For example, approval for a drug may be conditioned on costly post-marketing follow-up studies. Based on these studies, if a regulatory authority does not believe that the drug demonstrates an appropriate benefit-risk profile to patients, it could limit the indications for which a drug may be sold or revoke the drug’s marketing approval. In addition, identification of certain side effects after a drug is on the market may result in the subsequent withdrawal of approval, reformulation of a drug, additional preclinical and clinical trials, changes in labeling or distribution. Alternatively, we may be required by the FDA to develop and implement a REMS to ensure the safe use of our products.

REMS may include costly risk management measures such as enhanced safety surveillance, restricted distribution and use, patient education, enhanced labeling, special packaging or labeling, expedited reporting of certain adverse events, pre-approval of promotional materials and restrictions on direct-to-consumer advertising. Any of these events could delay or prevent us from generating revenue, or limit the revenue, from the commercialization of these drugs and cause us to incur significant additional costs.

In addition, the marketing of these drugs by us or our partners may be heavily scrutinized by the FDA, the Department of Justice, the Department of Health and Human Services' Office of Inspector General, state attorneys general, members of Congress and the public. Our promotional activities will be regulated by federal and state laws pertaining to health care “fraud and abuse,” such as:

- the federal anti-kickback law prohibiting bribes, kickbacks or other remuneration for the order, purchase or recommendation of items or services reimbursed by federal health care programs;
- the federal False Claims Act, imposing criminal and civil penalties for knowingly presenting or causing to be presented claims to the federal government that are false or fraudulent; and
- the federal Physician Payment Sunshine Act, requiring pharmaceutical manufacturers to engage in extensive tracking of physician and teaching hospital payments, maintenance of a payments database and public reporting of the payment data.

Many states have similar laws applicable to items or services reimbursed by commercial insurers. Violations of fraud and abuse laws can result in costly litigation, fines and/or imprisonment, exclusion from participation in federal health care programs, and burdensome reporting and compliance obligations.

If our drug candidates do not gain market acceptance, we may be unable to generate significant revenue.

Even if our drug candidates are approved for sale, they may not be successful in the marketplace. Market acceptance of any of our drug candidates will depend on a number of factors including:

- demonstration of clinical effectiveness and safety;
- potential advantages of our drug candidates over alternative treatments;
- ability to offer our drug candidates for sale at competitive prices;

- availability of adequate third-party reimbursement; and
- effectiveness of marketing and distribution methods for the products.

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If our drug candidates do not gain market acceptance among physicians, patients and others in the medical community, our ability to generate meaningful revenues from our drug candidates would be limited.

Our cGMP and pharmacology facilities and practices may fail to comply with government regulations.

All facilities and manufacturing processes used in the production of active pharmaceutical ingredient, or API, and drug products for clinical use in the U.S. must be operated in conformity with cGMP as established by the FDA. Similar requirements in other countries exist for manufacture of drug products for clinical use. These requirements include, among other things, quality control, quality assurance and the maintenance of records and documentation. We operate a small-scale manufacturing facility that we believe conforms to cGMP requirements. This facility and our cGMP practices may be subject to periodic regulatory inspections to ensure compliance with cGMP requirements. In addition, we could be required to comply with specific requirements or specifications of other countries and/or of our partners, which may exceed applicable regulatory requirements. Failure on our part to comply with applicable regulations and specific requirements or specifications of other countries and/or our partners could result in the termination of ongoing research, disqualification of data for submission to regulatory authorities, delays or denials of new product approvals, warning letters, fines, consent decrees restricting or suspending manufacturing operations, injunctions, civil penalties, recall or seizure of products and criminal prosecution. Material violations of cGMP requirements could result in regulatory sanctions and, in severe cases, could result in a mandated closing of our cGMP facility.

In connection with our application for commercial approvals and, if any drug candidate is approved by the FDA or other regulatory agencies for commercial sale, a significant scale-up in manufacturing may require additional validation studies. If we are unable to successfully increase the manufacturing capacity for a drug candidate, the regulatory approval or commercial launch of that drug candidate may be delayed, or there may be a shortage of supply, which could limit our ability to develop or commercialize the drug.

In addition, our pharmacology facility may be subject to the FDA's GLP and United States Department of Agriculture, or USDA, regulations for certain animal species. Failure on our part to comply with applicable regulations and specific requirements of our partners could result in the termination of ongoing pharmacology research. Material violations of GLP and USDA requirements could result in additional regulatory sanctions and, in severe cases, could result in a mandated closing of our pharmacology facility for certain species.

We or third-party manufacturers we rely on may encounter failures or difficulties in manufacturing or formulating clinical development and commercial supplies of drugs, which could delay the clinical development or regulatory approval of our drug candidates, or their ultimate commercial production if approved.

We and third parties manufacture our drug candidates. We also from time to time manufacture drug candidates for our partners. We do not have manufacturing facilities that can produce sufficient quantities of API and finished drug product for large-scale clinical trials. We frequently contract with third-party manufacturers to produce larger quantities of API for us. Some of these manufacturers are located outside the U.S. and may obtain ingredients from suppliers in other foreign countries before shipping the bulk API to Array in the U.S. Cross-border shipments of pharmaceutical ingredients and products are subject to regulation in the U.S. by the FDA and in foreign jurisdictions, including, in the EU, under laws adopted by the EU Member States implementing the Community Code on Medicinal Products Directive 2001/83, as amended. These foreign regulations generally impose various requirements on us and/or our third-party manufacturers. In some cases, for example in the EU, there are cGMP requirements that exceed the requirements of the FDA. In other cases, we must provide confirmation that we are registered with the FDA and have either an IND application or an approved NDA. Third-party manufacturers may lack capacity to meet our needs, go out of business or fail to perform. In addition, supplies of raw materials needed for manufacturing or formulation of clinical supplies may not be available or in short supply.

Accordingly, we must either develop such facilities, which will require substantial additional funds, or rely, at least to some extent, on third-party manufacturers for the production of drug candidates. Furthermore, should we obtain FDA approval for any of our drug candidates, we expect to rely, at least to some extent, on third-party manufacturers for commercial production. Our dependence on others for the manufacture of our drug candidates may adversely affect our ability to develop and deliver such drug candidates on a timely and competitive basis.

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Any performance failure on the part of us or a third-party manufacturer could delay clinical development, regulatory approval or, ultimately, sales of our or our partners' drug candidates. We or third-party manufacturers may encounter difficulties involving production yields, regulatory compliance, lot release, quality control and quality assurance, as well as shortages of qualified personnel. Approval of our drug candidates could be delayed, limited or denied if the FDA does not approve our or a third-party manufacturer's processes or facilities. Moreover, the ability to adequately and timely manufacture and supply drug candidates is dependent on the uninterrupted and efficient operation of the manufacturing facilities, which is impacted by many manufacturing variables including:

- availability or contamination of raw materials and components used in the manufacturing process, particularly those for which we have no other source or supplier;
- capacity of our facilities or those of our contract manufacturers;
- facility contamination by microorganisms or viruses or cross contamination;
- compliance with regulatory requirements, including Form 483 notices and Warning Letters;
- changes in forecasts of future demand;
- timing and actual number of production runs;
- production success rates and bulk drug yields; and
- timing and outcome of product quality testing.

In addition, we or our third-party manufacturers may encounter delays and problems in manufacturing our drug candidates or drugs for a variety of reasons, including accidents during operation, failure of equipment, delays in receiving materials, natural or other disasters, political or governmental changes, or other factors inherent in operating complex manufacturing facilities. Supply chain management is complex, and involves sourcing from a number of different companies and foreign countries. Commercially available starting materials, reagents and excipients may become scarce or more expensive to procure, and we may not be able to obtain favorable terms in agreements with subcontractors. We or our third-party manufacturers may not be able to operate our respective manufacturing facilities in a cost-effective manner or in a time frame that is consistent with our expected future manufacturing needs. If we or our third-party manufacturers cease or interrupt production or if our third-party manufacturers and other service providers fail to supply materials, products or services to us for any reason, such interruption could delay progress on our programs, or interrupt the commercial supply, with the potential for additional costs and lost revenues. If this were to occur, we may also need to seek alternative means to fulfill our manufacturing needs.

We may not be able to enter into agreements for the manufacture of our drug candidates with manufacturers whose facilities and procedures comply with applicable law. Manufacturers are subject to ongoing periodic unannounced inspection by the FDA, the Drug Enforcement Agency, or DEA, and corresponding state and foreign authorities to ensure strict compliance with cGMP and other applicable government regulations and corresponding foreign standards. We do not have control over a third-party manufacturer's compliance with these regulations and standards. If we or one of our manufacturers fail to maintain compliance, we or they could be subject to civil or criminal penalties, the production of our drug candidates could be interrupted or suspended, or our product could be recalled or withdrawn, resulting in delays, additional costs and potentially lost revenues.

Our development, testing and manufacture of drug candidates may expose us to product liability and other lawsuits.

We develop, test and manufacture drug candidates that are generally intended for use in humans. Our drug discovery and development activities, including clinical trials we or our partners conduct, that result in the future manufacture and sale of drugs by us or our partners expose us to the risk of liability for personal injury or death to persons using these drug candidates. We may be required to pay substantial damages or incur legal costs in connection with defending any of these product liability claims, or we may not receive revenue from expected royalty or milestone payments if the commercialization of a drug is limited or ceases as a result of such claims. We have product liability insurance that contains customary exclusions and provides coverage up to $10 million per occurrence and in the aggregate, which we believe is customary in our industry for our current operations. However, our product liability

insurance does not cover every type of product liability claim that we may face or

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loss we may incur and may not adequately compensate us for the entire amount of covered claims or losses or for the harm to our business reputation. We may be unable to acquire additional or maintain our current insurance policies at acceptable costs or at all.

Due to our reliance on CROs and other third parties to conduct our clinical trials, we are unable to directly control the timing, conduct and expense of our clinical trials.

We rely primarily on third parties to manufacture API and drug product and to conduct our clinical trials. As a result, we have had and will continue to have less control over the conduct of our clinical trials, the timing and completion of the trials, the required reporting of adverse events and the management of data developed through the trial than would be the case if we were relying entirely upon our own staff. Communicating with outside parties can also be challenging, potentially leading to mistakes, as well as difficulties in coordinating activities. Outside parties may have staffing difficulties, may undergo changes in priorities or may become financially distressed, adversely affecting their willingness or ability to conduct our trials. We may experience unexpected cost increases that are beyond our control. Problems with the timeliness or quality of the work of a contract manufacturing or contract research organization may lead us to seek to terminate the relationship and use an alternative service provider. However, making this change may be costly and may delay our trials and contractual restrictions may make such a change difficult or impossible. Additionally, it may be impossible to find a replacement organization that can conduct our trials in an acceptable manner and at an acceptable cost.

Controls we or our third-party service providers have in place to ensure compliance with laws may not be effective to ensure compliance with all applicable laws and regulations.

The discovery and development of our products, together with our general operations, are subject to extensive regulation in the U.S. by state and federal agencies and in foreign countries. Due to escalating costs and difficulties associated with conducting certain types of clinical trials in the U.S., we conduct certain clinical trials in foreign locations where we have little experience, including countries in Eastern Europe and South America. We expect that we typically will conduct these trials through third-party clinical trial service providers. In addition, we purchase from third-party suppliers and manufacturers that are located outside the U.S., principally countries in Europe, intermediate and bulk API that are used in our development efforts and we contract with third-party service providers to prepare finished drug product, including packaging and labeling. As a result, we and our contractors are subject to regulations in the U.S. and in the foreign countries in which the API is sourced and manufactured relating to the cross-border shipment of pharmaceutical ingredients. Although we have developed and instituted controls, we cannot assure you that we, our employees, our consultants or our contractors will operate at all times in full compliance with all potentially applicable U.S. federal and state regulations and/or laws or all potentially applicable foreign regulations and/or laws. Further, we have a limited ability to monitor and control the activities of third-party service providers, suppliers and manufacturers to ensure compliance by such parties with all applicable regulations and/or laws. We may be subject to direct liabilities or be required to indemnify such parties against certain liabilities arising out of any failure by them to comply with such regulations and/or laws. If we or our employees, consultants or contractors fail to comply with any of these regulations and/or laws a range of consequences could result, including, but not limited to, the termination of clinical trials, the failure to obtain approval of a product candidate, restrictions on our products or manufacturing processes, withdrawal of our products from the market, significant fines, exclusion from government healthcare programs or other sanctions or litigation.

If our use of chemical and hazardous materials violates applicable laws or regulations or causes personal injury we may be liable for damages.

Our drug discovery activities, including the analysis and synthesis of chemical compounds, involve the controlled use of chemicals, including flammable, combustible, toxic and radioactive materials that are potentially hazardous. Our

use, storage, handling and disposal of these materials is subject to federal, state and local laws and regulations, including the Resource Conservation and Recovery Act, the Occupational Safety and Health Act and local fire codes and regulations promulgated by the Department of Transportation, the DEA, the Department of Energy, the Colorado Department of Public Health and Environment and the Colorado Department of Human Services, Alcohol and Drug Abuse Division. We may incur significant costs to comply with these laws and regulations in the future. In addition, we cannot completely eliminate the risk of accidental contamination or injury from these materials, which could result in material unanticipated expenses, such as substantial fines or

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penalties, remediation costs or damages, or the loss of a permit or other authorization to operate or engage in our business. Those expenses could exceed our net worth and limit our ability to raise additional capital.

Our operations could be interrupted by damage to our specialized laboratory facilities.

Our operations depend on the continued use of our highly specialized laboratories and equipment in Boulder and Longmont, Colorado. Catastrophic events, including fires or explosions, could damage our laboratories, equipment, scientific data, work in progress or inventories of chemical compounds and may materially interrupt our business. We employ safety precautions in our laboratory activities in order to reduce the likelihood of the occurrence of these catastrophic events; however, we cannot eliminate the chance that such an event will occur. The availability of laboratory space in these locations is limited and rebuilding our facilities could be time consuming and result in substantial delays in fulfilling our agreements with our partners. We maintain business interruption insurance in the amount of $15 million to cover continuing expenses and lost revenue caused by such occurrences. However, this insurance does not compensate us for the loss of opportunity and potential harm to customer relations that our inability to meet our partners' needs in a timely manner could create.

Risks Related to Our Drug Discovery Activities

Revenue from collaborations depends on the extent to which the pharmaceutical and biotechnology industries collaborate with other companies for one or more aspects of their drug discovery process.

Our capabilities include aspects of the drug discovery process that pharmaceutical and biotechnology companies have traditionally performed internally. The willingness of these companies to expand or continue drug discovery collaborations to enhance their research and development process is based on several factors that are beyond our control, any of which could cause our revenue to decline. These include their ability to hire and retain qualified scientists, the resources available for entering into drug discovery collaborations and the spending priorities among various types of research activities. In addition, our ability to convince these companies to use our drug discovery capabilities, rather than develop them internally, depends on many factors, including our ability to:

- develop and implement drug discovery technologies that will result in the identification of higher quality drug candidates;
- attract and retain experienced, high caliber scientists;
- achieve timely, high-quality results at an acceptable cost; and
- design, create and manufacture our chemical compounds in quantities, at purity levels and at costs that are acceptable to our partners.

The importance of these factors varies depending on the company and type of discovery program and we may be unable to meet any or all of them in the future. Even if we are able to address these factors, these companies may still decide to perform these activities internally or retain other companies that provide drug research and development expertise similar to ours.

Our research and development capabilities may not produce viable drug candidates.

We have entered into several research and development collaborations under which we provide drug discovery and development services to identify drug candidates for our partners. We also seek to identify and develop drug candidates for our proprietary programs. It is uncertain whether we will be able to provide drug discovery more efficiently or create high quality drug candidates that are suitable for our or our partners' purposes, which may result in delayed or lost revenue, loss of partners or failure to expand our existing relationships. Our ability to create viable drug candidates for ourselves and our partners depends on many factors, including the implementation of appropriate technologies, the development of effective new research tools, the complexity of the chemistry and biology, the lack

of predictability in the scientific process and the performance and decision-making capabilities of our scientists. Our information-driven technology platform, which we believe allows our scientists to make better decisions, may not enable our scientists to make correct decisions or develop viable drug candidates.

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Risks Related to Our Industry

The concentration of the pharmaceutical and biotechnology industry and any further consolidation could reduce the number of our potential partners.

There are a limited number of pharmaceutical and biotechnology companies and these companies represent a significant portion of the market for our capabilities. The number of our potential partners could decline even further through consolidation among these companies. If the number of our potential partners declines even further, they may be able to negotiate greater rights to the intellectual property they license from us, price discounts or other terms that are unfavorable to us.

Capital market conditions may reduce our biotechnology partners' ability to fund research and development.

Traditionally, many unprofitable biotechnology companies have funded their research and development expenditures through raising capital in the debt and equity markets. These markets have historically been volatile and declines in these markets may severely restrict their ability to raise new capital and to continue to expand or fund existing research and development efforts. If our current or future biotechnology partners are unable to raise sufficient capital to fund research and development expenditures, we may not be able to expand or maintain current revenue.

Health care reform, including those based on recently enacted legislation and cost control initiatives by third-party payors, could reduce the prices that can be charged for drugs, which could limit the commercial success of our drug candidates.

The Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010, together the "Healthcare Reform Act" substantially changes the way health care is financed by both governmental and private insurers and significantly impacts the pharmaceutical industry. The Healthcare Reform Act contains a number of provisions that are expected to impact our business and operations, in some cases in ways we cannot currently predict. Changes that may affect our business include those governing enrollment in federal healthcare programs, mandatory discounts on pharmaceuticals under federal health care programs, reimbursement changes, rules regarding prescription drug benefits under the health insurance exchanges, and fraud and abuse enforcement. In addition, continued implementation of the Healthcare Reform Act may result in the expansion of new programs such as Medicare payment for performance initiatives, and may impact existing government healthcare programs, such as by improving the physician quality reporting system and feedback program.

Additional provisions of the Healthcare Reform Act may negatively affect any revenues from products we or our partners are able to commercialize in the future. For example, as part of the Healthcare Reform Act’s provisions closing a coverage gap that currently exists in the Medicare Part D prescription drug program, manufacturers of branded prescription drugs are required to provide a 50% discount on drugs dispensed to beneficiaries within this coverage gap. The Healthcare Reform Act also expanded the 340B pricing program to include additional entity types, as described below in the risk factor under the heading "Pharmaceutical companies are subject to significant ongoing health care regulatory obligations and oversight, including reporting and payment obligations under the Medicaid Drug Rebate Program or other governmental pricing programs, which may result in significant additional expense and limit our or their ability to commercialize our products".

Many of the Healthcare Reform Act's most significant reforms do not take effect until 2014 and thereafter, and their details will be shaped significantly by implementing regulations, some of which have yet to be finalized. The Centers for Medicare & Medicaid Services, or CMS, the federal agency that administers the Medicaid program, currently is expected to issue a final regulation later in 2014 to implement changes made to the Medicaid Drug Rebate Program by the Healthcare Reform Act. It is unclear how many states will expand their Medicaid programs by raising the income

limit to 133% of the federal poverty level and whether there will be more uninsured patients in 2014 than anticipated when Congress passed the Healthcare Reform Act. For each state that does not expand its Medicaid program, there will be fewer insured patients overall. An increase in the proportion of uninsured patients who are prescribed products resulting from our proprietary or partnered programs could impact future sales of any products that are commercialized in the future and our business and results of operations.

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Moreover, legislative changes to the Healthcare Reform Act remain possible. We expect that the Healthcare Reform Act, as currently enacted and as may be amended in the future, and other healthcare reform measures that may be adopted in the future could have a material adverse effect on our industry generally and on the ability of Array or our partners to successfully commercialize product candidates or could limit or eliminate our future spending on development projects.

In addition to the Healthcare Reform Act, there will continue to be proposals by legislators at both the federal and state levels, regulators and third-party payors to keep healthcare costs down while expanding individual healthcare benefits. Certain of these changes could limit the prices that can be charged for drugs we develop or the amounts of reimbursement available for these products from governmental agencies or third-party payors, or may increase the tax obligations on pharmaceutical companies, or may facilitate the introduction of generic competition with respect to products we are able to commercialize, and so may limit our commercial opportunity and reduce any associated revenue and profits.

In some countries other than the U.S., reimbursement, pricing and profitability of prescription pharmaceuticals and biopharmaceuticals are subject to government control. We are unable to predict what additional legislation or regulation, if any, relating to the healthcare industry or third-party coverage and reimbursement may be enacted in the future or what effect such legislation or regulation would have on our business.

Also, we expect managed care plans will continue to put pressure on the pricing of pharmaceutical and biopharmaceutical products due to a trend toward managed health care, the increasing influence of health maintenance organizations and additional legislative proposals. Cost control initiatives could decrease the price that we, or any potential partners, receive for any of our future products, which could adversely affect our profitability. These initiatives may also have the effect of reducing the resources that pharmaceutical and biotechnology companies can devote to in-licensing drug candidates and the research and development of new drugs, which could reduce our resulting revenue. Any cost containment measures or other reforms that are adopted could have a negative impact on our ability to commercialize successfully our products or could limit or eliminate our spending on development of new drugs and affect our profitability.

Other legislation affecting government expenditures more broadly have the potential to affect negatively our product revenues and prospects for continued profitability. For example, beginning April 1, 2013, Medicare payments for all items and services, including drugs and biologicals, have been reduced by 2% under the sequestration (i.e., automatic spending reductions) required by the Budget Control Act of 2011, Pub. L. No. 112-25, or BCA, as amended by the American Taxpayer Relief Act of 2012, Pub. L. 112-240, or ATRA. The BCA requires sequestration for most federal programs, excluding Medicaid, Social Security, and certain other programs, because Congress failed to enact legislation by January 15, 2012, to reduce federal deficits by $1.2 trillion over ten years. The Bipartisan Budget Act of 2013, Pub. L. No. 113-67, extended the 2% reduction to 2023, and the Protecting Access to Medicare Act of 2014, Pub. L. 113-93, extended the 2% reduction, on average, to 2024. These sequestration cuts could adversely impact payment for products that we or our partners are able to commercialize, which could negatively impact our revenue.

We, or our partners, may not obtain favorable reimbursement rates for our drug candidates.

The commercial success of our drug candidates will depend on the availability and adequacy of coverage and reimbursement from third-party payors, including government and private insurance plans. Third-party payors are increasingly challenging the prices charged for pharmaceuticals and other medical products. Our products may be considered less cost-effective than existing products and, as such, coverage and reimbursement to the patient may not be available or be sufficient to allow the sale of our products on a competitive basis or on a profitable basis.

In addition, the market for our drug candidates will depend significantly on access to third-party payors' drug formularies, or lists of medications for which third-party payors provide coverage and reimbursement. Industry competition to be included in such formularies can result in downward pricing pressures on pharmaceutical companies. As such, we cannot provide assurances that our products will be placed on third-party payors' formularies. To the extent that our products are listed on third-party payors' formularies, we or our partners may not be able to negotiate favorable reimbursement rates for our products. If we, or our partners, fail to obtain an

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adequate level of reimbursement for our products by third-party payors, sales of the drugs would be adversely affected or there may be no commercially viable market for the products.

Payors also are increasingly considering new metrics as the basis for reimbursement rates, such as average sales price, or ASP, average manufacturer price, or AMP, and Actual Acquisition Cost. The existing data for reimbursement based on some of these metrics is relatively limited, although certain states have begun to survey acquisition cost data for the purpose of setting Medicaid reimbursement rates. CMS has begun posting drafts of this survey price information on at least a monthly basis in the form of draft National Average Drug Acquisition Cost, or NDAC, files, which reflect retail community pharmacy invoice costs, and National Average Retail Price, or NARP, files, which reflect retail community pharmacy prices to consumers. In July 2013, CMS suspended the publication of draft NARP data, pending funding decisions. In November 2013, CMS moved to publishing final rather than draft NDAC data and has since made updated NDAC data publicly available on a weekly basis. Therefore, it may be difficult to project the impact of these evolving reimbursement mechanics on the willingness of payors to cover candidate products that we or our partners are able to commercialize. As discussed above, to the extent that we or our partners participate in government pricing programs, recent legislative changes to the 340B drug pricing program, the Medicaid Drug Rebate Program, and the Medicare Part D prescription drug benefit also could impact our revenues. We anticipate that a significant portion of revenue from sales of drugs that we or our partners are able to commercialize may be obtained through government payors, including Medicaid, and any failure to qualify for reimbursement for those products under those programs would have a material adverse effect on our sales revenues and royalties.

The drug research and development industry has a history of patent and other intellectual property litigation and we may be involved in costly intellectual property lawsuits.

The drug research and development industry has a history of patent and other intellectual property litigation and we believe these lawsuits are likely to continue. Legal proceedings relating to intellectual property would be expensive, take significant time and divert management's attention from other business concerns. Because we produce drug candidates for a broad range of therapeutic areas and provide many different capabilities in this industry, we face potential patent infringement suits by companies that control patents for similar drug candidates or capabilities or other suits alleging infringement of their intellectual property rights. There could be issued patents of which we are not aware that our products infringe or patents that we believe we do not infringe that we are ultimately found to infringe. Moreover, patent applications are in many cases maintained in secrecy for 18 months after filing or even until patents are issued. The publication of discoveries in the scientific or patent literature frequently occurs substantially later than the date on which the underlying discoveries were made and patent applications were filed. Because patent applications can take many years to issue, there may be currently pending applications of which we are unaware that may later result in issued patents that we infringe with our products. In addition, technology created under our research and development collaborations may infringe the intellectual property rights of third parties, in which case we may not receive milestone or royalty revenue from those collaborations.

If we do not prevail in an infringement lawsuit brought against us, we might have to pay substantial damages, including triple damages, and we could be required to stop the infringing activity or obtain a license to use the patented technology or redesign our products so as not to infringe the patent. We may not be able to enter into licensing arrangements at a reasonable cost or effectively redesign our products. Any inability to secure licenses or alternative technology could delay the introduction of our products or prevent us from manufacturing or selling products.

The intellectual property rights we rely on to protect our proprietary drug candidates and the technology underlying our tools and techniques may be inadequate to prevent third parties from using our technology or developing competing capabilities or to protect our interests in our proprietary drug candidates.

Our success depends in part on our ability to protect patents and maintain the secrecy of proprietary processes and other technologies we develop for the testing and synthesis of chemical compounds in the drug discovery process. We currently have numerous U.S. patents and patent applications on file with the U.S. Patent and Trademark Office, as well as around the world.

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Any patents that we may own or license now or in the future may not afford meaningful protection for our drug candidates or our technology and tools. In order to protect or enforce our intellectual property rights, we may have to initiate legal proceedings against third parties. Our efforts to enforce and maintain our intellectual property rights may not be successful and may result in substantial costs and diversion of management time. In addition, other companies may challenge our patents and, as a result, these patents could be narrowed, invalidated or deemed unenforceable, or we may be forced to stop using the technology covered by these patents or to license the technology from third parties. In addition, current and future patent applications on which we depend may not result in the issuance of patents in the U.S. or foreign countries. Even if our rights are valid, enforceable and broad in scope, competitors may develop drug candidates or other products based on similar research or technology that is not covered by our patents.

Patent applications relating to or affecting our business may have been filed by a number of pharmaceutical and biopharmaceutical companies and academic institutions. A number of the technologies in these applications or patents may conflict with our technologies, patents or patent applications, which could reduce the scope of patent protection we could otherwise obtain. We could also become involved in interference proceedings in connection with one or more of our patents or patent applications to determine priority of inventions. We cannot be certain that we are the first creator of inventions covered by pending patent applications, or that we were the first to file patent applications for any such inventions.

Drug candidates we develop that are approved for commercial marketing by the FDA would be eligible for market exclusivity for varying time periods during which generic versions of a drug may not be marketed and we could apply to extend patent protection for up to five additional years under the provisions of the Hatch-Waxman Act. The Hatch-Waxman Act provides a means for approving generic versions of a drug once the marketing exclusivity period has ended and all relevant patents have expired. The period of exclusive marketing, however, may be shortened if a patent is successfully challenged and defeated, which could reduce the amount of royalties we receive on the product.

Agreements we have with our employees, consultants and partners may not afford adequate protection for our trade secrets, confidential information and other proprietary information.

In addition to patent protection, we also rely on copyright and trademark protection, trade secrets, know-how, continuing technological innovation and licensing opportunities. In an effort to maintain the confidentiality and ownership of our trade secrets and proprietary information, we require our employees, consultants and advisors to execute confidentiality and proprietary information agreements. However, these agreements may not provide us with adequate protection against improper use or disclosure of confidential information and there may not be adequate remedies in the event of unauthorized use or disclosure. The failure by employees, consultants or advisors to maintain the secrecy of our confidential information may compromise or prevent our ability to obtain needed or meaningful patent protection. Furthermore, we may from time to time hire scientific personnel formerly employed by other companies involved in one or more areas similar to the activities we conduct. In some situations, our confidentiality and proprietary information agreements may conflict with, or be subject to, the rights of third parties with whom our employees, consultants or advisors have prior employment or consulting relationships. Although we require our employees and consultants to maintain the confidentiality of all proprietary information of their previous employers, these individuals, or we, may be subject to allegations of trade secret misappropriation or other similar claims as a result of their prior affiliations. Finally, others may independently develop substantially equivalent proprietary information and techniques or otherwise gain access to our trade secrets. Our failure or inability to protect our proprietary information and techniques may inhibit or limit our ability to compete effectively, or exclude certain competitors from the market.

The drug research and development industry is highly competitive and we compete with some companies that offer a broader range of capabilities and have better access to resources than we do.

The pharmaceutical and biotechnology industries are characterized by rapid and continuous technological innovation. We compete with many companies worldwide that are engaged in the research and discovery, licensing, development and commercialization of drug candidates. Some of our competitors have a broader range of capabilities and have greater access to financial, technical, scientific, regulatory, business development, recruiting and other resources than we do. Their access to greater resources may allow them to develop processes or products that are more effective, safer or less costly, or gain greater market acceptance, than

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products we develop or for which they obtain FDA approval more rapidly than we do. We anticipate that we will face increased competition in the future as new companies enter the market and advanced technologies become available.

We face potential liability related to the privacy of health information we obtain from research institutions.

Most health care providers, including research institutions from which we or our partners obtain patient information, are subject to privacy and security regulations promulgated under HIPAA, as amended by the Health Information Technology for Economic and Clinical Health Act. Our clinical research efforts are not directly regulated by HIPAA. However, depending on the facts and circumstances, we could face substantial criminal penalties if we knowingly receive individually identifiable health information from a health care provider or research institution that has not satisfied HIPAA's disclosure standards. In addition, international data protection laws including the EU Data Protection Directive and member state implementing legislation may apply to some or all of the clinical data obtained outside of the U.S. Furthermore, certain privacy laws and genetic testing laws may apply directly to our operations and/or those of our partners and may impose restrictions on our use and dissemination of individuals' health information. Moreover, patients about whom we or our partners obtain information, as well as the providers who share this information with us, may have contractual rights that limit our ability to use and disclose the information. Claims that we have violated individuals' privacy rights or breached our contractual obligations, even if we are not found liable, could be expensive and time-consuming to defend and could result in adverse publicity that could harm our business.

Pharmaceutical companies are subject to significant ongoing health care regulatory obligations and oversight, including reporting and payment obligations under the Medicaid Drug Rebate Program or other governmental pricing programs, which may result in significant additional expense and limit our or their ability to commercialize our products.

If we or any partners fail to comply with applicable federal, state, or local regulatory requirements, we could be subject to a range of regulatory actions that could affect our or any partners' ability to commercialize our products and could harm or prevent sales of any affected products that we are able to commercialize, or could substantially increase the costs and expenses of commercializing and marketing our products. Any threatened or actual government enforcement action could also generate adverse publicity and require that we devote substantial resources that could otherwise be used in other aspects of our business.

Once we have an approved drug, we intend to participate in the Medicaid Drug Rebate Program, which will require us to pay a rebate to each state Medicaid program for our covered outpatient drugs that are dispensed to Medicaid beneficiaries and paid for by a state Medicaid program as a condition of having federal funds being made available to the states for our drugs under Medicaid and Medicare Part B. Those rebates are based on pricing data that would be reported by us on a monthly and quarterly basis to CMS. If we participate in the Medicaid Drug Rebate Program, we must also participate in the Public Health Service’s 340B drug pricing discount program. The 340B pricing program requires participating manufacturers to agree to charge statutorily-defined covered entities no more than the 340B “ceiling price” for the manufacturer’s covered outpatient drugs, which can represent a significant discount and is based on the pricing data reporting to the Medicaid Drug Rebate Program.

The Healthcare Reform Act expanded the Public Health Service’s 340B drug pricing program to include additional entity types: certain free-standing cancer hospitals, critical access hospitals, rural referral centers and sole community hospitals, each as defined by the Healthcare Reform Act. The Healthcare Reform Act exempts drugs designated under section 526 of the FDC Act as “orphan drugs” from the ceiling price requirements for these newly-eligible entities. The HRSA, which administers the 340B program, previously had issued a final regulation to implement the orphan drug exception that interpreted the orphan drug exception narrowly. That final regulation was vacated by the U.S. District Court for the District of Columbia on May 23, 2014, on the ground that HRSA did not have the authority to issue a

regulation on this topic. It is not yet clear whether HRSA will appeal the court's decision. On July 21, 2014, HRSA issued an "interpretive" rule that again interprets the orphan drug exception narrowly, consistent with the invalidated final rule. Like the invalidated final rule, it exempts orphan drugs from the ceiling price requirements for the newly-eligible entities only when the orphan drug is used for its orphan indication. Under the interpretive rule, the newly-eligible entities are entitled to purchase orphan drugs at the ceiling price when the orphan drug is not used for its orphan indication. The legal challenge to the final rule

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remains ongoing and has been extended to challenge the July 21 interpretive rule as well. The uncertainty regarding how the statutory orphan drug exception will be applied will increase the complexity of compliance, will make compliance more time-consuming, and could negatively impact our results of operations.

In addition, the invalidation of the orphan drug regulation on the ground that HRSA did not have rulemaking authority for that topic has raised questions regarding whether HRSA has the authority to issue comprehensive regulation it previously expected to issue in 2014 addressing many aspects of the 340B program. Therefore, it is unclear if HRSA now will issue this proposed regulation in 2014. If that regulation is proposed and finalized, it could affect our obligations under the 340B program in ways we cannot anticipate.

If we fail to comply with our reporting and payment obligations under the Medicaid program or other governmental pricing programs, we could be subject to additional reimbursement requirements, penalties, sanctions and fines which could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

Pricing and rebate calculations vary among products and programs. The calculations are complex and will often be subject to interpretation by us, governmental or regulatory agencies and the courts. If we become aware that our reporting of pricing data for a prior quarter was incorrect, we will be obligated to resubmit the corrected data for a period not to exceed twelve quarters from the quarter in which the data originally were due. Such restatements and recalculations increase our costs for complying with the laws and regulations governing the Medicaid Drug Rebate Program.

We may be liable for errors associated with our submission of pricing data. If we are found to have knowingly submitted false pricing data to the Medicaid program, we may be liable for civil monetary penalties in the amount of up to $100,000 per item of false information. Our failure to submit pricing data to the Medicaid program on a timely basis could result in a civil monetary penalty of $10,000 per day for each day the information is late. Such failure also could be grounds for CMS to terminate our Medicaid drug rebate agreement, which is the agreement under which we would participate in the Medicaid Drug Rebate Program. In the event that CMS terminates our rebate agreement, federal payments may not be available under Medicaid or Medicare Part B for our covered outpatient drugs. We cannot assure you that our submissions will not be found by CMS to be incomplete or incorrect.

Risks Related to Our Stock and Our 2020 Notes

Our quarterly operating results could fluctuate significantly, which could cause our stock price and the value of the 2020 Notes to decline.

Our quarterly operating results have fluctuated in the past and are likely to fluctuate in the future. Entering into collaborations typically involves significant technical evaluation and/or commitment of capital by our partners. Accordingly, negotiation can be lengthy and is subject to a number of significant risks, including partners' budgetary constraints and internal acceptance reviews and a significant portion of our revenue from these collaborations is attributable to up-front payments and milestones that are non-recurring. Further, some of our partners can influence when we deliver products and perform services or milestones are achieved and, therefore, when we receive revenue, under their contracts with us. Due to these factors, our operating results could fluctuate significantly from quarter to quarter. In addition, we may experience significant fluctuations in quarterly operating results due to factors such as general and industry-specific economic conditions that may affect the research and development expenditures of pharmaceutical and biotechnology companies.

Due to the possibility of fluctuations in our revenue and expenses, we believe that quarter-to-quarter comparisons of our operating results are not a good indication of our future performance. Our operating results in some quarters may not meet the expectations of stock market analysts and investors. If we do not meet analysts' and/or investors'

expectations, our stock price and the value of our 2020 Notes could decline.

Because our stock price may be volatile, our stock price and the value of our 2020 Notes could experience substantial declines.

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The market price of our common stock has historically experienced and may continue to experience volatility. The high and low sales prices for our common stock were $7.10 and $3.39, respectively, during fiscal 2014; $6.56 and $3.25, respectively, during fiscal 2013; and $4.10 and $1.58, respectively, during fiscal 2012. Our quarterly operating results, the success or failure of our internal drug discovery efforts, decisions to delay, modify or cease one or more of our development programs, negative data or adverse events reported on programs in clinical trials we or our partners are conducting, uncertainties about our ability to continue to fund our operating plan, changes in general conditions in the economy or the financial markets and other developments affecting our partners, our competitors or us could cause the market price of our common stock to fluctuate substantially. This volatility coupled with market declines in our industry over the past several years have affected the market prices of securities issued by many companies, often for reasons unrelated to their operating performance, and may adversely affect the price of our common stock and the value of our 2020 Notes. In the past, securities class action litigation has often been instituted following periods of volatility in the market price of a company's securities. A securities class action suit against us could result in potential liabilities, substantial costs and the diversion of management's attention and resources, regardless of whether we win or lose.

Because we do not intend to pay dividends, stockholders will benefit from an investment in our common stock only if it appreciates in value.

We have never declared or paid any cash dividends on our common stock and are restricted in our ability to do so under our Loan and Security Agreement with Comerica Bank. We currently intend to retain our future earnings, if any, to finance the expansion of our business and do not expect to pay any cash dividends in the foreseeable future. As a result, the success of an investment in our common stock will depend entirely upon any future appreciation. There is no guarantee that our common stock will appreciate in value or even maintain the price at which stockholders have purchased their shares.

Conversion of the notes may dilute the ownership interest of our shareholders, including holders of 2020 Notes who convert their notes.

At our election, we may settle 2020 Notes tendered for conversion entirely or partly in shares of our common stock. As a result, the conversion of some or all of the 2020 Notes may dilute the ownership interests of existing shareholders. Any sales in the public market of the common stock issuable upon such conversion could adversely affect prevailing market prices of our common stock and, in turn, the price of the 2020 Notes. In addition, the existence of the notes may encourage short selling by market participants because the conversion of the 2020 Notes could depress the price of our common stock.

The accounting method for convertible debt securities that may be settled in cash, such as the 2020 Notes, could have a material effect on our reported financial results.

The 2020 Notes are accounted for in accordance with Financial Accounting Standards Board, or FASB, Accounting Standards Codification, or ASC, 470-20, Debt – Debt with Conversion and Other Options. Under ASC 470-20, an entity must separately account for the liability and equity components of the convertible debt instruments (such as the 2020 Notes) that may be settled entirely or partially in cash upon conversion in a manner that reflects the issuer’s economic interest cost. The effect of ASC 470-20 on the accounting for the 2020 Notes is that the equity component is required to be included in the additional paid-in capital section of stockholders’ equity on our balance sheet and the value of the equity component would be treated as original issue discount for purposes of accounting for the debt component of the notes. As a result, we will be required to record a greater amount of non-cash interest expense in current periods presented as a result of the amortization of the discounted carrying value of the 2020 Notes to their face amount over the term of the 2020 Notes. We will report lower net income in our financial results because ASC 470-20 will require interest to include both the current period’s amortization of the debt discount and the instrument’s

coupon interest, which could adversely affect our reported or future financial results, the market price of our common stock and the trading price of the 2020 Notes.

In addition, under certain circumstances, convertible debt instruments (such as the 2020 Notes) that may be settled entirely or partly in cash are currently accounted for utilizing the treasury stock method, the effect of which is that the shares issuable upon conversion of the notes are not included in the calculation of diluted earnings per share except to the extent that the conversion value of the notes exceeds their principal amount. Under the treasury stock method, for diluted earnings per share purposes, the transaction is accounted for as if the number

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of shares of common stock that would be necessary to settle such excess, if we elected to settle such excess in shares, are issued. We cannot be sure that the accounting standards in the future will continue to permit the use of the treasury stock method. If we are unable to use the treasury stock method in accounting for the shares issuable upon conversion of the 2020 Notes, then our diluted earnings per share would be adversely affected.

Certain provisions in the 2020 Notes and the related indenture as well as Delaware law and our organizational documents could delay or prevent an otherwise beneficial takeover or takeover attempt of us, which may not be in the best interests of our stockholders.

Certain provisions in the 2020 Notes and the indenture, as well as certain provisions of Delaware law and our organizational documents could make it more difficult or more expensive for a third party to acquire us. For example, if an acquisition event constitutes a fundamental change, holders of the 2020 Notes will have the right to require us to purchase their notes in cash. In addition, if an acquisition event constitutes a make-whole fundamental change, we may be required to increase the conversion rate for holders who convert their 2020 Notes in connection with such make-whole fundamental change.

Delaware law prohibits, subject to certain exceptions, a Delaware corporation from engaging in any business combination with any interested stockholder for a period of three years following the date that the stockholder became an interested stockholder. Additionally, our certificate of incorporation and bylaws contain provisions that could similarly delay, defer or discourage a change in control of us or management. These provisions could also discourage a proxy contest and make it more difficult for stockholders to elect directors and take other corporate actions. Such provisions provide for the following, among other things: (i) the ability of our Board of Directors to issue shares of common stock and preferred stock without stockholder approval; (ii) the ability of our Board of Directors to establish the rights and preferences of authorized and unissued preferred stock; (iii) a Board of Directors divided into three classes of directors serving staggered three year terms; (iv) permitting only the Chairman of the Board of Directors, the Chief Executive Officer, the president or the Board of Directors to call a special meeting of stockholders; and (v) requiring advance notice of stockholder proposals and related information. In any of these cases, and in other cases, our obligations under the 2020 Notes and the indenture, as well as provisions of Delaware law and our organizational documents and other agreements could increase the cost of acquiring us or otherwise discourage a third party from acquiring us or removing incumbent management.

At our election, we may settle 2020 Notes tendered for conversion entirely or partly in shares of our common stock. As a result, the conversion of some or all of the 2020 Notes may dilute the ownership interests of existing shareholders. Any sales in the public market of the common stock issuable upon such conversion could adversely affect prevailing market prices of our common stock and, in turn, the price of the 2020 Notes. In addition, the existence of the 2020 Notes may encourage short selling by market participants because the conversion of the 2020 Notes could depress the price of our common stock.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We are headquartered in Boulder, Colorado, where we lease 150 thousand square feet of office and laboratory space under a lease that expires in July 2016, and we are currently utilizing 132 thousand square feet. We lease 78 thousand square feet of laboratory space in Longmont, Colorado under a lease that expires in August 2016, and we are currently utilizing 58 thousand square feet. We also lease 11 thousand square feet of office space in Morrisville, North Carolina under a lease that expires in October 2014. We have options to extend our Boulder and Longmont, Colorado leases for

up to two terms of five years each.

ITEM 3. LEGAL PROCEEDINGS

We may be involved, from time to time, in various claims and legal proceedings arising in the ordinary course of our business. We are not currently a party to any such claims or proceedings that, if decided adversely to us, would either individually or in the aggregate have a material adverse effect on our business, financial condition or results of operations.

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ITEM 4. MINE SAFETY DISCLOSURES

None.

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PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information, Holders of Record and Dividends

Our common stock trades on the NASDAQ Global Market under the symbol "ARRY." The following table sets forth, for the periods indicated, the range of the high and low sales prices for our common stock as reported by the NASDAQ Global Market.

Fiscal Year Ended June 30, 2014	High	Low
First Quarter	$7.10	$4.54
Second Quarter	$6.66	$4.54
Third Quarter	$5.64	$4.32
Fourth Quarter	$4.94	$3.39

Fiscal Year Ended June 30, 2013	High	Low
First Quarter	$6.16	$3.30
Second Quarter	$6.17	$3.25
Third Quarter	$5.00	$3.66
Fourth Quarter	$6.56	$4.42

As of July 31, 2014, there were approximately 52 holders of record of our common stock. This does not include the number of persons whose stock is in nominee or "street name" accounts through brokers.

We have never declared or paid any cash dividends on our common stock and we do not intend to pay any cash dividends in the foreseeable future. In addition, the terms of our Loan and Security Agreement with Comerica Bank and the terms of the 2020 Notes restrict our ability to pay cash dividends to our stockholders. We currently intend to retain all available funds and any future earnings for use in the operations of our business and to fund future growth.

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Stock Performance Graph

This stock performance graph shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities under that Section and shall not be deemed to be incorporated by reference into any filing of ours under the Securities Act of 1933, as amended.

The following graph compares the cumulative total stockholder return for our common stock, the NASDAQ Global Markets' Composite (U.S. companies) Index, and the NASDAQ Biotechnology Index for the five-year period ended June 30, 2014. The graph assumes that $100 was invested on June 30, 2009 in the common stock of Array, the NASDAQ Composite Index and the NASDAQ Biotechnology Index. It also assumes that all dividends were reinvested.

The stock price performance on the following graph is not necessarily indicative of future stock price performance.

	6/30/2009	6/30/2010	6/30/2011	6/30/2012	6/30/2013	6/30/2014
Array BioPharma Inc.	100.00	97.13	71.34	110.51	144.59	145.22
NASDAQ Composite	100.00	115.98	153.93	164.70	193.69	254.06
NASDAQ Biotechnology	100.00	107.01	149.61	183.05	247.08	366.88

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ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data is derived from our audited financial statements. These historical results do not necessarily indicate future results. You should read the selected financial data along with our financial statements and related notes, as well as "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing elsewhere in this Annual Report on Form 10-K. Amounts are in thousands except per share data:

	Year Ended June 30,				
	2014	2013	2012	2011	2010
Revenue					
License and milestone revenue	$25,111	$56,726	$71,249	$53,426	$32,485
Collaboration revenue	16,967	12,854	13,886	18,475	21,395
Total revenue	42,078	69,580	85,135	71,901	53,880
Operating expenses					
Cost of partnered programs	45,965	30,078	24,261	28,916	28,322
Research and development for proprietary programs	49,824	59,420	56,719	63,498	72,488
General and administrative	21,907	19,624	15,202	16,261	17,121
Total operating expenses	117,696	109,122	96,182	108,675	117,931
Loss from operations	(75,618)	(39,542)	(11,047)	(36,774)	(64,051)
Other income (expense)					
Realized gains on auction rate securities, net	—	—	—	1,891	1,305
Loss on prepayment of long-term debt, net	—	(11,197)	(942)	(6,340)	—
Interest income	77	55	32	406	864
Interest expense	(9,716)	(11,258)	(11,624)	(15,507)	(15,749)
Total other expense, net	(9,639)	(22,400)	(12,534)	(19,550)	(13,580)
Net loss	$(85,257)	$(61,942)	$(23,581)	$(56,324)	$(77,631)
Weighted average shares outstanding – basic and diluted	123,403	107,794	70,619	55,447	50,216
Net loss per share – basic and diluted	$(0.69)	$(0.57)	$(0.33)	$(1.02)	$(1.55)

	June 30,				
	2014	2013	2012	2011	2010
Cash, cash equivalents and marketable securities	$111,638	$108,706	$89,650	$64,708	$128,869
Working capital	68,943	70,732	17,171	754	39,367
Total assets	139,053	135,988	108,073	89,374	159,179
Long-term debt, net	103,952	99,021	92,256	91,540	112,825
Total stockholders' deficit	(25,721)	(21,909)	(85,806)	(130,858)	(116,678)

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ITEM 7. 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, continuation, timing and success of drug discovery and development activities conducted by Array and by our partners, our ability to obtain additional capital to fund our operations, changes in our research and development spending, realizing new revenue streams and obtaining future out-licensing or collaboration agreements that include up-front, milestone and/or royalty payments, our ability to realize up-front 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 "Item 1A. Risk Factors" under Part I of this Annual Report on Form 10-K, and in other reports we file with the SEC. All forward-looking statements are made as of the date of this report 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 our accompanying audited financial statements and related notes to those statements included elsewhere in this Annual Report on Form 10-K.

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 2014 refers to the fiscal year ended June 30, 2014.

Overview

Array is a biopharmaceutical company focused on the discovery, development and commercialization of targeted small molecule drugs to treat patients afflicted with cancer. Seven Phase 3 studies are in progress, or are planned to begin this year. These programs include the wholly-owned hematology drug, filanesib for MM, and two partnered cancer drugs, selumetinib, partnered with AstraZeneca, and binimetinib, partnered with Novartis.

Our most advanced wholly-owned clinical stage drugs include:

	Proprietary Program	Indication	Clinical Status
1.	Filanesib	KSP inhibitor for MM	Phase 2
2.	ARRY-797	p38 inhibitor for LMNA-DCM	Phase 2
3.	ARRY-502	CRTh2 antagonist for asthma	Phase 2
4.	ARRY-614	p38/Tie2 dual inhibitor for MDS	Phase 1

With our progress on filanesib for MM we believe hematology/oncology is the area of greatest opportunity for Array and where we intend to concentrate our resources and build on our capabilities in fiscal 2015 and beyond. We continue to progress select other programs, however, and initiated a Phase 2 trial with ARRY-797 in a rare

cardiovascular disease, based on scientific rationale, in vivo data and a single-patient IND application. We are seeking a partner to advance our asthma program for ARRY-502 and, as we announced in August 2014, we have no plans to invest internally at this time in ARRY-614.

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In addition, we have 11 ongoing partner-funded clinical programs, including two MEK inhibitors, which are both in Phase 3 clinical trials, binimetinib with Novartis and selumetinib with AstraZeneca:

	Drug Candidate	Indication	Partner	Clinical Status
1.	Binimetinib	MEK inhibitor for cancer	Novartis International Pharmaceutical Ltd.	Phase 3
2.	Selumetinib	MEK inhibitor for cancer	AstraZeneca, PLC	Phase 3
3.	ASLAN001/ARRY-543	HER2 / EGFR inhibitor for gastric cancer	ASLAN Pharmaceuticals Pte Ltd.	Phase 2
4.	Ipatasertib/GDC-0068	AKT inhibitor for cancer	Genentech, Inc.	Phase 2
5.	VTX-2337	Toll-like receptor for cancer	VentiRx Pharmaceuticals, Inc.	Phase 2
6.	Danoprevir	Hepatitis C virus protease inhibitor	InterMune (danoprevir now owned by Roche Holding AG)	Phase 2
7.	LY2606368	Chk-1 inhibitor for cancer	Eli Lilly and Company	Phase 2
8.	GDC-0575	Chk-1 inhibitor for cancer	Genentech, Inc.	Phase 1b
9.	ARRY-380/ONT-380	HER2 inhibitor for breast cancer	Oncothyreon Inc.	Phase 1b
10.	GDC-0994	ERK inhibitor for cancer	Genentech, Inc.	Phase 1
11.	LOXO-101	PanTrk inhibitor for cancer	Loxo Oncology, Inc.	Phase 1

We also have a portfolio of proprietary and partnered preclinical drug discovery programs, including inhibitors that target Trk receptors for the treatment of oncology and other indications. Our most significant discovery collaborations are with Celgene Corporation (inflammation program), Loxo (oncology program/LOXO-101) and Biogen Idec (auto-immune disorder program). We may out-license other select promising candidates through research collaborations in the future.

We have received a total of $636.2 million in research funding and in up-front and milestone payments from partners from inception through June 30, 2014, including $154 million in initial payments from strategic agreements with Amgen, Celgene, Genentech, Novartis and Oncothyreon that we entered into over the last five years. Our existing partnered programs entitle Array to receive a total of approximately $1.8 billion in additional milestone payments if we or our partners 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 licensing or commercialization from 12 partnered programs.

Business Development and Partner 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 partners may terminate their agreements with us with 60 to 180 days' prior notice. Specifics regarding termination provisions under our material collaboration or license agreements can be found in Note 4 – Collaboration and License Agreements to the accompanying audited financial statements included elsewhere in this Annual Report on Form 10-K.

Additional information related to the concentration of revenue among our partners is reported in Note 1 – Overview and Basis of Presentation – Concentration of Business Risks to the accompanying audited financial statements included elsewhere in this Annual Report on Form 10-K.

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

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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 conformity with U.S. generally accepted accounting principles, or U.S. GAAP, and which requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances. These estimates are the basis for our judgments about the carrying values of assets and liabilities, which in turn may impact our reported revenue and expenses. Our actual results could differ significantly from these estimates under different assumptions or conditions.

Accrued Outsourcing Costs

Substantial portions of our preclinical studies and clinical trials are performed by third-party laboratories, medical centers, contract research organizations and other vendors, or collectively "CROs". These CROs generally bill monthly or quarterly for services performed, or bill based upon milestone achievement. For preclinical studies, we accrue expenses based upon estimated percentage of work completed and the contract milestones remaining. For clinical studies, expenses are accrued based upon the number of patients enrolled and the duration of the study. We monitor patient enrollment, the progress of clinical studies and related activities to the extent possible through internal reviews of data reported to us by the CROs, correspondence with the CROs and clinical site visits. Our estimates depend on the timeliness and accuracy of the data provided by the CROs regarding the status of each program and total program spending. We periodically evaluate the estimates to determine if adjustments are necessary or appropriate based on information we receive.

Revenue Recognition

We recognize revenue for the performance of services or the shipment of products when each of the following four criteria is met: (i) persuasive evidence of an arrangement exists; (ii) products are delivered or as services are rendered; (iii) the sales price is fixed or determinable; and (iv) collectability is reasonably assured.

We follow ASC 605-25, Revenue Recognition – Multiple-Element Arrangements and ASC 808, Collaborative Arrangements, if applicable, to determine the recognition of revenue under our collaborative research, development and commercialization agreements. The terms of these agreements generally contain multiple elements, or deliverables, which may include (i) grants of licenses, or options to obtain licenses, to our intellectual property, (ii) research and development services, (iii) drug product manufacturing, and/or (iv) participation on joint research and/or joint development committees. The payments we may receive under these arrangements typically include one or more of the following: non-refundable, up-front license fees; option exercise fees; funding of research and/or development efforts; amounts due upon the achievement of specified objectives; and/or royalties on future product sales.

ASC 605-25 provides guidance relating to the separability of deliverables included in an arrangement into different units of accounting and the allocation of arrangement consideration to the units of accounting. The evaluation of multiple-element arrangements requires management to make judgments about (i) the identification of deliverables, (ii) whether such deliverables are separable from the other aspects of the contractual relationship, (iii) the estimated selling price of each deliverable, and (iv) the expected period of performance for each deliverable.

To determine the units of accounting under a multiple-element arrangement, management evaluates certain separation criteria, including whether the deliverables have stand-alone value, based on the relevant facts and circumstances for each arrangement. Management then estimates the selling price for each unit of accounting and allocates the arrangement consideration to each unit utilizing the relative selling price method. The allocated consideration for each

unit of accounting is recognized over the related obligation period in accordance with the applicable revenue recognition criteria.

If there are deliverables in an arrangement that are not separable from other aspects of the contractual relationship, they are treated as a combined unit of accounting, with the allocated revenue for the combined unit recognized in a manner consistent with the revenue recognition applicable to the final deliverable in the combined

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unit. Payments received prior to satisfying the relevant revenue recognition criteria are recorded as deferred revenue in the accompanying balance sheets and recognized as revenue when the related revenue recognition criteria are met.

We typically receive non-refundable, up-front payments when licensing our intellectual property, which often occurs in conjunction with a research and development agreement. When management believes that the license to our intellectual property has stand-alone value, we generally recognize revenue attributed to the license upon delivery provided that there are no future performance requirements for use of the license. When management believes that the license to our intellectual property does not have stand-alone value, we typically recognize revenue attributed to the license on a straight-line basis over the contractual or estimated performance period. 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.

Most of our agreements provide for non-refundable milestone payments. We recognize revenue that is contingent upon the achievement of a substantive milestone in its entirety in the period in which the milestone is achieved. A milestone is considered substantive when the consideration payable to us for such milestone (i) is consistent with our performance necessary to achieve the milestone or the increase in value to the collaboration resulting from our performance, (ii) relates solely to our past performance and (iii) is reasonable relative to all of the other deliverables and payments within the arrangement. In making this assessment, we consider all facts and circumstances relevant to the arrangement, including factors such as the scientific, regulatory, commercial and other risks that must be overcome to achieve the milestone, the level of effort and investment required to achieve the milestone and whether any portion of the milestone consideration is related to future performance or deliverables.

For payments payable on achievement of milestones that do not meet all of the conditions to be considered substantive, we recognize a portion of the payment as revenue when the specific milestone is achieved, and the contingency is removed, based on the applicable percentage earned of the estimated research or development effort, or other performance obligations that have elapsed, to the total estimated research and/or development effort attributable to the milestone. In other cases, when a non-substantive milestone payment is attributed to our future research or development obligations, we recognize the revenue on a straight-line basis, or other appropriate method, over the estimated remaining research or development effort. Other contingent event-based payments for which payment is either contingent solely upon the passage of time or the result of our partner's or collaborator's performance are recognized when earned.

We periodically review the estimated performance periods under each of our agreements that provide for non-refundable up-front payments, license fees or milestone payments. We adjust the periods over which revenue should be recognized when appropriate to reflect changes in assumptions relating to the estimated performance periods. We could accelerate revenue recognition in the event of early termination of programs or if our expectations change. Alternatively, we could decelerate revenue recognition if programs are extended or delayed. While such changes to our estimates have no impact on our reported cash flows, the amount of revenue recorded in future periods could be materially impacted.

See Note 4 – Collaboration and License Agreements to the accompanying audited financial statements included elsewhere in this Annual Report on Form 10-K for further information.

Valuation of Equity Received

From time to time, we may enter into collaboration and license agreements under which we receive an equity interest as consideration for all or a portion of up-front, license or other fees under the terms of the agreement. In July 2013, Array entered into a collaboration agreement with Loxo under which we received shares of non-voting preferred stock as consideration for licensing rights granted to Loxo. We estimated the fair value of these shares to be $4.5 million

based on a valuation analysis prepared with the assistance of a third-party valuation firm. The valuation of the preferred shares required the use of significant assumptions and estimates, including assumptions about the estimated volatility of the equity, the estimated time to a liquidity event, and the likelihood of Loxo obtaining additional future financing; none of which was readily available to us as Loxo is not a publicly-traded company. Equity securities received from non-publicly traded companies in which we do not exercise a

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significant or controlling interest are reported at cost in other long-term assets in the accompanying audited financial statements included elsewhere in this Annual Report on Form 10-K.

Restructuring Charges

In August 2013, we completed a reduction in force of approximately 50 employees, mainly in our drug discovery organization. After the 20% reduction, we had approximately 200 employees whose capabilities are more tightly aligned with our strategy to fund our discovery organization with strategic collaborations and focusing development and commercialization resources on our later stage clinical programs. See Note 10 - Restructuring Charges to the accompanying audited financial statements included elsewhere in this Annual Report on Form 10 K.

Recent Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update, or ASU, No. 2014-09, Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU No. 2014-09 will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The new standard is effective for us on July 1, 2017. Early application is not permitted. The standard permits the use of either the retrospective or cumulative effect transition method. We are evaluating the effect that ASU No. 2014-09 will have on our financial statements and related disclosures. We have not yet selected a transition method, nor have we determined the effect of the standard on our ongoing financial reporting.

Results of Operations

License and Milestone Revenue

License and milestone revenue consists of up-front license fees and ongoing milestone payments from partners and collaborators.

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

	Year Ended June 30,			Change 2014 vs. 2013		Change 2013 vs. 2012	
	2014	2013	2012	$	%	$	%
License revenue	$14,461	$41,440	$52,006	$(26,979)	(65)%	$(10,566)	(20)%
Milestone revenue	10,650	15,286	19,243	(4,636)	(30)%	(3,957)	(21)%
Total license and milestone revenue	$25,111	$56,726	$71,249	$(31,615)	(56)%	$(14,523)	(20)%

Fiscal 2014 compared to Fiscal 2013 – License revenue decreased during fiscal 2014 compared with fiscal 2013. The primary contributor to the decline was the recognition of all remaining revenue under our arrangements with Amgen and Celgene during fiscal 2013. Additionally, decreased up-front payments and decreased revenue recognized under our arrangements with Genentech and Novartis also contributed. We concluded the recognition of license revenue under our arrangements with Amgen and Celgene prior to the start of the current fiscal year by recognizing $9.8 million and $7.3 million of license revenue in fiscal 2013 from Amgen and Celgene, respectively. We entered into a Drug Discovery and Collaboration Agreement with Loxo at the beginning of fiscal 2014 and recognized $4.5 million in non-cash license revenue representing the estimated fair value of the preferred shares received as consideration for an exclusive license to our technology, which approximated the estimated selling price of the license, as discussed under Note 4 – Collaboration and License Agreements – Loxo Oncology, Inc. to the accompanying audited financial

statements included elsewhere in this Annual Report on Form 10-K. In comparison, we received and recognized a $10 million up-front payment from Oncothyreon for licenses during the fourth quarter of fiscal 2013. Please refer to Note 4 – Collaboration and License Agreements – Oncothyreon Inc. to the accompanying audited financial statements included elsewhere in this Annual Report on Form 10-K. Additionally, license revenue under our Chk-1 License Agreement with Genentech decreased by $2.3 million in

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fiscal 2014 because we extended the expected timing for milestone achievement under the Genentech collaboration by 10 months, resulting in adjustments to the amount of the remaining license revenue recognized each quarter. Finally, we concluded the recognition of license revenue under the Novartis License Agreement in April 2014, resulting in a $2.0 million decrease between the two fiscal years.

Milestone revenue decreased during fiscal 2014 due to the recognition of all remaining revenue for several collaborations in fiscal 2013 and a reduction in Novartis milestone revenue. Novartis milestone revenue decreased $3.7 million mainly due to the fiscal 2013 recognition of $4.0 million of the $5 million milestone earned in June 2013 for the commencement of the first Phase 3 trial and the April 2014 conclusion of revenue recognition for all previous Novartis milestone payments received. Revenue recognition for milestone payments also concluded in December 2012 and March 2013 for Amgen and Celgene, respectively, resulting in no milestone revenue during the current fiscal year under those agreements, compared with $1.3 million for Amgen and $3.8 million for Celgene during fiscal 2013. During fiscal 2013 we earned $2.5 million of additional revenue for milestone events from VentiRx and Genentech, as compared with $6.6 million of additional milestones earned during fiscal 2014, which included $5 million from AstraZeneca for the start of a Phase 3 clinical study and $1 million from Genentech for a Phase 2 start.

Fiscal 2013 compared to Fiscal 2012 – License revenue recognized during fiscal 2013 decreased compared to fiscal 2012. The majority of the revenue under our Chk-1 License Agreement with Genentech was recognized during fiscal 2012, resulting in a decrease of approximately $17.2 million between the comparable periods. Additionally, revenue recognized for the Amgen up-front fee was $9.8 million lower during fiscal 2013, as the Amgen up-front fee was fully recognized during the quarter ended December 31, 2012. The decreases were partially offset by additional revenue recognized during fiscal 2013 from the acceleration of the 2007 Celgene up-front payment when our obligations were determined to be complete, and our Development and Commercialization Agreement with Oncothyreon under which we received and recognized a $10 million up-front payment for licenses, both of which occurred during the fourth quarter of fiscal 2013.

Milestone revenue decreased during fiscal 2013 compared to fiscal 2012. The decrease was due to reduced milestone revenue recognized under our collaboration with Amgen from which we recognized $1.3 million in fiscal 2013, compared with $7.2 million during the prior fiscal year when the $8.5 million milestone payment was actually received. Additionally, we recognized only $1.0 million from our collaboration with Genentech during fiscal 2013, compared with $4.5 million during fiscal 2012. Largely offsetting the decrease during the current year, was the recognition of $4.0 million of the $5 million milestone payment earned under our collaboration with Novartis as a result of the commencement of the first Phase 3 trial during the fourth quarter of fiscal 2013, as well as a $1.5 million milestone payment received from VentiRx for initiating a Phase 2 clinical study.

Collaboration Revenue

Collaboration revenue consists of revenue for our performance of drug discovery and development activities in collaboration with partners, which include 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 sale of chemical compounds.

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

	Year Ended June 30,			Change 2014 vs. 2013		Change 2013 vs. 2012	
	2014	2013	2012	$	%	$	%
Collaboration revenue	$16,967	$12,854	$13,886	$4,113	32 %	$(1,032)	(7)%

Fiscal 2014 compared to Fiscal 2013 – Collaboration revenue increased during fiscal 2014 as revenue of $5.2 million and $3.5 million from new collaborations with Loxo and Oncothyreon, respectively, more than offset the decreases in revenue from other collaborations such as our 2003 agreement with Genentech following the conclusion of the research term in January 2013, our Clovis Oncology collaboration that terminated during the second quarter of fiscal 2014 and under our previous collaboration with DNA BioPharma, which concluded in

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February 2013. Additionally, collaboration revenue from our January 2013 Global Blood collaboration increased due to a full years' revenue recognition in fiscal 2014 versus only five months in fiscal 2013 and collaboration revenue under our new July 2013 agreement with Celgene was slightly higher during the current fiscal period compared with the collaboration revenue recognized during the same period of the prior year under the 2007 Celgene agreement. Our obligations under the 2007 Celgene agreement were completed during the fourth quarter of fiscal 2013.

Fiscal 2013 compared to Fiscal 2012 – Collaboration revenue decreased during fiscal 2013 compared to the prior year due to reduced revenues under our collaboration with Genentech and the completion of our funded discovery research under our collaboration with Amgen, which were largely offset by our new collaborations, as well as the additional funded research under our 2007 Celgene agreement.

Cost of Partnered Programs

Cost of partnered programs represents costs attributable to discovery and development including preclinical and clinical trials we may conduct for or with our partners. 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 partnered programs (dollars in thousands):

	Year Ended June 30,			Change 2014 vs. 2013		Change 2013 vs. 2012	
	2014	2013	2012	$	%	$	%
Cost of partnered programs	$45,965	$30,078	$24,261	$15,887	53 %	$5,817	24 %
Cost of partnered programs as a percentage of total revenue	109 %	43 %	28 %				

Fiscal 2014 compared to Fiscal 2013 – Cost of partnered programs increased during fiscal 2014 due to increasing costs to advance binimetinib, our MEK inhibitor, through clinical trials under our co-development arrangement with Novartis, as well as our new collaborations with Loxo and Oncothyreon. Partially offsetting the increases were reduced costs under our 2003 agreement with Genentech following the conclusion of the research term.

Cost of partnered programs as a percentage of total revenue increased for fiscal 2014 primarily because of the increased actual costs as noted above and the decreased license and milestone recognized during the same period.

Fiscal 2013 compared to Fiscal 2012 – Cost of partnered programs increased during fiscal 2013 compared to fiscal 2012 due to increasing costs to advance binimetinib, our MEK inhibitor, through clinical trials under our co-development arrangement with Novartis, as well as our new collaborations and our extended collaboration with Celgene. Reduced costs under our collaboration with Genentech partially offset the increases and were associated with engaging fewer scientists in the current fiscal year compared with fiscal 2012.

Cost of partnered programs as a percentage of total revenue increased for fiscal 2013, primarily because of the increased actual costs as noted above and the decreased license and milestone revenue recognized during the same period.

Research and Development Expenses for Proprietary Programs

Our research and development expenses for proprietary programs include costs associated with our proprietary drug programs for scientific and clinical personnel, supplies, chemicals, 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

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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.

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

	Year Ended June 30,			Change 2014 vs. 2013		Change 2013 vs. 2012	
	2014	2013	2012	$	%	$	%
Salaries, benefits and share-based compensation	$18,443	$24,080	$22,832	$(5,637)	(23)%	$1,248	5 %
Outsourced services and consulting	18,170	19,634	17,680	(1,464)	(7)%	1,954	11 %
Laboratory supplies	5,756	6,887	6,652	(1,131)	(16)%	235	4 %
Facilities and depreciation	6,069	7,115	8,066	(1,046)	(15)%	(951)	(12)%
Other	1,386	1,704	1,489	(318)	(19)%	215	14 %
Total research and development expenses	$49,824	$59,420	$56,719	$(9,596)	(16)%	$2,701	5 %

Fiscal 2014 compared to Fiscal 2013 – Research and development expenses for proprietary programs decreased during fiscal 2014 primarily due to lower spending on our preclinical programs and shifting funding to our partnered programs, including Loxo and Oncothyreon. In addition, we largely completed the ARRY-502 Phase 2 asthma study prior to the start of the current fiscal year. Partially offsetting these decreases were higher costs to advance filanesib including start-up costs for three clinical studies, FACTOR, AfFIRM and ARRAY-520-216. During fiscal 2014, we also incurred $2.2 million of additional expenses for termination benefits related to our reduction in workforce in August 2013 that are reflected in salaries, benefits and share-based compensation.

Fiscal 2013 compared to Fiscal 2012 – Research and development expenses for proprietary programs increased during fiscal 2013 compared to fiscal 2012. The increase is the result of costs associated with the Phase 2 asthma study of ARRY-502 that concluded in July 2013, and focusing resources on our wholly-owned programs and progressing them through more advanced stages of clinical trials.

General and Administrative Expenses

General and administrative expenses consist mainly of compensation and associated fringe benefits not included in cost of partnered programs or research and development expenses for proprietary programs 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):

	Year Ended June 30,			Change 2014 vs. 2013		Change 2013 vs. 2012	
	2014	2013	2012	$	%	$	%
General and administrative expenses	$21,907	$19,624	$15,202	$2,283	12 %	$4,422	29 %

Fiscal 2014 compared to Fiscal 2013 – General and administrative expenses increased during fiscal 2014 compared to fiscal 2013. Increases in share-based compensation expenses of $818 thousand, patent expenses of $494 thousand and general business consulting and commercialization expenses of $349 thousand were the primary contributors, as well as $602 thousand of severance costs related to the reduction in our workforce.

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Fiscal 2013 compared to Fiscal 2012 – General and administrative expenses increased during fiscal 2013 primarily related to compensation, benefits and costs to recruit certain leadership positions to help execute our strategic objectives. We also incurred approximately $400 thousand in additional costs during the current fiscal year to obtain and prosecute our patents and $456 thousand in additional costs for legal, business development consulting and other professional services.

Other Income (Expense)

Below is a summary of our other income (expense) (dollars in thousands):

	Year Ended June 30,			Change 2014 vs. 2013		Change 2013 vs. 2012	
	2014	2013	2012	$	%	$	%
Loss on prepayment of long-term debt, net	$—	$(11,197)	$(942)	$11,197	100%	$(10,255)	(1,089)%
Interest income	77	55	32	22	40%	23	72%
Interest expense	(9,716)	(11,258)	(11,624)	1,542	14%	366	3%
Total other expense, net	$(9,639)	$(22,400)	$(12,534)	$12,761	57%	$(9,866)	(79)%

Fiscal 2014 compared to Fiscal 2013 – Total other expense, net decreased during fiscal 2014 primarily due to the fiscal 2013 loss on prepayment of long-term debt incurred from the write-off of the remaining balances of debt discount and debt transaction fees associated with the Deerfield credit facilities upon full repayment in June 2013, following the issuance of our 2020 Notes. Additionally, our 2020 Notes, which were outstanding during the entirety of fiscal 2014, have a lower coupon rate than the interest rate on the Deerfield credit facilities that were outstanding for almost all of fiscal 2013, also contributing to the decrease.

Fiscal 2013 compared to Fiscal 2012 – Total other expense, net increased during fiscal 2013 due to the write-off of remaining balances of debt discount and debt transaction fees associated with the full repayment of our Deerfield credit facilities mentioned above, compared with only a partial write-off of debt discount and debt transaction fees related to an early payment of principal under the Deerfield credit facilities in fiscal 2012.

The following table shows the details of our interest expense for all of our debt arrangements outstanding during the periods presented, including actual interest paid, amortization of debt and loan transaction fees, and losses on early prepayment that were charged to interest expense (in thousands):

	Year Ended June 30,		
	2014	2013	2012
Comerica Term Loan			
Simple interest	$479	$483	$489
Amortization of fees paid for letters of credit	48	107	108
Total interest expense on the Comerica term loan	527	590	597
Convertible Senior Notes			
Contractual interest	3,979	221	—
Amortization of debt discount	4,932	259	—
Amortization of debt issuance costs	278	14	—
Total interest expense on the convertible senior notes	9,189	494	—
Deerfield Credit Facilities			
Simple interest	—	6,078	6,492

Amortization of debt discounts and transaction fees	—	4,331	4,419
Change in fair value of the embedded derivatives	—	(235)	116
Total interest expense on the Deerfield credit facilities	—	10,174	11,027
Total interest expense	$9,716	$11,258	$11,624

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Liquidity and Capital Resources

We have incurred operating losses and an accumulated deficit as a result of ongoing research and development spending since inception. As of June 30, 2014, we had an accumulated deficit of $717.9 million. We had net losses of $85.3 million, $61.9 million and $23.6 million for the fiscal years ended June 30, 2014, 2013 and 2012, respectively.

For the year ended June 30, 2014, our net cash used in operations was $71.7 million. We have historically funded our operations from up-front fees and license and milestone payments received under our drug collaborations and license agreements, the sale of equity securities, and debt provided by convertible debt and other credit facilities. During the year ended June 30, 2014, we received net proceeds of approximately $73.4 million from sales of our common stock under our Cantor Fitzgerald sales agreement. We also received net proceeds of approximately $128 million in June 2013 from an underwritten public offering of convertible debt and $127 million during calendar year 2012 from two underwritten public offerings of our common stock. Additionally, we have received $209.1 million from up-front fees and license and milestone payments since December 2009, including the following payments:

- In December 2009, we received a $60 million up-front payment from Amgen under a Collaboration and License Agreement.
- During May and June 2010, we received a total of $45 million in up-front and milestone payments under a License Agreement with Novartis.
- In December 2010, we received a $10 million milestone payment under a Drug Discovery and Development Agreement with Celgene.
- In May 2011, we received a $10 million milestone payment under a License Agreement with Novartis.
- In September 2011, we received a $28 million up-front payment under a Drug Discovery Collaboration Agreement with Genentech.
- In June 2012, we received an $8.5 million milestone payment from Amgen under a Collaboration and License Agreement.
- In June 2013, we received a $10 million up-front payment under a Development and Commercialization Agreement with Oncothyreon.
- In July 2013, we received an $11 million up-front payment under a Drug Discovery and Development Option and License Agreement with Celgene.
- In August 2013, we received a $5 million milestone payment under a License Agreement with Novartis.
- In November 2013, we received a $5 million milestone payment under a Collaboration and License Agreement with AstraZeneca.

We paid $9.2 million and $11.3 million to Novartis in the second quarters of fiscal 2013 and fiscal 2014, respectively, representing our share of the combined development costs incurred and due since commencement of our agreement with Novartis for development of the binimetinib program, as discussed in Note 4 – Collaboration and License Agreements – Novartis International Pharmaceutical Ltd. to the accompanying audited financial statements included elsewhere in this Annual Report on Form 10-K. During fiscal 2014, we committed to continue our co-development contribution through fiscal 2015. We have the right to opt out of paying our co-development contribution on an annual basis after fiscal 2015. We have reported a $16.2 million payable in the accompanying balance sheets as co-development liability for this obligation as of June 30, 2014, and we anticipate paying an amount approximating this liability balance to Novartis during the first half of fiscal 2015.

We also have a $5.4 million liability accrued at June 30, 2014 for estimated fiscal year 2014 annual employee bonuses. Under our annual performance bonus program, employees may receive a bonus payable in cash or in shares of our common stock if we meet certain financial, discovery, development and partnering goals during a fiscal year. Annual employee bonuses are typically paid in the second quarter of the next fiscal year.

Management believes that our cash, cash equivalents and marketable securities as of June 30, 2014 will enable us to continue to fund operations in the normal course of business for at least the next 12 months. Until we can

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generate sufficient levels of cash from current operations, which we do not expect to achieve in the foreseeable future, and 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 up-front and/or milestone payments.

Our ability to successfully raise sufficient funds through the sale of debt or equity securities or from debt financing from lenders 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 collaboration or license agreements that provide for up-front fees or milestone payments, or we may not earn milestone payments under such agreements when anticipated, or at all. Our ability to realize milestone or royalty payments under existing agreements and to enter into new arrangements that generate additional revenue through up-front fees and milestone or royalty payments is subject to a number of risks, many of which are beyond our control. For example, although following the recently announced transaction by Novartis to exchange certain assets with GlaxoSmithKline, Novartis has indicated that it will continue to honor its obligations under its License Agreement with Array for the development of binimetinib, including the three Phase 3 trials currently underway; however, the transaction could affect the program in ways we may not anticipate. For example, the program could revert to Array, and development efforts, and any potential future milestone or royalty revenue, may be affected by this transaction. Our risk factors are described under the heading "Risk Factors" elsewhere in this Annual Report on Form 10-K and in other reports we file with the SEC.

Our assessment of our future need for funding and our ability to continue to fund our operations 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. Please refer to our risk factors under the heading "Risk Factors" included elsewhere in this Annual Report on Form 10-K and in other reports we file with the SEC.

If we are unable to generate enough revenue from our existing or new collaboration and license agreements when needed or secure additional sources of funding, it may be necessary to significantly reduce our 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 or co-development 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 and our stockholders than we would otherwise choose in order to obtain up-front 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 to the accompanying audited financial statements included elsewhere in this Annual Report on Form 10-K, if at any time our balance of total cash, cash equivalents and marketable securities at Comerica Bank and approved outside accounts falls below $22 million, we must maintain a balance of cash, cash equivalents and marketable securities at Comerica at least equivalent to the entire outstanding debt balance with Comerica, which is currently $14.6 million. We must also maintain a monthly liquidity ratio if we draw down on the revolving line of credit.

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.

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 are primarily securities held under our deferred compensation plan.

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

	June 30,			Change	Change
	2014	2013	2012	2014 vs. 2013	2013 vs. 2012
Cash and cash equivalents	$68,591	$60,736	$55,799	$7,855	$4,937
Marketable securities – short-term	42,407	47,505	33,378	(5,098)	14,127
Marketable securities – long-term	640	465	473	175	(8)
Total	$111,638	$108,706	$89,650	$2,932	$19,056

Cash Flow Activities

Below is a summary of our cash flow activities (in thousands):

	Year Ended June 30,			Change	Change
	2014	2013	2012	2014 vs. 2013	2013 vs. 2012
Cash flows provided by (used in):					
Operating activities	$(71,682)	$(87,067)	$(33,546)	$15,385	$(53,521)
Investing activities	2,482	(16,362)	(18,721)	18,844	2,359
Financing activities	77,055	108,366	59,967	(31,311)	48,399
Total	$7,855	$4,937	$7,700	$2,918	$(2,763)

Fiscal 2014 compared to Fiscal 2013 – Net cash used in operating activities improved $15.4 million between the comparable years. This improvement was primarily due to a $11.1 million increase in cash received for up-front and milestone payments during the current fiscal year. Current year cash received consisted of an $11.0 million up-front from Celgene in July 2013, a $5.0 million milestone payment from Novartis in August 2013, a $5.0 million milestone payment from AstraZeneca in November 2013, and three smaller Genentech milestone payments received throughout fiscal 2014 totaling $2.3 million. Fiscal 2013 cash received for up-front and milestone payments consisted of a $10.0 million up-front from Oncothyreon, a $1.5 million milestone payment from VentiRx and two Genentech milestone payments totaling $750 thousand. Additionally, we had a larger accounts receivable balance outstanding at the end of fiscal 2013 that was collected within the current fiscal year, contributing to the improvement. The above was partially offset by a $2.1 million larger payment to Novartis during the current fiscal year for our share of accrued development costs incurred since inception of the program.

Net cash from investing activities provided cash of $2.5 million during fiscal 2014 compared with a $16.4 million use of cash during the prior fiscal year. The fluctuation was due to our net investment activities in marketable securities as we sold more than we purchased in the current fiscal year, with the opposite being true during fiscal 2013.

During fiscal 2013, a significant portion of the net proceeds from our convertible debt offering went toward the full repayment of our debt under the Deerfield credit facilities. Following the repayment, we had proceeds of $35.4 million remaining from the convertible debt offering, which accounts for the $31.3 million decrease in net cash provided by financing activities between the comparable years. This decrease was partially offset by lower stock offering costs of $3.1 million for stock sold under our sales agreement with Cantor Fitzgerald during fiscal 2014 as compared to the stock offering costs associated with our public offering in fiscal 2013.

Fiscal 2013 compared to Fiscal 2012 – Net cash used in operating activities increased by $53.5 million between the comparable years. The change was due in part to the $28 million up-front license fee we received from Genentech in fiscal 2012, compared with $10 million received from Oncothyreon and recognized in revenue in the fourth quarter of fiscal 2013. We also made a $9.2 million payment to Novartis in the second quarter of fiscal 2013 for our share of accrued development costs, for which we had no comparable payment in fiscal 2012. Decreased receipts for discovery research and milestones under our collaboration with Genentech further reduced operating cash flows during fiscal

2013. Additionally, we recorded receivables for two milestones totaling $5.8 million that were earned in June 2013.

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Net cash used in investing activities was $16.4 million for fiscal 2013, compared with $18.7 million during fiscal 2012. During both periods, subsequent to raising capital through the sale of our common stock and convertible debt, we made net purchases in marketable securities, resulting in the use of cash for investing purposes.

Net cash provided by financing activities increased $48.4 million and was the result of net proceeds from our convertible debt offering of $128 million, as well as $70.9 million in net proceeds from our fiscal 2013 underwritten public offering of shares of our common stock, compared to $63.1 million in net proceeds raised from a similar offering in fiscal 2012. These increases were offset by a $92.7 million repayment of long-term debt, $92.6 million of which was attributable to the debt under our Deerfield credit facilities, compared with a $4.2 million payment on those facilities during fiscal 2012.

Obligations and Commitments

The following table shows our contractual obligations and commitments as of June 30, 2014 (in thousands):

	Less than 1 Year	1 to 3 Years	4 to 5 Years	Over 5 Years	Total
Debt obligations (1)	$—	$—	$14,550	$132,250	$146,800
Interest on debt obligations (2)(3)(4)	4,440	8,880	8,093	3,648	25,061
Co-development liability (1)(5)	16,155	—	—	—	16,155
Operating lease commitments (2)	8,316	8,706	—	—	17,022
Purchase obligations (2)(6)	—	—	—	—	—
Total	$28,911	$17,586	$22,643	$135,898	$205,038

(1) Reflected in the accompanying balance sheets.
(2) These obligations are not reflected in the accompanying balance sheets.
(3) Interest on the variable debt obligation under the term loan with Comerica is calculated at 3.25%, the interest rate in effect as of June 30, 2014.
(4) Interest on the 2020 Notes is calculated at 3.00%, which is the coupon rate.
(5) Co-development liability primarily represents the amount payable to Novartis for our share of co-development costs for development of the binimetinib program through fiscal 2014.
(6) We have open purchase orders for $119.8 million, which include $85.7 million for CROs, $30.8 million for other outsourced services for clinical trials and research and development costs and $3.3 million for all other purchase commitments. All of our purchase orders may be canceled without significant penalty to Array.

We are obligated under non-cancellable operating leases for all of our facilities and, to a limited degree, equipment leases. Original lease terms for our facilities in effect as of June 30, 2014, 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.

ITEM 7A. 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 and license agreements and nearly all purchase orders are denominated in U.S. dollars. As a result, historically and as of June 30, 2014, 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 that are diversified and structured to minimize market risks. We target our average portfolio maturity of 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. We model interest rate exposure by a sensitivity

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analysis that assumes a theoretical 100 basis point (1%) change in interest rates. If the yield curve were to change by 100 basis points from the level existing at June 30, 2014, we would expect future interest income to increase or decrease by approximately $422 thousand over the next 12 months based on the current balance of $42.2 million of investments classified as short-term marketable securities available-for-sale. Changes in interest rates may affect the fair value of our investment portfolio; however, we will not recognize such gains or losses in our statement of operations and comprehensive loss unless the investments are sold.

Our term loan with Comerica of $14.6 million is our only 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 June 30, 2014, would result in a change in our annual interest expense of $146 thousand.

Historically, and as of June 30, 2014, we have not used foreign currency derivative instruments or engaged in hedging activities.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements required by this item are located in "Item 15. Exhibits and Financial Statement Schedules" beginning on page F-1 of this Annual Report on Form 10-K and are incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. 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 Annual Report on Form 10-K (as defined 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 June 30, 2014, 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.

Evaluation of Internal Control over Financial Reporting

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, we have included a report on management's assessment of the design and effectiveness of our internal control over financial reporting as part of this Annual Report on Form 10-K for the year ended June 30, 2014. Our independent registered public accounting firm also audited and reported

on the effectiveness of our internal control over financial reporting. Management's report and the independent registered public accounting firm's attestation report are included under the captions entitled "Management's Report on Internal Control Over Financial Reporting" and "Report of Independent Registered Public Accounting Firm" in the section called "Item 15. Exhibits and Financial Statement Schedules" of this Annual Report on Form 10-K and are incorporated herein by reference.

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Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended June 30, 2014, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this item concerning our executive officers and our directors and nominees for director, our audit committee and audit committee financial expert, and compliance with the reporting requirements of Section 16(a) is incorporated by reference from the information in the 2014 Proxy Statement under the captions "Proposal 1 – Election of Directors," "Executive Officers" and "Section 16(a) Beneficial Ownership Reporting Compliance."

Code of Ethics

We have adopted a Code of Conduct that applies to all of our directors, officers and employees, including our principal executive officer, principal financial officer and principal accounting officer. The Code of Conduct is posted under the Investor Relations portion of our website at www.arraybiopharma.com.

We intend to satisfy the disclosure requirement of Form 8-K regarding amendments to or waivers from a provision of our Code of Conduct by posting such information on our website at www.arraybiopharma.com and, to the extent required by the NASDAQ Stock Market, by filing a current report on Form 8-K with the SEC, disclosing such information.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated by reference from the information under the captions "Compensation Committee Report," "Compensation Discussion and Analysis," "Compensation of Directors" and "Compensation Committee Interlocks and Insider Participation" contained in the 2014 Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information relating to security ownership of certain beneficial owners and management required by this item is incorporated by reference from the information under the caption "Principal Stockholders" contained in the 2014 Proxy Statement.

Securities Authorized for Issuance under Equity Compensation Plans

The following table provides information as of June 30, 2014, about the shares of common stock that may be issued upon the exercise of options under our existing equity compensation plans, which include the Amended and Restated Array Biopharma Inc. Stock Option and Incentive Plan, or Stock Option and Incentive Plan, and the Amended and

Restated Array BioPharma Inc. Employee Stock Purchase Plan, or ESPP. Array has no equity compensation plans that have not been approved by our stockholders.

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Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans excluding securities reflected in column (a)
Stock Option and Incentive Plan (1)	10,194,817	$4.84	23,131,696
ESPP	—	—	491,649
Total	10,194,817		23,623,345

(1) The shares available for issuance under the Stock Option and Incentive Plan are increased automatically by an amount equal to the difference between (a) 25% of our issued and outstanding shares of capital stock (on a fully diluted, as converted basis) and (b) the sum of the shares relating to outstanding option grants plus the shares available for future grants under such Stock Option and Incentive Plan. However, in no event shall the number of additional authorized shares determined pursuant to this formula exceed, when added to the number of shares of common stock outstanding and reserved for issuance under the Stock Option and Incentive Plan other than pursuant to this formula, under the ESPP and upon conversion or exercise of outstanding warrants, convertible securities or convertible debt, the total number of shares of common stock authorized for issuance under Array's Amended and Restated Certificate of Incorporation.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information required by this item relating to related party transactions is incorporated by reference from the information under the caption "Certain Relationships and Transactions" contained in the 2014 Proxy Statement and relating to director independence is incorporated by reference from the information under the caption "Proposal 1 – Election of Directors – Meetings of the Board of Directors and Committees of the Board of Directors" contained in the 2014 Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this item is incorporated by reference from the information under the caption "Fees Billed by the Principal Accountant" contained in the 2014 Proxy Statement.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

The following documents are filed as part of this Annual Report on Form 10-K:

(a) Financial Statements

Reference is made to the Index to the Financial Statements as set forth on page F-1 of this Annual Report on Form 10-K.

(b) Financial Statement Schedules

All schedules have been omitted as the pertinent information is either not required, not applicable, or otherwise included in the financial statements and notes thereto.

(c) Exhibits

The exhibits, listed on the accompanying exhibit index that is set forth after the financial statements, are filed or incorporated by reference (as stated therein) as part of this Annual Report on Form 10-K.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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 14th day of August 2014.

Array BioPharma Inc.

By: /s/ RON SQUARER
Ron Squarer
Chief Executive Officer

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Ron Squarer, R. Michael Carruthers and John R. Moore, and each or any one of them, his true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments (including post-effective amendments) to this report on Form 10-K, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his substitutes or substitute, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ RON SQUARER Ron Squarer	Chief Executive Officer and Director (Principal Executive Officer)	August 14, 2014
/s/ KYLE A. LEFKOFF Kyle A. Lefkoff	Chairman of the Board of Directors	August 14, 2014
/s/ R. MICHAEL CARRUTHERS R. Michael Carruthers	Chief Financial Officer (Principal Financial and Accounting Officer)	August 14, 2014
/s/ CHARLES M. BAUM Charles M. Baum, M.D., Ph.D.	Director	August 14, 2014
/s/ GWEN A. FYFE Gwen A. Fyfe, M.D.	Director	August 14, 2014
/s/ JOHN A. ORWIN John A. Orwin	Director	August 14, 2014
/s/ GIL J. VAN LUNSEN Gil J. Van Lunsen	Director	August 14, 2014

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ARRAY BIOPHARMA INC.
Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

All internal control systems, no matter how well designed, have inherent limitations. Therefore even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of June 30, 2014 based on the framework set forth in Internal Control – Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on that evaluation, our management concluded that, as of June 30, 2014, our internal control over financial reporting was effective.

KPMG LLP, our independent registered public accounting firm, has issued an attestation report on the effectiveness of our internal control over financial reporting as of June 30, 2014, as stated in their report, which is included elsewhere herein.

August 14, 2014

By: /s/ RON SQUARER
Ron Squarer
Chief Executive Officer

August 14, 2014

By: /s/ R. MICHAEL CARRUTHERS
R. Michael Carruthers
Chief Financial Officer

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Array BioPharma Inc.:

We have audited the accompanying balance sheets of Array BioPharma Inc. (the Company) as of June 30, 2014 and 2013, and the related statements of operations and comprehensive loss, stockholders' deficit, and cash flows for each of the years in the three year period ended June 30, 2014. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.
We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Array BioPharma Inc. as of June 30, 2014 and 2013, and the results of its operations and its cash flows for each of the years in the three-year period ended June 30, 2014, in conformity with U.S. generally accepted accounting principles.
We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Array BioPharma Inc.'s internal control over financial reporting as of June 30, 2014, based on criteria established in Internal Control - Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated August 14, 2014 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.
/s/ KPMG LLP

Boulder, Colorado
August 14, 2014

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Array BioPharma Inc.:

We have audited Array BioPharma Inc.'s internal control over financial reporting as of June 30, 2014, based on criteria established in Internal Control - Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Array BioPharma Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on Array BioPharma Inc.'s internal control over financial reporting based on our audit.

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

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

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

In our opinion, Array BioPharma Inc. maintained, in all material respects, effective internal control over financial reporting as of June 30, 2014, based on criteria established in Internal Control - Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the balance sheets of Array BioPharma Inc. as of June 30, 2014 and 2013, and the related statements of operations and comprehensive loss, stockholders' deficit, and cash flows for each of the years in the three-year period ended June 30, 2014, and our report dated August 14, 2014 expressed an unqualified opinion on those financial statements.

/s/ KPMG LLP

Boulder, Colorado
August 14, 2014

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ARRAY BIOPHARMA INC.
Balance Sheets
(In thousands, except share and per share data)

	June 30, 2014	2013
Assets		
Current assets		
Cash and cash equivalents	$68,591	$60,736
Marketable securities	42,407	47,505
Accounts receivable	5,429	9,595
Prepaid expenses and other current assets	5,249	3,473
Total current assets	121,676	121,309
Long-term assets		
Marketable securities	640	465
Property and equipment, net	8,157	10,049
Other long-term assets	8,580	4,165
Total long-term assets	17,377	14,679
Total assets	$139,053	$135,988
Liabilities and Stockholders' Deficit		
Current liabilities		
Accounts payable	$6,953	$5,396
Accrued outsourcing costs	10,040	5,576
Accrued compensation and benefits	8,209	9,481
Other accrued expenses	1,444	1,135
Co-development liability	16,155	10,990
Deferred rent	3,739	3,646
Deferred revenue	6,193	14,353
Total current liabilities	52,733	50,577
Long-term liabilities		
Deferred rent	4,096	7,834
Deferred revenue	3,353	—
Long-term debt, net	103,952	99,021
Other long-term liabilities	640	465
Total long-term liabilities	112,041	107,320
Total liabilities	164,774	157,897
Commitments and contingencies		
Stockholders' deficit		
Preferred stock, $0.001 par value; 10,000,000 shares authorized, no shares issued and outstanding	—	—
Common stock, $0.001 par value; 220,000,000 shares authorized; 131,817,422 and 116,878,021 shares issued and outstanding as of June 30, 2014 and 2013, respectively	132	117
Additional paid-in capital	652,696	571,270
Warrants	39,385	39,385

Accumulated other comprehensive income (loss)	2	(2)
Accumulated deficit	(717,936)	(632,679)
Total stockholders' deficit	(25,721)	(21,909)
Total liabilities and stockholders' deficit	$139,053	$135,988

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

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ARRAY BIOPHARMA INC.
Statements of Operations and Comprehensive Loss
(In thousands, except per share data)

	Year Ended June 30,		
	2014	2013	2012
Revenue			
License and milestone revenue	$25,111	$56,726	$71,249
Collaboration revenue	16,967	12,854	13,886
Total revenue	42,078	69,580	85,135
Operating expenses			
Cost of partnered programs	45,965	30,078	24,261
Research and development for proprietary programs	49,824	59,420	56,719
General and administrative	21,907	19,624	15,202
Total operating expenses	117,696	109,122	96,182
Loss from operations	(75,618)	(39,542)	(11,047)
Other income (expense)			
Loss on prepayment of long-term debt, net	—	(11,197)	(942)
Interest income	77	55	32
Interest expense	(9,716)	(11,258)	(11,624)
Total other expense, net	(9,639)	(22,400)	(12,534)
Net loss	$(85,257)	$(61,942)	$(23,581)
Change in unrealized gains and losses on marketable securities	4	(1)	(4)
Comprehensive loss	$(85,253)	$(61,943)	$(23,585)
Weighted average shares outstanding – basic and diluted	123,403	107,794	70,619
Net loss per share – basic and diluted	$(0.69)	$(0.57)	$(0.33)

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

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ARRAY BIOPHARMA INC.
Statements of Stockholders' Deficit
(In thousands)

	Preferred Stock		Common Stock		Additional Paid-in Capital	Warrants	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total
	Shares	Amounts	Shares	Amounts					
Balance as of July 1, 2011	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	—	—	581	1	1,168	—	—	—	1,169
Share-based compensation expense	—	—	—	—	2,351	—	—	—	2,351
Issuance of common stock, net of offering costs	—	—	25,936	26	63,122	—	—	—	63,148
Conversion of preferred stock to common	(7)	(21,946)	7,414	7	21,939	—	—	—	—
Payment of employee bonus with stock	—	—	1,113	1	1,968	—	—	—	1,969
Change in unrealized gain on marketable securities	—	—	—	—	—	—	(4)	—	(4)
Net loss	—	—	—	—	—	—	—	(23,581)	(23,581)
Balance as of June 30, 2012	3	8,054	92,064	92	437,401	39,385	(1)	(570,737)	(85,806)
Issuance of common stock under stock option and employee stock purchase plans	—	—	900	1	2,119	—	—	—	2,120
Share-based compensation expense	—	—	—	—	3,449	—	—	—	3,449
Issuance of common stock, net of offering costs	—	—	20,700	21	70,875	—	—	—	70,896
Conversion of preferred stock to common	(3)	(8,054)	2,721	3	8,051	—	—	—	—
	—	—	493	—	2,857	—	—	—	2,857

Payment of employee bonus with stock									
Issuance of convertible senior notes, equity portion, net of offering costs	—	—	—	—	46,518	—	—	—	46,518
Change in unrealized loss on marketable securities	—	—	—	—	—	—	(1)	—	(1)
Net loss	—	—	—	—	—	—	—	(61,942)	(61,942)
Balance as of June 30, 2013	—	—	116,878	117	571,270	39,385	(2)	(632,679)	(21,909)
Issuance of common stock under stock option and employee stock purchase plans	—	—	1,132	1	3,692	—	—	—	3,693
Share-based compensation expense	—	—	—	—	4,331	—	—	—	4,331
Issuance of common stock, net of offering costs	—	—	13,807	14	73,434	—	—	—	73,448
Offering costs for convertible senior notes, equity portion	—	—	—	—	(31)	—	—	—	(31)
Change in unrealized loss on marketable securities	—	—	—	—	—	—	4	—	4
Net loss	—	—	—	—	—	—	—	(85,257)	(85,257)
Balance as of June 30, 2014	—	$—	131,817	$132	$652,696	$39,385	$2	$(717,936)	$(25,721)

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

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ARRAY BIOPHARMA INC.
Statements of Cash Flows
(In thousands)

	Year Ended June 30,		
	2014	2013	2012
Cash flows from operating activities			
Net loss	$(85,257)	$(61,942)	$(23,581)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization expense	4,506	4,350	5,076
Non-cash interest expense	5,258	4,476	4,643
Loss on prepayment of long-term debt	—	11,197	942
Share-based compensation expense	4,331	3,449	2,351
Payment of employee bonus with stock	—	2,857	1,969
Non-cash license revenue	(4,500)	—	—
Changes in operating assets and liabilities:			
Accounts receivable	4,166	(8,520)	1,157
Prepaid expenses and other assets	(1,961)	(746)	1,044
Accounts payable and other accrued expenses	1,866	(1,324)	1,084
Accrued outsourcing costs	4,464	182	146
Accrued compensation and benefits	(1,272)	1,951	1,099
Co-development liability	5,165	1,812	5,581
Deferred rent	(3,645)	(3,489)	(3,332)
Deferred revenue	(4,807)	(41,214)	(31,613)
Other liabilities	4	(106)	(112)
Net cash used in operating activities	(71,682)	(87,067)	(33,546)
Cash flows from investing activities			
Purchases of property and equipment	(2,614)	(2,340)	(1,437)
Purchases of marketable securities	(95,602)	(110,723)	(51,339)
Proceeds from sales and maturities of marketable securities	100,698	96,701	34,055
Net cash provided by (used in) investing activities	2,482	(16,362)	(18,721)
Cash flows from financing activities			
Proceeds from the issuance of convertible senior notes	—	132,250	—
Payments of long-term debt principal	—	(92,712)	(4,350)
Proceeds from the issuance of common stock	75,000	75,555	67,145
Proceeds from employee stock purchases and options exercised	3,693	2,120	1,169
Payment of debt issuance costs	(86)	(4,188)	—
Payment of stock offering costs	(1,552)	(4,659)	(3,997)
Net cash provided by financing activities	77,055	108,366	59,967
Net increase in cash and cash equivalents	7,855	4,937	7,700
Cash and cash equivalents at beginning of period	60,736	55,799	48,099
Cash and cash equivalents at end of period	$68,591	$60,736	$55,799
Supplemental disclosure of cash flow information			
Cash paid for interest	$4,349	$6,564	$7,008

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

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ARRAY BIOPHARMA INC.
Notes to the Financial Statements

NOTE 1 – OVERVIEW AND BASIS OF PRESENTATION

Organization

Array BioPharma Inc. (also referred to as "Array," "we," "us," or "our"), incorporated in Delaware on February 6, 1998, is a biopharmaceutical company focused on the discovery, development and commercialization of targeted small molecule drugs to treat patients afflicted with cancer.

Basis of Presentation

The accompanying financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”) and include all adjustments necessary for the fair presentation of our financial position, results of operations and cash flows for the periods presented. Our management performed an evaluation of our activities through the date of filing of this Annual Report on Form 10-K, and concluded that there are no subsequent events, except as disclosed in Note 13 to these financial statements.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires our management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. Management bases its estimates on our historical experience and on various other assumptions that we believe are reasonable under the circumstances. These estimates are the basis for our judgments about the carrying values of assets and liabilities, which in turn may impact our reported revenue and expenses. Our actual results could differ significantly from these estimates under different assumptions or conditions.

We believe our financial statements are most significantly impacted by the following accounting estimates and judgments: (i) the identification of deliverables under collaboration and license agreements involving multiple elements and determining whether such deliverables are separable from other aspects of the contractual relationship; (ii) estimating the selling price of deliverables for the purpose of allocating arrangement consideration for revenue recognition; (iii) estimating the periods over which the allocated consideration for deliverables is recognized; (iv) estimating accrued outsourcing costs for clinical trials and preclinical testing; (v) estimating the fair value of non-marketable equity received from licensing transactions; and (vi) determination of fair value of the debt component for our convertible senior notes exclusive of the conversion feature.

Liquidity

We have incurred operating losses and an accumulated deficit as a result of ongoing research and development spending since inception. As of June 30, 2014, we had an accumulated deficit of $717.9 million. We had net losses of $85.3 million, $61.9 million, and $23.6 million for the fiscal years ended June 30, 2014, 2013 and 2012, respectively.

We have historically funded our operations from up-front fees and license and milestone payments received under our drug collaboration and license agreements, the sale of equity securities, and debt provided by convertible debt and other credit facilities. We believe that our cash, cash equivalents and marketable securities as of June 30, 2014 will enable us to continue to fund operations in the normal course of business for at least the next 12 months. Until we can generate sufficient levels of cash from current operations, which we do not expect to achieve in the foreseeable future, and 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 up-front and/or milestone payments.

Our ability to successfully raise sufficient funds through the sale of debt or equity securities or from debt financing from lenders when needed is subject to many risks and uncertainties and, even if we are successful, future equity

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issuances would result in dilution to our existing stockholders. We also may not successfully consummate new collaboration and license agreements that provide for up-front fees or milestone payments, or we may not earn milestone payments under such agreements when anticipated, or at all. Our ability to realize milestone or royalty payments under existing agreements and to enter into new arrangements that generate additional revenue through up-front fees and milestone or royalty payments is subject to a number of risks, many of which are beyond our control. For example, although following the recently announced transaction by Novartis to exchange certain assets with GlaxoSmithKline, Novartis has indicated that it will continue to honor its obligations under its License Agreement with Array for the development of binimetinib, including the three Phase 3 trials currently underway; however, the transaction could affect the program in ways we may not anticipate. For example, the program could revert to Array, and development efforts, and any potential future milestone or royalty revenue, may be affected by this transaction.

In addition, our assessment of our future need for funding and our ability to continue to fund our operations is a forward-looking statement that is based on assumptions that may prove to be wrong and that involve substantial risks and uncertainties.

If we are unable to generate enough revenue from our existing or new collaboration and license agreements when needed or to secure additional sources of funding, 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 or co-development 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 and our stockholders than we would otherwise choose in order to obtain up-front 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, if at any time our balance of total cash, cash equivalents and marketable securities at Comerica Bank and approved outside accounts falls below $22 million, we must maintain a balance of cash, cash equivalents and marketable securities at Comerica at least equivalent to the entire outstanding debt balance with Comerica, which is currently $14.6 million. We must also maintain a monthly liquidity ratio if we draw down on the revolving line of credit.

Fair Value Measurements

We follow accounting guidance on fair value measurements for financial instruments measured on a recurring basis, as well as for certain assets and liabilities that are initially recorded at their estimated fair values. Fair value is defined as the exit price, or the amount that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. We use the following three-level hierarchy that maximizes the use of observable inputs and minimizes the use of unobservable inputs to value our financial instruments:

- Level 1: Observable inputs such as unadjusted quoted prices in active markets for identical instruments.
- Level 2: Quoted prices for similar instruments that are directly or indirectly observable in the marketplace.
- Level 3: Significant unobservable inputs which are supported by little or no market activity and that are financial instruments whose values are determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant judgment or estimation.

Financial instruments measured at fair value are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires us to make judgments and consider factors specific to the asset or liability. The use of different assumptions and/or estimation methodologies may have a material effect on estimated fair values.

Accordingly, the fair value estimates disclosed or initial amounts recorded may not be indicative of the amount that we or holders of the instruments could realized in a current market exchange.

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The carrying amounts of cash equivalents and marketable securities approximate their fair value based upon quoted market prices. Certain of our financial instruments are not measured at fair value on a recurring basis, but are recorded at amounts that approximate their fair value due to their liquid or short-term nature, such as cash, accounts receivable and payable, and other financial instruments in current assets or current liabilities.

Cash and Cash Equivalents and Concentration of Credit Risk

Cash and cash equivalents consist of cash and 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. They may consist of money market funds, commercial paper, U.S. government agency obligations and corporate notes and bonds with high credit quality. We currently maintain all cash in several institutions in the U.S. Balances at these institutions may exceed Federal Deposit Insurance Corporation insured limits.

Marketable Securities

We have designated our marketable securities as of each balance sheet date as available-for-sale securities and account for them at their respective fair values. Marketable securities are classified as short-term or long-term based on the nature of the securities and their availability to meet current operating requirements. Marketable securities that are readily available for use in current operations are classified as short-term available-for-sale securities and are reported as a component of current assets in the accompanying balance sheets. Marketable securities that are not considered available for use in current operations are classified as long-term available-for-sale securities and are reported as a component of long-term assets in the accompanying balance sheets.

Securities that are classified as available-for-sale are carried at fair value, including accrued interest, with temporary unrealized gains and losses reported as a component of stockholders' deficit until their disposition. We review all available-for-sale securities at each period end to determine if they remain available-for-sale based on our then current intent and ability to sell the security if it is required to do so. The cost of securities sold is based on the specific identification method.

All of our marketable securities are subject to a periodic impairment review. We recognize an impairment charge when a decline in the fair value of our investments below the cost basis is judged to be other-than-temporary.

Property and Equipment

Property and equipment are stated at historical cost less accumulated depreciation and amortization. Additions and improvements are capitalized. Certain costs to internally develop software are also capitalized. Maintenance and repairs are expensed as incurred.

Depreciation and amortization are computed on the straight-line method based on the following estimated useful lives:

Furniture and fixtures	7 years
Equipment	5 years
Computer hardware and software	3 years

We depreciate leasehold improvements associated with operating leases over the shorter of the expected useful life of the improvements or the remaining lease term.

The carrying value for property and equipment is reviewed for impairment at least annually and when events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. In addition, we continue to evaluate our facility needs and may decide to vacate or abandon a portion of one or more of our locations.

If we do so, or conclude that we will vacate or abandon space within a defined period, we may recognize impairment charges relating to the remaining book value of any improvements and record as an additional expense the present value of future rent payments, less applicable deferred rent amounts, to the extent it exceeds potential sublet income.

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Equity Investments

From time to time, we may enter into collaboration and license agreements under which we receive an equity interest as consideration for all or a portion of up-front, license or other fees under the terms of the agreement. We report equity securities received from non-publicly traded companies in which we do not exercise a significant or controlling interest at cost in other long-term assets in the accompanying balance sheets. We monitor our investments for impairment at least annually, and consider events or changes in circumstances we know of that may have a significant adverse effect on the fair value. We make appropriate reductions in the carrying value if it is determined that an impairment has occurred, based primarily on the financial condition and near and long-term prospects of the issuer. We do not report the fair value of our equity investments because it is not practical to do so.

In July 2013, Array entered into a collaboration agreement with Loxo Oncology, Inc. under which we received shares of convertible, non-voting preferred stock as consideration for licensing rights granted to Loxo. We estimated the fair value of these shares to be $4.5 million based on a valuation analysis prepared with the assistance of a third-party valuation firm. The full estimated value of $4.5 million is reflected as a long-term asset in our balance sheet as of June 30, 2014, and was recorded as license revenue in our statement of operations and comprehensive loss during the first quarter of fiscal 2014. Further discussion regarding assumptions and estimates related to the determination of the fair value of the shares and related revenue recognition can be found in Note 4 - Collaboration and License Agreements – Loxo Oncology, Inc, along with information regarding our percentage of ownership interest in Loxo. See Note 13 – Subsequent Event for additional information about our equity investment in Loxo after July 31, 2014, the effective date of Loxo's initial public offering.

In addition, as of both June 30, 2014 and 2013, we held shares of preferred stock of VentiRx Pharmaceuticals, Inc. ("VentiRx") valued at $1.5 million that we received under a February 2007 collaboration and licensing agreement with VentiRx.

Accrued Outsourcing Costs

Substantial portions of our preclinical studies and clinical trials are performed by third-party laboratories, medical centers, contract research organizations and other vendors (collectively "CROs"). These CROs generally bill monthly or quarterly for services performed, or bill based upon milestone achievement. For preclinical studies, we accrue expenses based upon estimated percentage of work completed and the contract milestones remaining. For clinical studies, expenses are accrued based upon the number of patients enrolled and the duration of the study. We monitor patient enrollment, the progress of clinical studies and related activities to the extent possible through internal reviews of data reported to us by the CROs, correspondence with the CROs and clinical site visits. Our estimates depend on the timeliness and accuracy of the data provided by the CROs regarding the status of each program and total program spending. We periodically evaluate the estimates to determine if adjustments are necessary or appropriate based on information we receive.

Convertible Senior Notes

Our 3.00% convertible senior notes due 2020 are accounted for in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification (“ASC”) 470-20, Debt – Debt with Conversion and Other Options. ASC 470-20 requires the issuer of convertible debt that may be settled in shares or cash upon conversion at the issuer's option, such as our notes, to account for the liability (debt) and equity (conversion option) components separately. The value assigned to the debt component is the estimated fair value, as of the issuance date, of a similar debt instrument without the conversion option. The amount of the equity component (and resulting debt discount) is calculated by deducting the fair value of the liability component from the principal amount of the convertible debt instrument. The resulting debt discount is amortized as additional non-cash interest expense over the expected life of

the notes utilizing the effective interest method. Although ASC 470 has no impact on our actual past or future cash flows, it requires us to record non-cash interest expense as the debt discount is amortized. For additional information, see Note 5 – Long-term Debt.

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Operating Leases

We have negotiated certain landlord/tenant incentives and rent holidays and escalations in the base price of rent payments under our operating leases. For purposes of determining the period over which these amounts are recognized or amortized, the initial term of an operating lease includes the "build-out" period of leases, where no rent payments are typically due under the terms of the lease and includes additional terms pursuant to any options to extend the initial term if it is more likely than not that we will exercise such options. We recognize rent holidays and rent escalations on a straight-line basis over the initial lease term. The landlord/tenant incentives are recorded as an increase to deferred rent in the accompanying balance sheets and are amortized on a straight-line basis over the initial lease term. We have also entered into two sale-leaseback transactions for our facilities in Boulder and Longmont, Colorado, where the consideration received from the landlord was recorded as an increase to deferred rent in the accompanying balance sheets and is amortized on a straight-line basis over the lease term. Deferred rent balances are classified as short-term or long-term in the accompanying balance sheets based upon the period when reversal of the liability is expected to occur.

Share-Based Compensation

Share-based compensation awards include stock options granted under our Amended and Restated Stock Option and Incentive Plan and purchases of common stock by our employees at a discount to the market price under our Amended and Restated Employee Stock Purchase Plan ("ESPP"). We use the Black-Scholes option pricing model to determine the grant date fair value of stock options and ESPP awards. The determination of the fair value of share-based awards using an option pricing model is affected by our stock price, as well as assumptions regarding a number of complex and subjective variables. Share-based compensation expense is recognized on a straight-line basis over the requisite service period for each award. Further, compensation expense recognized in our statement of operations and comprehensive loss for stock options is reduced for estimated forfeitures, which are based on historical experience and are revised in subsequent periods if actual forfeitures differ from our estimates.

Revenue Recognition

We recognize revenue for the performance of services or the shipment of products when each of the following four criteria is met: (i) persuasive evidence of an arrangement exists; (ii) products are delivered or as services are rendered; (iii) the sales price is fixed or determinable; and (iv) collectability is reasonably assured.

We follow ASC 605-25, Revenue Recognition – Multiple-Element Arrangements and ASC 808, Collaborative Arrangements, if applicable, to determine the recognition of revenue under our collaborative research, development and commercialization agreements. The terms of these agreements generally contain multiple elements, or deliverables, which may include (i) grants of licenses, or options to obtain licenses, to our intellectual property, (ii) research and development services, (iii) drug product manufacturing, and/or (iv) participation on joint research and/or joint development committees. The payments we may receive under these arrangements typically include one or more of the following: non-refundable, up-front license fees; option exercise fees; funding of research and/or development efforts; amounts due upon the achievement of specified objectives; and/or royalties on future product sales.

ASC 605-25 provides guidance relating to the separability of deliverables included in an arrangement into different units of accounting and the allocation of arrangement consideration to the units of accounting. The evaluation of multiple-element arrangements requires management to make judgments about (i) the identification of deliverables, (ii) whether such deliverables are separable from the other aspects of the contractual relationship, (iii) the estimated selling price of each deliverable, and (iv) the expected period of performance for each deliverable.

To determine the units of accounting under a multiple-element arrangement, management evaluates certain separation criteria, including whether the deliverables have stand-alone value, based on the relevant facts and circumstances for each arrangement. Management then estimates the selling price for each unit of accounting and allocates the arrangement consideration to each unit utilizing the relative selling price method. The allocated

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consideration for each unit of accounting is recognized over the related obligation period in accordance with the applicable revenue recognition criteria.

If there are deliverables in an arrangement that are not separable from other aspects of the contractual relationship, they are treated as a combined unit of accounting, with the allocated revenue for the combined unit recognized in a manner consistent with the revenue recognition applicable to the final deliverable in the combined unit. Payments received prior to satisfying the relevant revenue recognition criteria are recorded as deferred revenue in the accompanying balance sheets and recognized as revenue when the related revenue recognition criteria are met.

We typically receive non-refundable, up-front payments when licensing our intellectual property, which often occurs in conjunction with a research and development agreement. When management believes that the license to our intellectual property has stand-alone value, we generally recognize revenue attributed to the license upon delivery provided that there are no future performance requirements for use of the license. When management believes that the license to our intellectual property does not have stand-alone value, we typically recognize revenue attributed to the license on a straight-line basis over the contractual or estimated performance period. 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.

Most of our agreements provide for non-refundable milestone payments. We recognize revenue that is contingent upon the achievement of a substantive milestone in its entirety in the period in which the milestone is achieved. A milestone is considered substantive when the consideration payable to us for such milestone (i) is consistent with our performance necessary to achieve the milestone or the increase in value to the collaboration resulting from our performance, (ii) relates solely to our past performance and (iii) is reasonable relative to all of the other deliverables and payments within the arrangement. In making this assessment, we consider all facts and circumstances relevant to the arrangement, including factors such as the scientific, regulatory, commercial and other risks that must be overcome to achieve the milestone, the level of effort and investment required to achieve the milestone and whether any portion of the milestone consideration is related to future performance or deliverables.

For payments payable on achievement of milestones that do not meet all of the conditions to be considered substantive, we recognize a portion of the payment as revenue when the specific milestone is achieved, and the contingency is removed, based on the applicable percentage earned of the estimated research or development effort, or other performance obligations that have elapsed, to the total estimated research and/or development effort attributable to the milestone. In other cases, when a non-substantive milestone payment is attributed to our future research or development obligations, we recognize the revenue on a straight-line basis, or other appropriate method, over the estimated remaining research or development effort. Other contingent event-based payments for which payment is either contingent solely upon the passage of time or the result of our partner's or collaborator's performance are recognized when earned.

We periodically review the estimated performance periods under each of our agreements that provide for non-refundable up-front payments, license fees or milestone payments. We adjust the periods over which revenue should be recognized when appropriate to reflect changes in assumptions relating to the estimated performance periods. We could accelerate revenue recognition in the event of early termination of programs or if our expectations change. Alternatively, we could decelerate revenue recognition if programs are extended or delayed. While such changes to our estimates have no impact on our reported cash flows, the amount of revenue recorded in future periods could be materially impacted.

See Note 4 – Collaboration and License Agreements for further information.

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Income Taxes

We account for income taxes using the asset and liability method. We recognize the amount of income taxes payable (refundable) for the year as current income tax provision (benefit) and record a deferred income tax provision (benefit) based on changes in deferred tax assets and liabilities. Deferred tax assets and liabilities are determined based on the difference between the financial statement carrying value and the tax basis of assets and liabilities and, using enacted tax rates in effect, reflect the expected effect these differences would have on future taxable income, if any. Valuation allowances are recorded to reduce the amount of deferred tax assets when management cannot conclude it is more likely than not that some or all of the deferred tax assets will be realized. Such allowances are based upon available objective evidence, the expected reversal of temporary differences and projections of future taxable income.

Segments

We operate in one reportable segment and, accordingly, no segment disclosures have been presented herein. All of our equipment, leasehold improvements and other fixed assets are physically located within the U.S., and all agreements with our partners are denominated in U.S. dollars.

Concentration of Business Risks

Significant Partners

The following significant partners contributed greater than 10% of our total revenue during at least one of the periods set forth below. The revenue from these partners as a percentage of total revenue was as follows:

	Year Ended June 30,		
	2014	2013	2012
Novartis International Pharmaceutical Ltd.	28.6 %	25.5 %	16.2 %
Loxo Oncology, Inc.	23.1	—	—
AstraZeneca AB	12.1	0.2	—
Celgene	8.9	20.6	6.9
Genentech, Inc.	8.5	11.0	40.8
Oncothyreon Inc.	8.2	14.4	—
Amgen Inc.	—	16.0	34.2
	89.4 %	87.7 %	98.1 %

The loss of one or more of our significant partners could have a material adverse effect on our business, operating results or financial condition. We do not require collateral from our partners, though 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 June 30, 2014.

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Geographic Information

The following table details revenue by geographic area based on the country in which our partners are located (in thousands):

	Year Ended June 30,		
	2014	2013	2012
North America	$24,757	$51,608	$70,905
Europe	17,153	17,969	13,987
Asia Pacific	168	3	243
	$42,078	$69,580	$85,135

Accounts Receivable

Novartis and Oncothyreon accounted for 75% and 15%, respectively, of our total accounts receivable balances as of June 30, 2014, compared with 91% of our total accounts receivable balances attributable to Novartis as of June 30, 2013.

Net Loss per Share

Basic net loss per share is computed by dividing net loss for the period by the weighted average number of common shares outstanding during the period. Diluted net loss per share reflects the additional dilution from potential issuances of common stock, such as stock issuable pursuant to the exercise of stock options, as well as from the possible conversion of our convertible senior notes and exercise of outstanding warrants. The treasury stock method is used to calculate the potential dilutive effect of these common stock equivalents. Potentially dilutive shares are excluded from the computation of diluted net loss per share when their effect is anti-dilutive. As a result of our net losses for all periods presented, all potentially dilutive securities were anti-dilutive and have been excluded from the computation of diluted net loss per share.

Comprehensive Loss

Comprehensive loss is comprised of net loss and adjustments to unrealized gains and losses on our investments in available-for-sale marketable securities, net of taxes. We display comprehensive loss and its components in our consolidated statements of operations and comprehensive loss.

Recent Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU No. 2014-09 will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The new standard is effective for us on July 1, 2017. Early application is not permitted. The standard permits the use of either the retrospective or cumulative effect transition method. We are evaluating the effect that ASU No. 2014-09 will have on our financial statements and related disclosures. We have not yet selected a transition method, nor have we determined the effect of the standard on our ongoing financial reporting.

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NOTE 2 – MARKETABLE SECURITIES

Marketable securities consisted of the following as of June 30, 2014 (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Short-term available-for-sale securities:				
U.S. treasury securities	$42,184	$2	$(1)	$42,185
Mutual fund securities	222	—	—	222
	42,406	2	(1)	42,407
Long-term available-for-sale securities:				
Mutual fund securities	640	—	—	640
	640	—	—	640
Total	$43,046	$2	$(1)	$43,047

Marketable securities consisted of the following as of June 30, 2013 (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Short-term available-for-sale securities:				
U.S. treasury securities	$47,130	$—	$(2)	$47,128
Mutual fund securities	377	—	—	377
	47,507	—	(2)	47,505
Long-term available-for-sale securities:				
Mutual fund securities	465	—	—	465
	465	—	—	465
Total	$47,972	$—	$(2)	$47,970

The majority of the mutual fund securities shown in the above tables are securities held under the Array BioPharma Inc. Deferred Compensation Plan.

The estimated fair value of our marketable securities was classified into fair value measurement categories as follows (in thousands):

	June 30, 2014	2013
Quoted prices in active markets for identical assets (Level 1)	$43,047	$47,970
Quoted prices for similar assets observable in the marketplace (Level 2)	—	—
Significant unobservable inputs (Level 3)	—	—
Total	$43,047	$47,970

As of June 30, 2014, the amortized cost and estimated fair value of available-for-sale securities by contractual maturity were as follows (in thousands):

	Amortized Cost	Fair Value
Due in one year or less	$42,406	$42,407
Due in one year to three years	640	640
Total	$43,046	$43,047

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NOTE 3 – PROPERTY AND EQUIPMENT, NET

Property and equipment, net consists of the following (in thousands):

	June 30, 2014	2013
Furniture and fixtures	$3,421	$3,396
Equipment	40,150	40,183
Computer hardware and software	14,705	13,552
Leasehold improvements	32,171	31,406
Property and equipment, gross	90,447	88,537
Less: accumulated depreciation and amortization	(82,290)	(78,488)
Property and equipment, net	$8,157	$10,049

NOTE 4 – COLLABORATION AND LICENSE AGREEMENTS

Celgene

Array and Celgene Corporation and Celgene Alpine Investment Co., LLC (collectively "Celgene") entered into a Drug Discovery and Development Option and License Agreement in July 2013 to collaborate on development of an Array-invented preclinical development program targeting a novel inflammation pathway. The agreement provides Celgene an option to select multiple clinical development candidates that Celgene may further develop on an exclusive basis under the agreement. Celgene also has the option to obtain exclusive worldwide rights to commercialize one or more of the development compounds it selects upon payment of an option exercise fee to Array. Array will be responsible for funding and conducting preclinical discovery research on compounds directed at the target, and Celgene will be responsible for all clinical development and commercialization of any compounds it selects.

Array received a non-refundable up-front payment of $11 million from Celgene during the first quarter of fiscal 2014. Array is also eligible to receive potential milestone payments of up to $376 million based upon achievement of development, regulatory and sales objectives identified in the agreement, plus royalties on net sales of all drugs. Additionally, Array will retain all rights to the program if Celgene does not exercise its option.

Pursuant to the accounting guidance for revenue recognition for multiple-element arrangements, we determined that Array is obligated to deliver three non-contingent deliverables related to the Celgene agreement. These deliverables are (i) the performance of research services under the discovery program (the "research services deliverable"), (ii) a non-exclusive license granted to Celgene to certain Array and collaboration technology for the sole purpose of being able to perform collaboration activities and (iii) participation on the joint research committee ("JRC"). The Celgene agreement provides for no general right of return for any non-contingent deliverable. Both the research services deliverable and the JRC deliverable meet the separation criteria; however, the non-exclusive license deliverable has no value outside of the collaboration, therefore, it does not meet the separation criteria and is recognized as a combined unit of accounting with the research services deliverable. The research services deliverable and the JRC deliverable are both expected to be delivered throughout the duration of the option term, which is the period of time between the effective date of the agreement and the earlier of a specified amount of time after the completion of certain preclinical studies to be conducted under the Celgene agreement, or three years after the effective date. The option term may be extended by Celgene for an additional one-year period under certain circumstances specified in the agreement.

The exclusive license that Celgene may obtain by exercising its option and paying an exercise fee to Array is a contingent deliverable due to the uncertainty regarding whether Celgene will exercise its option. Therefore, we did not

allocate any of the up-front payment received to this contingent deliverable.

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Determining a selling price for the research services deliverable required the use of certain estimates, including our estimate for the expected length of the option term, which we currently believe to be three years, and the number of full-time employees ("FTEs") required for the conduct of the discovery program. We utilized vendor-specific objective evidence for our FTE costs related to activities to be performed by Array scientists, as well as third-party estimates to determine the costs of the preclinical studies that we plan to outsource. We estimated a selling price for the JRC deliverable by estimating the time required for our scientists to perform their obligations and utilized our established FTE rate for research services as an estimate of what we would bill for this time if we sold this deliverable on a stand-alone basis.

The majority of the up-front payment is for the performance of research services. We recognized $3.7 million of this payment in collaboration revenue during the year ended June 30, 2014, and will recognize the rest of the up-front payment over the remainder of the three-year estimated option term.

The Celgene agreement will continue on a country-by-country basis until the termination of the royalty payment obligations or, if earlier, the termination of the agreement in accordance with its terms. The agreement may be terminated by either party for an uncured material breach by the other party. In addition, Celgene may terminate the agreement in its entirety or as to any collaboration compound by giving Array six months' prior notice, and in any such event the rights to any terminated programs would revert to Array and Celgene’s obligation to pay milestones or royalties with respect to any terminated programs would terminate. If Celgene does not exercise its option to obtain an exclusive license, the period of exclusivity to be observed by Array under the agreement will end upon expiration of the option term. If Celgene does exercise its option, the period of exclusivity will continue as long as Celgene either has an active development program for, or is commercializing, a compound selected under the agreement, and Array continues to be entitled to receive milestones or royalties under the agreement. Array and Celgene have also agreed to indemnify the other party for breaches of their respective representations and warranties under the agreement and certain of their respective activities under the agreement.

Genentech, Inc.

We entered into a Licensing and Collaboration Agreement with Genentech in December 2003 for development of small molecule drugs invented by Array directed at multiple therapeutic targets in the field of oncology. In August 2011, we entered into a License Agreement with Genentech for the development of each company’s small-molecule Checkpoint kinase 1 ("Chk-1") program in oncology.

Under the 2003 agreement, Genentech made an up-front payment and provided research funding to Array, and we are entitled to receive additional milestone payments based on achievement of certain development and commercialization milestones and royalties on certain resulting product sales under the agreement. The 2003 agreement was expanded in 2005, 2008, and 2009 to develop clinical candidates directed against additional targets and, in 2010, the term of funded research was extended through January 2013, after which the research term ended. We have received up-front and milestone payments totaling $23.5 million under the 2003 agreement. We are eligible to earn an additional $24.0 million in payments if Genentech continues development and achieves the remaining milestones set forth in the 2003 agreement.

The partnered drugs under the Chk-1 agreement include Genentech’s compound GDC-0425 and Array’s compound GDC-0575 (ARRY-575). In 2014, Genentech selected GDC-0575 over GDC-0425 to advance into further clinical trials. Under the terms of the Chk-1 collaboration agreement, Genentech acquired a license to Array’s compound GDC-0575 and is responsible for all clinical development and commercialization activities. We received an up-front payment of $28.0 million during the first quarter of fiscal 2012 and are eligible to receive payments of up to $380 million based on the achievement of clinical and commercial milestones under this agreement. We will also receive up to double-digit royalties on sales of any drugs resulting from the Chk-1 agreement.

Pursuant to the accounting guidance for revenue recognition for multiple-element arrangements, we determined that Array is obligated to deliver three non-contingent deliverables related to the Chk-1 agreement that meet the separation criteria and therefore are treated as separate units of accounting. These deliverables are (i) the delivery of specified clinical materials for GDC-0575 for use in future clinical trials, (ii) the transfer of the license

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and related technology with ongoing regulatory services to assist in filing the Investigational New Drug ("IND") application and to provide supporting data, and (iii) activities related to the achievement of a specified milestone. The Chk-1 agreement provides for no general right of return for any non-contingent deliverable.

The first non-contingent deliverable required Array to prepare specified clinical materials for delivery to Genentech. We completed this delivery in December 2011. The second obligation, related to the non-contingent deliverable to assist in filing the IND application, was completed as of March 31, 2012. Revenue for both of these deliverables has been recognized in full. We are recognizing revenue allocated to the third obligation over the period from inception of the Chk-1 agreement until such time that the specified milestone is achieved.

The Chk-1 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. The CMC option is a contingent deliverable because the scope, likelihood and timing of the potential services are unclear. Certain critical terms of the services 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 up-front payment has been allocated to the contingent CMC services that we may be obligated to perform in the future.

The determination of the stand-alone value for each non-contingent deliverable under the Chk-1 agreement required the use of significant estimates, including estimates of the time to complete the transfer of related technology and to assist in filing the IND. Further, to determine the stand-alone value of the license and initial milestone, we considered the negotiation discussions that led to the final terms of the agreement, publicly-available data for similar licensing arrangements between other companies and the economic terms of previous collaborations Array has entered into with other partners. We also considered the likelihood of achieving the initial milestone based on our historical experience with early stage development programs and on the ability to achieve the milestone with either of the two partnered drugs, GDC-0425 or GDC-0575. Taking into account these factors, we allocated a portion of the up-front payment to the first milestone. No portion of any revenue recognized is refundable.

We recognized license and milestone revenue under both agreements of $3.4 million, $5.3 million and $25.9 million during the years ended June 30, 2014, 2013 and 2012, respectively. We also recognized $2.3 million and $8.8 million in collaboration revenue under the 2003 agreement during the years ended June 30, 2013 and 2012, respectively. We recognized $135 thousand in collaboration revenue during the current fiscal year for reimbursable patent expenses.

Genentech may terminate the 2003 agreement in its entirety upon four months' written notice to Array, and may terminate the Chk-1 agreement upon 60 days' written notice to Array. Under the Chk-1 agreement, either party may terminate upon a material breach by the other party that is not cured within the specified time period. If Genentech terminates the Chk-1 agreement due to a material breach by Array, the license granted to Genentech becomes irrevocable and the royalty to Array will be reduced to a specified percentage. If the Chk-1 agreement is terminated by Genentech for convenience or by Array due to a material breach by Genentech, the license granted to Genentech will terminate, Genentech will continue to be required to pay milestone and royalty payments on any programs for which Genentech had initiated clinical development and Array's exclusivity obligations will continue so long as Genentech is developing or commercializing at least one product subject to the Chk-1 agreement. Array and Genentech have also agreed to indemnify the other party for breaches of representations or warranties made under the Chk-1 agreement and for certain of their respective activities under the Chk-1 agreement.

Loxo Oncology, Inc.

In July 2013, Array entered into a Drug Discovery Collaboration Agreement with Loxo and granted Loxo exclusive rights to develop and commercialize certain Array-invented compounds targeted at the tropomyosin kinase ("Trk")

family of receptors, including LOXO-101, which is currently in a Phase 1 clinical trial. In April 2014, Array and Loxo amended the agreement and, as a result, the research activities under the agreement were expanded. Under the terms of the amended agreement, Loxo will fund further preclinical research to be conducted by Array during the remainder of the three-year discovery research phase, which may be extended by Loxo for up to two

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additional one-year renewal periods. In addition, Loxo will fund further discovery and preclinical research to be conducted by Array directed at other targets during the research phase of the agreement. Loxo will be responsible for all additional preclinical and clinical development and commercialization.

In consideration of the exclusive license and rights granted to Loxo under the agreement, Array received shares of Loxo convertible, non-voting preferred stock representing an initial 19.9% interest in the newly-formed entity; following additional financings by Loxo, Array's ownership interest in Loxo as of June 30, 2014 was 15.3%. All of the shares of preferred stock held by Array converted automatically into shares of common stock on July 31, 2014, the effective date of Loxo's initial public offering, and now represent an approximately 10% ownership interest in Loxo. Array also receives advance payments for preclinical research and other services that Array is providing during the term of the discovery program and is eligible to receive up to $435 million in milestone payments if certain clinical, regulatory and sales milestones are achieved plus royalties on sales of any resulting drugs.

Pursuant to the accounting guidance for revenue recognition for multiple-element arrangements, we determined that Array is obligated to deliver three non-contingent deliverables related to the amended Loxo agreement. These deliverables are (i) the conduct of the research activities under the discovery program, including related technology transfer (the "research services deliverable"), (ii) an exclusive worldwide license granted to Loxo to certain Array technology and Array's interest in collaboration technology, as well as exclusive worldwide marketing rights (the "license deliverable") and (iii) participation on the JRC. The Loxo agreement provides for no general right of return for any non-contingent deliverable. All of the identified non-contingent deliverables meet the separation criteria; therefore, they are each treated as separate units of accounting. Delivery of the research services and JRC participation obligations will be completed throughout the remainder of the three-year discovery program term. The license deliverable was complete as of September 30, 2013.

To determine the stand-alone value of the license, we considered our negotiation discussions with Loxo that led to the final terms of the agreement, publicly-available data for similar licensing arrangements between other companies and the economic terms of previous collaborations Array has entered into with other partners. We also considered the estimated valuation of the Series A-1 shares performed by an independent third-party and concluded that this value reasonably approximated the estimated selling price of the related license. We determined a selling price for the research services deliverable using our established annual FTE rate, which represents vendor-specific objective evidence for any FTE costs related to activities to be performed by Array scientists. We determined an estimated selling price for the JRC deliverable by estimating the time required for our scientists to perform their obligations and utilized our established FTE rate for research services as an estimate of what we would bill for this time if we sold this deliverable on a stand-alone basis.

The receipt of the preferred shares was in consideration for the license deliverable. We allocated an amount of consideration under the Loxo agreement to the license deliverable equal to the fair value of the shares received after consideration of the other factors above. We chose the fair value of the shares received as this was a more evident and readily determinable measure as compared to the alternative method for determining the consideration to allocate to the license deliverable, which was the fair value for the exclusive license. The valuation of the preferred shares required the use of significant assumptions and estimates, including assumptions about the estimated volatility of the equity, the estimated time to a liquidity event, and the likelihood of Loxo obtaining additional future financing.

The remaining consideration under the amended Loxo agreement, which Loxo pays to Array in advance quarterly payments, was allocated between the research services and JRC participation deliverables and will be recognized as the services are rendered throughout the discovery program term.

The April 2014 amendment added several contingent deliverables related to either increasing the number of FTEs performing research services for Loxo on a monthly basis in exchange for an advance payment, or rights to

discontinue research activities for fewer targets in exchange for additional payments to be made to Array. All of the obligations added to the arrangement by the amendment were considered contingent because the likelihood and timing of these deliverables is uncertain and therefore, the potential consideration associated with these obligations was not included in the total allocable consideration.

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We recognized the full $4.5 million estimated fair value of the preferred shares received in license revenue during the first quarter of fiscal 2014, as delivery of the shares was not contingent upon either the delivery of additional items or meeting other specified performance conditions. We also recognized $5.2 million in collaboration revenue during the year ended June 30, 2014.

The amended Loxo agreement will continue on a country-by-country basis until the termination of the royalty payment obligations, unless terminated earlier by the parties in accordance with its terms. The agreement may be terminated by either party upon the failure of the other party to cure any material breach of its obligations under the agreement, provided that, so long as Loxo is reasonably able to pay its debts as they are due, Array will only be entitled to seek monetary damages, and will not have the right to terminate the amended agreement in the event of Loxo's breach after expiration of the discovery program term. Loxo also has the right to terminate the amended agreement or to terminate discovery research with respect to any targets under development with six months' notice to Array. If Loxo terminates the amended agreement for convenience, all licenses granted to Loxo will terminate and Array will have all rights to further develop and commercialize the licensed programs. The period of exclusivity to be observed by Array under the amended Loxo agreement will continue as long as Loxo either has an active research and/or development program for a target and the program could result in the receipt of milestones or royalties under the program by Array, or as long as Loxo is commercializing a product for a target under the amended agreement.

Novartis International Pharmaceutical Ltd.

Array entered into a License Agreement with Novartis in April 2010, which grants Novartis the exclusive worldwide right to develop and commercialize binimetinib, as well as other specified MEK inhibitors. Under the Novartis agreement, we have elected to conduct further development of binimetinib as a single agent in a Phase 3 trial of patients with low-grade serous ovarian cancer. 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 in the fourth quarter of fiscal 2010, which was comprised of an up-front fee and a milestone payment. In March 2011, we earned a $10 million milestone payment which was received in the fourth quarter of fiscal 2011. In June 2013, we earned a $5 million milestone payment, which was received during the first quarter of fiscal 2014. We are eligible to receive up to approximately $408 million in additional aggregate milestone payments if all clinical, regulatory and commercial milestones specified in the Novartis agreement are achieved for binimetinib. Novartis will also pay us royalties on worldwide sales of any approved drugs. In addition, as 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 under Co-Development Arrangement.

We recognized the up-front fee and milestone payments on a straight-line basis from April 2010 through April 2014. During the years ended June 30, 2014, 2013 and 2012, we recognized $8.0 million, $10.0 million and $10.0 million, respectively, of license revenue and $4.0 million, $7.7 million and $3.8 million, respectively, of milestone revenue under the Novartis agreement.

The Novartis 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 it under the agreement, or for negligence, willful misconduct or breach of covenants, warranties or representations made by it under the agreement.

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Co-Development Arrangement

The Novartis agreement also contains co-development rights whereby we can elect to pay a share of the combined total development costs, subject to a maximum amount with annual caps. During the first two years of the co-development period, Novartis reimbursed us for 100% of our development costs. We began to pay our share of the combined development costs that had accrued since inception of the program, with payments to Novartis of $9.2 million and $11.3 million in the second quarters of fiscal 2013 and fiscal 2014, respectively, in accordance with the terms of the Novartis agreement. During fiscal 2014, we committed to continue our co-development contribution through fiscal 2015. We have the right to opt out of paying our share of the combined development costs on an annual basis after fiscal 2015, in which case, the U.S. royalty rate would then be reduced for any such product based on a pre-specified formula, subject to a minimum that equals the royalty rate on sales outside the U.S. Additionally, we would no longer have the right to develop or co-detail such product.

We record a receivable in accounts receivables on the balance sheet for the amounts due from Novartis for the reimbursement of our development costs in excess of the annual cap. We record expense in cost of partnered programs on the statement of operations and comprehensive loss for our share of the combined development costs and accrue these costs on our balance sheet in co-development liability.

Our share of the combined development costs was $18.9 million, $11.8 million and $5.6 million during the years ended June 30, 2014, 2013 and 2012, respectively. We recorded co-development liabilities of $16.2 million and $11.0 million as of June 30, 2014 and 2013, respectively. We had related receivables of $4.1 million and $3.7 million as of June 30, 2014 and 2013, respectively, for the reimbursable development costs we incurred during the respective preceding three-month periods in excess of the annual cap.

Oncothyreon Inc.

In May 2013, we entered into a Development and Commercialization Agreement with Oncothyreon to collaborate on the development and commercialization of ARRY-380, now also known as ONT-380, for the treatment of cancer. Under the terms of the agreement, Oncothyreon paid Array a one-time up-front fee of $10 million and received a license to ARRY-380 enabling it to perform its development activities. Oncothyreon will be responsible for conducting the clinical development of ARRY-380 through a defined set of proof-of-concept trials and will also be responsible for all development costs incurred by or on behalf of either party with respect to these proof-of-concept trials.

Unless Array opts out of further development and commercialization, as described below, Array will reimburse Oncothyreon for the proof-of-concept development costs through a mechanism whereby Array bears a disproportionate amount of Phase 3 development costs and Oncothyreon receives a disproportionate amount of the profits in the U.S. until Oncothyreon is repaid a percentage of the amounts it has spent on the proof-of-concept trials. Oncothyreon and Array will jointly conduct any Phase 3 development supported by the proof-of-concept studies. Subject to certain exceptions primarily related to the reimbursement provisions described above, Oncothyreon and Array will each be responsible for 50% of the development costs incurred with respect to any Phase 3 development.

Array is responsible for worldwide commercialization of the product. Oncothyreon has a 50% co-promotion right in the U.S. Each party also retains the right to opt out of further development and commercialization in exchange for a royalty. Subject to certain exceptions, Oncothyreon and Array will bear, or be entitled to, 50% of the profit or loss from commercializing the product in the U.S. Outside of the U.S., Oncothyreon will receive a double-digit royalty on net sales intended to approximate a 50% profit share, and the two companies will share equally the proceeds from any sublicense of marketing rights.

Following the proof-of-concept trials, both Array and Oncothyreon are currently expected to be active participants in the collaboration and will jointly (50/50) share risks and rewards under the agreement. Accordingly, the collaborative activities not included in the proof-of-concept studies under the Oncothyreon agreement should be accounted for under ASC 808, Collaborative Arrangements and, as such, these collaborative activities were separated from the deliverables under the Oncothyreon agreement. Additionally, the up-front consideration is not

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related to any performance of the collaborative activities and is not refundable; therefore, none of the up-front payment was attributed to the collaborative activities.

Pursuant to the accounting guidance for revenue recognition for multiple-element arrangements, we determined that in order for Oncothyreon to be able to conduct its activities during the proof-of-concept trials, Array is obligated to deliver three non-contingent deliverables related to the Oncothyreon agreement that meet the separation criteria and therefore are treated as separate units of accounting. These deliverables are (i) the license deliverable, which includes the initial technology transfer, as well as the transfer of regulatory information necessary for Oncothyreon to file its own IND, (ii) the transfer of existing quantities of clinical product, and (iii) participation on the joint development committee ("JDC") during the proof-of concept activities. The Oncothyreon agreement provides for no general right of return for any non-contingent deliverable. The first non-contingent deliverable for the license deliverable was completed as of June 30, 2013. The second non-contingent deliverable requiring Array to deliver existing quantities of clinical materials of ARRY-380 is expected to be completed by the end of the first quarter of fiscal 2015, and the final obligation requiring us to participate on the JDC will be completed over the estimated time frame of the proof-of-concept activities.

The Oncothyreon agreement also includes contingent deliverables for the future manufacture and supply of additional drug product for the studies and for the rendering of support and advisory services by Array to Oncothyreon during the proof-of-concept trials. These deliverables are considered contingent because the scope, likelihood and timing of the potential services are unclear. We could elect to manufacture the additional drug materials in-house or by utilizing a third-party vendor. Additionally, we are not required to have any individuals devoted to supporting Oncothyreon, and we will charge our costs to the development program as they are incurred. Therefore, no portion of the up-front payment has been allocated to the contingent deliverables that we may be obligated to perform in the future.

To determine the stand-alone value of the license deliverable, we considered the differences between this agreement and the licensing agreements with our other partners, publicly-available data for similar licensing arrangements between other companies and the economic terms of previous collaborations Array has entered into with other partners. We also considered clinical trial success rates in the industry. Taking into account these factors, as well as the stand-alone values for the delivery of existing drug product and JDC participation, all of the up-front payment was allocated to the license deliverable. No portion of any revenue recognized is refundable.

We recognized $3.5 million in collaboration revenue, including $2.6 million for reimbursable expenses, during the year ended June 30, 2014. Additionally, we recognized $10.0 million in license and milestone revenue during the year ended June 30, 2013, related to the up-front payment.

The Oncothyreon agreement will continue on a country-by-country basis until the termination of the royalty payment obligations, or if earlier, the termination of the agreement in accordance with its terms. The Oncothyreon agreement may be terminated by Array upon Oncothyreon's uncured failure to timely initiate committed trials or complete certain development activities, and may also be terminated under certain other circumstances, including material breach, as set forth in the agreement. Array and Oncothyreon have also agreed to indemnify the other party for certain of their respective activities under the agreement.

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Deferred Revenue

Deferred revenue consisted of the following (in thousands):

	June 30, 2014	2013
Celgene	$7,258	$—
Biogen Idec	1,218	—
Loxo Oncology, Inc.	625	—
Genentech, Inc.	367	2,300
Novartis International Pharmaceutical Ltd.	—	12,053
Other partners	78	—
Total deferred revenue	9,546	14,353
Less: Current portion	(6,193)	(14,353)
Deferred revenue, long-term portion	$3,353	$—

NOTE 5 – LONG-TERM DEBT

Long-term debt consists of the following (in thousands):

	June 30, 2014	2013
Comerica term loan	$14,550	$14,550
Convertible senior notes	132,250	132,250
Long-term debt, gross	146,800	146,800
Less: Unamortized debt discount	(42,848)	(47,779)
Long-term debt, net	$103,952	$99,021

Comerica Bank

We entered into a Loan and Security Agreement with Comerica Bank dated June 28, 2005, which has been subsequently amended and provides for a $15 million term loan and a revolving line of credit of $6.8 million. The term loan bears interest at a variable rate and we currently have $14.6 million outstanding under the term loan. The revolving line of credit was established to support standby letters of credit in relation to our facilities leases, and has not been drawn upon.

Effective December 31, 2013, the Loan and Security Agreement was amended to extend the maturity date of the term loan to October 2017 and to extend the maturity date of the revolving line of credit to June 2015. Also effective December 31, 2013, the interest rate on the term loan was amended to be equal to the Prime Rate, if the balance of our cash, cash equivalents and marketable securities maintained at Comerica is greater than or equal to $10 million, or equal to the Prime Rate plus 2% if this balance is less than $10 million. As of June 30, 2014, the term loan with Comerica had an interest rate of 3.25% per annum.

The amendment to the Loan and Security Agreement also modified covenants requiring certain minimum monthly ending balances of total cash, cash equivalents and marketable securities to be maintained at Comerica based on our overall outstanding cash, cash equivalents and marketable securities. Effective December 31, 2013, this prior covenant was replaced with a covenant that requires us to maintain a balance of cash at Comerica that is at least equivalent to our total outstanding obligation under the term loan if our overall balance of cash, cash equivalents and marketable securities at Comerica and approved outside accounts is less than $22 million.

The amendment further added a financial covenant that applies if we draw down on the revolving line of credit. In this event, we must maintain a ratio equal to at least 1.25 to 1.00 as of the last day of each month commencing

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December 31, 2013, and calculated as follows: (A) total cash, cash equivalents and marketable securities less all outstanding obligations to Comerica under the term loan, plus specified percentages of the respective values of eligible accounts, equipment and eligible inventory, divided by (B) the aggregate amount outstanding under the revolving letter of credit sublimit. No amounts are outstanding under the revolving line of credit and we do not expect to make any draws under this facility.

Our obligations under the Loan and Security Agreement are secured by a first priority security interest in all of our assets, other than our intellectual property. The Loan and Security Agreement contains representations and warranties and affirmative and negative covenants that are customary for credit agreements of this type. Our ability to, among other things, sell certain assets, engage in a merger or change in control transaction, incur debt, pay cash dividends and make investments, are restricted by the Loan and Security Agreement. The Loan and Security Agreement also contains events of default that are customary for credit agreements of this type, including payment defaults, covenant defaults, insolvency type defaults and events of default relating to liens, judgments, material misrepresentations and the occurrence of certain material adverse events.

We use a discounted cash flow model to estimate the fair value of the Comerica term loan. The fair value was estimated at $14.6 million as of both June 30, 2014 and 2013, and was classified using Level 2, observable inputs other than quoted prices in active markets.

3.00% Convertible Senior Notes Due 2020

On June 10, 2013, through a registered underwritten public offering, we issued and sold $132.3 million aggregate principal amount of 3.00% convertible senior notes due 2020 (the "Notes"), resulting in net proceeds to Array of approximately $128.0 million after deducting the underwriting discount and estimated offering expenses.

The Notes are the general senior unsecured obligations of Array. The Notes bear interest at a rate of 3.00% per year, payable semi-annually on June 1 and December 1 of each year, commencing December 1, 2013. The Notes will mature on June 1, 2020, unless earlier converted by the holders or redeemed by us.

Prior to March 1, 2020, holders may convert the Notes only upon the occurrence of certain events described in a supplemental indenture we entered into with Wells Fargo Bank, N.A., as trustee, upon issuance of the Notes. On or after March 1, 2020, until the close of business on the scheduled trading day immediately prior to the maturity date, holders may convert their Notes at any time. Upon conversion, the holders will receive, at our option, shares of our common stock, cash or a combination of shares and cash. The Notes will be convertible at an initial conversion rate of 141.8641 shares per $1,000 in principal amount of Notes, equivalent to a conversion price of approximately $7.05 per share. The conversion rate is subject to adjustment upon the occurrence of certain events described in the supplemental indenture. Holders of the Notes may require us to repurchase all or a portion of their Notes for cash at a price equal to 100% of the principal amount of the Notes to be purchased, plus accrued and unpaid interest, if there is a qualifying change in control or termination of trading of our common stock.

On or after June 4, 2017, we may redeem for cash all or part of the outstanding Notes if the last reported sale price of our common stock exceeds 130% of the applicable conversion price for 20 or more trading days in a period of 30 consecutive trading days ending within seven trading days immediately prior to the date we provide the notice of redemption to holders. The redemption price will equal 100% of the principal amount of the Notes to be redeemed, plus all accrued and unpaid interest. If we were to provide a notice of redemption, the holders could convert their Notes up until the business day immediately preceding the redemption date.

In accordance with ASC Subtopic 470-20, we used an effective interest rate of 10.25% to determine the liability component of the Notes. This resulted in the recognition of $84.2 million as the liability component of the Notes and

the recognition of the residual $48.0 million as the debt discount with a corresponding increase to additional paid-in capital for the equity component of the Notes. The underwriting discount and estimated offering expenses of $4.3 million were allocated between the debt and equity issuance costs in proportion to the allocation of the liability and equity components of the Notes. Debt issuance costs of $2.7 million were included in other long-term assets on our balance sheet as of the issuance date. Equity issuance costs of $1.6 million were recorded as an

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offset to additional paid-in capital. The debt discount and debt issuance costs will be amortized as non-cash interest expense through June 1, 2020. The balance of unamortized debt issuance costs was $2.4 million as of June 30, 2014.

The fair value of the Notes was $132.3 million and $126.0 million at June 30, 2014 and 2013, respectively, and was determined using Level 2 inputs based on their quoted market values.

Deerfield Credit Facilities

We had two outstanding credit facilities with Deerfield, which we repaid in full on June 10, 2013, with $92.6 million of the net proceeds from the issuance of the Notes. Under the terms of our credit facilities with Deerfield, we issued warrants to Deerfield that remain outstanding and which are discussed further in Note 7 - Stockholders' Deficit. At the time of their issuance, we recorded the value of the warrants as debt discount. The Deerfield credit facilities also had two features relating to variable interest and a put option that were characterized as embedded derivatives and whose initial value was also recorded as debt discount.

At the time of prior repayments and the final repayment of principal under the Deerfield credit facilities, we adjusted the debt discount and outstanding transaction fees recognized by the same proportion as the percentage of debt that was repaid and recognized a corresponding loss on prepayment of long-term debt, net in our statements of operations and comprehensive loss. Ultimately, the remaining outstanding balances of debt discount and debt transaction fees were written off upon repayment of the credit facilities as follows (in thousands):

	Year Ended June 30,	
	2013	2012
Write off proportional value or remaining balance of the debt discount	$(10,898)	$(887)
Write off proportional value or remaining balance of the unamortized debt issuance costs	(720)	(55)
Fair value adjustment for, or write off of, the embedded derivatives	421	—
Loss on prepayment of long-term debt, net	$(11,197)	$(942)

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Summary of Interest Expense

The following table shows the details of our interest expense for all of our debt arrangements outstanding during the periods presented, including contractual interest, and amortization of debt discount, debt issuance costs and loan transaction fees that were charged to interest expense (in thousands):

	Year Ended June 30,		
	2014	2013	2012
Comerica Term Loan			
Simple interest	$479	$483	$489
Amortization of fees paid for letters of credit	48	107	108
Total interest expense on the Comerica term loan	527	590	597
Convertible Senior Notes			
Contractual interest	3,979	221	—
Amortization of debt discount	4,932	259	—
Amortization of debt issuance costs	278	14	—
Total interest expense on the convertible senior notes	9,189	494	—
Deerfield Credit Facilities			
Simple interest	—	6,078	6,492
Amortization of debt discounts and transaction fees	—	4,331	4,419
Change in fair value of the embedded derivatives	—	(235)	116
Total interest expense on the Deerfield credit facilities	—	10,174	11,027
Total interest expense	$9,716	$11,258	$11,624

Commitment Schedule

We are required to make principal payments for our long-term debt as follows during the fiscal years ending June 30 (in thousands):

	Principal Due
2015	$—
2016	—
2017	—
2018	14,550
2019	—
Thereafter	132,250
	$146,800

NOTE 6 – COMMITMENTS AND CONTINGENCIES

Operating Leases

We lease facilities and equipment under various non-cancelable operating leases that expire through 2016. Most of our leases for facilities include an option to extend the lease for up to two terms of five years each. In addition to minimum lease payments, we are contractually obligated under some of our lease agreements to pay certain operating expenses during the term of the lease, such as maintenance, taxes and insurance.

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Future minimum rental commitments for our operating leases, by fiscal year and in the aggregate, as of June 30, 2014, are (in thousands):

	Rental Payments
2015	$8,316
2016	8,338
2017	368
2018	—
2019	—
Thereafter	—
	$17,022

Rent expense under these agreements follows (dollars in thousands):

	Year Ended June 30,		
	2014	2013	2012
Cash paid for rent	$8,878	$8,625	$8,549
Deferred rent credits	(3,645)	(3,489)	(3,332)
Rent expense, net	$5,233	$5,136	$5,217

Legal Proceedings

From time to time, we may be involved in claims or lawsuits that arise in the ordinary course of business. Accruals for claims or lawsuits are provided to the extent that losses are deemed both probable and estimable. Although the ultimate outcome of these claims or lawsuits cannot be ascertained, on the basis of present information and advice received from counsel, it is management's opinion that the disposition or ultimate determination of such claims or lawsuits will not have a material adverse effect on Array.

NOTE 7 – STOCKHOLDERS' DEFICIT

Stock Option and Incentive Plan

In September 2000, our Board of Directors approved the Amended and Restated Stock Option and Incentive Plan (the "Option and Incentive Plan"). As of June 30, 2014, 23,131,696 shares of common stock are reserved for future issuance under the Option and Incentive Plan to our eligible employees, consultants and directors. Of the shares available for future issuance, 1,690,965 are available for issuance as incentive stock options. The remaining shares can be used for other awards. In addition, the Option and Incentive Plan provides for the reservation of additional authorized shares on any given day in an amount equal to the difference between:

(i) 25% of our issued and outstanding shares of common stock, on a fully diluted and as-converted basis; and

(ii) the number of outstanding shares relating to awards under the Option and Incentive Plan plus the number of shares available for future grants of awards under the Option and Incentive Plan on that date.

However, in no event shall the number of additional authorized shares determined pursuant to this formula exceed, when added to the number of shares of common stock outstanding and reserved for issuance under the Option and Incentive Plan other than pursuant to this formula, under the ESPP and upon conversion or exercise of outstanding warrants or convertible securities, the total number of shares of common stock authorized for issuance under our Amended and Restated Certificate of Incorporation.

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The Option and Incentive Plan provides for awards of both non-statutory stock options and incentive stock options within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended, restricted stock and other incentive awards and rights to purchase shares of our common stock.

The Option and Incentive Plan is administered by the Compensation Committee of the Board of Directors, which has the authority to select the individuals to whom awards will be granted, the number of shares, vesting terms, exercise price and term of each option grant. Generally, options have a four-year annual vesting term, an exercise price equal to the market value of the underlying shares at the grant date and a ten-year life from the date of grant.

Warrants

Associated with our previously outstanding long-term debt arrangements under the Deerfield credit facilities, we issued warrants to Deerfield to purchase 6,000,000 shares of common stock at an exercise price of $3.65 and warrants to purchase 6,000,000 shares of common stock at an exercise price of $4.19. The warrants contain the same terms, except for the lower per share exercise price. We valued the warrants at issuance based on a Black-Scholes option pricing model and then allocated a portion of the proceeds under the debt to the warrants based upon their relative fair values. The warrants were recorded in stockholders' deficit with the offset to debt discount. The debt discount was amortized using the effective interest method and recorded as interest expense in the accompanying statements of operations and comprehensive loss from the respective draw dates until June 10, 2013, when the Deerfield credit facilities were repaid and the recognition of the remaining debt discount was accelerated. The warrants are currently exercisable and expire on June 30, 2016.

Controlled Equity Offering

On March 27, 2013, we entered into a Sales Agreement with Cantor Fitzgerald & Co. ("Cantor"), pursuant to which we could sell up to $75 million in shares of our common stock from time to time through Cantor, acting as our sales agent, in an at-the-market offering. The Sales Agreement concluded in June 2014 upon completion of the sale of all shares available under the Sales Agreement. All sales of shares were made pursuant to an effective shelf registration statement on Form S-3 filed with the SEC. We paid Cantor a commission of approximately 2% of the aggregate gross proceeds we received from all sales of our common stock under the Sales Agreement.

During the year ended June 30, 2014, we sold approximately 13.8 million shares of common stock at an average price of $5.43 per share, for gross proceeds of $75.0 million. Cantor earned commissions of $1.5 million relating to these sales.

NOTE 8 – SHARE-BASED COMPENSATION

Total share-based compensation expense recorded for equity awards issued pursuant to the Option and Incentive Plan and for shares issued under the ESPP was $4.3 million, $3.4 million and $2.4 million for the fiscal years ended June 30, 2014, 2013 and 2012, respectively.

We use the Black-Scholes option pricing model to estimate the fair value of our share-based awards. In applying this model, we use the following assumptions:

- Risk-free interest rate - We determine the risk-free interest rate by using a weighted average assumption equivalent to the expected term based on the U.S. Treasury constant maturity rate.
- Expected term - We estimate the expected term of our options based upon historical exercises and post-vesting termination behavior.
- Expected volatility - We estimate expected volatility using daily historical trading data of our common stock.

- Dividend yield - We have never paid dividends and currently have no plans to do so; therefore, no dividend yield is applied.

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The fair value of our option awards was estimated using the assumptions below, which yielded the following weighted average grant date fair values for the periods presented:

	Year Ended June 30,		
	2014	2013	2012
Risk-free interest rate	1.7% - 2.1%	0.8% - 1.2%	0.9% - 1.5%
Expected option term in years	6.25	6.25	6.25
Expected volatility	67.8% - 68.9%	66.0% - 67.5%	63.8% - 65.8%
Dividend yield	0%	0%	0%
Weighted-average grant date fair value	$2.91	$3.07	$2.04

The following table summarizes our stock option activity under the Option and Incentive Plan for the year ended June 30, 2014:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at June 30, 2013	10,337,737	$4.87		
Granted	2,454,244	$4.63		
Exercised	(859,472)	$3.33		
Forfeited	(1,675,631)	$5.43		
Expired or canceled	(62,061)	$8.23		
Outstanding balance at June 30, 2014	10,194,817	$4.84	7.0	$4,656
Vested and expected to vest at June 30, 2014	8,491,883	$4.91	6.7	$4,182
Exercisable at June 30, 2014	4,712,643	$5.27	4.9	