

SEACOAST BANKING CORP OF FLORIDA

Form 10-Q/A

August 05, 2009

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549**

FORM 10-Q/A

(Mark One)

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

For the quarterly period ended June 30, 2009

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 No. 0-13660

Seacoast Banking Corporation of Florida

(Exact Name of Registrant as Specified in its Charter)

Florida

59-2260678

(State or Other Jurisdiction of Incorporation or
Organization)

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

815 Colorado Avenue
Stuart, Florida

34994

(Address of Principal Executive Offices)

(Zip Code)

(772) 287-4000

(Registrant's Telephone Number, Including Area Code)

(Former name, Former Address and Former Fiscal Year, If Changed Since Last Report)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated
filer

Accelerated filer

Non-accelerated filer

Smaller reporting
company

(Do not check if smaller
reporting company)

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

Common Stock, \$.10 Par Value 19,170,788 outstanding shares as of June 30, 2009

EXPLANATORY NOTE

This Amendment No. 1 on Form 10-Q/A (the Form 10-Q/A) amends the Seacoast Banking Corporation of Florida (Seacoast) Quarterly Report on Form 10-Q for the quarter ended June 30, 2009 that was filed with the Securities and Exchange Commission on August 3, 2009 (the Original Form 10-Q). This Form 10-Q/A is being filed to add a new Note J to Item 1, Financial Statements, relating to securities held by the company.

For the convenience of the reader, this Form 10-Q/A sets forth the full text of the Quarterly Report on Form 10-Q for the quarter ended June 30, 2009, in its entirety, as hereby amended. Except as required to reflect the changes noted above, this Form 10-Q/A does not attempt to modify or update any other disclosures set forth in the Original Form 10-Q.

In addition, as required by Rule 12b-15 under the Securities Exchange Act of 1934, as amended (the Exchange Act), new certifications by our principal executive officer and principal financial officer are filed as exhibits to this Form 10-Q/A under Item 6 hereof. No other new exhibits are being filed herewith.

This Form 10-Q/A does not reflect events occurring after the filing of the Original Form 10-Q on August 3, 2009 and no attempt has been made in this Form 10-Q/A to modify or update other disclosures as presented in the Original Form 10-Q. Accordingly, this 10-Q/A should be read in conjunction with our filings with the SEC subsequent to the filing of the Original Form 10-Q.

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SEACOAST BANKING CORPORATION OF FLORIDA

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Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)
Seacoast Banking Corporation of Florida and Subsidiaries

(Dollars in thousands, except share amounts)	June 30, 2009	December 31, 2008
ASSETS		
Cash and due from banks	\$ 32,020	\$ 46,002
Interest bearing deposits with other banks	43,632	100,585
Federal funds sold	0	4,605
Total cash and cash equivalents	75,652	151,192
Securities:		
Available for sale (at fair value)	337,746	318,030
Held for investment (fair values: \$21,709 at June 30, 2009 and \$26,109 at December 31, 2008)	22,299	27,871
TOTAL SECURITIES	360,045	345,901
Loans held for sale	16,454	2,165
Loans	1,584,340	1,676,728
Less: Allowance for loan losses	(43,618)	(29,388)
NET LOANS	1,540,722	1,647,340
Bank premises and equipment, net	42,879	44,122
Other real estate owned	23,259	5,035
Goodwill and other intangible assets	4,751	55,193
Other assets	72,973	63,488
	\$2,136,735	\$2,314,436
LIABILITIES		
Deposits	\$1,756,422	\$1,810,441
Federal funds purchased and securities sold under agreements to repurchase, maturing within 30 days	101,849	157,496
Borrowed funds	65,172	65,302
Subordinated debt	53,610	53,610
Other liabilities	11,127	11,586

1,988,180

2,098,435

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Table of ContentsCONDENSED CONSOLIDATED BALANCE SHEETS (continued) (Unaudited)
Seacoast Banking Corporation of Florida and Subsidiaries

(Dollars in thousands, except share amounts)	June 30, 2009	December 31, 2008
SHAREHOLDERS EQUITY		
Preferred stock, par value \$0.10 per share, authorized 4,000,000 shares, issued and outstanding 2,000 shares of Series A	44,412	43,787
Warrant for purchase of shares of common stock at \$6.36 per share	5,588	6,245
Common stock, par value \$0.10 per share, authorized 65,000,000 shares, issued 19,261,888 and outstanding 19,170,788 shares at June 30, 2009, issued 19,283,841 and outstanding 19,171,779 shares at December 31, 2008	1,917	1,928
Other shareholders equity	96,638	164,041
TOTAL SHAREHOLDERS EQUITY	148,555	216,001
	\$2,136,735	\$2,314,436

See notes to condensed consolidated financial statements.

Table of ContentsCONDENSED CONSOLIDATED STATEMENTS OF INCOME (Unaudited)
Seacoast Banking Corporation of Florida and Subsidiaries

(Dollars in thousands, except per share data)	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2009	2008	2009	2008
Interest and fees on loans	\$ 21,638	\$ 28,197	\$ 44,798	\$ 59,379
Interest and dividends on securities	4,375	3,621	8,379	7,297
Interest on federal funds sold and other investments	109	455	257	752
TOTAL INTEREST INCOME	26,122	32,273	53,434	67,428
Interest on deposits	6,194	10,634	14,181	23,212
Interest on borrowed money	1,008	1,477	2,159	3,569
TOTAL INTEREST EXPENSE	7,202	12,111	16,340	26,781
NET INTEREST INCOME	18,920	20,162	37,094	40,647
Provision for loan losses	26,227	42,237	37,879	47,737
NET INTEREST LOSS AFTER PROVISION FOR LOAN LOSSES	(7,307)	(22,075)	(785)	(7,090)
Noninterest income				
Other income	3,928	5,842	8,684	12,004
Securities gains, net	1,786	355	1,786	355
TOTAL NONINTEREST INCOME	5,714	6,197	10,470	12,359
Noninterest Expenses				
Goodwill impairment	49,813	0	49,813	0
Other noninterest expenses	20,348	19,240	39,457	37,924
TOTAL NONINTEREST EXPENSES	70,161	19,240	89,270	37,924
LOSS BEFORE INCOME TAXES	(71,754)	(35,118)	(79,585)	(32,655)
Benefit for income taxes	(8,754)	(13,802)	(11,825)	(13,102)
NET LOSS	(63,000)	(21,316)	(67,760)	(19,553)
Preferred stock dividends and accretion of preferred stock discount	937	0	1,874	0
	\$ (63,937)	\$ (21,316)	\$ (69,634)	\$ (19,553)

NET LOSS AVAILABLE TO COMMON
SHAREHOLDERS

PER SHARE COMMON STOCK:

Net loss diluted	\$	(3.35)	\$	(1.12)	\$	(3.65)	\$	(1.03)
Net loss basic		(3.35)		(1.12)		(3.65)		(1.03)
Cash dividends declared		0.00		0.16		0.01		0.32
Average shares outstanding	diluted	19,088,759	18,986,163	19,079,151	18,957,269			
Average shares outstanding	basic	19,088,759	18,986,163	19,079,151	18,957,269			

See notes to condensed consolidated financial statements.

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Table of ContentsCONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
Seacoast Banking Corporation of Florida and Subsidiaries

	Six Months Ended June 30,	
(Dollars in thousands)	2009	2008
(Decrease) increase in cash and cash equivalents		
Cash flows from operating activities		
Interest received	\$ 53,479	\$ 68,004
Fees and commissions received	9,646	12,254
Interest paid	(16,569)	(27,407)
Cash paid to suppliers and employees	(36,271)	(34,718)
Income taxes paid	(13)	(3,472)
Trading securities activity	0	14,000
Origination of loans held for sale	(96,731)	(130,036)
Proceeds of loans held for sale	82,442	135,253
Net change in other assets	806	503
Net cash (used in) provided by operating activities	(3,211)	34,381
Cash flows from investing activities		
Maturities of securities available for sale	52,509	18,937
Maturities of securities held for investment	5,578	1,985
Proceeds from sale of securities available for sale	31,376	13,391
Purchases of securities available for sale	(100,170)	(32,609)
Net new loans and principal repayments	43,594	28,768
Proceeds from sale of loans	3,763	13,773
Proceeds from the sale of other real estate owned	2,308	295
Proceeds from sale of Federal Home Loan Bank Stock and Federal Reserve Bank stock	181	0
Purchase of Federal Home Loan Bank and Federal Reserve Bank stock	(821)	(165)
Additions to bank premises and equipment	(531)	(3,484)
Net cash provided by investing activities	37,787	40,891
Cash flows from financing activities		
Net decrease in deposits	(54,007)	(96,907)
Net decrease in federal funds purchased and repurchase agreements	(55,647)	(1,270)
Stock based employee benefit plans	118	817
Dividends paid	(580)	(6,100)
Net cash used in financing activities	(110,116)	(103,460)
Net decrease in cash and cash equivalents	(75,540)	(28,188)
Cash and cash equivalents at beginning of period	151,192	98,475

Cash and cash equivalents at end of period	\$ 75,652	\$ 70,287
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Seacoast Banking Corporation of Florida and Subsidiaries

	Six Months Ended June 30,	
(Dollars in thousands)	2009	2008
Reconciliation of net loss to cash (used in) provided by operating activities		
Net loss	\$(67,760)	\$(19,553)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Loss on write down of goodwill	49,813	0
Depreciation	1,768	1,659
Amortization (accretion) of premiums and discounts on securities	(652)	(307)
Other amortization and accretion	518	206
Trading securities activity	0	14,000
Change in loans held for sale, net	(14,289)	5,217
Provision for loan losses	37,879	47,737
Gains on sale of securities	(1,786)	(355)
Gains on sale of loans	(172)	(38)
Losses on sale and write-downs of other real estate owned	1,129	232
Losses (gains) on disposition of fixed assets	6	(97)
Change in interest receivable	808	1,305
Change in interest payable	(230)	(625)
Change in prepaid expenses	634	329
Change in accrued taxes	(11,173)	(16,166)
Change in other assets	806	503
Change in other liabilities	(510)	334
Net cash (used in) provided by operating activities	\$ (3,211)	\$ 34,381
Supplemental disclosure of non-cash investing activities:		
Fair value adjustment to available for sale securities	\$ 839	\$ 57
Transfer of loans to other real estate owned	21,542	4,339

See notes to condensed consolidated financial statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
SEACOAST BANKING CORPORATION OF FLORIDA AND SUBSIDIARIES

NOTE A BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U. S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U. S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the six-month period ended June 30, 2009, are not necessarily indicative of the results that may be expected for the year ending December 31, 2009 or any other period. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2008.

Use of Estimates

The preparation of these condensed consolidated financial statements required the use of certain estimates by management in determining the Company's assets, liabilities, revenues and expenses. Actual results could differ from those estimates.

The accounting policies that are particularly sensitive to judgments and the extent to which significant estimates are used include allowance for loan losses and the reserve for unfunded lending commitments, fair value of certain financial instruments, goodwill impairment, realization of deferred tax assets, and contingent liabilities.

We test goodwill for impairment on an annual basis, or more often if events or circumstances indicate there may be impairment. We engage external valuation specialists to assist in our goodwill assessments. The Company completed an annual test of goodwill for impairment for the year ended December 31, 2008. Management updated the test for impairment of goodwill at March 31, 2009 due to the decline in the price of the Company's common stock and net earnings in the first quarter of 2009. The results of these tests indicated that none of the Company's goodwill was impaired. Due to the further decline in the price of our common stock and our net loss in the second quarter of 2009, we again tested for impairment of goodwill as of June 30, 2009. The fair value of our enterprise was determined using two methods, the discounted cash flow and change in control valuation methods. These two methods provided a range of valuations of \$2.43 to \$7.00 per share that we used in evaluating goodwill for possible impairment. As of June 30, 2009, we determined that the carrying amount of the Company exceeds its fair value. Accordingly, we have determined preliminarily that the goodwill impairment loss is equal to the full amount of our goodwill \$49,813,000. This is an estimate and we will disclose in the third quarter any adjustments after completing the second step analysis. This requires the Company to allocate the estimated fair value of the Company to all of its assets and liabilities. The fair values of the assets and liabilities, primarily loans and deposits, are determined using current market interest rates, projections of future cash flows, and where available, quoted market prices of similar instruments. Any unallocated fair value represents the implied fair value of goodwill, which is then compared to its corresponding carrying value.

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NOTE B RECENT ACCOUNTING STANDARDS

In December 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 141R, *Business Combinations* (SFAS No. 141R). SFAS No. 141(R) will significantly change how entities apply the acquisition method to business combinations. The most significant changes that affect how the Company will account for business combinations under this Statement include:

the acquisition date will be date the acquirer obtains control;

all (and only) identifiable assets acquired, liabilities assumed, and noncontrolling interests in the acquiree will be stated at fair value on the acquisition date;

assets or liabilities arising from noncontractual contingencies will be measured at their acquisition date fair value only if it is more likely than not that they meet the definition of an asset or liability on the acquisition date;

adjustments subsequently made to the provisional amounts recorded on the acquisition date will be made retroactively during a measurement period not to exceed one year;

acquisition-related restructuring costs that do not meet the criteria in SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*, will be expensed as incurred;

transaction costs will be expensed as incurred;

reversals of deferred income tax valuation allowances and income tax contingencies will be recognized in earnings subsequent to the measurement period; and

the allowance for loan losses of an acquiree will not be permitted to be recognized by the acquirer.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements An Amendment of ARB No. 51*. SFAS No. 160 requires noncontrolling interests to be treated as a separate component of equity, not as a liability or other item outside of equity. Disclosure requirements include the display of net income and comprehensive income for both the controlling and noncontrolling interests and a separate schedule that shows the effects of any transactions with the noncontrolling interests on the equity attributable to the controlling interest. The provisions of this statement are effective for fiscal years beginning after December 15, 2008. This statement is applied prospectively except for the presentation and disclosure requirements, which are applied retrospectively for all periods presented. The adoption of SFAS No. 160 did not have a material impact on the consolidated financial statements of the Company.

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In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities*. SFAS No. 161, which amends SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, requires companies with derivative instruments to disclose information about how and why a company uses derivative instruments, how derivative instruments and related hedged items are accounted for under SFAS 133, and how derivative instruments and related hedged items affect a company's financial position, financial performance and cash flows. The required disclosures include the fair value of derivative instruments and their gains or losses in tabular format, information about credit risk-related contingent features in derivative agreements, counterparty credit risk, and the Company's strategies and objectives for using derivative instruments. This statement expands the current disclosure framework in SFAS No. 133. SFAS No. 161 is effective prospectively for periods beginning on or after November 15, 2008. The adoption of SFAS No. 161 has not had a material impact on the consolidated financial statements of the Company.

In April 2008, the FASB issued FASB Staff Position (FSP) No. SFAS 142-3, *Determination of the Useful Life of Intangible Assets*. This FSP amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS No. 142). This FSP applies to all intangible assets, whether acquired in a business combination or otherwise and was effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. It is applied prospectively to intangible assets acquired after the effective date. Early adoption is prohibited. The Company adopted the provisions of FSP No. SFAS 142-3 in the first quarter of 2009, as required, and the adoption did not have a material effect on the Company's financial condition or results of operations.

In April 2009, the FASB issued FSP No. FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments*. This FSP amends SFAS No. 107, *Disclosures About Fair Value of Financial Instruments*, and Accounting Principles Board (APB) Opinion No. 28, *Interim Financial Reporting*, to require disclosures about fair values of financial instruments in all interim financial statements. Once adopted, the disclosures required by the FSP are to be provided prospectively. The FSP's requirements are effective as of June 30, 2009, with early adoption permitted as of March 31, 2009. The Company did not elect to early-adopt the FSP, and has provided the required disclosures as of June 30, 2009.

In April 2009, the FASB issued FSP No. FAS 141(R)-1, *Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies*. This FSP amends and clarifies the provisions of SFAS No. 141(R), *Business Combinations*, with respect to the initial recognition and measurement, subsequent measurement and accounting, and disclosure of assets and liabilities arising from contingencies associated with a business combination. The provisions of the FSP are effective for business combinations occurring after January 1, 2009, and have been adopted by the Company. The effects of adoption of this FSP on the Company's consolidated financial statements will depend on the nature, terms and size of future business combinations. The Company has not made any business combinations since January 1, 2009.

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At June 30, 2009 and 2008, comprehensive income was as follows:

(Dollars in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Net loss	\$ (63,000)	\$ (21,316)	\$ (67,760)	\$ (19,553)
Unrealized gains (losses) on securities available for sale (net of tax)	(994)	(1,258)	1,193	161
Net reclassification adjustment	(1,325)	(138)	(686)	(138)
Comprehensive loss	\$ (65,319)	\$ (22,712)	\$ (67,253)	\$ (19,530)

NOTE D BASIC AND DILUTED EARNINGS PER COMMON SHARE

Equivalent shares of 566,000 and 801,000 related to stock options and stock settled appreciation rights for the periods ended June 30, 2009 and 2008, respectively, were excluded from the computation of diluted EPS because they would have been anti-dilutive.

(Dollars in thousands, except per share data)	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Basic:				
Net loss available to common shareholders	\$ (63,937)	\$ (21,316)	\$ (69,634)	\$ (19,553)
Average shares outstanding	19,088,759	18,986,163	19,079,151	18,957,269
Basic EPS	\$ (3.35)	\$ (1.12)	\$ (3.65)	\$ (1.03)
Diluted:				
Net loss available to common shareholders	\$ (63,937)	\$ (21,316)	\$ (69,634)	\$ (19,553)
Average shares outstanding	19,088,759	18,986,163	19,079,151	18,957,269
Net effect of employee restricted stock, stock options and stock settled appreciation rights	0	0	0	0
TOTAL	19,088,759	18,986,163	19,079,151	18,957,269
Diluted EPS	\$ (3.35)	\$ (1.12)	\$ (3.65)	\$ (1.03)

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In certain circumstances, fair value enables the Company to more accurately align its financial performance with the market value of actively traded or hedged assets and liabilities. Fair values enable a company to mitigate the non-economic earnings volatility caused from financial assets and financial liabilities being carried at different bases of accounting, as well as to more accurately portray the active and dynamic management of a company's balance sheet. The FASB issued FSP No. 157-3, *Determining the Fair Value of a Financial Asset When the Market for that Asset is Not Active* on October 10, 2008 to amend and clarify SFAS 157. In April 2009, the FASB issued FSP No. FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*, (FAS 157-4) to amend SFAS No. 157, *Fair Value Measurements*. FAS 157-4 provides additional guidance for estimating fair value in accordance with SFAS 157 when the volume and level of activity for an asset or liability has significantly decreased. In addition, FAS 157-4 includes guidance on identifying circumstances that indicate a transaction is not orderly. Under SFAS 157, *Fair Value Measurements*, and SFAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, fair value measurements for items measured at fair value at June 30, 2009 and 2008 included:

(Dollars in thousands)	Fair Value Measurements	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2009				
Available for sale securities	\$337,746		\$ 337,746	
Loans held for sale	16,454		16,454	
Loans (1)	52,464		4,556	\$47,908
Derivative product assets	201		201	
Other real estate owned (2)	23,259		23,259	

June 30, 2008

500,884

1.1

%

30,000

*

Gil J. Van Lunsen(k)

31,260

*

John L. Zabriskie, Ph.D.(l)

100,000

*

All directors and executive officers as a group (12 persons)(m)

5,216,288

10.6

%

Five Percent Shareholders

Kopp Investment Advisors, LLC(n)

2,960,010

6.3

%

OrbiMed Advisors, LLC(o)

2,430,000

5.2

%

FMR Corp.(p)

4,806,500

10.2

%

Deerfield Management Company, LP(q)

2,656,674

5.6

%

* Less than 1%.

(a) Unless otherwise indicated, each person has sole voting and investment power with respect to shares shown as beneficially owned by such person. For purposes of calculating the number and percentage of shares beneficially owned, the number of shares of common stock deemed outstanding consists of 47,115,717 shares outstanding on August 10, 2007 plus the number of shares of common stock underlying stock options held by the named person that are exercisable as of October 9, 2007. Except as otherwise specified below, the address of each of the beneficial owners identified is c/o Array BioPharma Inc., 3200 Walnut Street, Boulder, Colorado 80301.

(b) Includes options to purchase 814,181 shares of common stock that are exercisable as of October 9, 2007 and 40,000 shares held in uniform gift to minor accounts for the benefit of Mr. Conway's children.

(c) Includes options to purchase 181,109 shares of common stock that are exercisable as of October 9, 2007.

(d) Includes options to purchase 415,340 shares of common stock that are exercisable as of October 9, 2007, 99,000 shares held in trust for the benefit of Dr. Koch's minor children and 43,286 shares of common stock held by Dr. Koch's spouse.

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- (e) Includes options to purchase 391,936 shares of common stock that are exercisable as of October 9, 2007, 119,950 shares of common stock held in trust for the benefit of Dr. Snitman's minor children and 598,997 shares held in a grantor retained annuity trust of which Dr. Snitman is the trustee.
- (f) Includes options to purchase 77,385 shares of common stock that are exercisable as of October 9, 2007.
- (g) Includes 2,000 shares of common stock in trust for the benefit of Mr. Lefkoff's minor children and options to purchase 50,000 shares of common stock that are exercisable as of October 9, 2007. The address of Mr. Lefkoff is c/o Boulder Ventures, 1900 Ninth Street, Suite 200, Boulder, Colorado 80302.
- (h) Includes options to purchase 80,000 shares of common stock that are exercisable as of October 9, 2007.
- (i) Includes 450,884 shares of stock held by The Caruthers Family, LLC, of which Dr. Caruthers is the manager and a member. Dr. Caruthers disclaims beneficial ownership in these shares except to the extent of his pecuniary interest in such shares. Includes options to purchase 50,000 shares of common stock that are exercisable as of October 9, 2007.
- (j) Includes options to purchase 30,000 shares of common stock that are exercisable as of October 9, 2007.
- (k) Includes options to purchase 26,000 shares of common stock that are exercisable as of October 9, 2007.
- (l) Includes options to purchase 70,000 shares of common stock that are exercisable as of October 9, 2007.
- (m) Includes options to purchase 2,185,951 shares of common stock that are exercisable as of October 9, 2007.
- (n) Based on information set forth in Schedule 13G filed under the Exchange Act on January 18, 2007, reporting 2,599,010 shares beneficially owned by both Kopp Investment Advisors, LLC and Kopp Holding Company, LLC; 2,644,010 shares beneficially owned by Kopp Holding Company; and all 2,960,010 shares beneficially owned by LeRoy C. Kopp, the chief executive officer and a control person of the foregoing entities. The address of Kopp Investment Advisors, LLC is 7701 France Avenue South, Suite 500 Edina, MN 55435.
- (o) Based on information set forth in Schedule 13G/A filed under the Exchange Act on February 9, 2007, reporting 895,300 shares beneficially owned by OrbiMed Advisors, LLC; 1,534,700 shares beneficially owned by OrbiMed Capital, LLC; and all 2,430,000 shares beneficially owned by Samuel D. Isaly, the managing member and a control person of the foregoing entities. The address of OrbiMed Advisors, LLC is 767 3rd Avenue, 30th Floor, New York, NY 10017.
- (p) Based on information set forth in Schedule 13G filed under the Exchange Act on June 11, 2007, reporting 4,806,500 shares beneficially owned by both FMR Corp. and Edward C. Johnson 3d, the chief executive officer and a control person of the foregoing entities. The address of FMR Corp. is 82 Devonshire Street, Boston, MA 02109.
- (q) Based on information set forth in Schedule 13G filed under the Exchange Act on February 13, 2007, reporting 1,022,307 shares beneficially owned by Deerfield Capital, LP; 929,732 shares beneficially owned by Deerfield Partners, LP; 92,575 shares beneficially owned by Deerfield Special Situations Funds, LP; 1,634,367 shares beneficially owned by Deerfield Management Company, LP; 1,448,100 shares beneficially owned by Deerfield International Limited; 186,267 shares beneficially owned by Deerfield Special Situations Fund International Limited and all 2,656,674 shares beneficially owned by James E. Flynn, the managing member and a control person of the foregoing entities. The address of Deerfield Management Company, LP is 780 Third Avenue, 37th Floor, New York, NY 10017.

EXECUTIVE OFFICERS

The table below shows the names, ages and positions of our executive officers as of August 10, 2007.

Name	Age	Position
Robert E. Conway	53	Chief Executive Officer
Kevin Koch, Ph.D.	47	President and Chief Scientific Officer
David L. Snitman, Ph.D.	55	Chief Operating Officer and Vice President, Business Development
R. Michael Carruthers	49	Chief Financial Officer
John R. Moore	43	Vice President, General Counsel and Secretary
John Yates	51	Chief Medical Officer

Please see PROPOSAL 1 ELECTION OF DIRECTORS Board of Directors above for the biographies of Mr. Conway, Dr. Koch and Dr. Snitman.

R. Michael Carruthers has served as our Chief Financial Officer since December 1998, and served as Secretary from December 1998 until October 2002. Prior to joining Array, Mr. Carruthers was Chief Financial Officer from October 1993 until December 1998 of Sievers Instrument, Inc. From May 1989 until October 1993, Mr. Carruthers was the treasurer and controller for the Waukesha division of Dover Corporation. Mr. Carruthers is a Certified Public Accountant and was previously employed as an accountant with Coopers & Lybrand, LLP. He currently serves on the Board of Directors of Pyxant Labs. Mr. Carruthers received a B.S. in accounting from the University of Colorado and an M.B.A. from the University of Chicago.

John R. Moore has served as our Vice President and General Counsel since May 2002 and as Secretary since October 2002. Prior to joining Array, Mr. Moore was an associate for three years with the law firm of Wilson Sonsini Goodrich & Rosati where he negotiated transactions involving technology, intellectual property and products. From September 1992 to July 1996, and August 1996 to June 1999, Mr. Moore was an associate with the law firms of Kenyon & Kenyon and Arnold White & Durkee, respectively, where he focused on intellectual property matters. Mr. Moore received a J.D. from the University of North Carolina at Chapel Hill School of Law, a M.S. in Biochemistry from the University of Illinois at Urbana-Champaign and a B.S. in Chemistry from the University of North Carolina at Chapel Hill.

John Yates has served as our Chief Medical Officer since May 2007. Prior to joining Array, Dr. Yates was President and Chief Executive for Takeda Global Research & Development Center from 2004 to 2007, where he was charged with all aspects of pharmaceutical development from first in man through commercialization. From 1990 until 2003, Dr. Yates held various positions of increasing responsibility at Merck & Co, Inc., rising to the level of Vice President, U.S. Medical and Scientific Affairs. While at Merck, Dr. Yates was responsible for all U.S. Phase 4 studies, supporting 15 marketed products as well as conducting outcomes research and health economic studies. Dr. Yates received his M.B. Ch.B. and M.D. degrees from Sheffield University Medical School, in Sheffield, UK. He gained further experience in academic medical research at the University of Melbourne, Australia and the University of Texas Health Science Center in San Antonio, TX.

EXECUTIVE COMPENSATION

COMPENSATION DISCUSSION AND ANALYSIS

This section provides information regarding the compensation program in place for our named executive officers, or NEOs, who consist of our principal executive officer, principal financial officer and the three most highly-compensated executive officers other than the principal executive officer and principal financial officer, for our fiscal year ended June 30, 2007. It includes information regarding, among other things, the overall objectives of our compensation program and each element of compensation that we provide.

General

The Compensation Committee of our Board of Directors, or the Committee, has responsibility for determining the compensation of our NEOs for approval by our independent directors. The Committee also administers our Amended and Restated Stock Option and Incentive Plan and considers and approves new hire and periodic retention grants under the plan to NEOs and other members of management and determines the terms of performance-based compensation under our annual Performance Bonus Program applicable to our NEOs and other salaried employees. The Committee acts pursuant to a charter that has been approved by our Board, a copy of which is available on the Investor Relations section of our website at www.arraybiopharma.com.

Objectives and Philosophy of Our Compensation Program

The compensation program for our NEOs is designed to attract, retain, motivate and reward talented executives who can contribute to our long-term success and thereby build value for our stockholders. Our compensation program is based on the following key principles:

- Pay that is linked with performance and the achievement of our strategic goals.
- Overall compensation that is competitive in the industry in which we compete for executive talent.
- Alignment of NEO interests with those of our stockholders through equity compensation.
- Recognition of individual contributions, teamwork and performance.

Other factors specific to our company weigh heavily into our NEO compensation decisions, such as the following:

Evolution of Business. Our NEOs are executing our business strategy which has evolved from primarily a chemistry services provider to building a commercial-stage biotechnology company, and we believe their compensation should create appropriate incentives that are consistent with this shift. Accordingly, the Committee has reevaluated and adjusted the performance metrics for performance-based compensation for our NEOs as our strategic goals have evolved. In addition, our senior team, which has not appreciably increased in size, is managing a changing and increasingly complex business. We strive to recognize these efforts by compensating NEOs for the increased demands and risks associated with our business model, such as through annual cash bonuses and stock option awards.

Our headquarters location. All of our NEOs are based in Boulder, Colorado. We believe Boulder provides an attractive community for our employees to work and live, and the high quality of life available in Boulder has helped us to attract and retain the talent we need. Real estate prices in the Boulder area, however, approach or even exceed those in many major suburban areas. We therefore endeavor to compensate our executives with a level of cash compensation that will allow them to maintain an attractive lifestyle in Boulder.

Intense competition for management talent. Like any company, we strive to recruit top talent at all levels of our organization. Our business has shifted in recent years from a services-based drug discovery company to an integrated, commercial-stage biopharmaceutical company. The competition for executive talent in certain areas of our business, most notably clinical development talent, is especially intense. As we build our clinical capabilities, we may on occasion find it necessary to exceed the total compensation offered by more established competitors, including our peer group, to attract the talent we need in this area.

Compensation Methodology

The Committee annually reviews target salary, performance bonus and equity compensation for our NEOs and other members of senior management, and periodically reviews other elements of compensation. Compensation decisions are based primarily on the following:

- *Peer and industry data.* The Committee relies on peer and industry data in setting base salaries, determining the appropriate level and mix of equity compensation and the type and portion of compensation tied to performance goals.
- *Annual performance reviews.* Our Chairman conducts annual performance reviews of our Chief Executive Officer, and our Chief Executive Officer conducts and presents the performance reviews of the other NEOs and members of senior management to the Committee at the end of each fiscal year. Based on these reviews, the Committee considers individual factors, such as:
 - Long-term performance
 - Tenure with the company
 - Retention concerns
 - Prior and potential for future contributions to company growth
 - Industry experience
- *CEO recommendations.* The Committee seeks the input of Mr. Conway in setting the salary and target bonus levels for other NEOs and members of management. The Committee also considers recommendations from Mr. Conway regarding annual performance metrics and target amounts under the Performance Bonus Program.

Following the end of each fiscal year, the Committee reviews and determines the base salaries of Mr. Conway and the other NEOs and members of management, and approves the specific bonus amounts payable to the NEOs and other members of management under the Incentive Bonus Program based on actual company and individual performance. The Committee also determines the annual performance goals under the Performance Bonus Program for the upcoming year through an iterative process with management, adjusting as appropriate the recommendations of management regarding the performance metrics and the target amounts in light of the Company's near- and long-term strategic goals and operational plan for the upcoming year.

The Committee has previously sought the input of outside compensation consultants in determining executive compensation. Although it did not retain compensation consultants for fiscal 2007, it has done so for fiscal 2008.

Peer and Industry Data. To ensure our compensation is competitive, we rely on analyses of peer company and industry survey data. In setting NEO compensation for fiscal 2007, we considered publicly available data of ten peer biotechnology companies. These companies included:

- Albany Molecular Research, Inc.
- Arena Pharmaceuticals, Inc.
- Ariad Pharmaceuticals, Inc.
- ArQule, Inc.
- Cytokinetics, Incorporated
- deCODE genetics
- Exelixis, Inc.
- Incyte Corporation
- Infinity Pharmaceuticals, Inc.
- Lexicon Pharmaceuticals, Inc.
- Rigel Pharmaceuticals, Inc.
- Theravance, Inc.
- Vertex Pharmaceuticals Incorporated

We selected these companies because each of them are small molecule drug discovery and development companies and we consider them to be among our primary competitors, including for executive talent, and they are comparable in development stage and in size to Array, both in terms of market capitalization (mid or small cap) and number of employees. These companies are the same companies we use in comparing our overall performance. We also take into account broader based life sciences industry survey data for executive compensation among companies of our size published by Radford Surveys and Consulting as we believe that this information provides us with a statistically significant sample that supplements our peer group data. We generally strive to achieve total compensation for our NEOs at the 50th percentile of the survey group; however compensation historically has in the aggregate been below this level because an NEO may have additional or fewer responsibilities than the comparable executive level in the survey group, or as a result of other factors, including historical pay, individual performance and marketplace demands for the position.

As our business model evolves, the Committee reevaluates the peer companies used in benchmarking executive compensation, and for fiscal 2008 the following companies will be used:

- Acadia Pharmaceuticals Inc.
- Arena Pharmaceuticals, Inc.
- Ariad Pharmaceuticals, Inc.
- CV Therapeutics, Inc.
- Dendreon Corporation
- Exelixis, Inc.
- Idenix Pharmaceuticals, Inc.
- Incyte Corporation
- Isis Pharmaceuticals Inc.
- Lexicon Pharmaceuticals, Inc.
- Regeneron Pharmaceuticals, Inc.
- Seattle Genetics, Inc.
- Xenoport, Inc.
- Xoma Ltd.
- Zymogenetics, Inc.

These peer companies were selected from among publicly-held U.S. biotechnology companies based on the following criteria: companies with comparable operations, a market capitalization of not less than approximately \$400 million or more than \$1.2 billion, not fewer than 100 or more than 750 employees, clinical development-stage operations and a substantial portion of their revenues not related to marketed products.

Elements of Our Compensation Program

The primary components of executive compensation are industry competitive salaries, bonuses of cash and/or equity based on annual operational and financial objectives and on individual merit, and equity compensation grants of stock options upon hiring and periodically through retention grants.

Salary. We believe base salary is the key compensation-related reference point for individuals considering an employment change and that we must offer industry competitive base salaries. Our peer group analysis and industry survey data therefore serve as a starting point in setting salaries for our NEOs. We generally target a base salary for NEOs at the 50th percentile of the survey group, recognizing that titles and levels of responsibility vary greatly from company to company.

Performance Bonus Program. As more fully described below, we have established a Performance Bonus Program under which bonuses are paid to our NEOs and other employees based on achievement of company performance goals and objectives established by the Committee as well as on individual performance. The bonus program is intended to strengthen the connection between individual compensation and company success; reinforce our pay-for-performance philosophy by awarding higher bonuses to higher performing employees; and help ensure that our cash compensation is competitive.

Each NEO is eligible to receive a bonus under the program calculated by multiplying his base salary by a percentage value assigned to him or to his position by the Committee. Following the end of each fiscal year, the Committee determines in its discretion the extent to which the company-wide and individual performance goals were attained. Based on this assessment, the Committee awards bonuses equal to a varying percentage of an employee's target bonus amount. The Committee may award a bonus in an amount less than or greater than the amount earned by a participant under the bonus program, and individual bonuses can vary significantly based on performance. No bonuses are guaranteed under the program and the Committee can amend the program at any time until bonuses are paid.

Performance metrics. The performance bonuses for fiscal 2007 were based both on individual performance and on our performance relative to the following performance criteria:

- Financial goals consisting of revenue, earnings per share and year-end cash targets;
- Discovery research goals for our proprietary drug programs;
- Development goals relating to our proprietary drug programs; and
- Partnering goals relating to new out-licensing transactions.

In determining the bonus awards for fiscal 2007, the foregoing goals were weighted as follows: financial goals 15%; discovery research goals 20%; development goals 40%; and the partnering goals 25%. Identical performance goals form the basis for the bonus structure for almost all of our salaried employees, and we believe there is an intangible benefit to focusing all levels of personnel on consistent goals. We also believe there is a strong correlation between achievement of these goals and the success of our business as measured by our stock performance and the perception of analysts and investors.

Annual Performance Goals. The Committee establishes minimum, target and stretch goals for each performance metric based on the company's internal forecasts and through an iterative process with management. The Committee strives to set the stretch performance goals at ambitious levels to provide a meaningful incentive. We have not historically met the stretch goals and have met or slightly exceeded the target level goals. For fiscal 2005 and for fiscal 2006, we achieved 115.0% and 117.5% of the target level goals, respectively, established by the Committee. Generally, the Committee sets the minimum, target and stretch goals such that the relative level of difficulty of achieving the target level is consistent from year to year. A percentage of each NEO's target bonus amount may be awarded following the end of the fiscal year based on whether the minimum, target or stretch goals are met and the weighting of those goals. The Committee has discretion to award bonuses under the program if a particular performance goal is not met.

Individual Performance. The Committee also evaluates individual performance in approving the specific bonus amount that an NEO or other participant is entitled to based on the individual's performance review.

The Committee's approach in establishing Mr. Conway's compensation is to be competitive with peer companies, but to base a large percentage of his target compensation, by means of grants of performance-based compensation, on Array's long-term performance. Accordingly, under Mr. Conway's employment agreement, Mr. Conway is eligible to receive an annual performance-based bonus, anticipated to range between 20% and 60%, with a target of 40% of Mr. Conway's base salary, provided that minimum performance criteria are achieved under the Performance Bonus Program.

Equity Compensation. We provide equity compensation to our NEOs in the form of stock option grants under our Amended and Restated Stock Option and Incentive Plan. The Committee believes stock option awards to our NEOs and other employees encourage retention, because the recipient must remain employed with the company to receive the benefit of the award. The Committee also believes stock options align the interests of management and our stockholders, since they are of no value to the executive if our stock's value does not increase. For these reasons, the Committee considers stock options to be an important part of total compensation for our executives.

Our implementation of Statement of Financial Accounting Standards No. 123(R) makes granting stock options somewhat less attractive by requiring that we expense the fair value of the grant for financial accounting purposes. Although this accounting treatment is one of the factors we consider in awarding options, it has not had a significant impact on our granting practices, since we believe stock options remain a highly valued component of the overall compensation package for management of a growth company such as ours and are the primary means by which our executives share in the company's growth.

Stock options are awarded to all of our salaried employees, including NEOs, upon hiring. In addition, following the end of each fiscal year the Committee considers whether to award retention grants to existing employees, including NEOs. If awarded, retention grants are generally approved on four-year cycles for employees, including our NEOs, which corresponds to the duration of the standard vesting schedule of option grants. The Committee believes these retention grants provide a meaningful ongoing incentive for our NEOs and other employees to remain with Array. The Committee also considers on an annual basis whether to award options rather than cash under our performance bonus program described above, and has discretion to approve additional stock option awards for reasons such as strong individual performance or internal pay equity considerations.

Stock options generally vest in four equal annual installments beginning on the one-year anniversary of the hire date for new hire grants or the date of approval by the Committee (or by its members delegated with limited granting authority) for other types of grants. New hire grants are approved each month with a grant date of the last trading day of the month, and grant dates for other types of awards are on the date approved by the Committee. The exercise price of all employee stock options is equal to the fair market value of our common stock on the date of grant, measured as the closing price of our common stock on the grant date as reported by the Nasdaq Stock Market.

In establishing award levels, including for NEOs, the Committee takes into account an analysis of peer group data and industry survey data and, for retention grants, individual performance. The Committee also considers individual contribution and performance, based in part on input from our Chief Executive Officer for grants to other NEOs and employees, and the difficulty in replacing certain individuals within the organization. We believe that competitors who might try to hire away our employees would offer new equity awards to our employees without regard to the value of any prior awards made by us. Therefore, we do not consider the equity ownership levels of the recipients, the size of prior awards that are fully vested or amounts realized by the executives for previous awards.

Option Grant Practices. Historically, the timing of our grants of stock options has been based on internal, operational factors. New hire grants are typically awarded on the last trading day of each month and retention grants are awarded following the end of each fiscal year. We have not had, and do not intend to implement, a practice of timing our grant awards to give effect to the pending public release of material information, and any grants we may have made to senior executives in proximity to a release of earnings or other material information is coincidental. The Committee has delegated authority to two of its members, Mr. Lefkoff and Dr. Bullock, to approve option grants for non-executives. These may be awards for new hires and are reported on a periodic basis to the Committee.

Deferred Compensation Plan. We established a Deferred Compensation Plan, or the DCP, to provide NEOs and other eligible participants with an opportunity to defer all or a portion of their compensation

and to earn tax-deferred returns on the deferrals. Officers and other key employees selected by the Committee (including each of the NEOs) are eligible to participate in the DCP. Participants may defer up to a maximum of 100% of their annual base salary and their annual incentive bonus. Under the DCP, the Committee may, in its sole discretion, make matching contributions which vest over a four-year vesting schedule beginning upon commencement of employment, or may make discretionary contributions in any amount it desires to any participant's account based on vesting provisions determined in the Committee's discretion. Participants become fully vested in any matching or discretionary contributions upon a change in control of the company and upon termination of their service with the company other than for cause.

During fiscal year 2007, Mr. Conway, Dr. Koch, Dr. Snitman, Mr. Moore and Mr. Carruthers were participants under the DCP and they were all 100% vested. To date, the Committee has not approved any discretionary contributions, and has approved matching contributions of up to 4% of the executive's total base salary and bonus compensation for the year.

The DCP is intended to both qualify as a top hat plan within the meaning of Section 201(2) of the Employee Retirement Income Security Act of 1974, as amended (ERISA), and to comply with the requirements of Section 409A of the Internal Revenue Code that govern nonqualified deferred compensation plans. The DCP is an unfunded plan for tax purposes and for purposes of Title I of ERISA. A rabbi trust has been established to satisfy our obligations under the DCP.

The Committee selects investment indices consisting of mutual funds, insurance company funds, indexed rates or other methods for participants to choose from for the purpose of providing the basis on which gains and losses are attributed to account balances under the DCP. Participants are entitled to select one or more investment indices and they do not have an ownership interest in the investment indices they select. The Committee may, in its sole discretion, discontinue, substitute or add investment indices at any time.

Payments from the DCP are made in a lump sum or in annual installments for up to ten years at the election of the participant. In addition, participants may elect to receive a short-term payout of a deferral as soon as January 1 of the fourth year after the end of the plan year in which the deferral was made.

Payments Upon Termination or Change in Control. We have entered into employment agreements with each of our NEOs which provide for severance payments upon certain terminations of employment, including in connection with a change in control of Array, and for the acceleration of vesting of outstanding stock options upon a change in control. In our experience, post-termination protection through severance compensation for executive officers is common among our peer group, and the Committee believes that it is essential to our ability to attract and retain talented executives. The Committee believes having a mutually agreed-to severance package in place prior to any termination event provides us with more flexibility to make a change in senior management if such a change is in our and our stockholders' best interest. In addition, we believe post-termination compensation if an officer is terminated as a result of a change of control transaction promotes the ability of our officers to act in the best interests of our stockholders even though they could be terminated as a result of the transaction. Our obligation to pay severance to any executive is conditioned on the executive's continued compliance with confidentiality and non-competition obligations for one year after termination, as well as on the execution of a mutually acceptable release agreement.

The terms of the employment agreements, including the severance compensation, are described in more detail below under the headings "Employment Agreements" and "Potential Payments upon Termination or Change in Control" beginning on pages 24 and 26, respectively, of this proxy statement.

In addition, our Amended and Restated Stock Option and Incentive Plan has provisions regarding vesting following a change in control, as defined in that plan. In general, upon a transaction that involves the sale of all or substantially all of our assets or the transfer (including by merger or consolidation) of 50% or more of the voting power of our outstanding securities in which Array is not the surviving entity, all

outstanding stock options, including those held by our NEOs (except to the extent otherwise provided in the employment agreements with each NEO), vest in full unless as part of the transaction (a) the options are assumed by the acquiring entity or (b) replaced with a comparable options for shares of stock of the acquiring entity, in either event the options would remain in effect under their respective terms and conditions following the change in control. The Committee has discretion to modify the vesting provisions in individual award agreements for options or restricted stock units, including upon a change in control or upon termination of employment.

Employee Stock Purchase Plan. We have a tax-qualified employee stock purchase plan, or ESPP, that is made available to all employees, including our NEOs. The ESPP allows participants to acquire shares of our common stock at a discount of 15% to the market price with up to 15% of their base salary, subject to a \$25,000 per calendar year maximum. The purpose of the ESPP is to encourage employees to become stockholders of Array to better align their interests with those of our other stockholders.

Perquisites. Substantially all benefits we provide to our executives are made available to all of our other salaried employees on a non-discriminatory basis, and for this reason are not considered perquisites. Benefits we provide on a non-discriminatory basis include our medical and dental insurance, life insurance, 401(k) plan and the ESPP. Relocation expenses also are reimbursed but are individually negotiated when they occur. The aggregate incremental cost to us of all the perquisites we provided to any NEO in fiscal 2007 was less than \$10,000.

Deductibility of Compensation. Section 162(m) of the Internal Revenue Code of 1986, as amended, places a limit of \$1,000,000 on the amount of non-performance-based compensation that we may deduct in any one year with respect to each of our five most highly-paid executive officers. We have taken actions necessary to ensure the deductibility of payments under the annual Incentive Bonus Program as performance-based compensation under Section 162(m). To maintain flexibility in compensating executive officers in a manner designed to promote varying corporate goals, the Committee has not adopted a policy requiring all compensation to be deductible. However, the Committee considers the impact of Section 162(m) when making pay changes to each NEO and its normal practice is to take such action as is necessary to preserve our tax deduction to the extent consistent with our compensation policies. However, we reserve the right to forgo any or all of the tax deduction if we believe it to be in the best long-term interests of our shareholders.

COMPENSATION COMMITTEE REPORT

The Compensation Committee of the Board of Directors of Array BioPharma Inc. oversees Array's compensation program on behalf of the Board. In fulfilling its oversight responsibilities, the Compensation Committee reviewed and discussed with management the Compensation Discussion and Analysis set forth in this Proxy Statement.

In reliance on the review and discussion referred to above, the Compensation Committee recommended to the Board that the Compensation Discussion and Analysis be included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2007 and our Proxy Statement to be filed in connection with our 2007 Annual Meeting of Stockholders, each of which will be filed with the Securities and Exchange Commission.

COMPENSATION COMMITTEE

Kyle Lefkoff (Chair)
Francis Bullock, Ph.D.
Marvin Caruthers, Ph.D.
Douglas Williams, Ph.D.

Summary Compensation Table

The following table sets forth compensation earned during the fiscal year ended June 30, 2007 by each of our named executive officers who were serving as executive officers as of June 30, 2007.

Name and Principal Position	Salary (\$)	Option Awards \$(1)	Non-Equity Incentive Plan Compensation \$(2)	All Other Compensation(3)	Total (\$)
Robert E. Conway, Chief Executive Officer	\$ 412,500	\$ 461,759	\$ 199,750	\$ 33,236	\$ 1,107,245
R. Michael Carruthers, Chief Financial Officer	226,250	156,797	81,190	21,536	485,773
Kevin Koch, Ph.D., President and Chief Scientific Officer	350,000	329,659	147,960	28,779	856,398
David L. Snitman, Ph.D., Vice President, Business Development and Chief Operating Officer	292,750	227,758	105,900	24,849	651,257
John R. Moore, Vice President and General Counsel	246,000	104,782	88,250	22,206	461,238

(1) The amounts set forth under this column represent the stock-based compensation expense recognized in fiscal 2007 for financial reporting purposes under Statement of Financial Accounting Standards No. 123(R), Share-Based Payment, disregarding the estimate of forfeitures for service-based vesting conditions. Our methodology, including our underlying estimates and assumptions used in calculating these values, is set forth in Note 2 to our audited financial statements included in our annual report on Form 10-K filed with the Securities and Exchange Commission for the fiscal year ended June 30, 2007.

(2) Amounts shown in this column consist of cash bonus amounts earned in fiscal 2007 but paid after the fiscal year under our Performance Bonus Plan for fiscal 2007 performance as described above under Compensation Discussion and Analysis Elements of Our Compensation Program *Performance Bonus Plan*.

(3) The amounts set forth in this column consist of the following:

Name	Year	Company Contributions to Retirement and 401(k) Plans (\$)	Company Contributions to Nonqualified Deferred Compensation Plan (\$)	Total (\$)
Robert E. Conway	2007	\$ 9,800	\$ 23,436	\$ 33,236
R. Michael Carruthers	2007	9,100	12,436	21,536
Kevin Koch, Ph.D.	2007	9,600	19,179	28,779
David L. Snitman, Ph.D.	2007	9,380	15,469	24,849
John R. Moore	2007	9,120	13,086	22,206

Grants of Plan-Based Awards

The following table sets forth information about grants of awards to our named executive officers during the fiscal year ended June 30, 2007.

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards(1)			All Other Option Awards: Number of Securities Underlying Options (#)(2)	Exercise or Base Price of Option Awards (\$ / Sh)	Grant Date Fair Value of Stock and Option Awards(3)
		Threshold (\$)	Target (\$)	Maximum (\$)			
Robert E. Conway	11/02/06	\$ 85,000	\$ 170,000	\$ 255,000		\$	\$
R. Michael Carruthers	11/02/06	34,500	69,000	103,500			
Kevin Koch, Ph.D.	11/02/06	63,000	126,000	189,000			
David L. Snitman, Ph.D.	11/02/06	45,000	90,000	135,000			
John R. Moore	11/02/06 9/13/06	37,500	75,000	112,500	20,000	8.37	114,880

(1) Amounts in this column represent the threshold, target and maximum amounts payable under the fiscal 2007 Performance Bonus Plan based on achievement of minimum, target and stretch goals, respectively, under the plan which are described above in Compensation Discussion and Analysis under Elements of Our Compensation Program *Performance Bonus Plan*. Actual amounts paid to each of the named executive officers under this plan for fiscal 2007 are set forth in the Summary Compensation Table above.

(2) Options reported in this column were granted under our Amended and Restated Stock Option and Incentive Plan, as amended. The options vest in four equal annual installments beginning one year from the grant date and expire ten years from the date of grant. Vesting is subject to acceleration as described below under Employment Agreements.

(3) The amounts set forth under this column represent the stock-based compensation expense recognized in fiscal 2007 for financial reporting purposes under Statement of Financial Accounting Standards No. 123(R), Share-Based Payment, disregarding the estimate of forfeitures for service-based vesting conditions. Our methodology, including our underlying estimates and assumptions used in calculating these values, is set forth in Note 2 to our audited financial statements included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission for the fiscal year ended June 30, 2007.

Outstanding Equity Awards At Fiscal Year End

The following table shows equity awards granted to our named executive officers outstanding as of June 30, 2007. All awards represent grants of stock options under our Amended and Restated Stock Option and Incentive Plan, as amended.

Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price (\$)	Option Expiration Date
Robert E. Conway	320,000 (1)	0	\$ 0.60	11/15/09
	25,000 (2)	0	9.00	08/06/11
	300,000 (3)	0	10.90	11/20/11
	24,750 (4)	0	4.75	01/15/13
	23,751 (5)	7,858	3.75	08/01/13
	8,6686)	8,669	6.68	07/30/14
	100,000 (7)	300,000	6.51	08/04/15
R. Michael Carruthers	20,694 (8)	0	0.235	07/01/09
	22,165 (9)	0	0.60	07/01/10
	19,500 (10)	0	8.60	07/02/11
	85,000 (11)	0	9.22	04/29/12
	12,090 (4)	0	8.48	07/01/12
	11,490 (5)	3,831	3.75	08/01/13
	4,226 (6)	4,227	6.68	07/30/14
	0 (12)	100,000	6.51	08/04/15
Kevin Koch, Ph.D.	35,119 (8)	0	0.235	07/01/09
	28,863 (9)	0	0.60	07/01/10
	27,300 (10)	0	8.60	07/02/11
	200,000 (13)	0	9.22	04/29/12
	17,550 (4)	0	8.48	07/01/12
	16,714 (5)	5,572	3.75	08/01/13
	6,148 (6)	6,148	6.68	07/30/14
	75,000 (14)	225,000	6.51	08/04/15
David L. Snitman, Ph.D.	33,883 (8)	0	0.235	07/01/09
	33,789 (9)	0	0.60	07/01/10
	27,300 (10)	0	8.60	07/02/11
	200,000 (13)	0	9.22	04/29/12
	16,770 (4)	0	8.48	07/01/12
	16,017 (5)	5,340	3.75	08/01/13
	5,891 (6)	5,892	6.68	07/30/14
	50,000 (14)	150,000	6.51	08/04/15
John R. Moore	50,000 (15)	0	11.29	03/26/12
	0 (5)	4,759	3.75	08/01/13
	0 (6)	5,252	6.68	07/30/14
	15,000 (16)	45,000	6.51	08/04/15
	0 (17)	20,000	8.37	9/13/16

(1) The option vested as follows: 133,333 shares on December 31, 1999, 106,667 shares on July 2, 2000, 55,000 shares on November 15, 2000, 378,750 shares on November 22, 2000, 5,000 shares each month from December 15, 2000 through November 15, 2001 and 66,250 shares on November 22, 2001.

- (2) The option vested in full on the grant date of August 6, 2001.
- (3) The option vested in four equal annual installments beginning November 15, 2002.
- (4) The option vested in four equal annual installments beginning July 1, 2003.
- (5) The option vested in four equal annual installments beginning July 1, 2004.
- (6) The option vests in four equal annual installments beginning July 1, 2005.
- (7) The option vests in four equal annual installments beginning November 16, 2006.
- (8) The option vested in 48 equal monthly installments beginning August 1, 1999.
- (9) The option vested in 48 equal monthly installments beginning August 1, 2000.
- (10) The option vested in four equal monthly installments beginning July 2, 2002.
- (11) The option vested in four equal monthly installments beginning December 1, 2003.
- (12) The option vests in four equal annual installments beginning December 1, 2007.
- (13) The option vested in four equal annual installments beginning February 6, 2003.
- (14) The option vests in four equal annual installments beginning February 6, 2007.
- (15) The option vested in four equal annual installments beginning March 4, 2003.
- (16) The option vests in four equal annual installments beginning March 4, 2007.
- (17) The option vests in four equal annual installments beginning September 13, 2007.

Option Exercises and Stock Vested

The following table shows information concerning options exercised by the named executive officers during the fiscal year ended June 30, 2007.

Name	Option Awards Number of Shares Acquired on Exercise (#)	Value Realized on Exercise \$(1)
Robert E. Conway	225,000	\$ 2,316,592
R. Michael Carruthers	20,000	249,500
Kevin Koch, Ph.D.		
David L. Snitman	8,500	109,013
John R. Moore	24,858	190,220

(1) The amounts in this column have been calculated based on the closing price per share on the exercise date, as reported by the Nasdaq Stock Market, less the applicable exercise price per share, multiplied by the number of shares underlying these options.

Non-Qualified Deferred Compensation Table

The following table sets forth compensation paid to or earned by each of our named executive officers who were serving as executive officers during the fiscal year ended June 30, 2007, pursuant to the Array BioPharma Inc. Amended and Restated Deferred Compensation Plan, as amended.

Name	Executive Contributions in Last Fiscal Year (\$)(1)	Registrant Contributions in Last Fiscal Year (\$)(2)	Aggregate Earnings in Last Fiscal Year (\$)	Aggregate Withdrawals / Distributions (\$)	Aggregate Balance as of June 30, 2007 (\$)(3)
Robert E. Conway	\$ 35,154	\$ 23,436	\$ 19,137	\$ 20,956	\$ 192,064
R. Michael Carruthers	12,032	12,032	5,474	7,998	67,429
Kevin Koch, Ph.D.	19,179	19,179	17,070		100,235
David L. Snitman, Ph.D.	15,469	15,469	(1,348)	11,181	72,965
John R. Moore	13,086	13,086	2,104	9,231	70,244

- (1) The amounts in this column are also included in the Summary Compensation Table above in the salary column.
- (2) The amounts in this column are also included in the Summary Compensation Table above in the All Other Compensation Column.
- (3) Of the totals in this column, the following amounts have previously been reported in the Summary Compensation Table for this and for prior years:

Name	Fiscal 2007 (\$)	Prior Years (\$)	Total (\$)
Robert E. Conway	\$ 23,436	\$ 32,500	\$ 55,936
R. Michael Carruthers	12,032	17,595	29,627
Kevin Koch, Ph.D.	19,179	21,400	40,579
David L. Snitman, Ph.D.	15,469	20,373	35,842
John R. Moore	13,086	20,164	33,250

Deferred Compensation Plan

The Array BioPharma Inc. Amended and Restated Deferred Compensation Plan, or the DCP, provides eligible participants with an opportunity to defer all or a portion of their compensation and to earn tax-deferred returns on the deferrals. Officers and other key employees selected by the Compensation Committee (including each of the Named Executive Officers) are eligible to participate in the DCP. Participants may defer up to a maximum of 100% of their annual base salary and their annual incentive bonus. Under the DCP, the Compensation Committee may, in its sole discretion, make matching contributions which vest in equal annual installments over a four-year period, or may make discretionary contributions in any amount it desires to any participant's account based on vesting provisions determined in the Compensation Committee's discretion. Participants become fully vested in any matching or discretionary contributions upon a change in control of the company and upon termination of their service with the company other than for cause. Mr. Conway, Dr. Koch, Dr. Snitman, Mr. Moore and Mr. Carruthers were participants under the DCP in fiscal 2007, and they were all 100% vested. The Compensation Committee has approved matching contributions up to 4% of each of the named executive officers' total salary and bonus for the year.

Employment Agreements

Robert E. Conway. On March 1, 2006, we entered into an employment agreement with Mr. Conway to serve as our Chief Executive Officer, following expiration of Mr. Conway's prior employment agreement

with us. The agreement has a term of four years, commencing as of the November 19, 2005 effective date of the agreement, and may be renewed for additional one-year terms. Either party may terminate the agreement for any reason upon 30 days prior notice to the other party during the initial term or any additional term. The agreement provides for an initial annual salary of \$375,000, subject to subsequent adjustment at the discretion of the Board of Directors. Mr. Conway is also eligible to receive a cash and/or equity performance bonus each fiscal year based on a percentage of his base salary if he meets performance criteria established by our Board of Directors under our Performance Bonus Plan. It is anticipated that the performance bonus for any particular fiscal year will range between 20% and 60%, with a target of 40%, of Mr. Conway's base salary, provided that the minimum performance criteria are achieved. We also agreed to reimburse Mr. Conway for reasonable out-of-pocket expenses he incurs in connection with his performance of services under this agreement.

If Mr. Conway's employment is terminated by us without cause, as a result of his disability or because he no longer holds the title of Chief Executive Officer, his duties are materially diminished or he is not elected to serve as a member of the Board of Directors, we agreed to pay him a severance payment equal to (i) one year of his then current base salary (provided that if Mr. Conway's termination results from a change in control of Array, the severance amount is two years' current base salary), plus (ii) a pro rata portion of the performance bonus Mr. Conway would have been eligible to receive in the year of termination. The cash severance is payable to Mr. Conway beginning on the date amounts may be paid without incurring additional tax under Section 409A of the Internal Revenue Code, which is referred to as the Section 409A Time Period, in a lump sum based on the number of months in the Section 409A Time Period and then monthly thereafter. The pro rata portion of any performance bonus Mr. Conway would be entitled to receive is payable within 60 days from receipt of our audited financial statements for that fiscal year (but not sooner than the expiration of the Section 409A Time Period). We also agreed to pay 12 months of Mr. Conway's health insurance premiums under COBRA following a termination of service that results in the payment of severance. Severance payments are conditioned on Mr. Conway entering into a mutually acceptable release with us and his compliance with his existing Noncompete Agreement and Confidentiality and Invention Agreement. Under the agreement, all outstanding and unvested options held by Mr. Conway will also vest in full upon a change of control of Array or upon his death. If Mr. Conway terminates his employment without cause or if we terminate his employment for cause, he will not receive any severance payments, performance bonus or acceleration of any of his options granted to him under the agreement.

Mr. Conway is also subject to a Noncompete Agreement and Confidentiality and Invention Agreement in which he agreed during the term of his employment and for the two years thereafter not to engage in any competing activities in the United States or within a 50-mile radius of any area where we are doing business and not to recruit or solicit any of our employees or customers.

Other Executive Officers. Effective September 1, 2000, we entered into employment agreements with Dr. Koch, Dr. Snitman and Mr. Carruthers, and effective as of March 4, 2002, we entered into an employment agreement with Mr. Moore. The initial terms of these agreements expired in September 2004 and, for Mr. Moore, in March 2004 and have renewed for additional one-year terms. Array or the employee may terminate the agreement for any reason upon 30 days prior notice to the other. Under these agreements we will pay the employees annual salaries ranging from \$165,000 to \$240,000, subject to subsequent adjustment. During fiscal 2007, annual salaries ranged from \$230,000 to \$360,000. If the employee is terminated as a result of disability or by us without cause, including a reduction in the employee's salary, we have agreed to pay the employee a severance payment equal to the greater of one year, or the remaining term, of his then-current base salary in equal monthly installments, and to cause any unvested options to vest. Upon a change of control of the company, 75% of the employee's outstanding options will vest and the remaining 25% of his options will vest one year later if the employee is still working for us. If an employee decides to terminate his employment following a change of control,

he would be entitled to receive the same severance payments described above as if his employment were terminated by us without cause. Each of these employees is also subject to a Noncompete Agreement in which he has agreed for a period of two years following his termination not to engage in any competing activities within a 50-mile radius of any area where we are doing business and not to recruit or solicit any of our employees or customers.

Potential Payments upon Termination or Change in Control

We have entered into employment agreements with each of our named executive officers that provide for certain payments and acceleration and continuation of benefits upon specified terminations of employment or upon a change in control of Array. The post-termination arrangements under these agreements are described above under Employment Agreements. In addition, upon a change in control or upon termination of employment other than for cause, any matching or discretionary contributions under the DCP held by a named executive officer that have not vested, fully vest. As of June 30, 2007, each of our named executive officers was fully vested in the DCP.

The following table reflects the estimated potential payments upon termination or change in control that would be payable to each of the named executive officers who were employed on June 30, 2007. For purposes of calculating the potential payments set forth in the tables below, we have assumed that (i) the date of termination was June 30, 2007 and (ii) the value of each share subject to a stock option that would be accelerated in the circumstances set forth in the table below equals \$11.67, the closing market price of our common stock on June 29, 2007, the last business day of the 2007 fiscal year.

	Cash Severance (1)	Performance Bonus	Continuation of Medical Benefit Plans	Acceleration of Equity Awards	Total
Robert E. Conway					
Termination without Cause or Resignation for Good Reason	\$ 425,000	\$ 170,000	\$ 14,076	\$ 0	\$ 609,076
Termination without Cause or Resignation for Good Reason in connection with a Change in Control	850,000	170,000	14,076	1,653,494	2,687,570
Voluntary retirement	34,932	0	1,173	0	36,105
Disability	425,000	170,000	14,076	0	609,076
Death	35,417	0	1,173	1,653,494	1,690,084
R. Michael Carruthers					
Termination without Cause or Resignation for Good Reason	230,000	0	0	567,434	797,434
Termination without Cause or Resignation for Good Reason in connection with a Change in Control	230,000	0	0	567,434	(2) 797,434
Voluntary retirement	0	0	0	0	0
Disability	230,000	0	0	567,434	797,434
Death	19,167	0	0	567,434	586,601

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Kevin Koch, Ph.D.

Termination without Cause or Resignation for Good Reason	360,000	0	0	1,235,809	1,595,809
Termination without Cause or Resignation for Good Reason in connection with a Change in Control	360,000	0	0	1,235,809	(2) 1,595,809
Voluntary retirement	0	0	0	0	0
Disability	360,000	0	0	1,235,809	1,595,809
Death	30,000	0	0	1,235,809	1,265,809

David L. Snitman, Ph.D.

Termination without Cause or Resignation for Good Reason	300,000	0	0	845,694	1,145,694
Termination without Cause or Resignation for Good Reason in connection with a Change in Control	300,000	0	0	845,694	(2) 1,145,694
Voluntary retirement	0	0	0	0	0
Disability	300,000	0	0	845,694	1,145,694
Death	25,000	0	0	845,694	870,694

John R. Moore

Termination without Cause or Resignation for Good Reason	250,000	0	0	362,099	612,099
Termination without Cause or Resignation for Good Reason in connection with a Change in Control	250,000	0	0	362,099	(2) 612,099
Voluntary retirement	0	0	0	0	0
Disability	250,000	0	0	362,099	612,099
Death	20,833	0	0	362,099	382,932

(1) The amounts reported in the table above do not include payments that are provided on a non-discriminatory basis to salaried employees generally upon termination of employment, which includes accrued salary and vacation pay, distributions of plan balances under our 401(k) plan, our Employee Stock Purchase Plan or the DCP.

(2) If the employee is not terminated in connection with a Change in Control, or the employee resigns on or within 30 days after the closing date of an event which constitutes a change in control, only 75% of unvested options vest. The remaining 25% of unvested options would vest only if the employee continues service until the earlier of a termination without Cause or one year from the Change in Control.

Actual amounts that a named executive officer could receive in the future could differ materially from the amounts reported above as a result of many factors, including our stock price, changes in base salary, target and actual bonus amounts, and the vesting provisions and grants of additional equity awards.

Retirement Savings Plan

We maintain a 401(k) savings plan that is intended to be a qualified retirement plan under the Internal Revenue Code. Generally, all of our employees, excluding leased and intern employees, are eligible to participate in the plan. They may enter the plan at the first calendar quarter following their original employment date and make salary deferral contributions to the savings plan, subject to the limitations imposed by the Internal Revenue Code. Array matched 100% of the first 4% of each participant's semi-monthly contribution. In addition, Array may make annual discretionary profit sharing contributions in an amount to be determined at the plan year-end by the Board of Directors; no discretionary contributions were made in fiscal 2007. Participants' contributions may be invested in any of several investment alternatives. Participants become vested in our contributions according to a graduated vesting schedule based upon length of service with us. Each of our named executive officers was fully vested in these contributions as of fiscal 2007.

COMPENSATION OF DIRECTORS

Cash compensation to our non-employee directors consists of quarterly retainers and meeting fees. The Compensation Committee periodically reviews and analyzes compensation data among the same peer group as is used in determining executive compensation and, as appropriate, adjusts director compensation to ensure that we are able to attract and retain individuals with the experience and expertise we need to help us achieve our strategic goals. During fiscal 2007, the quarterly retainer for non-employee board members was increased from \$4,000 for the first two quarters to \$5,000 for the third and fourth quarters; meeting fees remained \$1,000 for each Board meeting they attended. Members of the Compensation Committee and the Corporate Governance Committee received \$1,000 for each committee meeting they attended, and the chairs of these committees received an additional \$1,000 for each committee meeting that they chaired. Audit Committee members received \$2,000 for each Audit Committee meeting they attended and the chair received an additional \$2,000 for each Audit Committee meeting that he chaired. Our non-employee directors were compensated at a rate of 50% of the foregoing meeting fees if a Board or committee meeting was held via teleconference. In addition, each non-employee director is reimbursed for his reasonable out-of-pocket expenses incurred by him while attending any meeting of the Board or of a committee of the Board.

We also grant to our non-employee directors stock options to purchase our common stock under our Amended and Restated Stock Option and Incentive Plan, as amended, at an exercise price equal to the fair market value on the date of grant. These grants generally have been made every three years to purchase 30,000 shares of our common stock and vest in three equal annual installments, subject to continued board service. We did not grant stock options to any of our non-employee directors during fiscal 2007. The most recently granted stock option grants are scheduled to vest in full in November 2007, subject to continued Board service by the director. In May 2007, our Board of Directors, on the recommendation of the Compensation Committee, approved an increase in the equity compensation to be issued to our independent directors to purchase 45,000 shares of common stock vesting in three equal annual installments subject to continued Board service. We anticipate granting additional equity awards at this level following full vesting outstanding options during fiscal 2008.

Director Compensation Table

The following table sets forth compensation paid to or earned by each of our directors who were serving as directors as of June 30, 2007.

Name	Fees Earned or Paid in Cash (\$)	Option Awards \$(1)	Total (\$)
Kyle A. Lefkoff, Chairman	\$ 40,500	\$ 46,480 (2)	\$ 86,980
Francis J. Bullock, Ph.D.	23,500	46,480 (2)	69,980
Marvin H. Caruthers, Ph.D.	23,000	46,480 (2)	69,480
Gil J. Van Lunsen	39,000	68,502 (2)	107,502
Douglas E. Williams, Ph.D.	21,000	69,943 (2)	90,943
John L. Zabriskie, Ph.D.	29,000	46,480 (2)	75,480

(1) The amounts reported in this column reflect the dollar amounts recognized as stock-based compensation expense in fiscal 2007 for financial accounting purposes, related to stock options granted in prior years, before reflecting forfeitures, determined in accordance with Statement of Financial Accounting Standards No. 123R,

Share-Based Payment. See Note 2 to our audited financial statements set forth in our Annual Report on Form 10-K for fiscal 2007 for the assumptions used in determining such amounts.

(2) Consists of options to purchase 10,000 shares which vested in fiscal 2007. As of June 30, 2007, outstanding options to purchase 60,000, 90,000, 60,000, 50,000, 35,000 and 80,000 shares of common stock were held by Mr. Lefkoff, Dr. Bullock, Dr. Caruthers, Mr. Van Lunsen, Dr. Williams and Dr. Zabriskie, respectively.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

No current member of the Compensation Committee has been an officer or employee of Array at any time. None of our executive officers serve as a member of the Board of Directors or Compensation Committee of any other company that has one or more executive officers serving as a member of our Board of Directors, nor has such a relationship existed in the past.

CERTAIN RELATIONSHIPS AND TRANSACTIONS

Prior to our initial public offering and in connection with the sale and issuance of our Series A preferred stock in May 1998, and August 1998, our Series B preferred stock in November 1999, and our Series C preferred stock in August 2000, we entered into an agreement with the investors in such financings providing for registration rights with respect to the shares of common stock, including those issuable upon conversion of each series of preferred stock, held and subsequently acquired by these investors. Currently, 3.6 million shares of our common stock are entitled to registration rights pursuant to terms and conditions of this agreement. The registration rights under this agreement allow the holders of at least 30% of the shares of common stock held by such holders then outstanding to require us to register their shares under the Securities Act on up to two occasions, subject to limitations described in the agreement. In addition, these holders can require us to include their shares in future registrations of our shares for our account or the account of another stockholder. These holders may also require us to register their shares on up to two occasions in any calendar year on Form S-3. These registration rights are subject to limitations and conditions, including the right of underwriters to limit the number of shares of common stock held by existing stockholders to be included in a registration. The registration rights as to any holder will terminate when all securities held by the holder entitled to registration rights can be sold within a three-month period under Rule 144 of the Securities Act and when the number of shares held by the holder is less than 1% of our outstanding capital stock on an as converted to common stock basis. In

addition, we are generally required to bear all expenses of registration, including the reasonable fees of a single counsel acting on behalf of all selling stockholders, except underwriting discounts and selling commissions.

Stock option grants to our directors and executive officers are described in this Proxy Statement under the heading **COMPENSATION OF DIRECTORS** Director Compensation Table and **EXECUTIVE COMPENSATION**. The beneficial ownership of shares of our common stock held by our officers, directors and 5% stockholders is described under **PRINCIPAL STOCKHOLDERS**. In addition, we have employment agreements with our executive officers and some of our other employees, which are discussed under **EXECUTIVE COMPENSATION** Employment Agreements.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires our directors, executive officers and certain stockholders to file reports with the SEC on Forms 3, 4 and 5 for the purpose of reporting their ownership of and transactions in common stock. During the fiscal year ended June 30, 2007, to our knowledge and based solely on copies of these reports furnished to us by our directors, executive officers and 10% beneficial shareholders, all Section 16(a) reports were timely filed, except that one stock option exercise by Dr. Koch was filed late on a Form 4.

INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS

KPMG LLP has served as our independent registered public accountants since October 14, 2004. Representatives from KPMG LLP are expected to be present at the Annual Meeting, and will have an opportunity to make a statement at the Annual Meeting if they desire to do so and are expected to be available to respond to appropriate questions at the Annual Meeting.

STOCKHOLDER PROPOSALS FOR 2008 ANNUAL MEETING

Submission of Stockholder Proposals for Inclusion in Next Year's Annual Meeting Proxy Statement

Any proposal or proposals by a stockholder intended to be included in the Proxy Statement and form of proxy relating to the 2008 Array Annual Meeting of Stockholders must be received by Array no later than May 23, 2008, (120 days prior to September 21, 2008) according to the proxy solicitation rules of the SEC, and must comply with the other proxy solicitation rules promulgated by the SEC and with the procedures set forth in our Bylaws. Proposals should be sent to the Secretary of Array at 3200 Walnut Street, Boulder, Colorado 80301. Nothing in this paragraph shall be deemed to require Array to include in its Proxy Statement and proxy relating to the 2008 Annual Meeting of Stockholders any stockholder proposal which may be omitted from the proxy materials according to applicable regulations of the SEC in effect at the time the proposal is received.

Other Stockholder Proposals for Presentation at Next Year's Annual Meeting

A stockholder who wishes to submit a proposal for consideration at the 2008 Annual Meeting outside the processes of Rule 14a-8 under the Securities Exchange Act of 1934 and that will not be included in the Proxy Statement for such meeting must, in accordance with Section 2.2 of our Bylaws, file a written notice with the Secretary of Array which conforms to the requirements of the Bylaws. Our Bylaws are on file with the Securities and Exchange Commission, and may be obtained from our Secretary upon request and are available under the Investor Relations portion of our website at www.arraybiopharma.com. The officer who will preside at the stockholders meeting will determine whether the information provided in such notice satisfies the informational requirements of the Bylaws. Such notice of a stockholder proposal must be delivered no earlier than August 3, 2008, and no later than September 2, 2008. Any stockholder

proposal that is not submitted in accordance with the foregoing procedures will not be considered to be properly brought before the 2008 Annual Meeting.

Stockholder Nominations to the Board of Directors

The Corporate Governance Committee of the Board of Directors will consider nominating directors to the Board of Directors who are recommended by stockholders pursuant to the procedures described above for submission of stockholder proposals and the procedures set forth below. Candidates nominated for election or reelection to the Board of Directors should possess the following qualifications:

- Personal characteristics:
- highest personal and professional ethics, integrity and values;
- an inquiring and independent mind, with a respect for the views of others;
- ability to work well with others;
- practical wisdom and mature judgment.
- Broad, policy-making level training and experience in business, government, academia or science to understand business problems and evaluate and formulate solutions.
- Expertise that is useful to Array and complementary to the background and experience of other Board members.
- Willingness to devote the time necessary to carrying out the duties and responsibilities of Board membership and to be an active, objective and constructive participant at meetings of the Board and its Committees.
- Commitment to serve on the Board over a period of several years to develop knowledge about our principal operations.
- Willingness to represent the best interests of all stockholders and objectively appraise management performance.

The Corporate Governance Committee must receive proposals for stockholder nominations on or before the deadline for the submission of stockholder proposals for such annual meeting set forth in our bylaws and required by the rules of the Securities and Exchange Commission, as described above. Stockholder proposals must include:

- information regarding the stockholder making the proposal, including name, address and number of shares of Array BioPharma stock beneficially owned by such stockholder;
- a representation that the stockholder or the stockholder's nominee is entitled to vote at the meeting at which directors will be elected, and that the stockholder or the stockholder's designee intends to cast its vote for the election of the director, if nominated;
- the name and address of the person being nominated and such other information regarding each nominated person that would be required in a proxy statement filed pursuant to the Security and Exchange Commission's proxy rules, including, but not limited to:
- a copy of the nominee's current resumé
- biographical information concerning the nominee for the last five years, including directorships and positions

held with other companies

- the nominee's date of birth

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- a list of references
- a description of any relationship, arrangement or understanding between the stockholder making the proposal and the nominee and any other person (including names), pursuant to which the nomination is being made
- a description of any direct or indirect relationship, arrangement or understanding between the stockholder making the proposal or the nominee and Array BioPharma
- the consent of each nominee to being named in the proxy statement and to serve as a director if elected

Following verification of this information, the Corporate Governance Committee will make an initial analysis of the qualifications of the candidate pursuant to Array's general criteria for director nominations. The Corporate Governance Committee will evaluate all candidates to the Board in the same manner regardless of the source of the nomination.

VOTING PROCEDURES AND COSTS OF PROXY SOLICITATION

All votes will be tabulated by the inspector of election appointed for the Annual Meeting who will separately tabulate affirmative and negative votes, abstentions and shares represented by brokers who are prohibited from exercising discretionary authority because the beneficial owners of such shares have not provided voting instructions, commonly referred to as broker non-votes. Shares represented by proxies that reflect abstentions and broker non-votes will be counted as shares that are present and entitled to vote for purposes of determining the presence of a quorum. The election of directors will be approved by a plurality of the votes duly cast. Abstentions and broker non-votes are not counted for purposes of the election of directors. The approval of PROPOSAL 2 requires approval of a majority of the shares of Common Stock Outstanding. Therefore, broker non-votes and abstentions will have the same effect as a vote against the proposal. The ratification of the independent registered public accountants will be approved by a favorable vote of a majority of the shares of our common stock present in person or by proxy, and entitled to vote at the Annual Meeting. Broker non-votes are not treated as present and entitled to vote for purposes of determining whether a proposal has been approved and, therefore, will not be counted for any purpose in determining the approval of the ratification of the independent registered public accountants and will have no effect on these proposals. Abstentions represent shares entitled to vote and, therefore, the effect of an abstention will be a vote against this proposal.

The cost of preparing, assembling and mailing the proxy materials will be borne by us. We will also request persons, firms and corporations holding shares in their names or in the names of their nominees, which shares are beneficially owned by others, to send the proxy materials to, and to obtain proxies from, such beneficial owners and will reimburse such holders for their reasonable expenses in doing so. Original solicitation of proxies by mail may be supplemented by telephone, telegram or personal solicitation by our directors, officers or other regular employees. No additional compensation will be paid to directors, officers or other regular employees for such services.

The Board of Directors knows of no other matters that will be presented for consideration at the Annual Meeting. If any other matters are properly brought before the Annual Meeting, it is the intention of the persons named in the accompanying proxy to vote on such matters in accordance with their best judgment.

Your vote is important. Please complete the enclosed Proxy Card and mail it in the enclosed postage-paid envelope as soon as possible.

By Order of the Board of Directors,

John R. Moore
Secretary

September 21, 2007

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Annex A

**CERTIFICATE OF AMENDMENT
OF
AMENDED AND RESTATED
CERTIFICATE OF INCORPORATION
OF
ARRAY BIOPHARMA INC.**

(Pursuant to Section 242)

Array BioPharma Inc., a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware (the **DGCL**), does hereby certify as follows for the purpose of amending its Amended and Restated Certificate of Incorporation:

- FIRST:** The name of the corporation is Array BioPharma Inc. (the **Corporation**). The Corporation was originally incorporated on February 6, 1998 pursuant to the DGCL. An Amended and Restated Certificate of Incorporation of the Corporation was filed with the Secretary of State of the State of Delaware on or about November 21, 2000 (the **Certificate of Incorporation**). A Certificate of Correction to the Certificate of Incorporation was filed with the Secretary of State of the State of Delaware on or about November 19, 2004.
- SECOND:** That the board of directors of the Corporation duly adopted resolutions approving the following amendment to the Certificate of Incorporation (the **Amendment**) in accordance with the provisions of Section 242 of the DGCL, declaring such Amendment to be advisable and calling for the approval of the stockholders of the Corporation to such Amendment.
- THIRD:** The Amendment was duly adopted and approved in accordance with the provisions of Section 211 of the DGCL by the required vote of the stockholders of the Corporation at the Annual Meeting of the stockholders of the Corporation.
- FOURTH:** That the Corporation's Certificate of Incorporation is hereby amended as provided herein. Section 4.1 shall be deleted in its entirety and replaced with the following:
4.1 Authorized Shares. The total number of shares of all classes of stock that the Corporation shall have the authority to issue is 130,000,000, of which 120,000,000 shall be Common Stock, all of one class, having a par value of \$.001 per share (the **Common Stock**), and 10,000,000 of such shares shall be Preferred Stock, having a par value of \$.001 per share (the **Preferred Stock**).
- FIFTH:** Except as expressly amended by this Amendment, the provisions of the Certificate of Incorporation shall remain in full force and effect.

* * * * *

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IN WITNESS WHEREOF, this Certificate of Amendment to the Amended and Restated Certificate of Incorporation of the Corporation has been executed this day of 2007.

ARRAY BIOPHARMA INC.

By:

R. Michael Carruthers
Chief Financial Officer

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REVOCABLE PROXY

**ARRAY BIOPHARMA INC.
3200 Walnut Street, Boulder, Colorado 80301**

**PROXY SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS
FOR THE ANNUAL MEETING OF STOCKHOLDERS TO BE HELD NOVEMBER 1, 2007**

The undersigned stockholder of Array BioPharma Inc. (the Company) hereby appoints Robert E. Conway, R. Michael Carruthers and John R. Moore, and each of them, as attorneys and proxies of the undersigned, with full power of substitution and with authority in each of them to act in the absence of the other, to vote and act for the undersigned stockholder at the Annual Meeting of Stockholders to be held at 2:00 p.m., Mountain Time, on November 1, 2007, at the Hotel Boulderado, 2115 13th Street, Boulder, Colorado 80302, and at any adjournments or postponements thereof, upon the following matters and in accordance with the following instructions, with discretionary authority as to any and all other business that may properly come before the meeting.

The undersigned hereby acknowledges prior receipt of a copy of the Notice of Annual Meeting of Stockholders and Proxy Statement dated September 21, 2007 and the Company's Annual Report to Stockholders, and hereby revokes any proxy or proxies heretofore given. This proxy may be revoked at any time before it is voted by delivering to the Secretary of the Company either a written revocation of proxy or a duly executed proxy bearing a later date, or by appearing at the Annual Meeting and voting in person.

PLEASE MARK, SIGN, DATE AND RETURN PROMPTLY, USING THE ENCLOSED ENVELOPE, TO ENSURE A QUORUM AT THE ANNUAL MEETING. IT IS IMPORTANT TO RESPOND, REGARDLESS OF THE NUMBER OF SHARES YOU OWN. DELAY IN RETURNING YOUR PROXY MAY SUBJECT THE COMPANY TO ADDITIONAL EXPENSE.

Proposal One: Re-election of three directors to the Board of Directors to serve a term of three years, or until their successors have been duly elected and qualified.

Nominees: **David L. Snitman, Ph.D.
Gil J. Van Lunsen
John L. Zabriskie, Ph.D.**

- FOR all nominees listed above.
- WITHHOLD AUTHORITY to vote for all nominees
- WITHHOLD AUTHORITY to vote for all nominees EXCEPT:

(fill in nominee name(s))

Proposal Two: Approval of an amendment to the Array BioPharma Inc. Amended and Restated Certificate of Incorporation to increase the number of authorized shares of common stock from 60,000,000 to 120,000,000.

- FOR
- AGAINST
- ABSTAIN

Proposal Three: Ratification of the appointment of KPMG LLP as the Company's independent registered public accountants for the fiscal year ending June 30, 2008.

- FOR
- AGAINST
- ABSTAIN

WHEN PROPERLY EXECUTED, THIS PROXY WILL BE VOTED FOR PROPOSALS ONE, TWO AND THREE IF UNMARKED, UNLESS CONTRARY DIRECTION IS GIVEN.

If you receive more than one proxy card, please sign and return all cards in the accompanying envelope.

o **MARK HERE IF YOU PLAN TO VOTE YOUR SHARES AT THE ANNUAL MEETING.**

Signature of Stockholder _____ Date: _____, 2007.

Signature of Stockholder _____ Date: _____, 2007.

Please sign exactly as your name appears on this Proxy. When shares are held jointly, each holder should sign. When signing as an executor, administrator, attorney, trustee or guardian, please give full title as such. If the signer is a corporation, please sign full corporate name by duly authorized officer, giving full title as such. If signer is a partnership, please sign in partnership name by authorized person.
