

ARRAY BIOPHARMA INC  
Form 10-K  
August 19, 2016

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

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FORM 10-K

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

For the fiscal year ended June 30, 2016

or

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

For the transition period from to

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Commission File Number: 001-16633

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Array BioPharma Inc.

(Exact name of registrant as specified in its charter)

Delaware

84-1460811

(State or other jurisdiction of incorporation or organization)

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

3200 Walnut Street, Boulder, CO

80301

(Address of principal executive offices)

(Zip Code)

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

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

Title of each class

Name of each exchange on which registered

Common Stock, par value \$0.001 per share

The NASDAQ Stock Market LLC (NASDAQ Global Market)

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

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

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

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

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

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

Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer  Smaller Reporting Company

(do not check if smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

The aggregate market value of the voting common equity held by non-affiliates of the registrant as of December 31, 2015, was \$593,428,976, based on the closing sale price of the registrant's common stock as reported on the NASDAQ Global Market on such date. Shares of the registrant's common stock held by each executive officer and director have been excluded for purposes of this calculation. This number is provided only for purposes of this Annual Report on Form 10-K and does not represent an admission that any particular person or entity is an affiliate of the registrant.

As of August 15, 2016, the registrant had 145,022,564 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the Registrant's 2016 Annual Meeting of Stockholders are incorporated by reference into Part III of this Annual Report on Form 10-K.

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ANNUAL REPORT ON FORM 10-K  
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PART I

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

Our fiscal year ends on June 30. When we refer to a fiscal year or quarter, we are referring to the year in which the fiscal year ends and the quarters during that fiscal year. Therefore, fiscal 2016 refers to the fiscal year ended June 30, 2016.

FORWARD-LOOKING STATEMENTS

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

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

Market and Industry Data

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

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

We have not independently verified or verified with any independent source any third-party information and cannot assure you of its accuracy or completeness. In addition, while we believe the market position, market opportunity and market share information included in this Annual Report on Form 10-K is generally reliable, such information is inherently imprecise. Such data involves risks and uncertainties and is subject to change based on various factors, including those discussed under the heading "Item 1A. Risk Factors."

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## ITEM 1. BUSINESS

## Our Business

Array is a biopharmaceutical company focused on the discovery, development and commercialization of targeted small molecule drugs to treat patients afflicted with cancer. Five registration studies are currently advancing. These programs include three cancer drugs, binimetinib (MEK162), encorafenib (LGX818) and selumetinib (partnered with AstraZeneca).

Our most advanced clinical stage drugs include:

Drug Candidate	Target/Indication	Partner	Clinical Status
Binimetinib	MEK inhibitor for cancer	Pierre Fabre	Phase 3
Encorafenib	BRAF inhibitor for cancer	Pierre Fabre	Phase 3
Filanesib	Kinesin spindle protein, or KSP, inhibitor for multiple myeloma		Phase 2
ARRY-797	p38 inhibitor for Lamin A/C-related dilated cardiomyopathy		Phase 2
Selumetinib	MEK inhibitor for cancer	AstraZeneca, PLC	Phase 3
ASC08/Danoprevir	Protease inhibitor for Hepatitis C virus	Roche Holding AG	Phase 3
ASLAN001/Varlitinib	Pan-HER2 inhibitor for gastric or breast cancer	ASLAN Pharmaceuticals Pte Ltd.	Phase 2
Ipatasertib/GDC-0068	AKT inhibitor for cancer	Genentech, Inc.	Phase 2
Motolimod/VTX-2337	Toll-like receptor for cancer	VentiRx Pharmaceuticals, Inc.	Phase 2
Prexasertib/LY2606368	Chk-1 inhibitor for cancer	Eli Lilly and Company	Phase 2
LOXO-101	PanTrk inhibitor for cancer	Loxo Oncology, Inc.	Phase 2
ONT-380/ARRY-380	HER2 inhibitor for breast cancer	Cascadian Therapeutics	Phase 2
GDC-0575	Chk-1 inhibitor for cancer	Genentech, Inc.	Phase 1
GDC-0994	ERK inhibitor for cancer	Genentech, Inc.	Phase 1
ARRY-382	CSF1R inhibitor for cancer		Phase 1

## Binimetinib and Encorafenib

In March 2015, Array regained development and commercialization rights to binimetinib and acquired development and commercialization rights to encorafenib under the Termination and Asset Transfer Agreement with Novartis Pharma AG and Novartis Pharmaceutical Ltd. and the Asset Transfer Agreement with Novartis Pharma AG (collectively, the “Novartis Agreements”). Along with global ownership of both assets, Array received an upfront payment of \$85.0 million from Novartis. We believe these programs present significant opportunities for Array in the area of oncology.

We have also entered into a Development and Commercialization Agreement with Pierre Fabre Medicament SAS, (“Pierre Fabre” or “PFM”), which became effective in December 2015 (the “PF Agreement”), pursuant to which we granted Pierre Fabre rights to commercialize binimetinib and encorafenib in all countries except for the United States, Canada, Japan, Korea and Israel, where Array will retain its ownership rights. The PF Agreement satisfied our commitment to secure a development and commercialization partner for the European market for both encorafenib and binimetinib acceptable to European Commission regulatory agencies made in connection with the Novartis Agreements.

All clinical trials involving binimetinib and encorafenib that were active or planned when the Novartis Agreement became effective in March 2015, including the NEMO and COLUMBUS trials and other then active Novartis sponsored and investigator sponsored clinical studies, continue to be reimbursed pursuant to the terms of the Novartis

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Agreements. Further worldwide development activities of binimetinib and encorafenib will be governed by a Global Development Plan (GDP) with Pierre Fabre. Pierre Fabre and Array will jointly fund worldwide development costs under the GDP, with Array covering 60% and Pierre Fabre covering 40% of such costs. The initial GDP includes multiple trials, including the BEACON CRC trial, and Pierre Fabre and Array have agreed to commit at least €100 million in combined funds for these studies in colorectal cancer (CRC) and melanoma.

Pierre Fabre is responsible for seeking regulatory and pricing and reimbursement approvals in the European Economic Area and its other licensed territories. We have also agreed to enter into a clinical and commercial supply agreement with Pierre Fabre pursuant to which we will supply or procure the supply of clinical and commercial supplies of drug substance and drug product for Pierre Fabre, the costs of which will be borne by Pierre Fabre. We have also agreed to cooperate with Pierre Fabre to ensure the supply of companion diagnostics for use with binimetinib and encorafenib in indications where needed.

Binimetinib and encorafenib are currently being studied in Phase 3 trials in advanced cancer patients, including the COLUMBUS trial studying encorafenib in combination with binimetinib in patients with BRAF-mutant melanoma and the recently initiated BEACON CRC trial (Binimetinib, Encorafenib And Cetuximab Combined to treat BRAF-mutant Colorectal Cancer) to study encorafenib in combination with binimetinib and cetuximab in patients with BRAF V600E-mutant colorectal cancer (BRAFM CRC).

### COLUMBUS

COLUMBUS is a global Phase 3 study that compares binimetinib and encorafenib versus vemurafenib being conducted in BRAF-mutant melanoma patients. Array expects top-line results from the COLUMBUS (Part 1) study in the third quarter of 2016 and plans to submit a regulatory filing of binimetinib and encorafenib in 2017. COLUMBUS (Part 2) was designed to assess the contribution of binimetinib to the combination of binimetinib and encorafenib studied in COLUMBUS (Part 1). In October 2015, COLUMBUS (Part 2) achieved its target patient enrollment.

Activating BRAF mutations are present in approximately 50% of patients with metastatic melanoma. In two separate Phase 1/2 trials in this patient population, binimetinib plus encorafenib demonstrated encouraging clinical activity and an attractive tolerability profile, including low incidence of pyrexia, and little to no incidence of rash or photosensitivity.

### BEACON

In June 2016, Array, Pierre Fabre and Merck KGaA, Darmstadt, Germany, jointly initiated the BEACON CRC trial. BEACON CRC is a randomized, open-label, global Phase 3 clinical trial designed to assess the safety and efficacy of binimetinib, encorafenib and Erbitux® (cetuximab), a monoclonal antibody, in comparison to Erbitux and irinotecan-based therapy in patients with BRAFM CRC who have previously received first- or second-line systemic therapy. The study includes a safety lead-in with approximately 30 patients.

With appropriate results from the lead-in, approximately 615 patients are expected to be randomized 1:1:1 to receive triplet therapy (binimetinib, encorafenib and Erbitux), doublet therapy (encorafenib and Erbitux) or the control arm (irinotecan-based therapy and Erbitux).

The primary endpoint of the trial is overall survival (OS) of the triplet therapy compared to the control arm. The secondary endpoints address efficacy of the doublet therapy compared to the control arm, and the triplet therapy compared to the doublet therapy. Other secondary endpoints include PFS, ORR, duration of response, safety and tolerability. Health related quality of life data will also be assessed. The trial will be conducted at over 250 investigational sites in North America, South America, Europe and the Asia Pacific region. Patient enrollment is expected to be completed in 2018.



Array will act as the global sponsor of the study. Pursuant to the PF Agreement with Pierre Fabre, Pierre Fabre has elected to co-fund 40% of the cost of the BEACON CRC trial. Merck KGaA, Darmstadt, Germany, is the owner of Erbitux outside the United States and Canada, and will supply Erbitux to all trial sites outside the United States and Canada as part of the collaboration. If successful, results would support regulatory submissions for all three parties.

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The BEACON trial was initiated following completion of a Phase 2 study of the combination of encorafenib and cetuximab, with or without alpelisib, a selective PI3K alpha inhibitor, in patients with advanced BRAF-mutant CRC. Array announced updated results from this trial in June 2016. Data from this study showed that median OS for these patients may exceed one year, which is more than double several historical published benchmarks for this population.

In the Phase 2 study, 102 patients with BRAF-mutant CRC who had progressed after one or more prior therapies were randomized to receive the doublet regimen of encorafenib and cetuximab (ENCO 200 mg PO QD and CETUX per label; n=50) or the triplet regimen of encorafenib, cetuximab and alpelisib (ENCO, CETUX and ALP 300 mg PO QD; n=52). The Phase 2 data for these treatment regimens showed promising clinical activity in patients:

• Median OS was 12.4 and 13.1 months for the doublet and alpelisib-containing triplet regimens, respectively.

• Median PFS was 4.2 and 5.4 months for the doublet and alpelisib-containing triplet regimens, respectively.

• ORR was 22 percent and 27 percent for the doublet and alpelisib-containing triplet regimens, respectively.

• Grade 3 or 4 adverse events occurred in greater than 10 percent of patients and included anemia, hyperglycemia and increased lipase.

Several historical published median PFS and median OS results after first-line treatment range from 1.8 to 2.5 months and four to six months, respectively, and published ORR from various studies in this population range between six percent to eight percent. The study showed that alpelisib added toxicity with only marginal additional activity, therefore the BEACON CRC trial utilizes binimetinib, a MEK inhibitor, in the triplet arm.

Colorectal cancer is the third most common cancer among men and women in the United States, with more than 134,000 new cases and nearly 50,000 deaths from the disease projected in 2016. In the United States, BRAF mutations occur in 8 to 15 percent of patients with colorectal cancer and represent a poor prognosis for these patients.

## NEMO

NEMO was a Phase 3 study that compared binimetinib versus dacarbazine in unresectable or metastatic NRAS-mutant melanoma patients. In June 2016, Array announced the submission of a New Drug Application (NDA) for binimetinib in patients with advanced NRAS-mutant melanoma to the U.S. Food and Drug Administration (FDA). We are planning for an Oncologic Drugs Advisory Committee (ODAC) meeting as part of the regulatory process. Array is also currently preparing for an Application Orientation Meeting (AOM) with the FDA in September 2016, which we expect will include a discussion of the NDA package including clinical risk / benefit.

Activating NRAS mutations are present in approximately 20% of patients with metastatic melanoma, and have been a poor prognostic indicator for these patients. Treatment options for this population remain limited beyond immunotherapy (PD-1, CTLA4), therefore, if approved, binimetinib could represent an important additional therapy for these patients.

The NDA submission is based on results of the NEMO study, which found binimetinib extended median PFS, the study's primary endpoint, as compared with dacarbazine. In the NEMO study, binimetinib extended median PFS at 2.8 months, as compared with 1.5 months observed with dacarbazine [hazard ratio (HR)=0.62 (95% CI 0.47-0.80), p<0.001] in patients with advanced NRAS-mutant melanoma. In the pre-specified subset of patients who received prior treatment with immunotherapy, including ipilimumab, nivolumab or pembrolizumab, patients who received binimetinib experienced 5.5 months of median PFS (95% CI, 2.8-7.6), compared with 1.6 months for those receiving treatment with dacarbazine (95% CI, 1.5-2.8). While the results in the pre-specified sub-group of patients who had received prior treatment with immunotherapy are of interest, interpretation beyond overall consistency with the primary result should be made with care. Array anticipates that the primary consideration for marketing approval will be the results for the primary endpoint of the trial.

In addition to improving PFS, binimetinib also demonstrated significant improvement in certain secondary endpoints, ORR and disease control rate (DCR). While there was no statistically significant difference demonstrated in overall survival, the numerical trend in median overall survival (mOS) favored the binimetinib arm.

Confirmed ORR was 15 percent (95% CI, 11-20 percent) in patients receiving binimetinib vs. 7 percent (95% CI, 3-13 percent) in patients receiving dacarbazine.

DCR for patients receiving binimetinib was 58 percent (95% CI, 52-64 percent) vs. 25 percent (95% CI, 18-33 percent) for patients receiving dacarbazine.

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mOS was estimated at 11.0 months in patients receiving binimetinib vs. 10.1 months for patients treated with dacarbazine [(HR) = 1.0 (95% CI 0.75-1.33), p=0.499].

Under the NEMO protocol, and in accordance with accepted statistical practice, the subgroup analyses of OS were not conducted, as such analysis is formally conducted only if the key secondary endpoint of OS reached statistical significance.

Binimetinib was generally well-tolerated and the adverse events (AEs) reported were consistent with previous results in NRAS-mutant melanoma patients. Grade 3/4 AEs reported in greater than or equal to 5 percent of patients receiving binimetinib included increased creatine phosphokinase (CPK) and hypertension.

The NEMO results were presented at the 2016 American Society of Clinical Oncology (ASCO) Annual Congress in June 2016.

## MILO

On April 1, 2016, we announced our decision to discontinue the MILO study, a Phase 3 trial of binimetinib for the treatment of patients with low grade serous ovarian cancer. The decision to stop the study was made after a planned interim analysis showed that the Hazard Ratio for Progression Free Survival (PFS) crossed the predefined futility boundary.

## Selumetinib

AstraZeneca continues to advance selumetinib in two registration trials: a trial in patients with neurofibromatosis type 1 and the ASTRA trial in patients with differentiated thyroid cancer. AstraZeneca estimates top-line results from both trials in 2017. In August 2016, AstraZeneca announced results from the Phase 3 SELECT-1 trial of selumetinib in combination with docetaxel chemotherapy as 2nd-line treatment in patients with KRAS mutation-positive locally-advanced or metastatic non-small cell lung cancer. The results showed that the trial did not meet its primary endpoint of progression-free survival and selumetinib did not have a significant effect on overall survival. The adverse event profiles for selumetinib and docetaxel were consistent with those seen previously.

## ARRY-797

Array is conducting a 12-patient Phase 2 study to evaluate the effectiveness and safety of ARRY-797 in patients with LMNA A/C-related DCM, a serious, genetic cardiovascular disease. By age 45, approximately 70% of patients with LMNA A/C-related DCM will have died, suffered a major cardiac event, or will have undergone a heart transplant. The primary endpoint of the trial is mean change in 6-minute walk test (6MWT) at 12 weeks relative to baseline. Data from the trial showed that ARRY-797 exceeded benchmarks set by a number of drugs for rare diseases that have recently been approved on the basis of the 6MWT as a primary endpoint. Secondary endpoints in the ARRY-797 trial, including changes in N-Terminal pro-Brain-derived Natriuretic Peptide (NT-proBNP, a serum biomarker of heart failure severity), and patient reported outcomes, are directionally consistent with the primary endpoint. Enrollment in this trial is complete. Data for patients followed through 48 weeks suggest a durable effect. Results with additional patient follow-up will be presented at the European Society of Cardiology on August 30, 2016. Taken together, the data to date suggest a path forward for this program, and Array has met with regulators to discuss the design of a study that could be the basis for marketing approval.

## ARRY-382

In July 2016, Array initiated a Phase 1/2 dose escalation immuno-oncology trial of ARRY-382 in combination with pembrolizumab (Keytruda®), a Programmed Cell Death Receptor 1 (PD-1) antibody, in patients with advanced solid tumors. ARRY-382 is a wholly-owned, potent, highly selective, small-molecule inhibitor of CSF-1R kinase activity.

The study will enroll up to 18 patients with selected advanced solid tumors to determine the maximum tolerated dose and/or recommended Phase 2 dose of the combination. In addition, the safety profile, pharmacodynamic effects, and preliminary assessment of activity of the combination will be assessed. With appropriate results, Array has the option to advance the combination into expansion cohorts of patients with metastatic melanoma or advanced non-small cell

lung cancer (NSCLC).

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Results from a prior Phase 1 study designed to assess the safety, pharmacokinetics and pharmacodynamics of ARRY-382 for treating patients with cancer have been presented and a dose and schedule that demonstrates target engagement based on multiple pharmacodynamic biomarkers was identified for further study.

### Filanesib

Given Array's significant opportunity with the Phase 3 binimetinib and encorafenib programs across a number of cancer indications, Array currently has no plans to initiate additional trials with filanesib, a highly selective, targeted KSP inhibitor. Two studies in patients with relapsed / refractory multiple myeloma are nearing completion: a randomized Phase 2 trial of the combination of filanesib and Kyprolis® (carfilzomib) and Kyprolis alone (ARRAY-520-216) and the AfFIRM trial, a Phase 2 single agent study.

We also have a portfolio of proprietary and partnered preclinical drug discovery programs.

On March 31, 2016, we announced a strategic collaboration with Asahi Kasei Pharma Corporation (AKP) to develop and commercialize select preclinical Tropomyosin receptor kinase A (TrkA) inhibitors, including Array-invented ARRY-954, for pain, inflammation and other non-cancer indications. We received a \$12.0 million up-front payment in April 2016 and may receive up to \$63.5 million in additional development and commercialization milestone payments, including up to double-digit royalties on future sales. We will retain full commercialization rights for all compounds in all indications in territories outside of Asia and within Asia retain full rights to cancer indications for all compounds excluding those being developed by AKP.

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

Our significant clinical stage partners include:

ASLAN – We entered into a Collaboration and License Agreement with ASLAN in July 2011 to develop Array's pan-HER inhibitor, Varlitinib/ASLAN001/ARRY-543, which is currently in Phase 1 and 2 clinical trials in patients with gastric cancer, breast cancer or cholangiocarcinoma.

AstraZeneca – In December 2003, we entered into a Collaboration and License Agreement with AstraZeneca under which AstraZeneca received a license to three of our MEK inhibitors for cancer, including selumetinib, which is currently in numerous clinical trials, including two registration trials.

Genentech – We entered into a worldwide strategic Drug Discovery Collaboration Agreement with Genentech in January 2003, which was expanded in 2005, 2008, and 2009, and is focused on the discovery, development and commercialization of novel therapeutics. The most advanced drugs are ipatasertib/GDC-0068, an AKT inhibitor for cancer, which is currently in Phase 2 and GDC-0994, an ERK inhibitor for cancer, which is currently in Phase 1. We also entered into a License Agreement with Genentech in August 2011 for the development of each company's small molecule Chk-1 program in oncology. The program included Genentech's compound GDC-0425 (RG7602) and Array's compound GDC-0575 (previously known as ARRY-575). Genentech selected GDC-0575 to advance into further clinical trials in patients with cancer.

Roche Holding AG – We entered into a Drug Discovery Collaboration Agreement with InterMune in 2002, which resulted in the joint discovery of ASC08 / danoprevir, a novel small molecule inhibitor of the Hepatitis C Virus NS3/4A protease. Roche Holding AG acquired ASC08 from InterMune in 2010 and partnered with Ascleptis in 2013 to advance the program in greater China. Ascleptis has recently advanced ASC08 in Phase 3 clinical trials in China.

Cascadian Therapeutics (previously named Oncothyreon) – We entered into a Development and Commercialization Agreement with Cascadian Therapeutics in May 2013, to collaborate on the development and commercialization of ONT-380, an orally active, reversible and selective small-molecule HER2 inhibitor, for the treatment of cancer, including breast cancer. In December 2014, we granted Cascadian Therapeutics an exclusive license to develop, manufacture and commercialize ONT-380. The License Agreement replaces the 2013 agreement. Cascadian Therapeutics is continuing development of ONT-380 in a defined set of proof-of-concept trials in patients with

metastatic breast cancer, including patients with brain metastases.

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Loxo – We entered into a Drug Discovery Collaboration Agreement with Loxo in July 2013 and granted Loxo exclusive rights to develop and commercialize certain Array-invented compounds targeted at the tropomyosin kinase, or Trk, family of receptors, including LOXO-101, which is currently in a Phase 2 clinical trial.

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

## Business History

We have received a total of \$863.0 million in research funding and in up-front and milestone payments from partners from inception through June 30, 2016, including \$216 million in initial payments from strategic agreements we entered into over the last seven years. We received an up-front cash payment of \$85 million upon the March 2015 effective date of the asset transfer agreement with Novartis for binimetinib and of \$30 million in January 2016 from Pierre Fabre. Our existing partnered programs entitle Array to receive a total of over \$2 billion in additional milestone payments if we or our partners achieve the drug discovery, development and commercialization objectives detailed in those agreements. We also have the potential to earn royalties on any resulting product sales or share in the proceeds from licensing or commercialization from 13 partnered clinical and discovery programs.

## Our Strategy

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

- Invent targeted small molecule drugs that are either first-in-class or second generation drugs that have little or no competition, or demonstrate a competitive advantage over drugs currently on the market or in clinical development.
- Develop and commercialize our drugs to maximize their overall value. As our first drug nears approval, we plan to build a therapeutically-focused sales force to commercialize or co-promote drugs we wholly own, or for which we retain development rights in major geographic areas.

- Implement a partnering strategy in which we out-license drugs outside our therapeutic or geographic focus and partner select early-stage programs for continued research and development in exchange for research funding plus significant milestone payments and royalties.

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

## Drug Discovery and Clinical Development Programs

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



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

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### Partnered Development Programs

Below are summaries of our most advanced, ongoing partnered development programs. Any information we report about the development plans or the progress or results of clinical trials or other development activities of our partners is based on information that has been reported to us or is otherwise publicly disclosed by our collaboration partners, and therefore may not reflect changes to any information that may have occurred since the date it was reported to us or of its public disclosure.

#### 1. AstraZeneca — Selumetinib — MEK Program

In December 2003, we entered into a Collaboration and License Agreement with AstraZeneca to develop our MEK program. Under the agreement, AstraZeneca acquired exclusive worldwide rights to our clinical development candidate, selumetinib (previously known as AZD6244, or ARRY-142886), together with two other compounds for oncology indications which we invented during the collaboration for oncology indications. AstraZeneca continues to advance selumetinib in two registration trials: a registration trial in patients with neurofibromatosis type 1 and the ASTRA trial in patients with differentiated thyroid cancer. AstraZeneca estimates top-line results from both trials in 2017. In August 2016, AstraZeneca announced results from the Phase 3 SELECT-1 trial of the MEK 1/2 inhibitor, selumetinib, in combination with docetaxel chemotherapy as 2nd-line treatment in patients with KRAS mutation-positive locally-advanced or metastatic non-small cell lung cancer. The results showed that the trial did not meet its primary endpoint of progression-free survival and selumetinib did not have a significant effect on overall survival. The adverse event profiles for selumetinib and docetaxel were consistent with those seen previously.

We retained the rights to all therapeutic indications for MEK compounds not selected by AstraZeneca for development, subject to the parties' agreement to work exclusively together. In April 2009, the exclusivity of the parties' relationship ended, and both companies are now free to independently research, develop and commercialize small molecule MEK inhibitors in the field of oncology. Our research obligations ended in 2004 and AstraZeneca is responsible for all future development and commercialization of the compounds under the collaboration. To date, we have earned \$26.5 million in up-front and milestone payments. The agreement also provided for research funding, which is now complete, and provides potential additional development milestone payments of approximately \$70 million (with \$30 million specific for selumetinib) and royalties on product sales.

#### 2. InterMune (program now owned by Roche) — ASC08 / Danoprevir Hepatitis C Virus NS3/4 Protease Program

In 2002, we entered into a Drug Discovery Collaboration Agreement with InterMune for the discovery of novel small molecule inhibitors of the Hepatitis C Virus, or HCV, NS3/4A protease. As a result of drug discovery activities under this collaboration, scientists at Array and InterMune jointly discovered ASC08 / danoprevir, which has recently entered Phase 3 in China. At this time, Ascleptis is conducting all clinical development for danoprevir. In October 2010, Roche expanded its portfolio of investigational medicines for HCV through the purchase of ASC08 from InterMune for \$175 million. InterMune thereafter ceased all further development efforts under the collaboration. Under the terms of Array's collaboration agreement with InterMune, InterMune has an obligation to make milestone payments to us based on the selection and progress of ASC08, as well as royalties on commercial sales of ASC08. To date, we have received \$1.7 million in milestone payments and have the potential to earn an additional \$7.5 million if all clinical and commercialization milestones for ASC08 are achieved under the agreement.

#### 3. ASLAN — Varlitinib/ASLAN001/ARRY-543 — Pan-HER Program

In July 2011, we entered into a Collaboration and License Agreement with ASLAN to develop Array's pan-HER inhibitor, Varlitinib/ASLAN001/ARRY-543, which is currently in Phase 2 development in patients with gastric

cancer, breast cancer or cholangiocarcinoma in Asia. Varlitinib is an oral HER2/EGFR inhibitor, and has shown clinical activity in both HER2-positive and EGFR-positive tumors. Under the agreement, ASLAN is funding and developing Varlitinib through clinical proof-of-concept. Upon achievement of proof-of-concept, ASLAN will identify a global partner for Phase 3 development and commercialization. Array will share a significant portion of the proceeds of such partnering transaction.

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

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

### 4. Genentech — Ipatasertib/GDC-0068 and GDC-0994

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

In 2005, 2008, and 2009, we expanded our collaboration with Genentech to develop clinical candidates directed against additional targets. Under the agreement, we received additional research funding, as well as potential research and development milestone payments and product royalties based on the success of each new program. In September 2010, we and Genentech extended the agreement for an additional two years of funded research through January 2013. Genentech may terminate the agreement upon four months' written notice. Genentech has paid Array a total of \$23.5 million in up-front and milestone payments, and we have the potential to earn an additional \$23.0 million for all programs if Genentech continues development and achieves the remaining clinical milestones set forth in the agreement.

Genentech is advancing one collaborative drug, ipatasertib, an AKT inhibitor, in multiple Phase 2 trials. In addition, Genentech is advancing a second collaborative drug, GDC-0994, an ERK inhibitor, in Phase 1 in patients with locally advanced or metastatic solid tumors.

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

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

Either party may terminate the agreement upon a material breach by the other party that is not cured within a specified time period, and Genentech may terminate the agreement upon at least 60 days' written notice to Array. If Genentech

terminates the agreement due to a material breach by Array, the license Array granted to Genentech becomes irrevocable and the royalty to Array will be reduced to a specified percentage. If the agreement is terminated by Genentech for convenience or by Array due to a material breach by Genentech, the license Array granted to Genentech will terminate, Genentech will continue to be required to pay milestone and royalty payments on any programs for which Genentech had initiated clinical development and Array's exclusivity obligations will continue so long as Genentech is developing or commercializing at least one product subject to the agreement. Array and Genentech

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have also agreed to indemnify the other party for breaches of representations or warranties made under the agreement and for certain of their respective activities under the agreement.

In 2014, Genentech selected GDC-0575 over GDC-0425 to advance into further clinical trials. Genentech is continuing a Phase 1 multiple ascending dose trial to evaluate GDC-0575 alone and in combination with Gemzar® (gemcitabine) in approximately 100 patients with refractory solid tumors or lymphoma.

6. Lilly — Prexasertib/LY2606368 — Chk-1 Inhibitor Program

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

While there is currently one on-going LY2603618 Phase 1 clinical trial in cancer, Lilly has communicated that it does not intend to pursue further development of the drug. Prexasertib is being studied in multiple Phase 1 or 2 trials for cancer.

7. VentiRx — Motolimod/VTX-2337 — TLR Program

In February 2007, we entered into a Collaboration and License Agreement with the privately-held biopharmaceutical company VentiRx, under which we granted VentiRx exclusive worldwide rights to certain molecules from our TLR program. The program contains a number of compounds targeting TLRs to activate innate immunity, including motolimod/VTX-2337, which is currently in Phase 2. We received equity in VentiRx, as well as an up-front payment and the right to receive potential milestone payments and royalties on product sales. To date, we have received \$2.6 million in milestone payments and have the potential to earn an additional \$56 million if VentiRx achieves the remaining clinical and commercial milestones under the agreement. See Note 1 — Overview, Basis of Presentation and Summary of Significant Accounting Policies — Equity Investment to the accompanying audited financial statements included elsewhere in this Annual Report on Form 10-K for a description of the equity interest we received in VentiRx as a result of this agreement.

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

8. Cascadian Therapeutics — ONT-380/ARRY-380 — HER2 Inhibitor Program

In May 2013, we entered into a Development and Commercialization Agreement with Cascadian Therapeutics (formerly Oncothyreon Inc.) to collaborate on the development and commercialization of ONT-380, an orally active, reversible and selective small-molecule HER2 inhibitor, for the treatment of cancer, including breast cancer, currently in Phase 2. Under the terms of the agreement, Cascadian Therapeutics paid Array a one-time up-front fee of \$10 million.

In December 2014, we granted Cascadian Therapeutics an exclusive license to develop, manufacture and commercialize ONT-380 pursuant to a License Agreement that replaced the 2013 agreement. As part of the License Agreement, Cascadian Therapeutics paid Array \$20 million as an up-front fee. In addition, Cascadian Therapeutics will pay Array a material percentage of any payments received from sublicensing ONT-380 rights. If Cascadian Therapeutics is acquired within three years of the effective date of the License Agreement, Array will be eligible for up to \$280 million in commercial and other milestone payments. Array is also entitled to receive up to a double-digit royalty based on net sales of ONT-380.

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The License Agreement will expire on a country-by-country basis on the later of 10 years following the first commercial sale of the product in each respective country or expiration of the last to expire patent covering the product in such country, but may be terminated earlier by either party upon material breach of the License Agreement by the other party or the other party's insolvency, or by Cascadian Therapeutics on 180 days' notice to Array. Cascadian Therapeutics and Array have also agreed to indemnify the other party in specified circumstances.

### 9. Loxo — LOXO-101 — PanTrk Inhibitor Program

In July 2013, Array entered into a Drug Discovery Collaboration Agreement with Loxo which was subsequently amended in November 2013, April 2014, October 2014, March 2015 and February 2016. It granted Loxo exclusive rights to develop and commercialize certain Array-invented compounds including LOXO-101, which is currently in Phase 1 and Phase 2 clinical trials.

Under the terms of the amended agreement, Loxo is funding further discovery and preclinical programs to be conducted by Array, including LOXO-195 (a next-generation selective PanTRK inhibitor), RET and FGFR programs . The most recent amended agreement extended the term through September 2017, with Loxo retaining an option to extend the term for up to one additional year. Loxo is responsible for all additional preclinical and clinical development and commercialization.

Array receives advance payments for the preclinical research and other services that Array is providing during the term of the discovery program. To date, we have earned \$2.0 million in milestone and other upfront payments and have the potential to earn up to approximately (i) \$221 million with respect to products related to TRK, including LOXO-101 and its backup compounds, and (ii) \$213 million with respect to product candidates directed to targets other than TRK, if Loxo achieves additional clinical, regulatory and sales milestones plus royalties on sales of any resulting drugs.

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

### Market Opportunity

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

The worldwide market for targeted cancer drugs, the cancer drug market's fastest growing segment, is forecast to grow from \$58 billion in 2014 to \$131 billion in 2020.



In addition, the pharmaceutical industry has an ongoing need to fill clinical development pipelines with new drugs to drive future revenue growth. Despite increased spending on internal research, the industry has been unable to meet this demand. As a result, it has become increasingly reliant on biotech companies to acquire new drugs. Due to the scarcity of later-stage clinical assets available for in-licensing, these companies have been willing to enter into licensing deals at early stages, including the preclinical stage. However, once a drug has entered clinical development,

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companies generally require proof-of-concept data, which includes both efficacy and safety data, before they will consider licensing a drug candidate. Accordingly, we believe there is an opportunity to license drugs at several stages during the drug development process.

**Cancer Market**

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

According to estimates contained in the American Cancer Society, Cancer Facts and Figures 2016, in the U.S. there will be an estimated 1.7 million new cases of cancer in 2016 and nearly 600 thousand cancer-related deaths. The five-year relative survival rate for all cancers diagnosed between 2003 and 2009 is 68%, up from 49% in 1975-1977. The improvement in survival reflects both progress in diagnosing certain cancers at an earlier stage and improvements in treatment.

The following table shows estimated new cases diagnosed and estimated deaths in the U.S. during 2016 by major cancer types of interest to Array:

Type of Cancer	Estimated 2016	
	New Cases	Deaths
Lung	224,390	158,080
Breast	249,260	40,890
Colorectal	134,490	49,190
Melanoma	76,380	10,130
Thyroid	64,300	1,980
Pancreas	53,070	41,780
Ovarian	22,280	14,240
Stomach	26,370	10,730
Myeloma	30,330	12,650
Gallbladder and Other Biliary	11,420	3,710
	892,290	343,380

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

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

Melanoma (Binimetinib — MEK inhibitor and Encorafenib — BRAF inhibitor)

Melanoma is the deadliest form of skin cancer. The number of new malignant melanoma cases has been increasing substantially over the past 30 years and at a rate that is among the fastest growing of any human cancer. According to the American Cancer Society, the estimated new cases and deaths from melanoma in the U.S. in 2016 are

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approximately 76 thousand and 10 thousand, respectively. Prognosis is heavily dependent upon stage of the disease. The outlook for patients with metastatic disease is poor, with a five-year survival rate of approximately 16%.

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

Market growth of melanoma drug therapies is expected to be strong, with sales across the seven major pharmaceutical markets forecasted to grow annually by over 92% from \$1.2 billion in 2014 to \$2.3 billion in 2023. This forecasted growth is driven largely by recent and anticipated launches of several novel, high-priced therapies expected to capture substantial market share over time.

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

As MEK inhibitors target the RAS/RAF/MEK/ERK pathway, which is activated with BRAF mutation, they may also have the potential for activity not only in patients with BRAF-mutant melanoma, but also in patients with tumors that harbor mutations in the NRAS gene, who currently have no adequate treatment option and poor prognosis. Data on binimetinib from the Phase 3 NEMO trial of patients with NRAS mutated advanced melanoma was presented at the 2016 ASCO Annual Meeting. This trial randomized both treatment naïve patients and patients who had been treated with prior immunotherapy to binimetinib or DTIC control. Binimetinib showed statistically significant improvements in PFS over patients treated with DTIC. This is the first targeted therapy to show activity in patients with NRAS mutated melanoma. Based on this data, Array submitted a marketing application to the FDA in June 2016. In addition, the COLUMBUS trial compares binimetinib in combination with encorafenib to encorafenib as monotherapy and to vemurafenib as monotherapy in patients with newly-diagnosed BRAF inhibitor naïve, BRAF V600E or V600K mutant advanced, unresectable or metastatic melanoma.

### Colorectal Cancer (Binimetinib - MEK inhibitor and Encorafenib - BRAF inhibitor)

Colon and rectal cancer together represent the third most common cancer in both men and women, with approximately 134,000 new cases expected to be diagnosed in the US in 2016. Although incidence rates have been decreasing over the past 30 years due to increased screening and decreases in certain risk factors, colorectal cancer remains the third leading cause of cancer death and is expected to claim approximately 49,000 lives in 2016. The majority of patients are diagnosed in advanced stages of disease, and 5- and 10-year survival rates are approximately 65% and 58% of advanced-stage patients.

Treatment for patients diagnosed with localized disease centers around surgery, with or without adjuvant or neoadjuvant chemotherapy regimens. Advanced or metastatic colorectal cancer is managed through the use of chemotherapy or monoclonal antibodies targeted against the EGFR or VEGF signaling pathways. The EGFR surface protein is overexpressed in approximately 40-80% of CRC tumors, and the EGFR-targeted therapies Erbitux (cetuximab) and Vectibix (panitumumab) are FDA-approved for use in CRC patients. However, EGFR overexpression is not predictive of treatment efficacy, and only approximately 10-20% of CRC patients respond to EGFR-directed therapies. Targeting VEGF through the use of Avastin (bevacizumab) or Cyramza (ramucirumab) is

also an available treatment modality. However, despite use of these targeted agents against EGFR and VEGF, there remains high unmet need for additional therapies that target additional mutations in CRC patients.

Targeting the MAPK pathway downstream of EGFR is an emerging area of interest in the CRC therapeutic landscape. Patients with mutations in NRAS and KRAS and patients with BRAF mutations have shown decreased sensitivity to EGFR inhibitors. Prior studies in patients with BRAF-mutated disease have demonstrated PFS and OS ranging from 1.8 to 2.5 months and 4 to 6 months, respectively, and response rates to EGFR-targeted therapy ranging from 6-8%.

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BRAF mutations, which are present in 8-15% of CRC patients, confer a poor prognosis and thus this patient population has a high unmet need for additional targeted therapies. Overall, with the addition of new treatment options to address existing and emerging biomarkers, the total CRC market is forecast to grow from \$7.0B in 2014 to \$7.6B in 2023.

Array, in partnership with Pierre Fabre and Merck KGaA, has initiated the Phase 3 BEACON CRC trial to evaluate binimetinib and ecorafenib in combination with Erbitux in patients with BRAF-mutated metastatic CRC who have progressed on first-line systemic therapy. Patients are to be randomized to receive the triplet therapy, doublet therapy of encorafenib and Erbitux, or an Erbitux and chemotherapy control arm. OS of the triplet therapy compared with the control arm will be evaluated as the primary endpoint; PFS, ORR, DOR, safety and tolerability are secondary endpoints. Enrollment is projected to complete in 2018.

### NF1 or Plexiform Neurofibromas (Selumetinib - MEK inhibitor)

NF1 is an autosomal disorder that can cause tumors to grow on nerves throughout the body. Most of these tumors are inoperable and the disease may lead to blindness, bone abnormalities, cancer, deafness, disfigurement, learning disabilities and excruciating and disabling pain. Neurofibromatosis, or NF, affects one in every 3,000 people, which is more than cystic fibrosis, Duchenne muscular dystrophy and Huntington's disease combined. Data on selumetinib in an ongoing Phase 2 trial of pediatric patients with NF1 was presented at the 2015 Children's Tumor Foundation NF Conference. In the study, 67% (16 of 24) of patients treated with selumetinib achieved a partial response (defined by a 20% reduction in tumor size) and all patients remain on study with a median of 18 cycles (1 cycle = 28 days, range, 6-43). Anecdotal improvement in function, and reduction in plexiform neurofibromas, or PN, related pain and disfigurement were also observed. The most frequent adverse events were acneiform rash, increased creatine kinase and gastrointestinal effects. Based on this data, a Phase 2 registration trial in pediatric patients is advancing and a Phase 2 registration trial in adult patients is planned.

### Thyroid Cancer (Selumetinib — MEK inhibitor)

Thyroid cancer has become the fastest-increasing cancer in the U.S. with estimates of approximately 64 thousand new cases and approximately 2,000 deaths in 2016. The rapid increase in incidence rates is thought to be largely due to increased and earlier detection. Thyroid cancer strikes relatively young patients, with 80% of newly diagnosed thyroid cancers occurring in patients younger than 65, and 3 out of 4 cases occurring in women.

Most thyroid cancers can be treated successfully with an overall five-year survival rate of 98%. However, even when therapy is successful, the disease remains burdensome and potentially lethal; patients must be tested routinely for the rest of their life, with as many as 35% of thyroid cancers recurring, one-third of which occur more than 10 years after initial treatment.

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

Therapies that target the RAS/RAF/MEK/ERK pathway and specific molecular abnormalities such as BRAF and NRAS mutations have a strong scientific underpinning for activity in this disease, with BRAF mutations in approximately 39%, and NRAS mutations in approximately 7% of thyroid cancers. In a pilot study published in the

February 14, 2013 edition of the New England Journal of Medicine, selumetinib has shown positive therapeutic activity in patients with RAI-refractory disease. Based on these results, AstraZeneca has initiated a Phase 3 trial comparing selumetinib combined with single dose adjuvant radioactive iodine to single dose adjuvant radioactive iodine in patients with differentiated thyroid cancer who have had a previous thyroidectomy.

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

LMNA-DCM is a rare, degenerative cardiovascular disease caused by genetic mutations in the lamin A/C gene. These mutations lead to loss of functional lamin proteins resulting in activation of the p38 MAPK pathway and leading

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to structural changes in cardiac tissue such as alterations to cardiomyocyte and A/V nodal cell nuclei, which leads to apoptosis and cardiac tissue remodeling, and sarcomere reorganization, which affects the heart's contractile function. While other MAPK pathways have been implicated in this disease, nonclinical data suggest that the p38 pathway is a key driver.

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

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

### Multiple Myeloma (MM), or Myeloma (Filanesib — KSP inhibitor)

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

MM is the second most common hematologic malignancy, and treatments garner significant sales due to the cost of treatment regimens and relatively long life expectancies of patients. Despite advances in therapy over the last decade, it remains an incurable, fatal disease in nearly all patients. It primarily afflicts the elderly with median age at diagnosis of 68 for men and 70 for women in the U.S. The annual incidence of newly-diagnosed MM patients is approximately 48 thousand in the seven major global markets (U.S., France, Germany, Italy, Spain, the U.K. and Japan) with approximately 30 thousand in the U.S for 2016. Survival has increased in recent years to approximately five years for patients able to undergo stem cell transplant in combination with high-dose targeted drug therapy. There were over 89 thousand patients with MM in the U.S. in 2012.

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

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



Pomalyst® (pomalidomide).

Despite progress in treating MM, current treatments do not cure the disease and are accompanied by high toxicity. Patients who have become refractory to both IMiD and proteasome inhibitor therapy have a particularly poor outcome, with a median overall survival of six to nine months. Therefore, opportunities remain for drug therapies with novel

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mechanisms of action and/or drugs that can treat refractory patients and can act synergistically with existing leading therapies.

Filanesib targets KSP, a novel mechanism of action in MM, distinct from the approved proteasome inhibitors and IMiDs. Preclinically, filanesib showed significant single-agent activity in disease models resistant to standard-of-care drugs. Furthermore, filanesib was active in vivo in preclinical MM models, and demonstrated synergy with proteasome inhibitors and IMiDs, suggesting the potential to combine filanesib with these standard-of-care therapies. In clinical trials, filanesib has shown single-agent activity in heavily pretreated patients; it is one of the few non-IMiD or proteasome inhibitor drugs to show single-agent activity in this patient population. Filanesib has also shown clinical activity in MM patients when combined with dexamethasone, Kyprolis or Velcade in disease refractory to Revlimid and Velcade. This clinical activity supports the potential for further development of filanesib in patients refractory to other therapies. Given Array's significant opportunity with the Phase 3 binimetinib and encorafenib programs across a number of cancer indications, Array currently has no plans to initiate additional trials with Filanesib.

### Research and Development for Proprietary Drug Discovery

Our primary research efforts during fiscal 2016 were focused on development of our oncology programs. Our research focuses on biologic functions, or pathways, that have been identified as important in the treatment of human disease based on human clinical, genetic or preclinical data. Within these pathways, we seek to create first-in-class drugs regulating important therapeutic targets to treat patients with serious or life-threatening conditions, primarily in cancer. In addition, we seek to identify opportunities to improve upon existing therapies or drugs in clinical development by creating clinical candidates with superior, or best-in-class, drug characteristics, including efficacy, tolerability or dosing to provide safer, more effective drugs. During fiscal years 2016, 2015 and 2014, we spent \$160.7 million, \$54.4 million and \$49.8 million, respectively, on research and development for proprietary drug discovery, which consist of costs associated with our proprietary drug programs for, among other things, salaries and benefits for scientific personnel, consulting and outsourced services, laboratory supplies, allocated facilities costs and depreciation.

### Drug Discovery and Development Timeline

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

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

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

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### Our Research and Development Technologies and Expertise

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

- Discovery Research — Biology, Pharmacology, Toxicology, Chemistry and Translational Medicine;
- Process Research, Development, Formulation and Manufacturing (through collaborations, including with Accuratus Lab Services, Inc.); and
- Clinical Development — Clinical Science, Clinical Operations, Drug Safety, Translational Medicine, Biostatistics and Data Management, Regulatory Affairs and Program Management.

### Discovery Research

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

### Process Research, Development, Formulation and Manufacturing

In June 2015, we entered into an Asset Purchase Agreement with Accuratus Lab Services, Inc., where Accuratus acquired Array's chemistry, manufacturing and controls activities. This group continues to provide expert support to Array's drug discovery and development programs. Their capabilities include formulations, physical form characterization and aspects of clinical supply manufacturing. Array also utilizes other service providers for its Process Research, Development, Formulation and Manufacturing needs.

### Clinical Development

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

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

### Competitors

The pharmaceutical and biotechnology industries are characterized by rapid and continuous technological innovation. We compete with companies worldwide that are engaged in research and discovery, licensing, development and

commercialization of drug candidates, including large pharmaceutical companies with internal discovery and development functions, biotech companies with competing products in the therapeutic areas we are targeting and contract research organizations, or CROs, that perform many of the functions we perform under our collaborations. In addition, we face competition from other pharmaceutical and biotechnology companies seeking to out-license

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

## Government Regulation

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

## Development and Approval

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

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

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

FDA.

Clinical Trials. Clinical trials involve the administration of the drug to healthy human volunteers or to patients under the supervision of a qualified investigator. The conduct of clinical trials is subject to extensive regulation, including compliance with the FDA's bioresearch monitoring regulations and Good Clinical Practice, or GCP, requirements, which establish standards for conducting, recording data from, and reporting the results of clinical trials, and are intended to assure that the data and reported results are credible and accurate, and that the rights, safety, and well-being of study participants are protected. Clinical trials must be conducted under protocols that detail the study

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objectives, parameters for monitoring safety, and the efficacy criteria, if any, to be evaluated. FDA reviews each protocol that is submitted to the IND. In addition, each clinical trial must be reviewed and approved by, and conducted under the auspices of, an Institutional Review Board, or IRB, for each institution conducting the clinical trial.

Companies sponsoring the clinical trials, investigators, and IRBs also must comply with regulations and guidelines for obtaining informed consent from the study subjects, complying with the protocol and investigational plan, adequately monitoring the clinical trial, and timely reporting adverse events. Foreign studies conducted under an IND must meet the same requirements that apply to studies being conducted in the U.S. Data from a foreign study not conducted under an IND may be submitted in support of an NDA if the study was conducted in accordance with GCP and, if necessary, the FDA is able to validate the data through an on-site inspection, if the agency deems such inspection necessary.

Human clinical trials typically are conducted in three sequential phases, although the phases may overlap with one another. Phase 1 clinical trials involve the initial introduction of a drug in humans on a small scale, and are generally intended to develop data regarding metabolism, pharmacologic action and safety, as well as helping determine the maximum tolerated dose. They also may provide early information regarding effectiveness. Phase 2 trials typically are controlled studies conducted in larger numbers of patients to gather initial effectiveness and safety data for specific indications. Phase 3 studies usually are intended to develop additional effectiveness and safety data, in order to allow evaluation of the drug's overall benefit/risk profile and provide a basis for labeling.

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

**NDA Submission and Review.** After completing clinical testing of an investigational drug, a sponsor must prepare and submit an NDA for review and approval by the FDA. When an NDA is submitted, the FDA conducts a preliminary review to determine whether the application is sufficiently complete to be accepted for filing. If it is not, the FDA may refuse to file the application and request additional information, in which case the application must be resubmitted with the supplemental information, and review of the application is delayed.

As part of its review, the FDA may refer an NDA to an advisory committee for evaluation and a recommendation as to whether the application should be approved. Although the FDA is not bound by the recommendation of an advisory committee, the agency usually has followed such recommendations. Under the Pediatric Research Equity Act, certain applications for approval must include an assessment, generally based on clinical study data, of the safety and effectiveness of the subject drug or biological product in relevant pediatric populations. The FDA may waive or defer the requirement for a pediatric assessment, either at the company's request or by the agency's initiative. The FDA may determine that a Risk Evaluation and Mitigation Strategy, or REMS, is necessary to ensure that the benefits of a new product outweigh its risks. A REMS may include various elements, ranging from a medication guide or patient package insert to limitations on who may prescribe or dispense the drug, depending on what the FDA considers necessary for the safe use of the drug.

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



Data from clinical trials are not always conclusive and the FDA may interpret data differently than the sponsor. Obtaining regulatory approval often takes a number of years, involves the expenditure of substantial resources, and depends on a number of factors, including the nature of the disease or condition the drug is intended to address, the availability of alternative treatments, and the risks and benefits demonstrated in clinical trials. Additionally, as a condition of approval, the FDA may impose restrictions that could affect the commercial success of a drug or require

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post-approval commitments, including the completion within a specified time period of additional clinical studies, which often are referred to as “Phase 4” or “post-marketing” studies.

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

### Post-Approval Regulation

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

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

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

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

### Hatch-Waxman Act

If drug candidates we develop are approved for commercial marketing under an NDA by the FDA, they would be subject to the provisions of the Drug Price Competition and Patent Term Restoration Act of 1984, known as the "Hatch-Waxman Act." The Hatch-Waxman Act establishes two abbreviated approval pathways for drug products that are in some way follow-on versions of already approved NDA products. In addition, the Hatch-Waxman Act provides companies with marketing exclusivity for new chemical entities, allows companies to apply to extend for up to five additional years of patent term lost during product development and FDA review of an NDA, and provides for a period of marketing exclusivity for products that are not new chemical entities if the NDA (or supplemental NDA) contains data from new clinical investigations that were necessary for approval. It also provides a means for approving generic versions of a drug product once the marketing exclusivity period has ended and all relevant patents have expired or have been successfully challenged and defeated. The laws of other key markets likewise create both opportunities for exclusivity periods and patent protections and the possibility of generic competition once such periods or protections have either expired or have been successfully challenged by generic entrants.



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### Orphan Drug Exclusivity

The Orphan Drug Act established incentives for the development of drugs intended to treat rare diseases or conditions, which generally are diseases or conditions affecting less than 200 thousand individuals in the U.S. at the time of the request for orphan designation. If a sponsor demonstrates that a drug is intended to treat a rare disease or condition and meets other applicable requirements, the FDA grants orphan drug designation to the product for that use. The FDA has granted orphan drug designation for the following products for the identified intended uses: (i) filanesib for use in treating MM in May 2014; (ii) ARRY-797 for use in treating LMNA-DCM in May 2014; (iii) binimetinib for use in treating LGSOC in July 2014; (iv) binimetinib for use in treating stage IIB-IV melanoma in November 2013; and (v) binimetinib and encorafenib for treatment of stage IIB-IV melanoma that is positive for BRAF mutation in November 2013. The benefits of orphan drug designation include tax credits for clinical testing expenses and exemption from user fees. A drug that is approved for the orphan drug designated use typically is granted seven years of orphan drug exclusivity. During that period, the FDA generally may not approve any other application for the same product for the same indication, although there are exceptions, most notably when the later product is shown to be clinically superior to the product with exclusivity.

### Pediatric Exclusivity

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

### Fast Track and Breakthrough Therapy Designations

Certain of our product candidates may qualify for Fast Track designation. The Fast Track program is intended to expedite or facilitate the process for reviewing new drugs that demonstrate the potential to address unmet medical needs involving serious or life-threatening diseases or conditions. If a drug receives Fast Track designation, the FDA may consider reviewing sections of the NDA on a rolling basis, rather than requiring the entire application to be submitted to begin the review. Products with Fast Track designation also may be eligible for more frequent meetings and correspondence with the FDA about the product's development. Certain of our product candidates may benefit from other FDA programs intended to expedite development and review, such as priority review (i.e., a six-month review goal, rather than the standard 10-month timeframe) and accelerated approval (i.e., approval on the basis of a surrogate endpoint that is reasonably likely to predict clinical benefit).

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

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

Companion Diagnostics

Diagnostic tests are regulated as medical devices under the FDC Act. Unless an exemption applies, diagnostic tests require marketing clearance or approval from the FDA prior to commercial distribution. The two primary types of FDA marketing authorization applicable to a medical device are premarket notification, also called 510(k)

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clearance, and premarket approval, or PMA approval. The diagnostic test being developed by Novartis for NRAS-mutant melanoma is subject to the PMA approval process.

PMA applications must be supported by valid scientific evidence, which typically requires extensive data, including technical, preclinical, clinical and manufacturing data, to demonstrate to the FDA's satisfaction the safety and effectiveness of the device. For diagnostic tests, a PMA application typically includes data regarding analytical and clinical validation studies. As part of its review of the PMA, the FDA will conduct a pre-approval inspection of the manufacturing facility or facilities to ensure compliance with the Quality System Regulation, or QSR, which requires manufacturers to follow design, testing, control, documentation, and other quality assurance procedures. FDA is required by statute to complete its review of an initial PMA application within six to ten months, although the process typically takes longer, and may require several years to complete. If FDA's evaluations of both the PMA application and the manufacturing facilities are favorable, the FDA will either issue an approval letter or an approvable letter. The latter usually contains a number of conditions that must be met in order to secure final approval of the PMA. If the FDA's evaluation of the PMA or manufacturing facilities is not favorable, the FDA will deny approval of the PMA or issue a not approvable letter. A not approvable letter will outline the deficiencies in the application and, where practical, will identify what is necessary to make the PMA approvable. The FDA may also determine that additional clinical trials are necessary, in which case the PMA approval may be delayed for several months or years while the trials are conducted and the data are submitted in an amendment to the PMA. Once granted, PMA approval may be withdrawn by the FDA if compliance with post approval requirements, conditions of approval, or other regulatory standards is not maintained or problems are identified following initial marketing.

We anticipate that meetings with the FDA regarding our product candidate binimetinib for use in NRAS-mutant melanoma and its associated companion diagnostic product candidate will include representatives from FDA's Center for Drug Evaluation and Research and Center for Devices and Radiological Health to ensure that the NDA and PMA submissions are coordinated so that FDA can conduct parallel review of both submissions. In 2014, the FDA issued its final guidance document addressing the development and approval process for in vitro companion diagnostic devices. According to the guidance, for novel therapeutic products such as our product candidate binimetinib, the companion diagnostic device generally should be approved or cleared contemporaneously with the drug candidate, although the guidance allows for certain exceptions. We believe our program for the development of binimetinib and its NRAS companion diagnostic is consistent with this guidance.

## Biological Samples

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

## Privacy

Most health care providers, including research institutions from which we or our partners obtain patient information, are subject to privacy and security regulations promulgated under the Health Insurance Portability and Accountability Act of 1996, or HIPAA, as amended by the Health Information Technology for Economic and Clinical Health Act, or HITECH. Our clinical research efforts are not directly regulated by HIPAA. However, depending on the facts and circumstances, we could face substantial criminal penalties if we knowingly obtain, use or disclose individually identifiable health information maintained by a HIPAA-covered entity in a manner that is not authorized or permitted by HIPAA. In addition, we and our partners may be directly subject to certain data protection laws and regulations (i.e., laws and regulations that address privacy and data security).

In the U.S., numerous federal and state laws and regulations that govern the collection, use, disclosure, and protection of health-related and other personal information could apply to our operations or the operations of our partners, including state data breach notification laws, state health information privacy laws, state genetic privacy laws, and federal and state consumer protection laws (e.g., Section 5 of the FTC Act). International data protection laws including the European Union, or EU, Directive 95/46/EC on the protection of individuals with regard to the processing of personal data and on the free movement of such data (the EU Data Protection Directive) may apply to some or all of the clinical data obtained outside of the U.S. The EU Data Protection Directive, as implemented into national laws by the EU Member States, imposes strict obligations and restrictions on the ability to collect, analyze and transfer

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personal data, including health data from clinical trials and adverse event reporting. The EU Data Protection Directive prohibits the transfer of personal data to countries outside of the European Economic Area, or EEA, such as the U.S., which are not considered by the European Commission to provide an adequate level of data protection. Switzerland has adopted similar restrictions. Although there are legal mechanisms to allow for the transfer of personal data from the EEA and Switzerland to the U.S., a recent decision of the European Court of Justice that invalidated the safe harbor framework has increased uncertainty around compliance with EU privacy law requirements. As a result of the decision, it will no longer be possible to rely on safe harbor certification as a legal basis for the transfer of personal data from the EU to entities in the U.S. In addition, data protection authorities from the different EU Member States may interpret the EU Data Protection Directive and national laws differently, and guidance on implementation and compliance practices are often updated or otherwise revised, which adds to the complexity of processing personal data in the EU. In February 2016, the European Commission announced an agreement with the U.S. Department of Commerce, or DOC, to replace the invalidated Safe Harbor framework with a new EU-U.S. "Privacy Shield." On July 12, 2016, the European Commission adopted a decision on the adequacy of the protection provided by the Privacy Shield. The Privacy Shield is intended to address the requirements set out by the European Court of Justice in its recent ruling invalidating safe harbor by imposing more stringent obligations on companies, providing stronger monitoring and enforcement by the DOC and FTC, and making commitments on the part of public authorities regarding access to information. U.S. companies are able to certify to the DOC their compliance with the privacy principles of the Privacy Shield since August 1, 2016. In December 2015, a proposal for an EU General Data Protection Regulation, intended to replace the current EU Data Protection Directive, was agreed between the European Parliament, the Council of the European Union and the European Commission. The EU General Data Protection Regulation, which was officially adopted in April 2016 and will be applicable in May 2018, will introduce new data protection requirements in the EU, as well as substantial fines for breaches of the data protection rules. The EU General Data Protection Regulation will increase our responsibility and liability in relation to any personal data that we process, and we may be required to put in place additional mechanisms to ensure compliance with the new EU data protection rules.

Failure to comply with U.S. and international data protection laws and regulations could result in government enforcement actions (which could include civil and/or criminal penalties), private litigation and/or adverse publicity and could negatively affect our operating results and business. Moreover, patients about whom we or our partners obtain information, as well as the providers who share this information with us, may have contractual rights that limit our ability to use and disclose the information. Claims that we have violated individuals' privacy rights or breached our contractual obligations, even if we are not found liable, could be expensive and time-consuming to defend and could result in adverse publicity that could harm our business.

### United States Healthcare Reform

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

Additional provisions of the Healthcare Reform Act may negatively affect our revenues from products that we or our partners commercialize in the future. For example, as part of the Healthcare Reform Act's provisions closing a



coverage gap that currently exists in the Medicare Part D prescription drug program, manufacturers of branded prescription drugs are required to provide a 50% discount on branded prescription drugs dispensed to beneficiaries within this coverage gap. Medicare Part D is a prescription drug benefit available to all Medicare beneficiaries. It is a voluntary benefit that is implemented through private plans under contractual arrangements with the federal government. Similar to pharmaceutical coverage through private health insurance, Part D plans negotiate discounts from drug manufacturers and pass on some of those savings to Medicare beneficiaries. The Healthcare Reform Act also makes changes to the Medicaid Drug Rebate Program, discussed in more detail below, including increasing

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the minimum rebate from 15.1% to 23.1% of the average manufacturer price for most innovator products. On February 1, 2016, the Centers for Medicare & Medicaid Services, or CMS, the federal agency that administers the Medicare and Medicaid programs, issued final regulations to implement the changes to the Medicaid Drug Rebate Program under the Health Reform Act. These regulations became effective on April 1, 2016.

Many of the Healthcare Reform Act's most significant reforms did not take effect until 2014 or thereafter, and the resulting new programs and requirements will continue to evolve in the next few years. Some states have chosen not to expand their Medicaid programs by raising the income limit to 133% of the federal poverty level. In part because not all states have expanded their Medicaid programs, it is unclear whether there will be more uninsured patients than anticipated when Congress passed the Healthcare Reform Act. For each state that has opted not to expand its Medicaid program, there will be fewer insured patients overall. An increase in the proportion of uninsured patients who are prescribed products resulting from our proprietary or partnered programs could impact the future sales of any products that are commercialized in the future and our business and results of operations.

### Pharmaceutical Pricing and Reimbursement

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

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

The Healthcare Reform Act expanded the 340B program to include additional entity types: certain free-standing cancer hospitals, critical access hospitals, rural referral centers and sole community hospitals, each as defined by the Healthcare Reform Act. The Healthcare Reform Act exempts drugs designated under section 526 of the FDC Act as "orphan drugs" from the ceiling price requirements for these newly-eligible entities.

The Healthcare Reform Act also obligates HRSA to create regulations and processes to improve the integrity of the 340B program and to update the agreement that manufacturers must sign to participate in the 340B program. HRSA issued a proposed regulation in 2015 regarding the calculation of the 340B ceiling price and the imposition of civil monetary penalties on manufacturers that knowingly and intentionally overcharge covered entities. HRSA has indicated it plans to issue the final regulation regarding these topics in 2016. HRSA in 2015 also released proposed omnibus guidance that addresses many aspects of the 340B program. HRSA has indicated it plans to release the omnibus guidance in final form in 2016. HRSA recently issued a proposed regulation regarding an administrative dispute resolution process for the 340B program. Any final regulations and guidance could affect our obligations under the 340B program in ways we cannot anticipate. In addition, legislation may be introduced that, if passed, would further expand the 340B program to additional covered entities or otherwise expand the 340B program. Federal law also requires that for a drug manufacturer's products to be eligible for payment with federal funds under the Medicaid and Medicare Part B programs and to be purchased by certain federal agencies and grantees, the

manufacturer must participate in the Department of Veterans Affairs Federal Supply Schedule, or FSS, pricing program, established by Section 603 of the Veterans Health Care Act of 1992. Manufacturers that participate in the FSS pricing program must list their covered (innovator) drugs on an FSS contract and charge no more than Federal Ceiling Price, or FCP, to the Department of Veterans Affairs, Department of Defense, Public Health Service, and Coast Guard when those agencies purchase from the FSS contract or a depot contract. FCP is calculated

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based on non-federal average manufacturer price data, which manufacturers must submit quarterly and annually. In addition, if our products become available in the retail pharmacy setting when they are commercialized, we would be required to provide rebates to the Department of Defense for prescriptions dispensed to Tricare beneficiaries from Tricare retail network pharmacies under the Tricare Retail Refund Program. These programs obligate the manufacturer to pay rebates and offer its drugs at certain prices to certain federal purchasers. To the extent we choose to participate in these government healthcare programs, these and other requirements may affect our ability to profitably sell any product candidate for which we obtain marketing approval.

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

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

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

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

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

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



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### Interactions with Healthcare Providers

Healthcare providers, physicians and others often play a primary role in the recommendation and prescription of pharmaceutical products. Manufacturers of branded prescription drugs are subject to broadly applicable fraud and abuse and other healthcare laws and regulations that may constrain the business or financial arrangements and relationships through which manufacturers market, sell and distribute the products for which they obtain marketing approval. Some of the laws and regulations that may affect our ability to operate are described below.

### Anti-Kickback Laws

The federal Anti-Kickback Statute prohibits, among other things, persons from knowingly and willfully offering, paying, soliciting, or receiving remuneration, directly or indirectly, in cash or in kind, to induce or reward the purchasing, leasing, ordering or arranging for the purchase, lease, or order of any health care item or service reimbursable under federal healthcare programs such as Medicare and Medicaid. The term “remuneration” has been broadly interpreted to include anything of value, and the government can establish a violation of the Anti-Kickback Statute without proving that a person or entity had actual knowledge of the law or specific intent to violate it. This statute has been interpreted to apply to arrangements between pharmaceutical manufacturers on the one hand and prescribers, purchasers and formulary managers on the other. There are a number of statutory exceptions and regulatory safe harbors protecting certain common activities from prosecution or other regulatory sanctions, however, the exceptions and safe harbors are drawn narrowly. Failure to meet all of the requirements of a particular statutory exception or regulatory safe harbor does not make the conduct per se illegal under the Anti-Kickback Statute, but the legality of the arrangement will be evaluated on a case-by-case basis based on the totality of the facts and circumstances. A number of states also have anti-kickback laws that establish similar prohibitions that may apply to items or services reimbursed by government programs, as well as any third-party payors, including commercial payors.

### False Claims Act

The federal civil False Claims Act prohibits, among other things, individuals or entities from knowingly presenting, or causing to be presented false or fraudulent claims for payment of government funds and knowingly making, or causing to be made or used, a false record or statement to get a false claim paid. Certain marketing practices may implicate the federal civil False Claims Act, including promotion of pharmaceutical products for unapproved uses, providing free product to customers with the expectation that the customer would bill federal programs for the product, or inflating prices report to private price publication services used to set drug reimbursement rates under federal healthcare programs. In addition, the Healthcare Reform Act amended the Social Security Act to provide that a claim including items or services resulting from a violation of the Anti-Kickback Statute constitutes a false or fraudulent claim for purposes of the False Claims Act. Actions under the False Claims Act may be brought by the government or as a qui tam action by a private individual in the name of the government. False Claims Act liability is potentially significant in the healthcare industry because the statute provides for treble damages and mandatory penalties of \$5,500 to \$11,000 per false claim or statement, which will increase to a range of \$10,781 to \$21,563 for violations after November 2, 2015, and assessed after August 1, 2016. Because of the potential for large monetary exposure, healthcare companies often resolve allegations without admissions of liability for significant and sometimes material amounts to avoid the uncertainty of treble damages and per claim penalties that may awarded in litigation proceedings. They may be required, however, to enter into corporate integrity agreements with the government, which may impose substantial costs on companies to ensure compliance. Pharmaceutical companies also are subject to other federal false claim laws, including laws that impose criminal penalties, including imprisonment and criminal fines, for making or presenting a false or fictitious or fraudulent claim to the federal government.

### Health Insurance Portability and Accountability Act

The federal Health Insurance Portability and Accountability Act of 1996, or HIPAA, created federal criminal statutes that prohibit among other actions, knowingly and willfully executing, or attempting to execute, a scheme to defraud any healthcare benefit program, including private third-party payors, knowingly and willfully embezzling or stealing from a healthcare benefit program, willfully obstructing a criminal investigation of a healthcare offense, and knowingly and willfully falsifying, concealing or covering up a material fact or making any materially false, fictitious or fraudulent statement in connection with the delivery of or payment for healthcare benefits, items or services.

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### Physician Payment Sunshine Act

The federal Physician Payment Sunshine Act requires manufacturers of drugs, devices, biologics and medical supplies for which payment is available under Medicare, Medicaid or the Children's Health Insurance Program to report annually (with certain exceptions) to the Centers for Medicare & Medicaid Services, or CMS, information related to payments or other "transfers of value" made to physicians and teaching hospitals, and requires applicable manufacturers and group purchasing organizations to report annually to CMS ownership and investment interests held by physicians and their immediate family members and payments or other "transfers of value" to such physician owners.

### Analogous State and Foreign Laws

The majority of states also have statutes or regulations similar to the federal laws described above, including state anti-kickback and false claims laws. These state laws apply to items and services reimbursed under Medicaid and other state programs, or, in several states, apply regardless of the payor. In addition, a number of states require pharmaceutical companies to report expenses relating to the marketing and promotion of pharmaceutical products and to report gifts and payments to individual physicians in the states. Other states restrict when pharmaceutical companies may provide meals to prescribers or engage in other marketing related activities, or require pharmaceutical companies to implement compliance programs or marketing codes of conduct. Outside the U.S., we are subject to similar regulations in those countries where we market and sell products.

### Foreign Corrupt Practices Act

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

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

### Other Regulatory Requirements

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

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

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

### Intellectual Property



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

Our patent strategy is designed to protect inventions, technology and improvements to inventions that are commercially important to our business in countries where we believe it is commercially reasonable and advantageous

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to do so. We have numerous U.S. patents and patent applications related to our clinical-stage programs as well as numerous patent applications and counterpart patent filings which relate to our preclinical programs and proprietary technologies. These patents and patent applications include claims directed to compositions of matter, pharmaceutical compositions, methods of treatment, and methods of making these compositions for multiple applications.

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

We have issued U.S. patents covering binimetinib, selumetinib and related molecules and their equivalent counterparts issued or pending in dozens of countries. These patents include composition of matter, method of treatment and synthetic method claims, which will expire on various dates in 2023 and 2024. We have also filed patent applications directed to methods of manufacturing, and to intermediates useful for manufacturing, binimetinib and selumetinib, which will expire on various dates in 2026 and 2027.

We own or have license rights under issued patents covering encorafenib and related molecules, as well and their equivalent counterparts in dozens of countries. These patents include composition of matter, method of treatment and combination therapy claims, which will expire on various dates in 2031. We believe that patent term extension under the Hatch-Waxman Act could be available to extend our patent exclusivity for encorafenib to at least 2036 in the United States. In Europe, we believe that patent term extension under a supplementary protection certificate could be available for an additional five years to at least 2036. Additionally, other patent applications are directed to methods of using encorafenib, combination therapies and formulations, which, if issued, have expiration dates between 2032 and 2034, excluding any patent term adjustment.

We have issued patents covering ARRY-797 and related molecules and their equivalent counterparts in dozens of countries. These patents include composition of matter and method of treatment claims, which will expire on various dates in 2023. We believe that patent term extension under the Hatch-Waxman Act could be available to extend our patent exclusivity for ARRY-797 to at least 2028 in the United States. In Europe, we believe that patent term extension under a supplementary protection certificate could be available for an additional five years to at least 2028.

Additionally, AstraZeneca has filed other patent applications directed to selumetinib, including patent applications of which we are not aware. Patent term extension under the Hatch-Waxman Act in the United States and in Europe under a supplementary protection certificate could be available for each of our partners to extend patent exclusivity for these clinical candidates. AstraZeneca is entitled to decide which patent covering its product candidate will be subject to such efforts and whether to file other patent applications directed at its product candidate. Our partners do not share information with us about the status or results of their respective efforts to seek additional patent protection. Therefore, information we report regarding the patent status of these partnered drug development programs is limited to our efforts to obtain patent protection.

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

U.S. patents issued from applications filed on or after June 8, 1995, have a term of 20 years from the application filing date or earlier claimed priority. All of our patent applications were filed after June 8, 1995. Patents in most other countries have a term of 20 years from the date of filing of the patent application. Because the time from filing patent applications to issuance of patents is often several years, this process may result in a period of patent protection significantly shorter than 20 years, which may adversely affect our ability to exclude competitors from our markets.

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Currently, none of our patents covering drugs currently under development will expire prior to 2023. Our success will depend in part upon our ability to develop proprietary products and technologies and to obtain patent coverage for these products and technologies. We intend to continue to file patent applications covering newly-developed products and technologies. We may not, however, commercialize the technology underlying any or all of our existing or future patent applications.

Patents provide some degree of protection for our proprietary technology. However, the pursuit and assertion of patent rights, particularly in areas like pharmaceuticals and biotechnology, involve complex legal and factual determinations and, therefore, are characterized by some uncertainty. In addition, the laws governing patentability and the scope of patent coverage continue to evolve, particularly in biotechnology. As a result, patents may not be issued from any of our patent applications or from applications licensed to us. The scope of any of our patents, if issued, may not be sufficiently broad to offer meaningful protection. In addition, our patents or patents licensed to us, if they are issued, may be successfully challenged, invalidated, circumvented or rendered unenforceable so that our patent rights might not create an effective competitive barrier. Moreover, the laws of some foreign countries may not protect our proprietary rights to the same extent as do the laws of the U.S. Any patents issued to us or our strategic partners may not provide a legal basis for establishing an exclusive market for our products or provide us with any competitive advantages. Moreover, the patents held by others may adversely affect our ability to do business or to continue to use our technologies freely. In view of these factors, our intellectual property positions bear some degree of uncertainty.

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

## Employees

As of June 30, 2016, we had 177 full-time employees. None of our employees are covered by collective bargaining agreements and we consider our employee relations to be good.

## Our Corporate Information

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

## Available Information

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

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

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ITEM 1A. RISK FACTORS

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

Risks Related to Our Business

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

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

We have historically funded our operations from up-front fees and license and milestone payments received under our drug collaborations and license agreements, the sale of equity securities, and debt provided by convertible debt and other credit facilities. Management believes that our cash, cash equivalents and marketable securities as of June 30, 2016 will enable us to continue to fund operations in the normal course of business for at least the next 12 months. Until we can generate sufficient levels of cash from current operations, which we do not expect to achieve in the foreseeable future, and because sufficient funds may not be available to us when needed from existing collaborations, we expect that we will be required to continue to fund our operations in part through the sale of debt or equity securities and through licensing select programs that include up-front and/or milestone payments. Our ability to obtain additional funding when needed, changes to our operating plans, our existing and anticipated working capital needs, the acceleration or modification of our planned research and development activities or expenditures, increased expenses or other events may affect our need for additional capital in the future and may require us to seek additional funding sooner than anticipated.

Our ability to successfully raise sufficient funds through the sale of debt or equity securities or from debt financing from lenders when needed is subject to many risks and uncertainties and, even if we are successful, future equity issuances would result in dilution to our existing stockholders. We also may not successfully consummate new collaboration or license agreements that provide for up-front fees or milestone payments, or we may not earn milestone payments under such agreements when anticipated, or at all. Our ability to realize milestone or royalty payments under existing agreements and to enter into new arrangements that generate additional revenue through up-front fees and milestone or royalty payments is subject to a number of risks, many of which are beyond our control. For example, in August 2013, we reduced our workforce by approximately 20% as part of our efforts to fund our discovery organization with strategic collaborations and focus internally on progressing our hematology and oncology programs to later stage development. If we are unable to generate enough revenue from our existing or new collaborations when needed or secure additional sources of funding, it may be necessary to significantly reduce our current rate of spending through further reductions in staff and delaying, scaling back or stopping certain research and development programs, including more costly Phase 2 and Phase 3 clinical trials on our wholly-owned or co-development programs as these programs progress into later stage development. These events may result in an inability to maintain a level of liquidity necessary to continue operating our business and the loss of all or a part of the

investment of our stockholders in our common stock and may result in a reduction in the value of our 3.00% Convertible Senior Notes due 2020. In addition, if we are unable to maintain certain levels of cash and marketable securities, our obligations under our loan agreement with Comerica Bank may be accelerated.

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

We have incurred significant operating and net losses and negative cash flows from operations since our inception. As of June 30, 2016, we had an accumulated deficit of \$801.4 million. We expect to incur additional losses and

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

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

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

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

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

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

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

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

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partners may develop and commercialize, either alone or with others, products and services that are similar to, or competitive with, the products that are the subject of the collaboration with us;

partners may not commit sufficient resources to the testing, marketing, distribution or other development of our drug candidates;

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

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

We expect to continue to spend significantly on our proprietary drug candidates.

We are committing significant resources to create our own proprietary drug candidates and to build a commercial-stage biopharmaceutical company, in particular following our acquisition of binimetinib and encorafenib in March 2015. We have built our clinical and discovery programs through spending \$885.4 million from our inception through June 30, 2016, including our investment in binimetinib while co-developed with Novartis which we subsequently reacquired pursuant to the Binimetinib Agreement. In fiscal 2016, we spent \$160.7 million in research and development for proprietary programs, compared to \$54.4 million and \$49.8 million for fiscal years 2015 and 2014, respectively. We expect to continue to spend significant funds on further development of our proprietary programs. Our proprietary programs are in development and are unproven. Thus, despite significant spending on the development of our proprietary programs, the drugs may not be approved for marketing and sale or, even if approved, may not result in a commercially successful drug or provide the expected return on our investment. Our ability to continue to fund our planned spending on our proprietary drug programs and in building our commercial capabilities depends to a large degree on up-front fees, milestone payments and other revenue we receive as a result of our partnered programs and on our ability to raise additional funds through sales of our equity securities or issuance of debt.

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

Our liquidity depends in part on our ability to enter into license agreements that include up-front milestone and/or royalty payments. We have 12 ongoing partner-funded clinical programs, and we plan to continue initiatives to partner select clinical and preclinical stage programs to obtain additional capital or fund further development. We may not be successful, however, in entering into additional out-licensing agreements with favorable terms, including up-front, milestone, royalty and/or license payments and the retention of certain valuable commercialization or co-promotion rights, as a result of factors, many of which are outside of our control. These factors include:

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

If we are unable to enter into out-licensing agreements and realize milestone, license and/or up-front fees when anticipated, it may adversely affect our liquidity and we may be forced to curtail or delay development of all or some of our proprietary programs, which in turn may harm our business and the value of our stock and our 3% Convertible Senior Notes due 2020. In addition, insufficient funds may require us to relinquish greater rights to product candidates

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at an earlier stage of development or on less favorable terms to us or holders of our securities than we would otherwise choose to obtain funding for our operations.

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

An aspect of our business strategy is to out-license drug candidates for further development, co-development and/or commercialization to obtain the highest possible value while also evaluating earlier out-licensing opportunities to maximize our risk-adjusted return on our investment in proprietary research. Because the costs and risk of failure of bringing a drug to market are high, the value of out-licensing a drug candidate generally increases as it successfully progresses through clinical trials.

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

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

In June 2013, we issued \$132.3 million aggregate principal amount of 3.00% Convertible Senior Notes due 2020, or the 2020 Notes, to investors pursuant to an effective shelf registration statement filed with the SEC. Interest is payable on the 2020 Notes semi-annually and the 2020 Notes mature on June 1, 2020, unless redeemed or converted prior to that date. In addition, if an event considered a Fundamental Change under the 2020 Notes occurs, holders of the 2020 Notes may require us to purchase for cash all or any portion of their 2020 Notes at a purchase price equal to 100% of the principal amount of the 2020 Notes to be purchased plus accrued and unpaid interest, if any, to, but excluding, the Fundamental Change purchase date. As of June 30, 2016, all \$132.3 million principal amount of the 2020 Notes remained outstanding. We also have a term loan outstanding with Comerica Bank under which \$14.6 million is outstanding as of June 30, 2016.

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

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

The drug discovery and development process is highly uncertain and we have not developed, and may never develop, a drug candidate that ultimately leads to a commercially viable drug. Many of our drug candidates are in the early

stages of development. Although our most advanced drug candidates are in Phase 3 studies, we do not have any drugs approved for commercial sale. Before a drug product is approved by the FDA for commercial marketing, it is tested for safety and effectiveness in clinical trials that can take up to six years or longer. Promising results in preclinical development or early clinical trials may not be predictive of results obtained in later clinical trials. A number of pharmaceutical companies have experienced significant setbacks in advanced clinical trials, even after obtaining promising results in earlier preclinical studies and clinical trials. At any time, we, the FDA, an IRB or other regulatory body may temporarily or permanently stop the trial, for a variety of reasons, principally for safety concerns. We or

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our partners may experience numerous unforeseen events during, or as a result of, the clinical development process that could delay or prevent our drug candidates from being approved, including:

- failure to achieve clinical trial results that indicate a candidate is effective in treating a specified condition or illness in humans;
- presence of harmful side effects;
- determination by the FDA that the submitted data do not satisfy the criteria for approval;
- lack of commercial viability of the drug;
- failure to acquire, on reasonable terms, intellectual property rights necessary for commercialization;
- existence of alternative therapeutics that are more effective; and
- if a drug candidate requires a companion diagnostic test for approval, failure to obtain approval for the companion diagnostic test.

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

Our capital requirements could significantly increase as internal spending on our proprietary programs increases.

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

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

A relatively small number of partners account for a significant portion of our revenue. Novartis, Loxo and Cascadian Therapeutics accounted for 81%, 9% and 0% and 16%, 18% and 42%, respectively, of our total revenue for fiscal 2016 and 2015, respectively. We expect that revenue from a limited number of partners, including Novartis, Pierre Fabre, and Loxo will account for a large portion of our revenue in future quarters. In general, our partners may terminate their contracts with us upon 60 to 180 days' notice for a number of reasons or no reason, which would

eliminate future milestone or royalty revenue under the collaboration. In addition, certain of our partners do not

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generate revenue or sufficient revenue to cover their operating expenses and their ability to continue to fund milestone and other payments under our agreements with them depends on their ability to raise funds through the issuance of debt or equity securities or from other sources. To the extent such funding is not available to these partners when needed, they may not be able to fund their obligations to us and we would therefore not realize revenue when anticipated or at all under our agreement with them.

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

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

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

We have 177 full-time employees as of June 30, 2016, and our future success depends upon our ability to attract, retain and motivate highly-skilled scientists and management. Our ability to achieve our business strategies, including progressing drug candidates through later stage development or commercialization, attracting new partners and retaining, renewing and expanding existing collaborations, depends on our ability to hire and retain high caliber scientists and other qualified experts, particularly in clinical development and commercialization. We compete with pharmaceutical and biotechnology companies, contract research companies and academic and research institutions to recruit personnel and face significant competition for qualified personnel, particularly clinical development personnel. We may incur greater costs than anticipated, or may not be successful, in attracting new scientists or management or in retaining or motivating our existing personnel. In addition, we periodically review our existing workforce in light of the current and anticipated needs of our business and may make strategic changes to its size and scope in an effort to use our capital more efficiently.

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



Our liquidity and results of operations is dependent on the full and timely collection of the Company's receivables from Novartis.

As a result of the asset transfer agreements with Novartis, which include the reimbursement by Novartis of significant costs incurred by the Company , we anticipate recording significant accounts receivable from Novartis on a monthly basis. If the Company is unable to collect its accounts receivable from Novartis in full and on a timely basis, there could be a negative impact on our liquidity and results of operations.

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

We have limited clinical development and commercialization experience.

One of our business strategies is to develop select drug candidates through later stage clinical trials before out-licensing them to a pharmaceutical or biotechnology partner for further clinical development and commercialization and to commercialize select drug candidates ourselves. We have limited experience conducting clinical trials and obtaining regulatory approvals and we may not be successful in some or all of these activities. We expect to spend significant amounts to recruit and retain high quality personnel with clinical development experience. We have no experience as a company in the sales, marketing and distribution of pharmaceutical products and do not currently have a sales and marketing organization. Developing commercialization capabilities would be expensive and time-consuming and could delay any product launch, and we may never be able to develop this capacity. To the extent we are unable to or determine not to develop these resources internally, we may be forced to rely on third-party clinical research or marketing organizations, which could subject us to costs and to delays that are outside our control. If we are unable to establish adequate capabilities independently or with others, we may be unable to generate product revenues for certain candidates.

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

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

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

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

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

Delays in the commencement or completion of clinical testing of our products or products of our partners, including any Phase 3 or pivotal trials for binimetinib and/or encorafenib, selumetinib (partnered with AstraZeneca) and danoprevir (partnered with Intermune/Roche Holding AG), could significantly affect our product development costs and our ability to generate revenue. We do not know whether the FDA will agree with the trial designs for ongoing

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and planned clinical trials or whether planned clinical trials will begin on time or be completed on schedule, if at all. The commencement and completion of clinical trials can be delayed for a number of reasons, including delays related to the ability of Array or our partners to do the following:

- provide sufficient safety, efficacy or other data regarding a drug candidate to support the commencement of a Phase 3 or other clinical trial;
- reach agreement on acceptable terms with prospective contract manufacturers, CROs and trial sites, the terms of which can be subject to extensive negotiation and may vary significantly among different third parties;
- select CROs, trial sites and, where necessary, contract manufacturers that do not encounter any regulatory compliance problems;
- manufacture sufficient quantities of a product candidate for use in clinical trials;
- obtain IRB approval to conduct a clinical trial at a prospective site;
- recruit and enroll patients to participate in clinical trials, which can be impacted by many factors outside our or our partners' control, including competition from other clinical trial programs for the same or similar indications;
- retain patients who have initiated a clinical trial but may be prone to withdraw due to side effects from the therapy, lack of efficacy or personal issues; and
- develop and validate a companion diagnostic test for a drug candidate that requires one.

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

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

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

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

The development and commercialization of drug candidates with our partners and through our own internal drug discovery efforts are subject to regulation. Pharmaceutical products require lengthy and costly testing in animals and humans and regulatory approval by governmental agencies prior to commercialization. It takes several years to complete testing and failure can occur at any stage of the testing. Results attained in preclinical testing and early clinical trials for any of our drug candidates may not be indicative of results that are obtained in later studies and significant setbacks in advanced clinical trials may arise, even after promising results in earlier studies. Clinical trials may not demonstrate sufficient safety and efficacy to obtain the requisite regulatory approvals or result in marketable products. Furthermore, data obtained from preclinical and clinical studies are susceptible to varying interpretations that may delay, limit or prevent regulatory approval. For example, following our submission of an NDA for binimetinib in NRAS-mutant melanoma, we are planning for an ODAC meeting and preparing for an Application Orientation meeting with the FDA, which may result in requests for additional information from the FDA. We may also experience other delays in obtaining regulatory review or approval or receive a determination from the FDA not to approve binimetinib in this indication. For a drug candidate that requires a companion diagnostic test, we may not

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to obtain approval for the drug if the FDA does not approve or clear its corresponding companion diagnostic test. In addition, the administration of any drug candidate we develop may produce undesirable side effects or safety issues that could result in the interruption, delay or suspension of clinical trials, or the failure to obtain FDA or other regulatory approval for any or all targeted indications. Based on results at any stage of testing, we or our partners may decide to repeat or redesign a trial or discontinue development of a drug candidate.

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

Delays or failures in validating, developing and obtaining regulatory approval for the NRAS-mutant melanoma companion diagnostic test could harm the prospects for approval and commercialization of binimetinib for NRAS-mutant melanoma.

Novartis is developing an NRAS melanoma companion diagnostic test for use with our product candidate binimetinib for NRAS-mutant melanoma. Companion diagnostics typically are subject to regulation by the FDA and comparable foreign regulatory authorities as medical devices and require separate regulatory approval prior to commercialization. Novartis may encounter difficulties in developing and obtaining approval for the NRAS melanoma companion diagnostic test, including, but not limited to, issues related to selectivity/specificity, analytical validation, reproducibility, or clinical validation. Any delay or failure by Novartis to develop or obtain regulatory approval of the companion diagnostic test could delay or prevent approval of our product candidate binimetinib. Even if Novartis obtains approval of the companion diagnostic test and transfers the test to a vendor of our designation, that vendor may encounter production difficulties that could constrain the supply of the companion diagnostic. The vendor and/or we also may have difficulties gaining acceptance of the use of the companion diagnostic in the clinical community. If the companion diagnostic fails to gain market acceptance, it could have an adverse effect on our ability to derive revenues from sales of our product candidate binimetinib, if approved, for use in NRAS-mutant melanoma. In addition, the vendor we designate could decide to discontinue selling or manufacturing the companion diagnostic or our relationship with such vendor may otherwise terminate. We may be delayed in identifying another vendor, or we may not be able to enter into arrangements with another vendor to maintain supply of the companion diagnostic, which could adversely affect our commercialization of binimetinib for NRAS-mutant melanoma, if it is approved for that use.

Even if our drug candidates obtain regulatory approval, we and our partners will be subject to ongoing government regulation, including federal and state fraud and abuse laws, such as anti-kickback and false claims laws.

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

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

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

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

the federal Anti-Kickback Statute, which prohibits, among other things, knowingly and willfully soliciting, receiving, offering or paying remuneration, directly or indirectly, in cash or in kind, to induce or reward either the referral of an individual for, or the purchase, order or recommendation of, items or services for which payment may be made, in whole or in part, under federal healthcare programs, such as the Medicare and Medicaid programs. The term "remuneration" has been broadly interpreted to include anything of value, and the government can establish a violation of the Anti-Kickback Statute without proving that a person or entity had actual knowledge of the law or specific intent to violate it;

the federal civil False Claims Act, which prohibits, among other things, individuals or entities from knowingly presenting, or causing to be presented, false or fraudulent claims for payment of government funds or knowingly making, using or causing to be made or used, a false record or statement to get a false claim paid. There are also criminal penalties, including imprisonment and criminal fines, for making or presenting a false or fictitious or fraudulent claim to the federal government;

the federal Health Insurance Portability and Accountability Act of 1996 (HIPAA), which created federal criminal laws that prohibit, among other actions, knowingly and willfully executing, or attempting to execute, a scheme to defraud any healthcare benefit program including private third-party payors;

the federal Physician Payment Sunshine Act, which requires manufacturers of drugs, devices, biologics and medical supplies for which payment is available under Medicare, Medicaid or the Children's Health Insurance Program to report annually (with certain exceptions) to the Centers for Medicare & Medicaid Services, or CMS, information related to payments or other "transfers of value" made to physicians and teaching hospitals, and requires applicable manufacturers and group purchasing organizations to report annually to CMS ownership and investment interests held by physicians and their immediate family members and payments or other "transfers of value" to such physician owners;

the federal Foreign Corrupt Practices Act and similar anti-bribery laws in other jurisdictions, which generally prohibit companies and their intermediaries from making improper payments to government officials and/or other persons for the purpose of obtaining or retaining business; and

analogous state and foreign law equivalents of each of the above federal laws, such as anti-kickback and false claims laws some of which apply to items or services reimbursed by any third-party payor, including commercial insurers; state laws that require pharmaceutical manufacturers to comply with the industry's voluntary compliance guidelines and the applicable compliance guidance promulgated by the federal government or otherwise restrict payments that may be made to healthcare providers and other potential referral sources; and state laws that require pharmaceutical manufacturers to report information related to payments and other transfers of value to physicians and other healthcare providers or marketing expenditures, many of which differ from each other in significant ways and may not have the same effect, thus complicating compliance efforts.

Additional information about these laws is provided above under the heading "Interactions with Healthcare Providers."

The complexity of U.S. federal and state laws governing our business continues to increase, and additional governmental resources are being committed to enforce these laws and to prosecute companies and individuals who are believed to be violating them. Violations of these laws can result in costly litigation, and significant criminal, civil



and administrative sanctions, including fines and/or imprisonment, monetary penalties, damages, exclusion from participation in federal health care programs, and burdensome reporting and compliance obligations. Even if we are not found to be in violation of these laws, responding to lawsuits, government investigations, and enforcement actions

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would be expensive and time-consuming, and could have a material adverse effect on our reputation, business, financial condition, operations, and growth prospects.

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

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

- demonstration of clinical effectiveness and safety;
- potential advantages of our drug candidates over alternative treatments;
- ability to offer our drug candidates for sale at competitive prices;
- availability of adequate third-party reimbursement; and
- effectiveness of marketing and distribution methods for the products.

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

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

We rely on third parties to manufacture our drug candidates. In June 2015, we sold our chemical, manufacturing and controls activities and no longer have manufacturing facilities that can produce quantities of API and finished drug product for large-scale clinical trials. We therefore contract with third-party manufacturers to produce larger quantities of API for us. Some of these manufacturers are located outside the U.S. and may obtain ingredients from suppliers in other foreign countries before shipping the bulk API to Array in the U.S. Cross-border shipments of pharmaceutical ingredients and products are subject to regulation in the U.S. by the FDA and in foreign jurisdictions, including, in the EU, under laws adopted by the EU Member States implementing the Community Code on Medicinal Products Directive 2001/83, as amended. These foreign regulations generally impose various requirements on us and/or our third-party manufacturers. In some cases, for example in the EU, there are cGMP requirements that exceed the requirements of the FDA. In other cases, we must provide confirmation that we are registered with the FDA and have either an IND application or an approved NDA. Third-party manufacturers may lack capacity to meet our needs, go out of business or fail to perform. In addition, supplies of raw materials needed for manufacturing or formulation of clinical supplies may not be available or may be in short supply.

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

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

- availability or contamination of raw materials and components used in the manufacturing process, particularly those for which we have no other source or supplier;

- capacity of our facilities or those of our contract manufacturers;
- facility contamination by microorganisms or viruses or cross contamination;
- compliance with regulatory requirements, including Form 483 notices and Warning Letters;

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• changes in forecasts of future demand;  
• timing and actual number of production runs;  
• production success rates and bulk drug yields; and  
• timing and outcome of product quality testing.

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

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

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

We develop, test and manufacture drug candidates that are generally intended for use in humans. Our drug discovery and development activities, including clinical trials we or our partners conduct, that result in the future manufacture and sale of drugs by us or our partners expose us to the risk of liability for personal injury or death to persons using these drug candidates. We may be required to pay substantial damages or incur legal costs in connection with defending any of these product liability claims, or we may not receive revenue from expected royalty or milestone payments if the commercialization of a drug is limited or ceases as a result of such claims. We have product liability insurance that contains customary exclusions and provides coverage up to \$10 million per occurrence and in the aggregate, which we believe is customary in our industry for our current operations. However, our product liability insurance does not cover every type of product liability claim that we may face or loss we may incur and may not adequately compensate us for the entire amount of covered claims or losses or for the harm to our business reputation. We may be unable to acquire additional or maintain our current insurance policies at acceptable costs or at all.

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

We rely primarily on third parties to manufacture API and drug product and to conduct our clinical trials. As a result, we have had and will continue to have less control over the conduct of our clinical trials, the timing and completion of the trials, the required reporting of adverse events and the management of data developed through the trial than would be the case if we were relying entirely upon our own staff. Communicating with outside parties can also be

challenging, potentially leading to mistakes, as well as difficulties in coordinating activities. Outside parties may have staffing difficulties, may undergo changes in priorities or may become financially distressed, adversely affecting their willingness or ability to conduct our trials. We may experience unexpected cost increases that are beyond our control. Problems with the timeliness or quality of the work of a contract manufacturing or contract research organization may lead us to seek to terminate the relationship and use an alternative service provider. However, making this

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change may be costly and may delay our trials and contractual restrictions may make such a change difficult or impossible. Additionally, it may be impossible to find a replacement organization that can conduct our trials in an acceptable manner and at an acceptable cost.

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

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

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

Our drug discovery activities, including the analysis and synthesis of chemical compounds, involve the controlled use of chemicals, including flammable, combustible, toxic and radioactive materials that are potentially hazardous. Our use, storage, handling and disposal of these materials is subject to federal, state and local laws and regulations, including the Resource Conservation and Recovery Act, the Occupational Safety and Health Act and local fire codes and regulations promulgated by the Department of Transportation, the DEA, the Department of Energy, the Colorado Department of Public Health and Environment and the Colorado Department of Human Services, Alcohol and Drug Abuse Division. We may incur significant costs to comply with these laws and regulations in the future. In addition, we cannot completely eliminate the risk of accidental contamination or injury from these materials, which could result in material unanticipated expenses, such as substantial fines or penalties, remediation costs or damages, or the loss of a permit or other authorization to operate or engage in our business. Those expenses could exceed our net worth and limit our ability to raise additional capital.

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

Our operations depend on the continued use of our highly specialized laboratories and equipment in Boulder, Colorado. Catastrophic events, including fires or explosions, could damage our laboratories, equipment, scientific data, work in progress or inventories of chemical compounds and may materially interrupt our business. We employ safety precautions in our laboratory activities in order to reduce the likelihood of the occurrence of these catastrophic

events; however, we cannot eliminate the chance that such an event will occur. The availability of laboratory space in these locations is limited and rebuilding our facilities could be time consuming and result in substantial delays in fulfilling our agreements with our partners. We maintain business interruption insurance in the amount of \$15 million to cover continuing expenses and lost revenue caused by such occurrences. However, this insurance does not compensate us for the loss of opportunity and potential harm to customer relations that our inability to meet our partners' needs in a timely manner could create.

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### Risks Related to Our Drug Discovery Activities

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

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

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

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

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

We have entered into several research and development collaborations under which we provide drug discovery and development services to identify drug candidates for our partners. We also seek to identify and develop drug candidates for our proprietary programs. It is uncertain whether we will be able to provide drug discovery more efficiently or create high quality drug candidates that are suitable for our or our partners' purposes, which may result in delayed or lost revenue, loss of partners or failure to expand our existing relationships. Our ability to create viable drug candidates for ourselves and our partners depends on many factors, including the implementation of appropriate technologies, the development of effective new research tools, the complexity of the chemistry and biology, the lack of predictability in the scientific process and the performance and decision-making capabilities of our scientists. Our information-driven technology platform, which we believe allows our scientists to make better decisions, may not enable our scientists to make correct decisions or develop viable drug candidates.

### Risks Related to Our Industry

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

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

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



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

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

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

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

Many of the Healthcare Reform Act's most significant reforms did not take effect until 2014 or thereafter, and the resulting new programs and requirements will continue to evolve in the next few years. On February 1, 2016, the Centers for Medicare & Medicaid Services, or CMS, the federal agency that administers the Medicare and Medicaid programs, issued final regulations to implement the changes to the Medicaid Drug Rebate Program under the Health Reform Act. These regulations became effective April 1, 2016. Some states have chosen not to expand their Medicaid programs by raising the income limit to 133% of the federal poverty level. In part because not all states have expanded their Medicaid programs, it is unclear whether there will be more uninsured patients than anticipated when Congress passed the Healthcare Reform Act. For each state that has opted not to expand its Medicaid program, there will be fewer insured patients overall. An increase in the proportion of uninsured patients who are prescribed products resulting from our proprietary or partnered programs could impact future sales of any products that are commercialized in the future and our business and results of operations.

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

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

products we are able to commercialize, and so may limit our commercial opportunity and reduce any associated revenue and profits.

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

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

Other legislation affecting government expenditures more broadly have the potential to affect negatively our product revenues and prospects for continued profitability. For example, beginning April 1, 2013, Medicare payments for all items and services, including drugs and biologicals, have been reduced by 2% under the sequestration (i.e., automatic spending reductions) required by the Budget Control Act of 2011, Pub. L. No. 112-25, or BCA, as amended by the American Taxpayer Relief Act of 2012, Pub. L. 112-240, or ATRA. The BCA requires sequestration for most federal programs, excluding Medicaid, Social Security, and certain other programs, because Congress failed to enact legislation by January 15, 2012, to reduce federal deficits by \$1.2 trillion over ten years. Subsequent legislation extended the 2% reduction, on average, to 2025. These sequestration cuts could adversely impact payment for products that we or our partners are able to commercialize, which could negatively impact our revenue.

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

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

In addition, the market for our drug candidates will depend significantly on access to third-party payors' drug formularies, or lists of medications for which third-party payors provide coverage and reimbursement. Industry competition to be included in such formularies can result in downward pricing pressures on pharmaceutical companies. As such, we cannot provide assurances that our products will be placed on third-party payors' formularies. To the extent that our products are listed on third-party payors' formularies, we or our partners may not be able to negotiate favorable reimbursement rates for our products. If we, or our partners, fail to obtain an adequate level of reimbursement for our products by third-party payors, sales of the drugs would be adversely affected or there may be no commercially viable market for the products.

Payors also are increasingly considering new metrics as the basis for reimbursement rates, such as average sales price, or ASP, average manufacturer price, or AMP, and Actual Acquisition Cost. Certain states have begun to survey acquisition cost data for the purpose of setting Medicaid reimbursement rates. CMS surveys and publishes National Average Drug Acquisition Cost, or NADAC, files, which reflect retail community pharmacy invoice costs, on a weekly basis. It may be difficult to project the impact of these evolving reimbursement mechanics on the willingness of payors to cover candidate products that we or our partners are able to commercialize. As discussed above, to the extent that we or our partners participate in government pricing programs, recent legislative changes to the 340B drug pricing program, the Medicaid Drug Rebate Program, and the Medicare Part D prescription drug benefit also could impact our revenues. We anticipate that a significant portion of revenue from sales of drugs that we or our partners are able to commercialize may be obtained through government payors, including Medicaid, and any failure to qualify for reimbursement for those products under those programs would have a material adverse effect on our sales revenues and royalties.



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

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

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

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

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

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

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

first creator of inventions covered by pending patent applications, or that we were the first to file patent applications for any such inventions.

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

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

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

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

The pharmaceutical and biotechnology industries are characterized by rapid and continuous technological innovation. We compete with many companies worldwide that are engaged in the research and discovery, licensing, development and commercialization of drug candidates. Some of our competitors have a broader range of capabilities and have greater access to financial, technical, scientific, regulatory, business development, recruiting and other resources than we do. Their access to greater resources may allow them to develop processes or products that are more effective, safer or less costly, or gain greater market acceptance, than products we develop or for which they obtain FDA approval more rapidly than we do. We anticipate that we will face increased competition in the future as new companies enter the market and advanced technologies become available.

If we fail to comply with data protection laws and regulations, we could be subject to government enforcement actions (which could include civil or criminal penalties), private litigation and/or adverse publicity, which could negatively affect our operating results and business.

Most health care providers, including research institutions from which we or our partners obtain patient information, are subject to privacy and security regulations promulgated under HIPAA, as amended by HITECH. Our clinical research efforts are not directly regulated by HIPAA. However, depending on the facts and circumstances, we could face substantial criminal penalties if we knowingly obtain, use or disclose individually identifiable health information maintained by a HIPAA-covered entity in a manner that is not authorized or permitted by HIPAA. In addition, we and our partners may be directly subject to certain data protection laws and regulations (i.e., laws and regulations that address privacy and data security). In the U.S., numerous federal and state laws and regulations that govern the collection, use, disclosure, and protection of health-related and other personal information could apply to our operations or the operations of our partners, including state data breach notification laws, state health information privacy laws, state genetic privacy laws, and federal and state consumer protection laws (e.g., Section 5 of the FTC Act). International data protection laws and regulations may also apply to some or all of the clinical data obtained



outside of the U.S. For example, the EU Data Protection Directive, as implemented into national laws by the EU Member States, imposes strict obligations and restrictions on the ability to collect, analyze and transfer personal data, including health data from clinical trials and adverse event reporting. The EU Data Protection Directive prohibits the transfer of personal data to countries outside of the European Economic Area, or EEA, such as the U.S., which are not considered by the European Commission to provide an adequate level of data protection. Switzerland has adopted similar restrictions. Although there are legal mechanisms to allow for the transfer of personal data from the EEA and Switzerland to the U.S., a recent decision of the European Court of Justice that invalidated the safe harbor framework has increased uncertainty around compliance with EU privacy law requirements. As a result of the dec

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ision, it will no longer be possible to rely on safe harbor certification as a legal basis for the transfer of personal data from the EU to entities in the U.S. In addition, data protection authorities from the different EU Member States may interpret the EU Data Protection Directive and national laws differently, and guidance on implementation and compliance practices are often updated or otherwise revised, which adds to the complexity of processing personal data in the EU. In February 2016, the European Commission announced an agreement with the U.S. Department of Commerce, or DOC, to replace the invalidated Safe Harbor framework with a new EU-U.S. "Privacy Shield." On July 12, 2016, the European Commission adopted a decision on the adequacy of the protection provided by the Privacy Shield. The Privacy Shield is intended to address the requirements set out by the European Court of Justice in its recent ruling by imposing more stringent obligations on companies, providing stronger monitoring and enforcement by the DOC and FTC, and making commitments on the part of public authorities regarding access to information. U.S. companies are able to certify to the DOC their compliance with the privacy principles of the Privacy Shield since August 1, 2016. In December 2015, a proposal for an EU General Data Protection Regulation, intended to replace the current EU Data Protection Directive, was agreed between the European Parliament, the Council of the European Union and the European Commission. The EU General Data Protection Regulation, which was officially adopted in April 2016 and will be applicable in May 2018, will introduce new data protection requirements in the EU, as well as substantial fines for breaches of the data protection rules. The EU General Data Protection Regulation will increase our responsibility and liability in relation to any personal data that we process, and we may be required to put in place additional mechanisms to ensure compliance with the new EU data protection rules.

Failure to comply with U.S. and international data protection laws and regulations could result in government enforcement actions (which could include civil and/or criminal penalties), private litigation and/or adverse publicity and could negatively affect our operating results and business. Moreover, patients about whom we or our partners obtain information, as well as the providers who share this information with us, may have contractual rights that limit our ability to use and disclose the information. Claims that we have violated individuals' privacy rights or breached our contractual obligations, even if we are not found liable, could be expensive and time-consuming to defend and could result in adverse publicity that could harm our business.

Significant disruptions of information technology systems or security breaches could adversely affect our business.

We are dependent upon information technology systems, infrastructure and data to operate our business. In the ordinary course of business, we collect, store and transmit confidential information (including but not limited to intellectual property, proprietary business information and personal information). It is critical that we do so in a secure manner to maintain the confidentiality and integrity of such confidential information. We also have outsourced elements of our operations to third parties, and as a result we manage a number of third party vendors who may or could have access to our confidential information. The size and complexity of our information technology systems, and those of third party vendors with whom we contract, and the large amounts of confidential information stored on those systems, make such systems potentially vulnerable to service interruptions or to security breaches from inadvertent or intentional actions by our employees, third party vendors, and/or business partners, or from cyber-attacks by malicious third parties (including the deployment of harmful malware, denial-of-service attacks, social engineering and other means to affect service reliability and threaten the confidentiality, integrity and availability of information). Significant disruptions of our information technology systems or security breaches could adversely affect our business operations and/or result in the loss, misappropriation, and/or unauthorized access, use or disclosure of, or the prevention of access to, confidential information (including intellectual property, proprietary business information and personal information), and could result in financial, legal, business and reputational harm to us. Any such event that leads to unauthorized access, use or disclosure of personal information, including personal information regarding our patients or employees, could compel us to comply with federal and/or state breach notification laws and foreign law equivalents, subject us to mandatory corrective action, and otherwise subject us to liability under laws and regulations that protect the privacy and security of personal information, which could result in significant legal and financial exposure and reputational damages that could potentially have an adverse effect on our

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

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

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

The Healthcare Reform Act expanded the Public Health Service's 340B drug pricing program to include additional entity types: certain free-standing cancer hospitals, critical access hospitals, rural referral centers and sole community hospitals, each as defined by the Healthcare Reform Act. The Healthcare Reform Act exempts drugs designated under section 526 of the FDC Act as "orphan drugs" from the ceiling price requirements for these newly-eligible entities.

The Healthcare Reform Act also obligates HRSA to create regulations and processes to improve the integrity of the 340B program and to update the agreement that manufacturers must sign to participate in the 340B program. HRSA issued a proposed regulation in 2015 regarding the calculation of the 340B ceiling price and the imposition of civil monetary penalties on manufacturers that knowingly and intentionally overcharge covered entities. HRSA has indicated it plans to issue the final regulation regarding these topics in 2016. HRSA in 2015 also released proposed omnibus guidance that addresses many aspects of the 340B program. HRSA has indicated it plans to release the omnibus guidance in final form in 2016. HRSA recently issued a proposed regulation regarding an administrative dispute resolution process for the 340B program. Any final regulations and guidance could affect our obligations under the 340B program in ways we cannot anticipate. In addition, legislation may be introduced that, if passed, would further expand the 340B program to additional covered entities or otherwise expand the 340B program.

Federal law also requires that for a drug manufacturer's products to be eligible for payment with federal funds under the Medicaid and Medicare Part B programs and to be purchased by certain federal agencies and grantees, the manufacturer must participate in the Department of Veterans Affairs Federal Supply Schedule, or FSS, pricing program, established by Section 603 of the Veterans Health Care Act of 1992. Manufacturers that participate in the FSS pricing program must list their covered (innovator) drugs on an FSS contract and charge no more than Federal Ceiling Price, or FCP, to the Department of Veterans Affairs, Department of Defense, Public Health Service, and Coast Guard when those agencies purchase from the FSS contract or a depot contract. FCP is calculated based on non-federal average manufacturer price data, which manufacturers must submit quarterly and annually. In addition, if our products become available in the retail pharmacy setting when they are commercialized, we would be required to provide rebates to the Department of Defense for prescriptions dispensed to Tricare beneficiaries from Tricare retail network pharmacies under the Tricare Retail Refund Program. These programs obligate the manufacturer to pay

rebates and offer its drugs at certain prices to certain federal purchasers. To the extent we choose to participate in these government healthcare programs, these and other requirements may affect our ability to profitably sell any product candidate for which we obtain marketing approval.

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

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

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

### Risks Related to Our Stock and Our 2020 Notes

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

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

Due to the possibility of fluctuations in our revenue and expenses, we believe that quarter-to-quarter comparisons of our operating results are not a good indication of our future performance. Our operating results in some quarters may not meet the expectations of stock market analysts and investors. If we do not meet analysts' and/or investors' expectations, our stock price and the value of our 2020 Notes could decline.

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

The market price of our common stock has historically experienced and may continue to experience volatility. The high and low sales prices for our common stock were \$7.11 and \$2.50, respectively, during fiscal 2016; \$8.59 and \$2.98, respectively, during fiscal 2015; and \$7.10 and \$3.39, respectively, during fiscal 2014. Our quarterly operating

results, the success or failure of our internal drug discovery efforts, decisions to delay, modify or cease one or more of our development programs, negative data or adverse events reported on programs in clinical trials we or our partners are conducting, uncertainties about our ability to continue to fund our operating plan, changes in general conditions in the economy or the financial markets and other developments affecting our partners, our competitors or us could cause the market price of our common stock to fluctuate substantially. This volatility coupled with market declines in our industry over the past several years have affected the market prices of securities issued by many companies, often for reasons unrelated to their operating performance, and may adversely affect the price of our

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common stock and the value of our 2020 Notes. In the past, securities class action litigation has often been instituted following periods of volatility in the market price of a company's securities. A securities class action suit against us could result in potential liabilities, substantial costs and the diversion of management's attention and resources, regardless of whether we win or lose.

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

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

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

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

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

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

In addition, under certain circumstances, convertible debt instruments (such as the 2020 Notes) that may be settled entirely or partly in cash are currently accounted for utilizing the treasury stock method, the effect of which is that the shares issuable upon conversion of the notes are not included in the calculation of diluted earnings per share except to the extent that the conversion value of the notes exceeds their principal amount. Under the treasury stock method, for diluted earnings per share purposes, the transaction is accounted for as if the number of shares of common stock that would be necessary to settle such excess, if we elected to settle such excess in shares, are issued. We cannot be sure that the accounting standards in the future will continue to permit the use of the treasury stock method. If we are



unable to use the treasury stock method in accounting for the shares issuable upon conversion of the 2020 Notes, then our diluted earnings per share would be adversely affected.

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

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

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

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

### ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

### ITEM 2. PROPERTIES

We are headquartered in Boulder, Colorado, where we currently lease 131 thousand square feet of office and laboratory space. Our Boulder lease expires on March 31, 2025 and includes an option to extend the lease for up to two terms of five years each. We also lease 7 thousand square feet of office space in Morrisville, North Carolina under a lease that expires in October 2017 and 7 thousand square feet of office space in Cambridge, Massachusetts under leases that expire in January 2017.

### ITEM 3. LEGAL PROCEEDINGS

We may be involved, from time to time, in various claims and legal proceedings arising in the ordinary course of our business. We are not currently a party to any such claims or proceedings that, if decided adversely to us, would either

individually or in the aggregate have a material adverse effect on our business, financial condition or results of operations.

ITEM 4. MINE SAFETY DISCLOSURES

None.

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## PART II

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

## Market Information, Holders of Record and Dividends

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

Fiscal Year Ended June 30, 2016	High	Low
First Quarter	\$7.11	\$4.56
Second Quarter	\$5.48	\$3.83
Third Quarter	\$4.14	\$2.50
Fourth Quarter	\$3.85	\$2.74

Fiscal Year Ended June 30, 2015	High	Low
First Quarter	\$4.81	\$3.51
Second Quarter	\$5.04	\$2.98
Third Quarter	\$8.59	\$4.19
Fourth Quarter	\$8.04	\$6.16

As of August 12, 2016, there were approximately 54 holders of record of our common stock. This does not include the number of persons whose stock is in nominee or "street name" accounts through brokers.

We have never declared or paid any cash dividends on our common stock and we do not intend to pay any cash dividends in the foreseeable future. In addition, the terms of our Loan and Security Agreement with Comerica Bank and the terms of the 3.00% Convertible Senior Notes Due 2020 restrict our ability to pay cash dividends to our stockholders. We currently intend to retain all available funds and any future earnings for use in the operations of our business and to fund future growth.

## Stock Performance Graph

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

The following graph compares the cumulative total stockholder return for our common stock, the NASDAQ Global Markets' Composite (U.S. companies) Index, and the NASDAQ Biotechnology Index for the five-year period ended June 30, 2016. The graph assumes that \$100 was invested on June 30, 2011 in the common stock of Array, the NASDAQ Composite Index and the NASDAQ Biotechnology Index. It also assumes that all dividends were reinvested.

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



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	6/30/2011	6/30/2012	6/30/2013	6/30/2014	6/30/2015	6/30/2016
Array BioPharma Inc.	100.00	154.91	202.68	203.57	321.88	158.93
NASDAQ Composite	100.00	105.82	122.71	158.94	179.80	174.60
NASDAQ Biotechnology	100.00	122.07	122.07	242.28	348.44	243.19

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

The following discussion of our financial condition and results of operations should be read in conjunction with our accompanying audited financial statements and related notes to those statements included elsewhere in this Annual Report on Form 10-K.

Our fiscal year ends on June 30. When we refer to a fiscal year or quarter, we are referring to the year in which the fiscal year ends and the quarters during that fiscal year. Therefore, fiscal 2016 refers to the fiscal year ended June 30, 2016.

Overview

Array is a biopharmaceutical company focused on the discovery, development and commercialization of targeted small molecule drugs to treat patients afflicted with cancer. Five registration studies are currently advancing related to three cancer drugs. These programs include three cancer drugs, binimetinib (MEK162), encorafenib (LGX818) and selumetinib (partnered with AstraZeneca).



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Our most advanced clinical stage drugs include:

Drug Candidate	Target/Indication	Partner	Clinical Status
Binimetinib	MEK inhibitor for cancer	Pierre Fabre	Phase 3
Encorafenib	BRAF inhibitor for cancer	Pierre Fabre	Phase 3
Filanesib	Kinesin spindle protein, or KSP, inhibitor for multiple myeloma		Phase 2
ARRY-797	p38 inhibitor for Lamin A/C-related dilated cardiomyopathy		Phase 2
Selumetinib	MEK inhibitor for cancer	AstraZeneca, PLC	Phase 3
ASC08/Danoprevir	Protease inhibitor for Hepatitis C virus	Roche Holding AG	Phase 3
ASLAN001/Varlitinib	Pan-HER2 inhibitor for gastric or breast cancer	ASLAN Pharmaceuticals Pte Ltd.	Phase 2
Ipatasertib/GDC-0068	AKT inhibitor for cancer	Genentech, Inc.	Phase 2
Motolimod/VTX-2337	Toll-like receptor for cancer	VentiRx Pharmaceuticals, Inc.	Phase 2
Prexasertib/LY2606368	Chk-1 inhibitor for cancer	Eli Lilly and Company	Phase 2
LOXO-101	PanTrk inhibitor for cancer	Loxo Oncology, Inc.	Phase 2
ONT-380/ARRY-380	HER2 inhibitor for breast cancer	Cascadian Therapeutics	Phase 2
GDC-0575	Chk-1 inhibitor for cancer	Genentech, Inc.	Phase 1b
GDC-0994	ERK inhibitor for cancer	Genentech, Inc.	Phase 1
ARRY-382	CSF1R inhibitor for cancer		Phase 1

#### Binimetinib and Encorafenib

In March 2015, Array regained development and commercialization rights to binimetinib under the Termination and Asset Transfer Agreement with Novartis Pharma AG and Novartis Pharmaceutical Ltd. and the Asset Transfer Agreement with Novartis Pharma AG (collectively, the “Novartis Agreements”). Along with global ownership of both assets, Array received an up-front payment of \$85.0 million from Novartis. We believe these programs present significant opportunity to Array in the area of oncology.

We have also entered into a Development and Commercialization Agreement with Pierre Fabre Medicament SAS, (“Pierre Fabre” or “PFM”), which became effective in December 2015 (the “PF Agreement”), pursuant to which we granted Pierre Fabre rights to commercialize binimetinib and encorafenib in all countries except for the United States, Canada, Japan, Korea and Israel, where Array will retain its ownership rights. The PF Agreement satisfied our commitment to secure a development and commercialization partner for the European market for both encorafenib and binimetinib acceptable to European Commission regulatory agencies made in connection with the Novartis Agreements.

All clinical trials involving binimetinib and encorafenib that were active or planned when the Novartis Agreement became effective in March 2015, including the NEMO and COLUMBUS trials and other then active Novartis sponsored and investigator sponsored clinical studies, continue to be reimbursed pursuant to the terms of the Novartis Agreements. Further worldwide development activities of binimetinib and encorafenib will be governed by a Global Development Plan (GDP) with Pierre Fabre. Pierre Fabre and Array will jointly fund worldwide development costs under the GDP, with Array covering 60% and Pierre Fabre covering 40% of such costs. The initial GDP includes multiple trials, including the BEACON CRC trial, and Pierre Fabre and Array have agreed to commit at least €100 million in combined funds for these studies in colorectal cancer (CRC) and melanoma.

Pierre Fabre is responsible for seeking regulatory and pricing and reimbursement approvals in the European Economic Area and its other licensed territories. We have also agreed to enter into a clinical and commercial supply agreement with Pierre Fabre pursuant to which we will supply or procure the supply of clinical and commercial supplies of drug substance and drug product for Pierre Fabre, the costs of which will be borne by Pierre Fabre. We

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have also agreed to cooperate with Pierre Fabre to ensure the supply of companion diagnostics for use with binimetinib and encorafenib in indications where needed.

Binimetinib and encorafenib are currently being studied in Phase 3 trials in advanced cancer patients, including the COLUMBUS trial studying encorafenib in combination with binimetinib in patients with BRAF-mutant melanoma and the recently initiated BEACON CRC trial (Binimetinib, Encorafenib And Cetuximab Combined to treat BRAF-mutant Colorectal Cancer) to study encorafenib in combination with binimetinib and cetuximab in patients with BRAF V600E-mutant colorectal cancer (BRAFM CRC).

### COLUMBUS

COLUMBUS is a global Phase 3 study that compares binimetinib and encorafenib versus vemurafenib being conducted in BRAF-mutant melanoma patients. Array expects top-line results from the COLUMBUS (Part 1) study in the third quarter of 2016 and a projected regulatory filing of binimetinib and encorafenib in 2017. COLUMBUS (Part 2) was designed to assess the contribution of binimetinib to the combination of binimetinib and encorafenib studied in COLUMBUS (Part 1). In October 2015, COLUMBUS (Part 2) achieved its target patient enrollment.

Activating BRAF mutations are present in approximately 50% of patients with metastatic melanoma. In two separate Phase 1/2 trials in this patient population, binimetinib plus encorafenib demonstrated encouraging clinical activity and an attractive tolerability profile, including low incidence of pyrexia, and little to no incidence of rash or photosensitivity.

### BEACON

In June 2016, Array, Pierre Fabre and Merck KGaA, Darmstadt, Germany, jointly initiated the BEACON CRC trial. BEACON CRC is a randomized, open-label, global Phase 3 clinical trial designed to assess the safety and efficacy of binimetinib, encorafenib and Erbitux® (cetuximab), monoclonal antibody, in comparison to Erbitux and irinotecan-based therapy in patients with BRAFM CRC who have previously received first- or second-line systemic therapy. The study includes a safety lead-in with approximately 30 patients.

With appropriate results from the lead-in, approximately 615 patients are expected to be randomized 1:1:1 to receive triplet therapy (binimetinib, encorafenib and Erbitux), doublet therapy (encorafenib and Erbitux) or the control arm (irinotecan-based therapy and Erbitux).

The primary endpoint of the trial is overall survival (OS) of the triplet therapy compared to the control arm. The secondary endpoints address efficacy of the doublet therapy compared to the control arm, and the triplet therapy compared to the doublet therapy. Other secondary endpoints include PFS, ORR, duration of response, safety and tolerability. Health related quality of life data will also be assessed. The trial will be conducted at over 250 investigational sites in North America, South America, Europe and the Asia Pacific region. Patient enrollment is expected to be completed in 2018.

Array will act as the global sponsor of the study. Pursuant to the PF Agreement with Pierre Fabre, Pierre Fabre has elected to co-fund 40% of the cost of the BEACON CRC trial. Merck KGaA, Darmstadt, Germany, is the owner of Erbitux outside the United States and Canada, and will supply Erbitux to all trial sites outside the United States and Canada as part of the collaboration. If successful, results would support regulatory submissions for all three parties.

The BEACON trial was initiated following completion of a Phase 2 study of the combination of encorafenib and cetuximab, with or without alpelisib, a selective PI3K alpha inhibitor, in patients with advanced BRAF-mutant CRC. Array announced updated results from this trial in June 2016. Data from this study showed that median OS for these

patients may exceed one year, which is more than double several historical published benchmarks for this population.

In the Phase 2 study, 102 patients with BRAF-mutant CRC who had progressed after one or more prior therapies were randomized to receive the doublet regimen of encorafenib and cetuximab (ENCO 200 mg PO QD and CETUX per label; n=50) or the triplet regimen of encorafenib, cetuximab and alpelisib (ENCO, CETUX and ALP 300 mg PO QD; n=52). The Phase 2 data for these treatment regimens showed promising clinical activity in patients:

♣Median OS was 12.4 and 13.1 months for the doublet and alpelisib-containing triplet regimens, respectively.

♣Median PFS was 4.2 and 5.4 months for the doublet and alpelisib-containing triplet regimens, respectively.

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ORR was 22 percent and 27 percent for the doublet and alpelisib-containing triplet regimens, respectively. Grade 3 or 4 adverse events occurred in greater than 10 percent of patients and included anemia, hyperglycemia and increased lipase.

Several historical published median PFS and median OS results after first-line treatment range from 1.8 to 2.5 months and four to six months, respectively, and published ORR from various studies in this population range between six percent to eight percent. The study showed that alpelisib added toxicity with only marginal additional activity, therefore the BEACON CRC trial utilizes binimetinib, a MEK inhibitor, in the triplet arm.

Colorectal cancer is the third most common cancer among men and women in the United States, with more than 134,000 new cases and nearly 50,000 deaths from the disease projected in 2016. In the United States, BRAF mutations occur in 8 to 15 percent of patients with colorectal cancer and represent a poor prognosis for these patients.

## NEMO

NEMO was a Phase 3 study that compared binimetinib versus dacarbazine in unresectable or metastatic NRAS-mutant melanoma patients. In June 2016, Array announced the submission of a New Drug Application (NDA) for binimetinib in patients with advanced NRAS-mutant melanoma to the U.S. Food and Drug Administration (FDA). We are planning for an Oncologic Drugs Advisory Committee (ODAC) meeting as part of the regulatory process. Array is also currently preparing for an Application Orientation Meeting (AOM) with the FDA in September 2016, which we expect will include a discussion of the NDA package including clinical risk / benefit.

Activating NRAS mutations are present in approximately 20% of patients with metastatic melanoma, and have been a poor prognostic indicator for these patients. Treatment options for this population remain limited beyond immunotherapy (PD-1, CTLA4), therefore, if approved, binimetinib could represent an important additional therapy for these patients.

The NDA submission is based on results of the NEMO study, which found binimetinib extended median PFS, the study's primary endpoint, as compared with dacarbazine. In the NEMO study, binimetinib extended median PFS at 2.8 months, as compared with 1.5 months observed with dacarbazine [hazard ratio (HR)=0.62 (95% CI 0.47-0.80),  $p < 0.001$ ] in patients with advanced NRAS-mutant melanoma. In the pre-specified subset of patients who received prior treatment with immunotherapy, including ipilimumab, nivolumab or pembrolizumab, patients who received binimetinib experienced 5.5 months of median PFS (95% CI, 2.8-7.6), compared with 1.6 months for those receiving treatment with dacarbazine (95% CI, 1.5-2.8). While the results in the pre-specified sub-group of patients who had received prior treatment with immunotherapy are of interest, interpretation beyond overall consistency with the primary result should be made with care. Array anticipates that the primary consideration for marketing approval will be the results for the primary endpoint of the trial.

In addition to improving PFS, binimetinib also demonstrated significant improvement in certain secondary endpoints, ORR and disease control rate (DCR). While there was no statistically significant difference demonstrated in overall survival, the numerical trend in median overall survival (mOS) favored the binimetinib arm.

Confirmed ORR was 15 percent (95% CI, 11-20 percent) in patients receiving binimetinib vs. 7 percent (95% CI, 3-13 percent) in patients receiving dacarbazine.

DCR for patients receiving binimetinib was 58 percent (95% CI, 52-64 percent) vs. 25 percent (95% CI, 18-33 percent) for patients receiving dacarbazine.

mOS was estimated at 11.0 months in patients receiving binimetinib vs. 10.1 months for patients treated with dacarbazine [(HR) = 1.0 (95% CI 0.75-1.33),  $p = 0.499$ ].

Under the NEMO protocol, and in accordance with accepted statistical practice, the subgroup analyses of OS were not conducted, as such analysis is formally conducted only if the key secondary endpoint of OS reached statistical significance.

Binimetinib was generally well-tolerated and the adverse events (AEs) reported were consistent with previous results in NRAS-mutant melanoma patients. Grade 3/4 AEs reported in greater than or equal to 5 percent of patients receiving binimetinib included increased creatine phosphokinase (CPK) and hypertension.

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The NEMO results were presented at the 2016 American Society of Clinical Oncology (ASCO) Annual Congress in June 2016.

### MILO

On April 1, 2016, we announced our decision to discontinue the MILO study, a Phase 3 trial of binimetinib for the treatment of patients with low grade serous ovarian cancer. The decision to stop the study was made after a planned interim analysis showed that the Hazard Ratio for Progression Free Survival (PFS) crossed the predefined futility boundary.

### Selumetinib

AstraZeneca continues to advance selumetinib in two registration trials: a trial in patients with neurofibromatosis type 1 and the ASTRA trial in patients with differentiated thyroid cancer. AstraZeneca estimates top-line results from both trials in 2017. In August 2016, AstraZeneca announced results from the Phase 3 SELECT-1 trial of selumetinib in combination with docetaxel chemotherapy as 2nd-line treatment in patients with KRAS mutation-positive locally-advanced or metastatic non-small cell lung cancer. The results showed that the trial did not meet its primary endpoint of progression-free survival and selumetinib did not have a significant effect on overall survival. The adverse event profiles for selumetinib and docetaxel were consistent with those seen previously.

### ARRY-797

Array is conducting a 12-patient Phase 2 study to evaluate the effectiveness and safety of ARRY-797 in patients with LMNA A/C-related DCM, a serious, genetic cardiovascular disease. By age 45, approximately 70% of patients with LMNA A/C-related DCM will have died, suffered a major cardiac event, or will have undergone a heart transplant. The primary endpoint of the trial is mean change in 6-minute walk test (6MWT) at 12 weeks relative to baseline. Data from the trial showed that ARRY-797 exceeded benchmarks set by a number of drugs for rare diseases that have been recently approved on the basis of the 6MWT as a primary endpoint. Secondary endpoints in the ARRY-797 trial, including changes in N-Terminal pro-Brain-derived Natriuretic Peptide (NT-proBNP, a serum biomarker of heart failure severity), and patient reported outcomes, are directionally consistent with the primary endpoint. Enrollment in this trial is complete. Data for patients followed through 48 weeks suggest a durable effect. Results with additional patient follow-up will be presented at the European Society of Cardiology meeting on August 30, 2016. Taken together, the data to date suggest a path forward for this program, and Array has met with regulators to discuss the design of a study that could be the basis for marketing approval.

### ARRY-382

In July 2016, Array initiated a Phase 1/2 dose escalation immuno-oncology trial of ARRY-382 in combination with pembrolizumab (Keytruda®), a Programmed Cell Death Receptor 1 (PD-1) antibody, in patients with advanced solid tumors. ARRY-382 is a wholly-owned, potent, highly selective, small-molecule inhibitor of CSF-1R kinase activity.

The study will enroll up to 18 patients with selected advanced solid tumors to determine the maximum tolerated dose and/or recommended Phase 2 dose of the combination. In addition, the safety profile, pharmacodynamic effects, and preliminary assessment of activity of the combination will be assessed. With appropriate results, Array has the option to advance the combination into expansion cohorts of patients with metastatic melanoma or advanced non-small cell lung cancer (NSCLC).

Results from a prior Phase 1 study designed to assess the safety, pharmacokinetics and pharmacodynamics of ARRY-382 for treating patients with cancer have been presented and a dose and schedule that demonstrates target engagement based on multiple pharmacodynamic biomarkers was identified for further study.

### Filanesib

Given Array's significant opportunity with the Phase 3 binimetinib and encorafenib programs across a number of cancer indications, Array currently has no plans to initiate additional trials with filanesib, a highly selective, targeted KSP inhibitor. Two studies in patients with relapsed / refractory multiple myeloma are nearing completion: a randomized Phase 2 trial of the combination of filanesib and Kyprolis® (carfilzomib) and Kyprolis alone (ARRAY-520-216) and the AffIRM trial, a Phase 2 single agent study.

We also have a portfolio of proprietary and partnered preclinical drug discovery programs.



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On March 31, 2016, we announced a strategic collaboration with Asahi Kasei Pharma Corporation (AKP) to develop and commercialize select preclinical Tropomyosin receptor kinase A (TrkA) inhibitors, including Array-invented ARRY-954, for pain, inflammation and other non-cancer indications. We received a \$12.0 million up-front payment in April 2016 and may receive up to \$64.0 million in additional development and commercialization milestone payments, including up to double-digit royalties on future sales. We will retain full commercialization rights for all compounds in all indications in territories outside of Asia and within Asia retain full rights to cancer indications for all compounds excluding those being developed by AKP.

We have received a total of \$863.0 million in research funding and in up-front and milestone payments from partners from inception through June 30, 2016, including \$216.0 million in initial payments from strategic agreements that we entered into over the last seven years. We received an up-front cash payment of \$85.0 million upon the March 2015 effective date of the asset transfer agreement with Novartis for binimetinib and of \$30 million in January 2016 from Pierre Fabre. Our existing partnered programs entitle Array to receive a total of over \$2 billion in additional milestone payments if we or our partners achieve the drug discovery, development and commercialization objectives detailed in those agreements. We also have the potential to earn royalties on any resulting product sales or share in the proceeds from licensing or commercialization from 13 partnered clinical and discovery programs.

### Business Development and Partner Concentrations

We currently license or partner certain of our compounds and/or programs and enter into collaborations directly with pharmaceutical and biotechnology companies through opportunities identified by our business development group, senior management, scientists and customer referrals. In general, our partners may terminate their agreements with us with 60 to 180 days' prior notice. Specifics regarding termination provisions under our material collaboration or license agreements can be found in Note 5 – Collaboration and Other Agreements to the accompanying audited financial statements included elsewhere in this Annual Report on Form 10-K.

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

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

### Critical Accounting Policies and Estimates

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

An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, and if different estimates that reasonably could have been used, or changes in the accounting estimate that are reasonably likely to occur periodically, could materially impact the financial statements.

### Accrued Outsourcing Costs

Substantial portions of our preclinical studies and clinical trials are performed by third-party laboratories, medical centers, contract research organizations and other vendors, or collectively "CROs". These CROs generally bill monthly or quarterly for services performed, or bill based upon milestone achievement. For preclinical studies, we accrue expenses based upon estimated percentage of work completed and the contract milestones remaining. For clinical studies, expenses are accrued based upon the number of patients enrolled and the duration of the study. We monitor patient enrollment, the progress of clinical studies and related activities to the extent possible through internal reviews of data reported to us by the CROs, correspondence with the CROs and clinical site visits. Our

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estimates depend on the timeliness and accuracy of the data provided by the CROs regarding the status of each program and total program spending. We periodically evaluate the estimates to determine if adjustments are necessary or appropriate based on information we receive.

### Revenue Recognition

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

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

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

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

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

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

Most of our agreements provide for non-refundable milestone payments. We recognize revenue that is contingent upon the achievement of a substantive milestone in its entirety in the period in which the milestone is achieved. A

milestone is considered substantive when the consideration payable to us for such milestone (i) is consistent with our performance necessary to achieve the milestone or the increase in value to the collaboration resulting from our performance, (ii) relates solely to our past performance and (iii) is reasonable relative to all of the other deliverables and payments within the arrangement. In making this assessment, we consider all facts and circumstances relevant to the arrangement, including factors such as the scientific, regulatory, commercial and other risks that must be overcome to achieve the milestone, the level of effort and investment required to achieve the milestone and whether any portion of the milestone consideration is related to future performance or deliverables.

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

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

We record as revenue amounts received as reimbursement of costs we incur from our license partners where we act as a principal, control the research and development activities, bear credit risk and may perform part of the services required in the transactions, consistent with Accounting Standards Codification ("ASC") 605-45-15. Novartis currently provides financial support to Array in the form of reimbursement for all associated out-of-pocket costs and for one-half or more of our fully-burdened full-time equivalent ("FTE") costs based on an agreed-upon FTE rate for all clinical trials involving binimetinib and encorafenib that were active at the time the Novartis Agreements became effective. The gross amount of these pass-through reimbursed costs are reported as revenue in the accompanying statements of operations and comprehensive income (loss) in accordance with ASC 605-45-15. The actual expenses for which we are reimbursed are reflected as research and development for proprietary programs or cost of partnered programs, as applicable.

See Note 5 – Collaboration and Other Agreements to the accompanying audited financial statements included elsewhere in this Annual Report on Form 10-K for further information.

### Valuation of Equity Received

From time to time, we may enter into collaboration and other agreements under which we receive an equity interest as consideration for all or a portion of up-front, license or other fees under the terms of the agreement. In July 2013, Array entered into a collaboration agreement with Loxo Oncology, Inc. under which we received shares of non-voting preferred stock as consideration for licensing rights granted to Loxo. There was no public market for the shares, and we estimated the fair value of these shares to be 4.5 million based on a valuation analysis prepared with the assistance of a third-party valuation firm. The valuation of the preferred shares required the use of significant assumptions and estimates, including assumptions about the estimated volatility of the equity, the estimated time to a liquidity event, and the likelihood of Loxo obtaining additional future financing; none of which was readily available to us as Loxo is not a publicly-traded company. Equity securities received from non-publicly traded companies in which we do not exercise a significant or controlling interest are reported at cost in other long-term assets in the accompanying audited financial statements included elsewhere in this Annual Report on Form 10-K.



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## Results of Operations

## Revenue

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

	Year Ended June 30,			Change		Change	
	2016	2015	2014	2016 vs. 2015		2015 vs. 2014	
				\$	%	\$	%
License and milestone revenue	\$3,876	\$20,367	\$25,111	\$(16,491)	(81)%	\$(4,744)	(19)%
Reimbursement revenue	107,330	7,020	—	100,310	1,429%	7,020	(a)
Collaboration and other revenue	26,673	24,522	16,967	2,151	9%	7,555	45%
Total revenue	\$137,879	\$51,909	\$42,078	\$85,970	166%	\$9,831	23%

(a) = Reimbursement revenue relates solely to the Novartis Agreements, which were first effective in March 2015, therefore, comparison of these two periods is not meaningful.

## License and Milestone Revenue

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

Fiscal 2016 compared to Fiscal 2015 – The majority of the license revenue for fiscal 2016 relates to \$1.6 million in license fee revenue from Pierre Fabre, \$1.3 million in revenue from Loxo, most of which resulted from a milestone payment, and \$600 thousand in license fee revenue from Asahi Kasei. The majority of the license and milestone revenue for fiscal 2015 related to recognition of \$20.0 million up-front fee received from Cascadian Therapeutics, which resulted from the License Agreement entered into with Cascadian Therapeutics in December 2014.

Fiscal 2015 compared to Fiscal 2014 – License revenue for fiscal 2015 increased due to the recognition of the \$20.0 million up-front fee received from Cascadian Therapeutics under our License Agreement in December 2014. Additionally, we completed the recognition of the remaining \$367 thousand of Genentech license revenue during fiscal 2015. We had expected to amortize the Genentech deferred revenue, which was received in September 2011 as an up-front payment, from inception of the agreement until a specified milestone had been achieved, but due to the immaterial amount remaining, we elected to recognize the remainder although the milestone has not been achieved. We will be entitled to an additional milestone payment if and when the specified milestone is achieved.

License revenue for fiscal 2014 primarily included \$8.0 million recognized under our prior collaboration with Novartis and \$4.5 million of non-cash revenue recognized under our collaboration with Loxo, representing the fair value of shares of preferred stock received under the collaboration, as discussed under Note 5 - Collaboration and Other Agreements - Loxo Oncology, Inc. to our financial statements included elsewhere in this Annual Report on Form 10-K. The remaining fiscal 2014 license revenue of \$1.9 million represents the amortization of deferred revenue recognized under our Genentech collaboration.

No milestone revenue was recognized during fiscal 2015, compared with \$5.0 million earned from AstraZeneca, \$4.0 million earned from Novartis, \$1.5 million earned from Genentech, as well as several other smaller milestones earned during fiscal 2014.

## Reimbursement Revenue

Reimbursement revenue consists of amounts received for reimbursement of costs we incur from our license partners and other counterparties where Array acts as a principal, controls the research and development activities, bears credit risk and may perform part of the services required in the transactions.

As discussed in Note 5 - Collaboration and Other Agreements to our financial statements included elsewhere in this Annual Report on Form 10-K, Array regained all development and commercialization rights to binimetinib, and obtained all development and commercialization rights to encorafenib from Novartis on March 2, 2015. In connection



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with the closing of these transactions, Array and Novartis entered into two Transition Agreements dated March 2, 2015, one associated with the Binimetinib Agreement and the other associated with the Encorafenib Agreement. Novartis Pharma will provide substantial financial support to Array under the Transition Agreements for all clinical trials involving binimetinib and encorafenib in the form of reimbursement to Array for all associated out-of-pocket costs and for one-half of Array's fully-burdened full-time equivalent ("FTE") costs based on an annual FTE rate. As of June 30, 2016, Novartis Pharma has transitioned responsibility for all previously Novartis-conducted trials and will provide this continuing financial support to Array for completing the trials. As shown in the table above, we recognized approximately \$107.3 million and \$7.0 million in reimbursement revenue for the years ended June 30, 2016 and 2015, respectively, which consisted solely of reimbursements to Array from Novartis under the Transition Agreements for specific clinical trials involving binimetinib and encorafenib for the periods presented.

## Collaboration and Other Revenue

Collaboration and other revenue consists of revenue for our performance of drug discovery and development activities in collaboration with partners, which includes development of proprietary drug candidates we out-license, as well as screening, lead generation, and lead optimization research. We also report recognition of the previously deferred revenue related to ongoing obligations from the Novartis Agreements as collaboration revenue.

Fiscal 2016 compared to Fiscal 2015 – Collaboration and other revenue was \$26.7 million and \$24.5 million for the years ended June 30, 2016 and 2015, respectively, or an increase of 9% over the comparable period. Collaboration and other revenue includes \$3.6 million recognized during the year ended June 30, 2016 for the up-front payment received from Novartis upon the effective date of the Binimetinib Agreement in March 2015 that was deferred. We are recording this revenue over a 22-month deferral period, which is the estimated number of months we expect will be required to complete our performance with respect to the applicable clinical trials under the Novartis Agreements. The remaining balance of this deferred revenue was \$1.8 million at June 30, 2016. During the year ended June 30, 2016, we also recorded revenue of \$3.1 million, \$11.4 million, \$3.3 million and \$2.8 million for our performance of drug discovery and development activities related to Celgene, Loxo, Mirati and Biogen, respectively. During the year ended June 30, 2015, we recorded revenue of \$4.1 million, \$9.2 million, \$1.2 million and \$4.6 million for our performance of drug discovery and development activities related to Celgene, Loxo, Mirati and Biogen, respectively. Our collaboration arrangement with Biogen was terminated during fiscal 2016.

Fiscal 2015 compared to Fiscal 2014 – Collaboration and other revenue was \$24.5 million and \$17.0 million for the years ended June 30, 2015 and 2014, respectively, or an increase of 45% over the comparable periods. During fiscal 2015, we recognized \$1.2 million for the amortization of the deferred up-front payment from Novartis, as mentioned above, since the March 2, 2015 effective date of the Binimetinib and Encorafenib Agreements. Additionally, our collaboration with Biogen which was new in the last quarter of fiscal 2014, represented an increase of \$4.3 million between the comparable periods and our expanded collaboration with Loxo accounted for another \$3.3 million of the 2015 period increase. Chemistry, manufacturing and control ("CMC") activities also contributed over \$2.0 million to the 2015 fiscal year increase. These were partially offset by \$3.0 million in decreased collaboration revenue related to several smaller collaborations that concluded at various points during or prior to fiscal 2015.

## Cost of Partnered Programs

Cost of partnered programs represents research and development costs attributable to discovery and development including preclinical and clinical trials we may conduct for or with our partners. Research and development costs primarily consist of personnel related expenses, including salaries, benefits, costs to recruit and relocate new employees, travel, and other related expenses, stock-based compensation, payments made to third party contract research organizations for preclinical and clinical studies, investigative sites for clinical trials and consultants, the cost of acquiring and manufacturing clinical trial materials, costs associated with regulatory filings and patents, software

and facilities, and laboratory costs and other supply costs.

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Below is a summary of our cost of partnered programs (dollars in thousands):

Year Ended June 30,			Change		Change	
2016	2015	2014	2016 vs. 2015	2015 vs. 2014		
			\$	%	\$	%

Cost of partnered programs \$23,166 \$44,392 \$45,965 \$(21,226) (48)% \$(1,573) (3)%

Fiscal 2016 compared to Fiscal 2015 – The decrease in the cost of partnered programs from approximately \$44.4 million to approximately \$23.2 million was primarily attributable to shifting the recording of our costs associated with the development of binimetinib from cost of partnered programs to research and development for proprietary programs upon regaining the rights to binimetinib in March 2015.

Fiscal 2015 compared to Fiscal 2014 – We concluded fiscal 2015 with a small decrease in cost of partnered programs. This decrease was due to the costs related to development of binimetinib being moved from cost of partnered programs to research and development expenses for propriety programs for the last four months of fiscal 2015 following the effective date of the Binimetinib and Encorafenib Agreements on March 2, 2015. The impact of this change was mostly offset by increased partnered program expenses due to our Biogen collaboration and expanded Loxo collaboration. Additionally, the costs to continue to advance binimetinib through clinical trials under our previous License Agreement with Novartis though March 2, 2015 had also increased in comparison to the prior fiscal year.

#### Research and Development Expenses for Proprietary Programs

Our research and development expenses for proprietary programs include costs associated with our proprietary drug programs, which primarily consist of personnel related expenses, including salaries, benefits, costs to recruit and relocate new employees, travel, and other related expenses, stock-based compensation, payments made to third party contract research organizations for preclinical and clinical studies, investigative sites for clinical trials and consultants, the cost of acquiring and manufacturing clinical trial materials, costs associated with regulatory filings and patents, software and facilities, and laboratory costs and other supply costs. We manage our proprietary programs based on scientific data and achievement of research plan goals. Our scientists record their time to specific projects when possible; however, many activities simultaneously benefit multiple projects and cannot be readily attributed to a specific project. Accordingly, the accurate assignment of time and costs to a specific project is difficult and may not give a true indication of the actual costs of a particular project. As a result, we do not report costs on a program basis.

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

	Year Ended June 30,			Change		Change	
	2016	2015	2014	2016 vs. 2015	2015 vs. 2014		
				\$	%	\$	%
Salaries, benefits and share-based compensation	\$20,047	\$14,697	\$18,443	\$5,350	36 %	\$(3,746)	(20)%
Outsourced services and consulting	130,229	28,433	18,170	101,796	358 %	10,263	56 %
Laboratory supplies	4,714	4,513	5,756	201	4 %	(1,243)	(22)%
Facilities and depreciation	3,657	5,229	6,069	(1,572)	(30) %	(840)	(14)%
Other	2,008	1,570	1,386	438	28 %	184	13 %
Total research and development expenses	\$160,655	\$54,442	\$49,824	\$106,213	195 %	\$4,618	9 %

Fiscal 2016 compared to Fiscal 2015 – Research and development expenses for proprietary programs increased during the current fiscal year primarily due to the inclusion of costs related to clinical trials for binimetinib and encorafenib. Additionally, we incurred incremental research and development costs related to transitioning the Novartis-sponsored studies as well as for new clinical trials and the establishment of commercial drug supply since regaining all development and commercialization rights to binimetinib and obtaining all development and commercialization rights to encorafenib in March 2015.

Fiscal 2015 compared to Fiscal 2014 – The increase in research and development for proprietary programs during fiscal 2015 was due to an increase in outsourced services and consulting costs incurred to advance filanesib in two ongoing Phase 2 clinical studies, as well as having costs related to binimetinib and encorafenib included in research and development for proprietary programs for the last four months of the fiscal year rather than in cost of partnered programs. The increase in outsourced services was offset in part by a reduction in salaries and benefits related to an increased number of our scientists who were working on partnered programs during the current fiscal year. Additionally, fiscal 2014 included \$2.2 million of salaries and benefit expenses related to our workforce reduction in August 2013. Decreased expenses for lab supplies and facilities also helped to offset the increased outsourced services expenses.

#### General and Administrative Expenses

General and administrative expenses consist mainly of compensation and associated fringe benefits not included in cost of partnered programs or research and development expenses for proprietary programs and include other management, business development, accounting, information technology and administration costs, including patent filing and prosecution, recruiting and relocation, consulting and professional services, travel and meals, sales commissions, facilities, depreciation and other office expenses.

Below is a summary of our general and administrative expenses (dollars in thousands):

Year Ended June 30,			Change 2016 vs. 2015		Change 2015 vs. 2014	
2016	2015	2014	\$	%	\$	%

General and administrative expenses \$36,267 \$31,433 \$21,907 \$4,834 15% \$9,526 43%

Fiscal 2016 compared to Fiscal 2015 – The increase in general and administrative expenses in fiscal 2016 are primarily due to commercialization pre-launch marketing activities, with no similar costs being incurred during the prior fiscal year.

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Fiscal 2015 compared to Fiscal 2014 – The increase in general and administrative expenses in fiscal 2015 are largely the result of legal, consulting and other expenses, including higher, non-cash share-based compensation costs, related to regaining the rights to binimetinib under the Binimetinib Agreement and acquiring the rights to encorafenib under the Encorafenib Agreement.

## Other Income (Expense), Net

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

	Year Ended June 30,			Change		Change	
	2016	2015	2014	2016 vs. 2015		2015 vs. 2014	
	\$			\$	%	\$	%
Realized gain from marketable securities, net	\$—	\$16,255	\$—	\$(16,255)	— %	\$16,255	— %
Interest income	243	68	77	175	257 %	(9)	(12) %
Interest expense	(10,874)	(10,247)	(9,716)	(627)	(6) %	(531)	(5) %
Total other income (expense), net	\$(10,631)	\$6,076	\$(9,639)	\$(16,707)	(275) %	\$15,715	163 %

Fiscal 2016 compared to Fiscal 2015 – Other income (expense), exclusive of realized gain from marketable securities, net, remained relatively constant between the periods primarily because there were no significant dollar changes to interest income and interest expense. Interest income is earned from our investments in available-for-sale marketable securities. Interest expense is primarily related to our 3.00% convertible senior notes due 2020, but also includes interest expense related to our term loan with Comerica Bank. Details of our interest expense for all of our debt arrangements outstanding during the periods presented, including actual interest paid and amortization of debt and loan transaction fees, are presented in Note 7 – Long-term Debt to our financial statements included elsewhere in this Annual Report of Form 10-K.

Fiscal 2015 compared to Fiscal 2014 – Total other income (expense), net improved due to the realized gains achieved from the sale of Loxo common shares we held during the second half of the fiscal year following the expiration of the trading restrictions on the shares. As of June 30, 2015, all shares of Loxo had been sold. An increase in non-cash interest expense offset a small portion of the improvement.

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

	Year Ended June 30,		
	2016	2015	2014
<b>Comerica Term Loan</b>			
Simple interest	\$501	\$480	\$479
Amortization of fees paid for letters of credit	31	44	48
Total interest expense on the Comerica term loan	532	524	527
<b>Convertible Senior Notes</b>			
Contractual interest	3,967	3,968	3,979
Amortization of debt discount	6,033	5,447	4,932
Amortization of debt issuance costs	342	308	278
Total interest expense on the convertible senior notes	10,342	9,723	9,189
Total interest expense	\$10,874	\$10,247	\$9,716

## Liquidity and Capital Resources



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With the exception of the 2015 fiscal year, we have incurred operating losses and an accumulated deficit as a result of ongoing research and development spending since inception. As of June 30, 2016, we had an accumulated deficit of \$801.4 million. We had a net loss of \$92.8 million for the fiscal year ended June 30, 2016, net income of \$9.4 million for the fiscal year ended June 30, 2015, and a net loss of \$85.3 million for the fiscal year ended June 30, 2014. The net income in fiscal 2015 was primarily the result of the net gain realized in that year related to the return of binimetinib and acquisition of encorafenib, as well as realized gains from the sale of marketable securities.

In connection with the March 2, 2015 closing of the Binimetinib and Encorafenib Agreements as discussed in Note 3 - Binimetinib and Encorafenib Agreements, to the accompanying audited financial statements included elsewhere in this Annual Report on Form 10-K, we received an \$85 million cash payment, received \$5 million for the reimbursement of certain transaction costs, extinguished net co-development liabilities of \$21.6 million and recorded deferred revenue of \$6.6 million. We also entered into a third party agreement during the third quarter to complete the Novartis transactions for a net consideration payment of \$25 million.

For the year ended June 30, 2016, our net cash used in operations was \$70.1 million. We have historically funded our operations from up-front fees and license and milestone payments received under our drug collaborations and license agreements, the sale of equity securities, and debt provided by convertible debt and other credit facilities. During the years ended June 30, 2016, and 2015 we received net proceeds of \$2.9 million and \$46.5 million, respectively, from sales of our common stock under our sales agreement with Cantor Fitzgerald in an at-the-market offering. We also received net proceeds of approximately \$128 million in June 2013 from an underwritten public offering of convertible debt and \$127 million during calendar year 2012 from two underwritten public offerings of our common stock. Additionally, we received an up-front cash payment of \$85 million as a result of the closing in March 2015 of the transactions under the Binimetinib Agreement and have received \$277.7 million from up-front fees and license and milestone payments since December 2009, including the following payments:

- In December 2009, we received a \$60 million up-front payment from Amgen under a Collaboration and License Agreement.
- During May and June 2010, we received a total of \$45 million in up-front and milestone payments under a License Agreement with Novartis.
- In December 2010, we received a \$10 million milestone payment under a Drug Discovery and Development Agreement with Celgene.
- In May 2011, we received a \$10 million milestone payment under a License Agreement with Novartis.
- In September 2011, we received a \$28 million up-front payment under a Drug Discovery Collaboration Agreement with Genentech.
- In June 2012, we received an \$8.5 million milestone payment from Amgen under a Collaboration and License Agreement.
- In June 2013, we received a \$10 million up-front payment under a Development and Commercialization Agreement with Cascadian Therapeutics.
- In July 2013, we received an \$11 million up-front payment under a Drug Discovery and Development Option and License Agreement with Celgene.
- In August 2013, we received a \$5 million milestone payment under a License Agreement with Novartis.
- In November 2013, we received a \$5 million milestone payment under a Collaboration and License Agreement with AstraZeneca.
- In December 2014, we received a \$20 million up-front payment under a License Agreement with Cascadian Therapeutics.
- In January 2016, we received a \$30 million up-front payment under a Development and Commercialization Agreement with Pierre Fabre.

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In April 2016, we received a \$12 million up-front payment under a Collaboration and License Agreement with Asahi Kasai.

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Under our previous License Agreement with Novartis, which terminated when the Binimetinib Agreement became effective, we paid \$9.2 million and \$11.3 million to Novartis in the second quarters of fiscal 2013 and fiscal 2014, respectively, representing our share of the combined development costs incurred and due since commencement of our co-development agreement with Novartis for development of the binimetinib program, as discussed in Note 5 – Collaboration and Other Agreements – Novartis International Pharmaceutical Ltd. to the accompanying audited financial statements included elsewhere in this Annual Report on Form 10-K.

In addition, we have accrued a \$5.8 million liability at June 30, 2016 for estimated fiscal year 2016 annual employee bonuses. Under our annual performance bonus program, employees may receive a bonus payable in cash or in shares of our common stock if we meet certain financial, discovery, development and partnering goals during a fiscal year. Annual employee bonuses are typically paid in the second quarter of the next fiscal year.

Management believes that our cash, cash equivalents and marketable securities as of June 30, 2016 will enable us to continue to fund operations in the normal course of business for at least the next 12 months. Until we can generate sufficient levels of cash from current operations, which we do not expect to achieve in the foreseeable future, and because sufficient funds may not be available to us when needed from existing collaborations, we expect that we will be required to continue to fund our operations in part through the sale of debt or equity securities, through licensing select programs, or partial economic rights to those programs, that include up-front, royalty and/or milestone payments.

Our ability to successfully raise sufficient funds through the sale of debt or equity securities or from debt financing from lenders when needed is subject to many risks and uncertainties and, even if we are successful, future equity issuances would result in dilution to our existing stockholders. We also may not successfully consummate new collaboration or license agreements that provide for up-front fees or milestone payments, or we may not earn milestone payments under such agreements when anticipated, or at all. Our ability to realize milestone or royalty payments under existing agreements and to enter into new arrangements that generate additional revenue through up-front fees and milestone or royalty payments is subject to a number of risks, many of which are beyond our control. See the risk factors described under the heading "Item 1A. Risk Factors" under Part I of this Annual Report on Form 10-K and in other reports we file with the SEC for a description of these risks.

Our assessment of our future need for funding and our ability to continue to fund our operations is a forward-looking statement that is based on assumptions that may prove to be wrong and that involve substantial risks and uncertainties. Our actual future capital requirements could also vary as a result of a number of factors. Please refer to our risk factors under the heading "Item 1A. Risk Factors" included under Part I in this Annual Report on Form 10-K and in other reports we file with the SEC.

If we are unable to generate enough revenue from our existing or new collaboration and other agreements when needed or secure additional sources of funding, it may be necessary to significantly reduce our current rate of spending through reductions in staff and delaying, scaling back or stopping certain research and development programs, including more costly Phase 2 and Phase 3 clinical trials on our wholly-owned programs as these programs progress into later stage development. Insufficient liquidity may also require us to relinquish greater rights to product candidates at an earlier stage of development or on less favorable terms to us and our stockholders than we would otherwise choose in order to obtain up-front license fees needed to fund operations. These events could prevent us from successfully executing our operating plan and, in the future, could raise substantial doubt about our ability to continue as a going concern. Further, as discussed in Note 7 – Long-term Debt to the accompanying audited financial statements included elsewhere in this Annual Report on Form 10-K, if at any time our balance of total cash, cash equivalents and marketable securities at Comerica Bank and approved outside accounts falls below \$22 million, we must maintain a balance of cash, cash equivalents and marketable securities at Comerica at least equivalent to the entire outstanding debt balance with Comerica, which is currently \$14.6 million. We must also maintain a monthly

liquidity ratio if we draw down on the revolving line of credit with Comerica.

#### Cash, Cash Equivalents, Marketable Securities and Accounts Receivable

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

Short-term marketable securities consist primarily of U.S. government agency obligations with maturities of greater than 90 days when purchased. Long-term marketable securities are primarily securities held under our deferred compensation plan.

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In each of the periods presented below, accounts receivable consists primarily of current receivables expected to be paid by Novartis within three months or less. Balances owed to Array by Novartis as of June 30, 2016 and 2015 relate to the Binimetinib and Encorafenib Agreements, whereas the June 30, 2014 balance relates to the prior 2010 License Agreement with Novartis that was terminated by the Binimetinib Agreement.

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

	June 30,			Change	Change
	2016	2015	2014	2016 vs.	2015 vs.
				2015	2014
Cash and cash equivalents	\$56,598	\$55,691	\$68,591	\$907	\$(12,900)
Marketable securities – short-term	53,344	122,635	42,407	(69,291 )	80,228
Marketable securities – long-term	596	496	640	100	(144 )
Accounts receivable	39,302	6,307	5,429	32,995	878
Total	\$149,840	\$185,129	\$117,067	\$(35,289)	\$68,062

## Cash Flow Activities

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

	Year Ended June 30,			Change	Change
	2016	2015	2014	2016 vs.	2015 vs.
				2015	2014
Cash flows provided by (used in):					
Operating activities	\$(70,090)	\$(5,793 )	\$(71,682)	\$(64,297)	\$65,889
Investing activities	66,027	(58,049 )	2,482	124,076	(60,531 )
Financing activities	4,970	50,942	77,055	(45,972 )	(26,113 )
Total	\$907	\$(12,900)	\$7,855	\$13,807	\$(20,755)

Fiscal 2016 compared to Fiscal 2015 – Net cash used in operating activities increased \$64.3 million during fiscal year 2016, primarily due to the increase in net loss of \$102.2 million resulting from the one-time gain on the Binimetinib and Encorafenib Agreements as well as the gain on sale of CMC during fiscal 2015 that did not recur during fiscal 2016. This increase in net loss along with the increase of accounts receivable of \$25.4 million, primarily resulting from the Novartis reimbursement arrangement, was partially offset by an increase in deferred revenue of \$36.2 million primarily resulting from the proceeds from the Pierre Fabre Development and Commercialization Agreement and the Asahi Kasai Collaboration and License Agreement, the reduction in the co-development liability of \$21.6 million from the termination of the Novartis license agreement in March 2015 and the reduction in realized gain from the sale of marketable securities of \$16.3 million.

Net cash from investing activities increased \$124.1 million due to proceeds from maturities and sales of investment securities outweighing our purchases of replacement securities during the current period, as compared to the prior year period where purchases exceeded maturities and sales of investment securities.

Net cash provided by financing activities decreased \$46.0 million due to reduced sales of our common stock under our sales agreement with Cantor Fitzgerald.

Fiscal 2015 compared to Fiscal 2014 – Net cash from operating activities improved \$65.9 million during fiscal year 2015, primarily resulting from the \$85.0 million of cash received from Novartis following the effective date of the Binimetinib and Encorafenib Agreements in March 2015, as well as the receipt of \$5.0 million for the reimbursement

of certain transaction costs and the extinguishment of our net co-development liability balance of \$21.6 million in connection with the closing of the Binimetinib Agreement as discussed in Note 3 - Binimetinib and Encorafenib Agreements to the audited financial statements included elsewhere in this Annual Report on Form 10-K. The improvement was partially offset by a payment of \$25.0 million made during fiscal 2015 under a third party agreement to complete the Novartis transactions.

We used net cash of \$58.0 million during fiscal 2015 due to our investment of the majority of the proceeds r

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received from the Binimetinib Agreement, net of the third party payment made to complete the transaction, and from the sale of our shares of Loxo common stock. This compared with fiscal 2014 where we had more sales or maturities of investments than purchases of investments.

Net cash provided by financing activities decreased \$26.1 million related to the sale of fewer shares of our common stock under our sales agreement with Cantor Fitzgerald during the current fiscal year compared with the prior fiscal year. During fiscal 2015, we sold approximately 9.0 million shares for proceeds of \$46.5 million compared with 13.8 million shares and proceeds of \$73.4 million sold during fiscal 2014.

## Obligations and Commitments

The following table shows our contractual obligations and commitments as of June 30, 2016 (in thousands):

	Less than 1 Year	1 to 3 Years	4 to 5 Years	Over 5 Years	Total
Debt obligations (1)	\$—	\$14,550	\$132,250	\$—	\$146,800
Interest on debt obligations (2)(3)(4)	4,477	8,105	3,648	—	16,230
Operating lease commitments (2)	3,750	7,079	7,232	14,347	32,408
Minimum revenue guarantee (2)(5)	1,875	—	—	—	1,875
Purchase obligations (2)(6)	—	—	—	—	—
Total	\$10,102	\$29,734	\$143,130	\$14,347	\$197,313

(1) Reflected in the accompanying balance sheets.

(2) These obligations are not reflected in the accompanying balance sheets.

(3) Interest on the variable debt obligation under the term loan with Comerica is calculated at 3.5%, the interest rate in effect as of June 30, 2016.

(4) Interest on the 2020 Notes is calculated at 3.00%, which is the coupon rate.

(5) This item relates to the sale of our CMC activities. For more information, see Note 4 - Sale of CMC to the accompanying audited financial statements included elsewhere in this Annual Report on Form 10-K.

(6) We have open purchase orders for \$265.0 million, which include \$177.8 million for CROs, \$78.0 million for other outsourced services for clinical trials and research and development costs and \$9.2 million for all other purchase commitments. Included in these amounts are purchase orders totaling \$170.8 million to complete the Novartis transitioned studies, which we expect will be reimbursed to us by Novartis. Substantially all of our purchase orders may be canceled without significant penalty to Array.

We are obligated under non-cancellable operating leases for all of our facilities and, to a limited degree, equipment leases. Lease terms for our facilities in effect as of June 30, 2016, ranged from less than one to ten years and generally require us to pay the real estate taxes, certain insurance and other operating costs. Equipment lease terms generally range from three to five years.

## Recent Accounting Pronouncements

Refer to our discussion of recently adopted accounting pronouncements and other recent accounting pronouncements in Note 1 – Overview, Basis of Presentation and Summary of Significant Accounting Policies to the accompanying audited financial statements included elsewhere in this Annual Report on Form 10-K.

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Market risk represents the risk of loss that may impact our financial position, results of operations or cash flows due to adverse changes in financial and commodity market prices and fluctuations in interest rates. All of our collaboration and other agreements and nearly all purchase orders are denominated in U.S. dollars. As a result, historically and as of June 30, 2016, we have had little or no exposure to market risk from changes in foreign currency or exchange rates.

Our investment portfolio is comprised primarily of readily marketable, high-quality securities that are diversified and structured to minimize market risks. We target our average portfolio maturity of one year or less. Our exposure to market risk for changes in interest rates relates primarily to our investments in marketable securities. Marketable securities held in our investment portfolio are subject to changes in market value in response to changes in interest

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rates and liquidity. A significant change in market interest rates could have a material impact on interest income earned from our investment portfolio. We model interest rate exposure by a sensitivity analysis that assumes a theoretical 100 basis point (1%) change in interest rates. If the yield curve were to change by 100 basis points from the level existing at June 30, 2016, we would expect future interest income to increase or decrease by approximately \$0.5 million over the next 12 months based on the current balance of \$53.3 million of investments classified as short-term marketable securities available-for-sale. Changes in interest rates may affect the fair value of our investment portfolio; however, we will not recognize such gains or losses in our statement of operations and comprehensive income (loss) unless the investments are sold.

Our term loan with Comerica of \$14.6 million is our only variable rate debt. Assuming constant debt levels, a theoretical change of 100 basis points (1%) on our current interest rate of 3.5% on the Comerica debt as of June 30, 2016, would result in a change in our annual interest expense of \$0.1 million.

Historically, and as of June 30, 2016, we have not used foreign currency derivative instruments or engaged in hedging activities.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

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

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

None.

**ITEM 9A. CONTROLS AND PROCEDURES**

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our Chief Executive Officer, Chief Financial Officer and other senior management personnel, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this Annual Report on Form 10-K (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934). Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures as of June 30, 2016, were effective to provide a reasonable level of assurance that the information we are required to disclose in reports that we submit or file under the Securities Act of 1934: (i) is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms; and (ii) is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Our disclosure controls and procedures are designed to provide reasonable assurance that such information is accumulated and communicated to management. Our disclosure controls and procedures include components of our internal control over financial reporting. Management's assessment of the effectiveness of our disclosure controls and procedures is expressed at a reasonable level of assurance because an internal control system, no matter how well designed and operated, can provide only reasonable, but not absolute, assurance that the internal control system's objectives will be met.

Evaluation of Internal Control over Financial Reporting

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, we have included a report on management's assessment of the design and effectiveness of our internal control over financial reporting as part of this Annual Report on Form 10-K for the year ended June 30, 2016. Our independent registered public accounting firm also audited and reported on the effectiveness of our internal control over financial reporting. Management's report and the independent registered public accounting firm's attestation report are included under the captions entitled "Management's Report on Internal Control Over Financial Reporting" and "Report of Independent Registered Public Accounting Firm" in the section called "Item 15. Exhibits and Financial Statement Schedules" of this Annual Report on Form 10-K and are incorporated herein by reference.



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Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended June 30, 2016, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this item concerning our executive officers and our directors and nominees for director, our audit committee and audit committee financial expert, and compliance with the reporting requirements of Section 16(a) is incorporated by reference from the information in the 2016 Proxy Statement under the captions "Proposal 1 – Election of Directors," "Executive Officers" and "Section 16(a) Beneficial Ownership Reporting Compliance."

Code of Ethics

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

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

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated by reference from the information under the captions "Compensation Committee Report," "Compensation Discussion and Analysis," "Compensation of Directors" and "Compensation Committee Interlocks and Insider Participation" contained in the 2016 Proxy Statement.

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

The information relating to security ownership of certain beneficial owners and management required by this item is incorporated by reference from the information under the caption "Principal Stockholders" contained in the 2016 Proxy Statement.

Securities Authorized for Issuance under Equity Compensation Plans

The following table provides information as of June 30, 2016, about the shares of common stock that may be issued upon the exercise of options or the vesting of restricted stock units under our existing equity compensation plans, which include the Amended and Restated Array Biopharma Inc. Stock Option and Incentive Plan, or Stock Option and Incentive Plan, and shares of common stock that may be issued under the Amended and Restated Array BioPharma Inc. Employee Stock Purchase Plan, or ESPP. Array has no equity compensation plans that have not been approved by our stockholders.



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Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans excluding securities reflected in column (a)
Stock Option and Incentive Plan (1) (2)	12,479,695	\$4.80	19,228,677
ESPP	—	—	586,106
Total	12,479,695		19,814,783

(1) Consists of 11,647,595 stock options with a weighted average exercise price of \$4.80 and 832,100 restricted stock units.

The shares available for issuance under the Stock Option and Incentive Plan are increased automatically by an amount equal to the difference between (a) 25% of our issued and outstanding shares of capital stock (on a fully diluted, as converted basis) and (b) the sum of the shares relating to outstanding option grants plus the shares available for future grants under such Stock Option and Incentive Plan. However, in no event shall the number of (2) additional authorized shares determined pursuant to this formula exceed, when added to the number of shares of common stock outstanding and reserved for issuance under the Stock Option and Incentive Plan other than pursuant to this formula, under the ESPP and upon conversion or exercise of outstanding warrants, convertible securities or convertible debt, the total number of shares of common stock authorized for issuance under Array's Amended and Restated Certificate of Incorporation.

#### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information required by this item relating to related party transactions is incorporated by reference from the information under the caption "Certain Relationships and Transactions" contained in the 2016 Proxy Statement and relating to director independence is incorporated by reference from the information under the caption "Proposal 1 – Election of Directors – Meetings of the Board of Directors and Committees of the Board of Directors" contained in the 2016 Proxy Statement.

#### ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this item is incorporated by reference from the information under the caption "Fees Billed by the Principal Accountant" contained in the 2016 Proxy Statement.

#### PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

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

(a) Financial Statements

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

(b) Financial Statement Schedules

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

(c) Exhibits

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

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## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Boulder, State of Colorado, on this 19th day of August 2016.

Array BioPharma Inc.

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

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

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

Signature	Title	Date
/s/ RON SQUARER Ron Squarer	Chief Executive Officer and Director (Principal Executive Officer)	August 19, 2016
/s/ KYLE A. LEFKOFF Kyle A. Lefkoff	Chairman of the Board of Directors	August 19, 2016
/s/ DAVID HORIN David Horin	(Principal Accounting Officer)	August 19, 2016
/s/ CHARLES M. BAUM Charles M. Baum, M.D., Ph.D.	Director	August 19, 2016
/s/ GWEN A. FYFE Gwen A. Fyfe, M.D.	Director	August 19, 2016
/s/ JOHN A. ORWIN John A. Orwin	Director	August 19, 2016
/s/ GIL J. VAN LUNSEN Gil J. Van Lunsen	Director	August 19, 2016



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ARRAY BIOPHARMA INC.

Management's Report on Internal Control over Financial Reporting

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

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

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of June 30, 2016 based on the framework set forth in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on that evaluation, our management concluded that, as of June 30, 2016, our internal control over financial reporting was effective.

KPMG LLP, our independent registered public accounting firm, has issued an attestation report on the effectiveness of our internal control over financial reporting as of June 30, 2016, as stated in their report, which is included elsewhere herein.

August 19, 2016

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

August 19, 2016

By: /s/ DAVID HORIN  
DAVID HORIN  
Principal Accounting Officer

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders  
Array BioPharma Inc.:

We have audited the accompanying balance sheets of Array BioPharma Inc. (the Company) as of June 30, 2016 and 2015, and the related statements of operations and comprehensive income (loss), stockholders' equity (deficit), and cash flows for each of the years in the three year period ended June 30, 2016. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Array BioPharma Inc. as of June 30, 2016 and 2015, and the results of its operations and its cash flows for each of the years in the three-year period ended June 30, 2016, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Array BioPharma Inc.'s internal control over financial reporting as of June 30, 2016, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated August 19, 2016 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

Boulder, Colorado  
August 19, 2016

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders  
Array BioPharma Inc.:

We have audited Array BioPharma Inc.'s internal control over financial reporting as of June 30, 2016, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Array BioPharma Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on Array BioPharma Inc.'s internal control over financial reporting based on our audit.

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

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

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

In our opinion, Array BioPharma Inc. maintained, in all material respects, effective internal control over financial reporting as of June 30, 2016, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the balance sheets of Array BioPharma Inc. as of June 30, 2016 and 2015, and the related statements of operations and comprehensive income (loss), stockholders' equity (deficit), and cash flows for each of the years in the three-year period ended June 30, 2016, and our report dated August 19, 2016 expressed an unqualified opinion on those financial statements.

/s/ KPMG LLP

Boulder, Colorado  
August 19, 2016



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## ARRAY BIOPHARMA INC.

## Balance Sheets

(In thousands, except share and per share data)

	June 30, 2016	2015
Assets		
Current assets		
Cash and cash equivalents	\$56,598	\$55,691
Marketable securities	53,344	122,635
Accounts receivable	39,302	6,307
Prepaid expenses and other current assets	6,057	6,414
Total current assets	155,301	191,047
Long-term assets		
Marketable securities	596	496
Property and equipment, net	6,680	5,050
Other long-term assets	6,323	1,614
Total long-term assets	13,599	7,160
Total assets	\$168,900	\$198,207
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	\$10,147	\$4,570
Accrued outsourcing costs	19,140	17,402
Accrued compensation and benefits	8,633	7,507
Other accrued expenses	1,068	2,714
Deferred rent	590	1,285
Deferred revenue	12,856	8,946
Total current liabilities	52,434	42,424
Long-term liabilities		
Deferred rent	4,184	3,314
Deferred revenue	35,961	2,040
Long-term debt, net	113,655	107,280
Other long-term liabilities	598	496
Total long-term liabilities	154,398	113,130
Total liabilities	206,832	155,554
Commitments and contingencies		
Stockholders' equity (deficit)		
Preferred stock, \$0.001 par value; 10,000,000 shares authorized, no shares issued and outstanding	—	—
Common stock, \$0.001 par value; 280,000,000 and 220,000,000 shares authorized as of June 30, 2016 and June 30, 2015, respectively, 143,690,104 and 142,107,025 shares issued and outstanding as of June 30, 2016 and June 30, 2015, respectively	144	142
Additional paid-in capital	763,324	751,073
Accumulated other comprehensive income	7	5

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Accumulated deficit	(801,407 )	(708,567 )
Total stockholders' equity (deficit)	(37,932 )	42,653
Total liabilities and stockholders' equity (deficit)	\$ 168,900	\$ 198,207

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

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## ARRAY BIOPHARMA INC.

## Statements of Operations and Comprehensive Income (Loss)

(In thousands, except per share data)

	Year Ended June 30,		
	2016	2015	2014
Revenue			
License and milestone revenue	\$3,876	\$20,367	\$25,111
Reimbursement revenue	107,330	7,020	—
Collaboration and other revenue	26,673	24,522	16,967
Total revenue	137,879	51,909	42,078
Operating expenses			
Cost of partnered programs	23,166	44,392	45,965
Research and development for proprietary programs	160,655	54,442	49,824
General and administrative	36,267	31,433	21,907
Total operating expenses	220,088	130,267	117,696
Gain on the Binimetinib and Encorafenib Agreements, net	—	80,010	—
Gain on sale of CMC, net	—	1,641	—
Income (loss) from operations	(82,209 )	3,293	(75,618 )
Other income (expense)			
Realized gain from marketable securities, net	—	16,255	—
Interest income	243	68	77
Interest expense	(10,874 )	(10,247 )	(9,716 )
Total other income (expense), net	(10,631 )	6,076	(9,639 )
Net income (loss)	\$(92,840)	\$9,369	\$(85,257)
Change in unrealized gain on marketable securities	2	3	4
Comprehensive income (loss)	\$(92,838)	\$9,372	\$(85,253)
Net earnings (loss) per share – basic	\$(0.65 )	\$0.07	\$(0.69 )
Net earnings (loss) per share – diluted	\$(0.65 )	\$0.07	\$(0.69 )
Weighted average shares outstanding – basic	142,964	136,679	123,403
Weighted average shares outstanding – diluted	142,964	141,692	123,403

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

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## ARRAY BIOPHARMA INC.

## Statements of Stockholders' Equity (Deficit)

(In thousands)

	Preferred Stock Shares	Common Stock Shares	Additional Paid-in Capital Amounts	Accumulated Other Comprehensive Income	Accumulated Deficit	Total	
Balance as of July 1, 2013	—\$	116,878	\$ 117	\$610,655	\$ (2 )	\$(632,679 )	\$(21,909)
Shares issued for cash under employee share plans, net	—	1,132	1	3,692	—	—	3,693
Employee share-based compensation expense	—	—	—	4,331	—	—	4,331
Issuance of common stock, net of offering costs	—	13,807	14	73,434	—	—	73,448
Offering costs for convertible senior notes, equity portion	—	—	—	(31 )	—	—	(31 )
Change in unrealized loss on marketable securities	—	—	—	—	4	—	4
Net loss	—	—	—	—	—	(85,257 )	(85,257 )
Balance as of June 30, 2014	—	131,817	132	692,081	2	(717,936 )	(25,721 )
Shares issued for cash under employee share plans, net	—	1,325	1	4,397	—	—	4,398
Employee share-based compensation expense	—	—	—	7,513	—	—	7,513
Non-employee share-based compensation expense	—	—	—	547	—	—	547
Issuance of common stock, net of offering costs	—	8,965	9	46,535	—	—	46,544
Change in unrealized gain on marketable securities	—	—	—	—	3	—	3
Net income	—	—	—	—	—	9,369	9,369
Balance as of June 30, 2015	—	142,107	142	751,073	5	(708,567 )	42,653
Shares issued for cash under employee share plans, net	—	782	1	2,031	—	—	2,032
Employee share-based compensation expense	—	—	—	7,283	—	—	7,283
Warrants exercised - cashless	—	223	—	—	—	—	—
Warrants exercised for cash	—	12	—	46	—	—	46
Issuance of common stock, net of offering costs	—	566	1	2,891	—	—	2,892
Change in unrealized gain on marketable securities	—	—	—	—	2	—	2
Net loss	—	—	—	—	—	(92,840 )	(92,840 )
Balance as of June 30, 2016	—\$	143,690	\$ 144	\$763,324	\$ 7	\$(801,407 )	\$(37,932)

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



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## ARRAY BIOPHARMA INC.

## Statements of Cash Flows

(In thousands)

	Year Ended June 30,		
	2016	2015	2014
Cash flows from operating activities			
Net income (loss)	\$(92,840)	\$9,369	\$(85,257)
Adjustments to reconcile net income (loss) to net cash used in operating activities:			
Depreciation and amortization expense	1,529	3,702	4,506
Non-cash interest expense	6,375	5,799	5,258
Share-based compensation expense	7,283	7,809	4,331
Extinguishment of co-development liability, net	—	(21,610)	—
Realized gain from marketable securities, net	—	(16,255)	—
Gain on sale of CMC, net	—	(1,641)	—
Non-cash license revenue	—	—	(4,500)
Changes in operating assets and liabilities:			
Accounts receivable	(32,995)	(7,592)	4,166
Prepaid expenses and other assets	(4,352)	(1,260)	(1,961)
Accounts payable and other accrued expenses	3,931	(1,113)	1,866
Accrued outsourcing costs	1,738	7,362	4,464
Accrued compensation and benefits	1,126	(702)	(1,272)
Co-development liability	—	12,169	5,165
Deferred rent	175	(3,236)	(3,645)
Deferred revenue	37,831	1,584	(4,807)
Other long-term liabilities	109	(178)	4
Net cash used in operating activities	(70,090)	(5,793)	(71,682)
Cash flows from investing activities			
Purchases of property and equipment	(3,159)	(2,507)	(2,614)
Proceeds from sale of CMC	—	3,750	—
Purchases of marketable securities	(139,150)	(202,908)	(95,602)
Proceeds from sales and maturities of marketable securities	208,336	143,616	100,698
Net cash provided by (used in) investing activities	66,027	(58,049)	2,482
Cash flows from financing activities			
Proceeds from the issuance of common stock	2,992	47,500	75,000
Proceeds from employee stock purchases and options exercised	2,032	4,398	3,693
Warrants exercised for cash	46	—	—
Payment of debt issuance costs	—	—	(86)
Payment of stock offering costs	(100)	(956)	(1,552)
Net cash provided by financing activities	4,970	50,942	77,055
Net increase (decrease) in cash and cash equivalents	907	(12,900)	7,855
Cash and cash equivalents at beginning of period	55,691	68,591	60,736
Cash and cash equivalents at end of period	\$56,598	\$55,691	\$68,591
Supplemental disclosure of cash flow information			
Cash paid for interest	\$4,466	\$4,450	\$4,349
Change in unrealized gain on marketable securities	\$2	\$3	\$4

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

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ARRAY BIOPHARMA INC.

Notes to the Financial Statements

NOTE 1 – OVERVIEW, BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

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

Basis of Presentation

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

Use of Estimates

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

The Company believes the financial statements are most significantly impacted by the following accounting estimates and judgments: (i) identifying deliverables under collaboration, license and other agreements involving multiple elements and determining whether such deliverables are separable from other aspects of the contractual relationship; (ii) estimating the selling price of deliverables for the purpose of allocating arrangement consideration for revenue recognition; (iii) estimating the periods over which the allocated consideration for deliverables is recognized; (iv) estimating accrued outsourcing costs for clinical trials and preclinical testing; and (v) estimating the fair value of non-marketable equity received from licensing or other transactions.

Reclassifications

Certain prior period amounts in the Company's financial statements have been reclassified to conform to the current period presentation. The \$39.4 million balance attributable to outstanding warrants, which was presented historically as a separate item in stockholders' equity (deficit) on the Company's balance sheet, has been combined with additional paid-in capital for all periods presented in these financial statements.

## Liquidity

With the exception of fiscal year 2015, the Company has incurred operating losses and has an accumulated deficit as a result of ongoing research and development spending since inception. As of June 30, 2016, we had an accumulated deficit of \$801.4 million. We had a net loss of \$92.8 million for the fiscal year ended June 30, 2016.

We have historically funded our operations from up-front fees and license and milestone payments received under our drug collaboration and other agreements, the sale of equity securities, and debt provided by convertible debt and other credit facilities. We believe that our cash, cash equivalents, receivables and marketable securities as of June 30, 2016 will enable us to continue to fund operations in the normal course of business for at least the next 12 months. Until we can generate sufficient levels of cash from current operations, which we do not expect to achieve in the foreseeable future, and because sufficient funds may not be available to us when needed from existing

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collaborations, we expect that we will be required to continue to fund our operations in part through the sale of debt or equity securities, through licensing select programs or partial economic rights that include up-front, royalty and/or milestone payments.

Our ability to successfully raise sufficient funds through the sale of debt or equity securities or from debt financing from lenders when needed is subject to many risks and uncertainties and, even if we are successful, future equity issuances would result in dilution to our existing stockholders. We also may not successfully consummate new collaboration and other agreements that provide for up-front fees or milestone payments, or we may not earn milestone payments under such agreements when anticipated, or at all. Our ability to realize milestone or royalty payments under existing agreements and to enter into new arrangements that generate additional revenue through up-front fees and milestone or royalty payments is subject to a number of risks, many of which are beyond our control.

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

If we are unable to generate enough revenue from our existing or new collaboration and other agreements when needed or to secure additional sources of funding, it may be necessary to significantly reduce the current rate of spending through further reductions in staff and delaying, scaling back, or stopping certain research and development programs, including more costly Phase 2 and Phase 3 clinical trials on our wholly-owned programs as these programs progress into later stage development. Insufficient liquidity may also require us to relinquish greater rights to product candidates at an earlier stage of development or on less favorable terms to us and our stockholders than we would otherwise choose in order to obtain up-front license fees needed to fund operations. These events could prevent us from successfully executing our operating plan and, in the future, could raise substantial doubt about our ability to continue as a going concern. Further, as discussed in Note 7 – Long-term Debt, if at any time our balance of total cash, cash equivalents and marketable securities at Comerica Bank and approved outside accounts falls below \$22.0 million, we must maintain a balance of cash, cash equivalents and marketable securities at Comerica at least equivalent to the entire outstanding debt balance with Comerica, which is currently \$14.6 million. We must also maintain a monthly liquidity ratio if we draw down on the revolving line of credit with Comerica.

## Summary of Significant Accounting Policies

### Fair Value Measurements

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

Level 1: Observable inputs such as unadjusted quoted prices in active markets for identical instruments.

Level 2: Quoted prices for similar instruments that are directly or indirectly observable in the marketplace.

Level 3: Significant unobservable inputs which are supported by little or no market activity and that are financial instruments whose values are determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant judgment or estimation.

Financial instruments measured at fair value are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires us to make judgments and consider factors specific to the asset or liability. The use of different assumptions and/or estimation methodologies may have a material effect on estimated fair values. Accordingly, the fair value estimates disclosed or initial amounts recorded may not be indicative of the amount that we or holders of the instruments could realize in a current market exchange.

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

### Cash and Cash Equivalents and Concentration of Credit Risk

Cash and cash equivalents consist of cash and short-term, highly-liquid financial instruments that are readily convertible to cash and have maturities of 90 days or less from the date of purchase. They may consist of money market funds, commercial paper, U.S. government agency obligations and corporate notes and bonds with high credit quality. We currently maintain all cash in several institutions in the U.S. Balances at these institutions may exceed Federal Deposit Insurance Corporation insured limits.

### Marketable Securities

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

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

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

### Property and Equipment

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

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

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

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

The carrying value for property and equipment is reviewed for impairment at least annually and when events or changes in circumstances indicate that the carrying value of the assets may not be recoverable.

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### Equity Investments

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

Array received shares of Loxo Oncology Inc.'s ("Loxo") non-voting preferred stock as consideration for licensing rights we granted to Loxo under our July 2013 Drug Discovery Collaboration Agreement. We recorded the \$4.5 million estimated fair value of the preferred shares as a long-term investment utilizing the cost method of accounting. In August 2014, Loxo completed an initial public offering ("IPO") of its common stock, which then began to trade on the NASDAQ Global Market. At the closing of the IPO, the preferred shares we held were converted into approximately 1.6 million shares of common stock and, based on the readily determinable fair value of the Loxo common stock following the IPO, we began to account for our investment in Loxo as available-for-sale securities. During the year ended June 30, 2015, we sold all 1.6 million shares of Loxo common stock and received net proceeds of \$20.8 million, resulting in a net realized gain of \$16.3 million.

As of both June 30, 2016 and 2015, we held shares of preferred stock of VentiRx Pharmaceuticals, Inc. ("VentiRx") recorded at \$1.5 million that we received under a February 2007 collaboration and licensing agreement with VentiRx. The Company does not have a controlling interest nor does it exert significant influence over VentiRx.

### Accrued Outsourcing Costs

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

### Convertible Senior Notes

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

method. Although ASC 470-20 has no impact on our actual past or future cash flows, it requires us to record non-cash interest expense as the debt discount is amortized. For additional information, see Note 7 – Long-term Debt.

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### Binimetinib and Encorafenib Agreements

The transactions contemplated by the asset transfer agreements Array entered into with Novartis International Pharmaceutical Ltd. ("Novartis") and Novartis Pharma AG ("Novartis Pharma"), for the re-acquisition of rights to binimetinib and encorafenib Agreements, which we refer to as the Binimetinib and Encorafenib Agreements, closed in March 2015. As a result of the closing, we received an \$85 million cash payment, received \$5 million for the reimbursement of certain transaction costs, extinguished net co-development liabilities of \$21.6 million and recorded deferred revenue of \$6.6 million in the third quarter of fiscal 2015. Also during the third quarter, we entered into a third party agreement to complete the Novartis transactions for a net consideration payment to the third party of \$25 million.

The Binimetinib and Encorafenib Agreements executed with Novartis Pharma and Novartis involved multiple elements. We therefore identified each item given and received and determined how each item should be recognized and classified. The sum of the above transactions was accounted for in a manner consistent with a settlement of a material liability or gain contingency.

We deferred \$6.6 million of the consideration received from Novartis Pharma to reflect the estimated fair value of certain future obligations we are required to perform under the Binimetinib and Encorafenib Agreements, including completion of certain trials that are partially funded by Novartis Pharma. The amount deferred was determined using the estimated fair value of the services to be provided by our full-time employees that we do not anticipate will be covered in the funding reimbursements we will receive from Novartis Pharma under the Binimetinib and Encorafenib Agreements. The estimated fair value was based on amounts we have billed to other third parties in other transactions for similar services. We anticipate recording revenue over the deferral period, which is based upon our estimated time to complete our performance with respect to the applicable clinical trials. The balance of deferred revenue was \$1.8 million and \$5.4 million at June 30, 2016 and 2015, respectively.

As of March 2, 2015, prior to the closing of the Binimetinib and Encorafenib Agreements, we had an accounts receivable balance from Novartis of \$6.7 million and a \$28.3 million co-development liability balance that we owed to Novartis. On March 2, 2015, the termination of the License Agreement with Novartis relating to binimetinib and the effectiveness of the Binimetinib and Encorafenib Agreements resulted in the right to offset the accounts receivable and co-development liability balances. Because we and Novartis owed each other determinable amounts and we have the right to set off the amount payable with the amount receivable from Novartis, we set off these amounts resulting in a net co-development liability of \$21.6 million that was extinguished in full upon termination of the License Agreement, which in turn increased our net gain.

See Note 3 - Binimetinib and Encorafenib Agreements for further information.

### Revenue Recognition

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

We follow ASC 605-25, Revenue Recognition – Multiple-Element Arrangements and ASC 808, Collaborative Arrangements, if applicable, to determine the recognition of revenue under our collaborative research, development and commercialization agreements that contain multiple elements. These multiple elements, or deliverables, may include (i) grants of licenses, or options to obtain licenses, to our intellectual property, (ii) research and development services, (iii) drug product manufacturing, and/or (iv) participation on joint research and/or joint development committees. The payments we may receive under these arrangements typically include one or more of the following:

non-refundable, up-front license fees; option exercise fees; funding of research and/or development efforts; amounts due upon the achievement of specified objectives; and/or royalties on future product sales.

ASC 605-25 provides guidance relating to the separability of deliverables included in an arrangement into different units of accounting and the allocation of arrangement consideration to the units of accounting. The evaluation of multiple-element arrangements requires management to make judgments about (i) the identification of deliverables,

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(ii) whether such deliverables are separable from the other aspects of the contractual relationship, (iii) the estimated selling price of each deliverable, and (iv) the expected period of performance for each deliverable.

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

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

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

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

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

We periodically review the estimated performance periods under each of our agreements that provide for non-refundable up-front payments, license fees or milestone payments. We adjust the periods over which revenue should be recognized when appropriate to reflect changes in assumptions relating to the estimated performance periods. We could accelerate revenue recognition in the event of early termination of programs or if our expectations

change. Alternatively, we could decelerate revenue recognition if programs are extended or delayed. While such changes to our estimates have no impact on our reported cash flows, the amount of revenue recorded in future periods could be materially impacted.

We record as revenue amounts received for reimbursement of costs we incur from our license partners where we act as a principal, control the research and development activities, bear credit risk and may perform part of the

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services required in the transactions, consistent with ASC 605-45-15. Certain collaborators or other counterparties (currently, Novartis and Pierre Fabre) currently provide financial support to us in the form of reimbursement for associated out-of-pocket costs and for a certain amount of Array's fully-burdened full-time equivalent ("FTE") costs based on an agreed-upon FTE rates. The gross amount of these pass-through reimbursed costs are reported as revenue in the accompanying statements of operations and comprehensive income (loss) in accordance with ASC 605-45-15. The actual expenses for which we are reimbursed are reflected as research and development for proprietary programs or cost of partnered programs, as applicable.

See Note 5 – Collaboration and Other Agreements for further information.

### Research and Development Costs

Research and development costs are expensed as incurred. Advance payments for goods and services that will be used in future research and development activities are expensed when the activity has been performed or when the goods have been received rather than when the payment is made. Upfront and milestone payments due to third parties that perform research and development services on our behalf will be expensed as services are rendered or when the milestone is achieved.

Research and development costs primarily consist of personnel related expenses, including salaries, benefits, costs to recruit and relocate new employees, travel, and other related expenses, stock-based compensation, payments made to third party contract research organizations for preclinical and clinical studies, investigative sites for clinical trials, consultants, the cost of acquiring and manufacturing clinical trial materials, the cost of acquiring and manufacturing commercial drug supply, costs associated with regulatory filings and patents, software, facilities and laboratory costs and other supplies.

We split our research and development costs between cost of partnered programs and research and development for proprietary programs on our statements of operations and comprehensive income (loss). Cost of partnered programs represents costs attributable to discovery and development activities, including preclinical and clinical trials we may conduct for or with our partners. Research and development expenses for proprietary programs include costs associated with our proprietary drug programs.

### Operating Leases

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

We completed the sale of our chemical manufacturing and control assets (the "CMC Assets") in June 2015, and in connection with the closing of the sale of the CMC Assets, we simultaneously entered into an amendment to our lease agreement for our facility in Boulder, Colorado and an early termination agreement for our Longmont, Colorado facility. The amended Boulder lease extended the term of our prior lease and provided for a reduction in the amount of leased space by the end of calendar year 2015. As both the amended Boulder lease and the Longmont termination were negotiated with the same landlord, we deferred our existing deferred rent liabilities rather than recognizing a gain

on termination.

#### Share-Based Compensation

Share-based compensation awards include stock options and restricted stock units ("RSUs") granted under our Amended and Restated Stock Option and Incentive Plan ("Option and Incentive Plan") and purchases of common

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

For stock-based compensation awards granted to non-employees, we remeasure the fair value of the non-employee awards at each reporting period prior to vesting and finally at the vesting date of the award. Changes in the estimated fair value of these non-employee awards are recognized as compensation expense in the period of change.

The assumptions used in calculating the fair value of stock-based awards represent management's best estimates and involve inherent uncertainties and the application of management's judgment.

## Income Taxes

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

## Segments

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

## Concentration of Business Risks

## Significant Partners

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

	Year Ended June 30,		
	2016	2015	2014
Novartis	80.5%	15.8%	28.6%
Loxo	9.2	17.8	23.1
Cascadian Therapeutics (previously known as Oncothyreon Inc.)	0.1	42.3	8.2
AstraZeneca	0.1	0.1	12.1
	89.9%	76.0%	72.0%

The loss of one or more of our significant partners could have a material adverse effect on our business, operating results or financial condition. We do not require collateral from our partners, though most pay in advance. Although we are impacted by economic conditions in the biotechnology and pharmaceutical sectors, management does not believe significant credit risk exists as of June 30, 2016.

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## Geographic Information

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

	Year Ended June 30,		
	2016	2015	2014
North America	\$22,474	\$43,386	\$24,757
Europe	114,806	8,293	17,153
Asia Pacific	599	230	168
	\$137,879	\$51,909	\$42,078

## Accounts Receivable

Novartis accounted for 85% of our total accounts receivable balances as of June 30, 2016, compared with 95% as of June 30, 2015.

## Net Earnings (Loss) per Share

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

## Comprehensive Income (Loss)

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

## Recent Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, an updated standard on revenue recognition. ASU No. 2014-09 provides enhancements to the quality and consistency of how revenue is reported by companies while also improving comparability in the financial statements of companies reporting using International Financial Reporting Standards or U.S. GAAP. The main purpose of the new standard is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which a company expects to be entitled in exchange for those goods or services. The new standard also will result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively and improve guidance for multiple-element arrangements. In July 2015, the FASB voted to approve a one-year deferral of the effective date of ASU No. 2014-09, which will be effective for Array in the first quarter of fiscal year 2019 and may be applied on a full retrospective or modified retrospective approach. The Company is currently evaluating the impact of implementation and transition approach of this standard on its financial statements.

In August 2014, the FASB issued ASU No. 2014-15, Presentation of Financial Statements-Going Concern, which defines management's responsibility to assess an entity's ability to continue as a going concern, and requires related footnote disclosures if there is substantial doubt about its ability to continue as a going concern. ASU No. 2014-15

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is effective for Array for the fiscal year ending on June 30, 2017, with early adoption permitted. The Company is currently evaluating the impact of adopting ASU No. 2014-15 and its related disclosures.

In November 2015, the FASB issued ASU No. 2015-17, Balance Sheet Classification of Deferred Taxes. ASU No. 2015-17 requires that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. ASU No. 2015-17 is effective for financial statements issued for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. The Company early adopted ASU No. 2015-17 during the fiscal year ended June 30, 2016. The early adoption of ASU 2015-17 had no impact to the statements of operations or cash flows for any period presented.

In January 2016, the FASB issued ASU No. 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities. ASU No. 2016-01 requires equity investments to be measured at fair value with changes in fair value recognized in net income; simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments; requires separate presentation of financial assets and financial liabilities by measurement category and form of financial assets on the balance sheet or the accompanying notes to the financial statements and clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. ASU No. 2016-01 is effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The Company is currently evaluating the impact that ASU No. 2016-01 will have on its financial statements and related disclosures.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) which supersedes FASB ASC Topic 840, Leases (Topic 840) and provides principles for the recognition, measurement, presentation and disclosure of leases for both lessees and lessors. The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than twelve months regardless of classification. Leases with a term of twelve months or less will be accounted for similar to existing guidance for operating leases. The standard is effective for annual and interim periods beginning after December 15, 2018, with early adoption permitted upon issuance. The Company is currently evaluating the impact this guidance will have on its financial statements.

In March 2016, the FASB issued ASU No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations. The purpose of ASU No. 2016-08 is to clarify the implementation of guidance on principal versus agent considerations. For public entities, the amendments in ASU No. 2016-08 are effective for interim and annual reporting periods beginning after December 15, 2017. The Company is currently evaluating the impact of ASU No. 2016-08 on its financial statements and related disclosures.

In March 2016, the FASB issued ASU No. 2016-09, Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The amendment is to simplify several aspects of the accounting for share-based payment transactions including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The amendments in ASU No. 2016-09 are effective for interim and annual reporting periods beginning after December 15, 2016. The Company is currently assessing the

impact of ASU No. 2016-09 on its financial statements and related disclosures. The Company does not expect the adoption of ASU 2016-09 to have a material effect on the financial statements.

In April 2016, the FASB issued ASU No. 2016-10, Revenue from Contracts with Customer. The new guidance is an update to ASC 606 and provides clarity on: identifying performance obligations and licensing implementation. For

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public companies, ASU No. 2016-10 is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2016. The Company is currently evaluating the impact that ASU No. 2016-10 will have on its financial statements.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments (ASU 2016-13). ASU 2016-13 requires that expected credit losses relating to financial assets measured on an amortized cost basis and available-for-sale debt securities be recorded through an allowance for credit losses. ASU 2016-13 limits the amount of credit losses to be recognized for available-for-sale debt securities to the amount by which carrying value exceeds fair value and also requires the reversal of previously recognized credit losses if fair value increases. The new standard will be effective for us on January 1, 2020. Early adoption will be available on January 1, 2019. The Company is currently evaluating the effect that the updated standard will have on our financial statements and related disclosures.

## NOTE 2 – MARKETABLE SECURITIES

Marketable securities consisted of the following as of June 30, 2016 and 2015 (in thousands):

	June 30, 2016			
	Amortized Cost	Gross Gains	Gross Unrealized Losses	Fair Value
Short-term available-for-sale securities:				
U.S. treasury securities	\$53,113	\$ 8	\$ (1 )	\$53,120
Mutual fund securities	224	—	—	224
	53,337	8	(1 )	53,344
Long-term available-for-sale securities:				
Mutual fund securities	596	—	—	596
	596	—	—	596
Total	\$53,933	\$ 8	\$ (1 )	\$53,940
	June 30, 2015			
	Amortized Cost	Gross Gains	Gross Unrealized Losses	Fair Value
Short-term available-for-sale securities:				
U.S. treasury securities	\$122,199	\$ 8	\$ (3 )	\$122,204
Mutual fund securities	431	—	—	431
	122,630	8	(3 )	122,635
Long-term available-for-sale securities:				
Mutual fund securities	496	—	—	496
	496	—	—	496
Total	\$123,126	\$ 8	\$ (3 )	\$123,131

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

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

	June 30,	
	2016	2015
Quoted prices in active markets for identical assets (Level 1)	\$53,940	\$123,131
Quoted prices for similar assets observable in the marketplace (Level 2)	—	—
Significant unobservable inputs (Level 3)	—	—
Total	\$53,940	\$123,131

The fair value of marketable securities are determined using quoted market prices from daily exchange-traded markets based on the closing price as of the balance sheet date and are classified as Level 1.

The following table is a roll forward of the fair value of our prior investment, which consisted of Loxo common shares, in Level 3 equity securities (in thousands):

	Year Ended June 30, 2015
Balance, beginning of period	\$ —
Transfer into Level 3 due to restriction period on trading	4,500
Change in unrealized gains and losses included in comprehensive income (loss)	13,205
Transfer out of Level 3 due to elimination of trading restrictions	(17,705)
Balance, end of period	\$ —

As of June 30, 2016, the amortized cost and estimated fair value of available-for-sale securities by contractual maturity were as follows (in thousands):

	Amortized Cost	Fair Value
Due in one year or less	\$ 53,113	\$53,120
Due in one year to three years	—	—
Total	\$ 53,113	\$53,120

## NOTE 3 – BINIMETINIB AND ENCORAFENIB AGREEMENTS

Effective March 2, 2015 (the "Effective Date"), Array regained all development and commercialization rights to binimetinib pursuant to the Termination and Asset Transfer Agreement with Novartis Pharma and Novartis, as amended on January 19, 2015 (as amended, the "Binimetinib Agreement"), and acquired all development and commercialization rights to encorafenib pursuant to the Asset Transfer Agreement with Novartis Pharma dated January 19, 2015 (the "Encorafenib Agreement"). As a result of the closing of the Binimetinib Agreement, we received an \$85 million up-front payment from Novartis.



On the Effective Date, Novartis Pharma transferred or exclusively licensed to Array all assets, including intellectual property, regulatory filings, technology, inventory and contract rights, owned by Novartis Pharma or its affiliates that relate to binimetinib and to encorafenib worldwide. Also upon the Effective Date, our existing License Agreement with Novartis dated April 19, 2010, under which we licensed development and commercialization rights to binimetinib and other compounds to Novartis, terminated; as a result of the termination of this License Agreement, we were not required to pay our portion of accrued co-development costs that we had previously accrued under that agreement.

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In connection with the closing of the Binimetinib Agreement and the Encorafenib Agreement, Array and Novartis Pharma entered into two Transition Agreements dated March 2, 2015, one associated with the Binimetinib Agreement and the other associated with the Encorafenib Agreement. Under these agreements, Novartis Pharma and its affiliates are providing certain regulatory assistance, development technology transfer, companion diagnostic transfer and other transition services to Array in connection with the continued development of binimetinib and encorafenib after the Effective Date. Novartis Pharma will provide substantial financial support to Array under the Transition Agreements for all clinical trials involving binimetinib and encorafenib in the form of reimbursement to Array for all associated out-of-pocket costs and for one-half of Array's fully-burdened full-time equivalent ("FTE") costs based on an annual FTE rate. As of June 30, 2016, Novartis Pharma has transitioned responsibility for all previously Novartis-conducted trials and will provide this continuing financial support to Array for completing the trials.

Novartis Pharma will remain responsible for conducting and funding development of the NRAS melanoma companion diagnostic until Premarket Approval is received from the U.S. Food and Drug Administration. Following approval, Novartis Pharma will transfer the product and Premarket Approval to a diagnostic vendor of our designation.

Novartis Pharma also retains binimetinib and encorafenib supply obligations for all clinical and commercial needs for up to 30 months after the Effective Date and will also assist us in the technology and manufacturing transfer of binimetinib and encorafenib. Novartis Pharma will also provide Array continued clinical supply of several Novartis Pharma pipeline compounds including, LEE011 (CDK 4/6 inhibitor) and BYL719 ( -PI3K inhibitor), for use in currently ongoing combination studies, and possible future studies, including Phase 3 trials, with binimetinib and encorafenib.

Each party has agreed to indemnify and hold the other party and its affiliates harmless from and against certain liabilities identified in the Binimetinib Agreement, the Encorafenib Agreement and the Transition Agreements and to a general release of claims relating to the existing License Agreement. The Binimetinib Agreement and the Encorafenib Agreement as well as the Transition Agreements may be terminated only upon the mutual agreement of Novartis Pharma and Array and will remain in effect until the respective obligations of the parties under them have been completed.

We recorded the following amounts in the third quarter of fiscal 2015, resulting in a net gain on the Binimetinib and Encorafenib Agreements as follows (in thousands):

Cash received from the termination of the binimetinib License Agreement with Novartis	\$85,000
Net cost of third party agreement to complete the Novartis transactions	(25,000 )
Extinguishment of co-development obligation due to Novartis (net of a \$6.7 million accounts receivable balance)	21,610
Reimbursement of certain transaction costs	5,000
Subtotal	86,610
Less: Deferred revenue related to ongoing obligations	(6,600 )
Gain on the Binimetinib and Encorafenib Agreements, net	\$80,010

Array also entered into a Development and Commercialization Agreement with Pierre Fabre Medicament SAS, ("Pierre Fabre" or "PFM"), which became effective in December 2015 (the "PF Agreement"), pursuant to which we granted Pierre Fabre rights to commercialize binimetinib and encorafenib in all countries except for the United States, Canada, Japan, Korea and Israel, where Array will retain its ownership rights. The PF Agreement satisfied our commitment to secure a development and commercialization partner for the European market for both encorafenib and binimetinib acceptable to European Commission regulatory agencies made in connection with the Novartis Agreements.

All clinical trials involving binimetinib and encorafenib that were active or planned when the Novartis Agreement became effective in March 2015, including the NEMO and COLUMBUS trials and other then active Novartis sponsored and investigator sponsored clinical studies, continue to be reimbursed pursuant to the terms of the Novartis Agreements. Further worldwide development activities of binimetinib and encorafenib will be governed by a Global Development Plan (GDP) with Pierre Fabre. Pierre Fabre and Array will jointly fund worldwide development costs under the GDP, with Array covering 60% and Pierre Fabre covering 40% of such costs. The initial GDP includes multiple trials, including the BEACON CRC trial, and Pierre Fabre and Array have agreed to commit at least €100 million in combined funds for these studies in colorectal cancer (CRC) and melanoma.

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## NOTE 4 – SALE OF CMC ASSETS

On June 1, 2015, we entered into an Asset Purchase Agreement (the “Purchase Agreement”) with Accuratus Lab Services, Inc. (“Accuratus”), pursuant to which Accuratus acquired certain assets and assumed certain liabilities relating to our chemistry, manufacturing and controls (“CMC”) activities in a transaction that closed on June 1, 2015.

The transaction included the transfer of equipment, inventory and third party contracts relating to our CMC activities, as well as the termination of our facilities lease in Longmont, Colorado and the retention of 33 of our CMC employees by Accuratus following the closing. Accuratus paid us a \$3.75 million cash purchase price at closing for the CMC assets, and we are entitled to receive additional consideration contingent upon achievement of revenue targets for the CMC activities during the first and second year following the closing. Array did not earn additional contingent consideration during the fiscal year ended June 30, 2016.

As part of the transaction, Accuratus hired certain Array employees who were engaged in CMC activities for Array. We issued stock options to these transitioning employees to purchase an aggregate of 133,209 shares of common stock. The stock options vest one year after the date of grant and have a term that expires 90 days upon vesting at an exercise price of \$7.74, which is equal to the closing price of our common stock on the date of grant. The stock options issued to the CMC employees hired by Accuratus did not have a substantive service condition; therefore, the grant date fair value was immediately expensed against the gain on sale of the CMC assets. We determined the grant date fair value of the stock options of \$278 thousand based on the Black-Scholes valuation model using the following assumptions: strike price \$7.74, volatility 61.2%, risk-free interest rate 0.4%, effective life 1.25 years and dividend yield 0%.

As part of this transaction, we are required to purchase a minimum of \$7 million of CMC services from Accuratus over a 24-month period (“Minimum Revenue Guarantee”). We are required to recognize this Minimum Revenue Guarantee at fair value in accordance with ASC 460-10. We determined that the price of the estimated future services approximates fair value and that we currently expect to use services in excess of this Minimum Revenue Guarantee amount. As of June 30, 2016, we have made payments related to the Minimum Revenue Guarantee which exceed the value of services received. Consequently, we have recorded a prepaid asset in the amount of \$2.9 million. Our remaining obligation will result in payments totaling \$1.9 million during fiscal year 2017.

We recorded the following amounts in the fourth quarter of fiscal 2015, resulting in a net gain of \$1.6 million on the sale of the CMC assets calculated as the difference between the allocated non-contingent consideration amount for the assets and liabilities and the net carrying amount of the assets and liabilities assumed or extinguished. The following sets forth the calculation of the gain on sale as of the closing (in thousands):

Non-contingent cash consideration received	\$3,750
Fixed assets or related lease costs sold or written off	(1,818 )
Fair value of stock options issued to retained CMC employees	(278 )
Other extinguished employee liabilities	276
Estimated transaction costs	(342 )
Deferred revenue associated with undelivered elements	144
Other	(91 )
Gain on sale of CMC, net	\$1,641

The net gain on the sale of the CMC assets may be adjusted in future periods by the contingent consideration, based upon the achievement of pre-determined revenue milestones.

The sale of the CMC assets does not qualify as a discontinued operation as the sale is not a strategic shift that has (or will have) a major effect on our operations and financial results.

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## NOTE 5 – COLLABORATION AND OTHER AGREEMENTS

The following table summarizes our total revenues for the periods indicated (in thousands):

	Year Ended June 30,		
	2016	2015	2014
Novartis (1)	\$110,930	\$8,220	\$12,053
Loxo Oncology	12,635	9,223	9,708
Pierre Fabre	3,724	—	—
Mirati	3,557	1,200	—
Celgene	3,126	4,132	3,742
Biogen Idec	2,816	4,593	282
Asahi Kasei	600	—	—
Cascadian Therapeutics (previously known as Oncothyreon Inc.)	183	21,955	3,464
AstraZeneca, PLC (2)	152	73	5,104
Genentech	24	367	3,568
Other partners	132	2,146	4,157
Total revenue	\$137,879	\$51,909	\$42,078

(1) Includes \$107.3 million and \$7.0 million of reimbursement revenue consisting of FTE and out-of-pocket costs that are reimbursable by Novartis under the Binimetinib and Encorafenib Agreements during the years ended June 30, 2016 and 2015, respectively. All other prior year amounts represent the amortization of the up-front and milestone payments under the April 2010 License Agreement with Novartis that was terminated on the Effective Date of the Binimetinib and Encorafenib Agreements in March 2015.

(2) 2014 includes a \$5.0 million milestone from AstraZeneca for the start of a Phase 3 clinical study.

Novartis International Pharmaceutical Ltd.

Array entered into a License Agreement with Novartis in April 2010, which granted Novartis the exclusive worldwide right to develop and commercialize binimetinib, as well as other specified MEK inhibitors. Array regained these rights and the 2010 License Agreement terminated on the Effective Date of the Binimetinib Agreement in March 2015, as discussed in Note 3 - Binimetinib and Encorafenib Agreements. As a result, our co-development liability under the License Agreement described below, and any receivables from Novartis then outstanding under the License Agreement, were eliminated as of the Effective Date.

In consideration for the rights granted to Novartis under the prior License Agreement, we received an aggregate of \$60 million in an up-front fee and in milestone payments between the fourth quarter of fiscal 2010 and the first quarter of fiscal 2014. We recognized the up-front fee and milestone payments under the License Agreement on a straight-line basis from April 2010 through April 2014.

#### Co-Development Arrangement

The License Agreement contained co-development rights whereby we could elect to pay a share of the combined total development costs, subject to a maximum amount with annual caps. During the first two years of the co-development, Novartis reimbursed us for 100% of our development costs. We began to pay our share of the combined development costs that had accrued since inception of the program, with payments to Novartis of \$9.2 million and \$11.3 million in the second quarters of fiscal 2013 and fiscal 2014, respectively, in accordance with the terms of the License Agreement. During fiscal 2014, we committed to continue our co-development contribution through fiscal 2015. We continued to record an estimate of our co-development liability under the License Agreement until our liability

terminated upon the Effective Date of the Binimetinib Agreement as discussed in Note 3 - Binimetinib and Encorafenib Agreements. Our co-development liability was \$28.3 million as of the Effective Date of the Binimetinib Agreement and was \$0 as of June 30, 2015.

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For periods prior to termination of the License Agreement, we recorded a receivable in accounts receivable on the balance sheet for the amounts due from Novartis for the reimbursement of our development costs in excess of the annual cap. We recorded expense in cost of partnered programs on the statement of operations and comprehensive income (loss) for our share of the combined development costs and accrued these costs on our balance sheet in co-development liability.

Up until the Effective Date of the Binimetinib Agreement, our share of the combined development costs was \$13.1 million and \$18.9 million during the years ended June 30, 2015 and 2014, respectively. We continued to record an estimate of our receivable from Novartis under the License Agreement until termination of the receivable upon the Effective Date, as discussed above and in Note 3 - Binimetinib and Encorafenib Agreements. Our receivable balance from Novartis was \$6.7 million as of the Effective Date of the Binimetinib Agreement.

Loxo Oncology, Inc.

In July 2013, Array entered into a Drug Discovery Collaboration Agreement with Loxo and granted Loxo exclusive rights to develop and commercialize certain Array-invented compounds targeted at the tropomyosin kinase ("Trk") family of receptors, including LOXO-101, which is currently in Phase 1 and Phase 2 clinical trials. In November 2013, April 2014, October 2014, March 2015, and February 2016, Array and Loxo amended the agreement to expand the research activities under the agreement. Under the terms of the amended agreement, Loxo is funding further discovery and preclinical programs to be conducted by Array, including LOXO-195, a next generation selective TRK inhibitor, RET and FGFR programs, during the remainder of the three-year discovery research phase, which ends in September 2017, which may be extended by Loxo for up to one additional one-year renewal period. In addition, Loxo will fund further discovery and preclinical research to be conducted by Array directed at other targets during the research phase of the agreement. Loxo will be responsible for all additional preclinical and clinical development and commercialization.

In consideration of the exclusive license and rights granted to Loxo under the agreement, Array received shares of Loxo non-voting preferred stock representing an initial 19.9% interest in the newly-formed entity and following additional financings by Loxo, Array's ownership interest in Loxo as of June 30, 2014 was 15.3%. All of the shares of preferred stock held by Array converted into shares of common stock on the closing date of Loxo's IPO. After certain trading restrictions ended following Loxo's IPO, we sold all of our shares of common stock of Loxo and as of June 30, 2015, Array has no remaining ownership interest in Loxo. Array also receives advance payments for preclinical research and other services that Array is providing during the term of the discovery program and is eligible to receive up to \$434.0 million in milestone payments if certain clinical, regulatory and sales milestones are achieved plus royalties on sales of any resulting drugs.

Pursuant to the accounting guidance for revenue recognition for multiple-element arrangements, we determined that Array is obligated to deliver three non-contingent deliverables related to the Loxo agreement. These deliverables are (i) the conduct of the research activities under the discovery program, including related technology transfer (the "research services deliverable"), (ii) an exclusive worldwide license granted to Loxo to certain Array technology and Array's interest in collaboration technology, as well as exclusive worldwide marketing rights (the "license deliverable") and (iii) participation on the JRC. The Loxo agreement provides for no general right of return for any non-contingent deliverable. All of the identified non-contingent deliverables meet the separation criteria; therefore, they are each treated as separate units of accounting. Delivery of the research services and JRC participation obligations will be completed throughout the remainder of the three-year discovery program term which ends in September 2017. The license deliverable was complete as of September 30, 2013.

To determine the stand-alone value of the license, we considered our negotiation discussions with Loxo that led to the final terms of the agreement, publicly-available data for similar licensing arrangements between other companies and



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

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The receipt of the preferred shares was in consideration for the license deliverable. We allocated an amount of consideration under the Loxo agreement to the license deliverable equal to the fair value of the shares received after consideration of the other factors above. We chose the fair value of the shares received as this was a more evident and readily determinable measure as compared to the alternative method for determining the consideration to allocate to the license deliverable, which was the fair value for the exclusive license. The valuation of the preferred shares required the use of significant assumptions and estimates, including assumptions about the estimated volatility of the equity, the estimated time to a liquidity event, and the likelihood of Loxo obtaining additional future financing. During the first quarter of fiscal 2014, we recognized the full \$4.5 million estimated fair value of the preferred shares received in license revenue as delivery of the shares was not contingent upon either the delivery of additional items or meeting other specified performance conditions.

The remaining consideration under the amended Loxo agreement, which Loxo pays to Array in advance quarterly payments, is allocated between the research services and JRC participation deliverables and will be recognized as the services are rendered throughout the discovery program term. We had deferred revenue balances of \$4.0 million and \$0.9 million for Loxo at June 30, 2016 and 2015, respectively.

The April 2014 amendment added several contingent deliverables related to rights to discontinue research activities for fewer targets in exchange for additional payments to be made to Array. All of the obligations added to the arrangement by the amendment were considered contingent because the likelihood and timing of these deliverables is uncertain and therefore the potential consideration associated with these obligations was not included in the total allocable consideration. The April 2015 amendment increased the number of FTEs performing research services through December 31, 2015. The most recent amendment was treated as a new agreement. The February 2015 agreement extended the term of the additional FTEs.

In July 2014, we began performing additional CMC-related services for Loxo that were agreed to between the parties on a project level basis. Each project consisted of a single deliverable or multiple deliverables and each was evaluated for proper revenue recognition as a multiple-element arrangement when appropriate. All unfinished Loxo CMC projects were assigned to the purchaser of our CMC assets effective June 1, 2015, as discussed in Note 4 - Sale of CMC Assets.

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

Pierre Fabre

On November 10, 2015, the Company entered into the PF Agreement with Pierre Fabre pursuant to which the Company granted Pierre Fabre rights to commercialize binimetinib and encorafenib in all countries except for the United States, Canada, Japan, Korea and Israel, where Array retains its ownership rights. The PF Agreement satisfies the Company's commitment to secure a development and commercialization partner for the European market for both

encorafenib and binimetinib acceptable to European Commission regulatory agencies made in connection with the Novartis Agreements.

The PF Agreement closed in December 2015. All clinical trials involving binimetinib and encorafenib that were ongoing or planned at the Effective Date, including the NEMO and COLUMBUS trials and other then-ongoing Novartis sponsored and investigator sponsored clinical studies, continue to be conducted pursuant to the terms of the Novartis Agreements. Further worldwide development activities will be governed by a Global Development Plan (GDP) with Pierre Fabre. Pierre Fabre and the Company will jointly fund worldwide development costs under the GDP, with the Company covering 60% and Pierre Fabre covering 40% of such costs. The initial GDP includes multiple trials,

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including the BEACON CRC trial, and Pierre Fabre and Array have agreed to commit at least €100 million in combined funds for these studies in colorectal cancer (CRC) and melanoma.

Pierre Fabre is responsible for seeking regulatory and pricing and reimbursement approvals in the European Economic Area and its other licensed territories. The Company and Pierre Fabre will also enter into a clinical and commercial supply agreement pursuant to which the Company will supply or procure the supply of clinical and commercial supplies of drug substance and drug product for Pierre Fabre, the costs of which will be borne by Pierre Fabre. The Company has also agreed to cooperate with Pierre Fabre to ensure the supply of companion diagnostics for use with binimetinib and encorafenib in certain indications.

Each party has also agreed not to distribute, sell or promote competing products in each party's respective markets during a period of exclusivity. Each party has also agreed to indemnify the other party from certain liabilities specified in the Agreement.

In connection with the PF Agreement, Array received \$30.0 million as an up-front payment during the year ended June 30, 2016. The terms of the PF Agreement include substantial ongoing collaboration and cost-sharing activities between the companies, and require Array to perform future development and commercialization activities. In accordance with the revenue recognition criteria under ASC Topic 605, the Company determined that the PF Agreement is a multi-deliverable arrangement with the following deliverables: (1) the license rights, and (2) clinical development and other services.

The Company determined that the license granted to PF does not have stand-alone value apart from the services that Array will provide. Accordingly, non-refundable upfront amounts received under the PF agreement are recorded as deferred revenue and are being recognized on a straight-line basis over ten years, the period during which management expects that substantial development activities will be performed. License revenue recognized under this agreement was \$1.6 million for the year ended June 30, 2016; at June 30, 2016 deferred revenue associated with this agreement was approximately \$28.4 million. Collaboration revenue of \$2.1 million was recognized for Pierre Fabre's share of co-development costs incurred during fiscal 2016.

The PF Agreement contains substantive potential milestone payments of up to \$35.0 million for achievement of three regulatory milestones relating to EC marketing approvals for three specified indications and of up to \$390.0 million for achievement of seven commercialization milestones if certain net sales amounts are achieved for any licensed indications. Array is also entitled to double-digit royalties based on net sales under the agreement.

Mirati Therapeutics, Inc.

The Company is party to an agreement with Mirati Therapeutics, Inc. ("Mirati") whereby Array conducted a feasibility program for Mirati related to a particular target in exchange for an up-front payment of \$1.6 million that was received in October 2014 (which was recognized as revenue over the subsequent twelve months) and other payments and potential payments as described below. In September 2015, Mirati exercised an option to extend the feasibility program for six months, for which Array received a \$750 thousand option extension fee (which was recognized as revenue over the subsequent six months). During April 2016, Mirati elected to exercise an option to take an exclusive, worldwide license to an active compound under the agreement and Array received \$2.5 million ("Option Exercise Fee") and will receive additional fees as reimbursement for research and development services. In accordance with the revenue recognition criteria under ASC Topic 605, the Company determined that the Mirati agreement is a multi-deliverable arrangement with multiple deliverables: (1) the license rights, (2) services related to obtaining enhanced intellectual property rights through the issuance of a particular patent and (3) clinical development services.

The Company determined that the license granted under the Mirati Agreement does not have stand-alone value apart from the services Array will provide. Accordingly, the Option Exercise Fee, received in the quarter ended June 30, 2016, is recorded as deferred revenue and is being recognized on a straight-line basis over three years, the period during which management expects that substantial development activities will be performed. Revenue recognized under this agreement was \$3.6 million and \$1.2 million for the years ended June 30, 2016 and June 30, 2015, respectively; at June 30, 2016 deferred revenue associated with this agreement was approximately \$3.2 million.

In addition to the \$1.6 million upfront payment, the \$750 thousand option extension fee and the \$2.5 million Option Exercise Fee, the Mirati Agreement contains substantive potential milestone payments of up to \$9.3 million for four

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remaining developmental milestones and up to \$337.0 million for the achievement of seven commercialization milestones if certain net sales amounts are achieved in the United States, the European Union and Japan.

Dr. Charles Baum, a current member of Array's Board of Directors, is the President and Chief Executive Officer of Mirati.

Celgene

Array and Celgene Corporation and Celgene Alpine Investment Co., LLC (collectively "Celgene") entered into a Drug Discovery and Development Option and License Agreement in July 2013 to collaborate on development of an Array-invented preclinical development program targeting a novel inflammation pathway. The agreement provides Celgene an option to select multiple clinical development candidates that Celgene may further develop on an exclusive basis under the agreement. Celgene also had the option to obtain exclusive worldwide rights to commercialize one or more of the development compounds it could select upon payment of an option exercise fee to Array. Array was responsible for funding and conducting preclinical discovery research on compounds directed at the target, and Celgene was responsible for all clinical development and commercialization of any compounds it could select. During July 2016, Celgene notified Array that it would not exercise the option to obtain exclusive worldwide rights to commercialize any of the development compounds. As a result, Array retains all rights to the program.

Array received a non-refundable up-front payment of \$11.0 million from Celgene during the first quarter of fiscal 2014. The majority of the up-front payment received was for the performance of research services, which we recognized as collaboration revenue over the estimated option term which originally was estimated to be three years. During the three months ended December 31, 2014, we revised this estimate to just over two years and prospectively adjusted recognition of the unrecognized portion of the up-front payment at the time of the change in estimate over the revised remaining option period. Due to additional information obtained during the three months ended March 31, 2015, we revised our estimate back to the original estimate of three years. Deferred revenue balances were \$0 and \$3.1 million as of June 30, 2016 and 2015, respectively.

Biogen Idec

Array entered into a Drug Discovery Collaboration Agreement with Biogen Idec MA Inc. ("Biogen") in May 2014 for the discovery and development of Array-discovered inhibitors targeting a novel kinase for the treatment of autoimmune disorders. Under the terms of the agreement, Biogen and Array collaborated on the discovery of the novel kinase inhibitors. Biogen was responsible for all aspects of clinical development and commercialization. Pursuant to advance quarterly funding from Biogen, Array provided staffing to support the discovery program during the anticipated three-year discovery program term, which could have been extended for an additional 12-month period upon consent from both parties. The agreement included research funding for three years, various milestone payments payable upon achievement of certain development and commercial milestones, and royalties to Array. The collaboration terminated in November 2015.

Pursuant to the accounting guidance for revenue recognition for multiple-element arrangements, we identified two non-contingent deliverables that met the separation criteria, the first being conduct of discovery and pre-IND manufacturing activities under the discovery program (the "discovery program deliverable"), and participation on the joint research committee ("JRC") as the second. The discovery program deliverable and the JRC deliverable are both expected to be delivered throughout the duration of the discovery program term. Revenue recognized under the Biogen agreement during the periods presented was based upon the level of staffing provided during those periods and our established FTE rate for research services. Deferred revenue balances were \$0 and \$1.1 million as of June 30, 2016 and 2015, respectively.

Asahi Kasei Pharma

On March 31, 2016, the Company announced a strategic collaboration with Asahi Kasei Pharma Corporation ("AKP") to develop and commercialize select Tropomyosin receptor kinase A (TrkA) inhibitors, including Array-invented ARRY-954, for pain, inflammation and other non-cancer indications.

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The Company received a \$12.0 million up-front payment in April 2016 and may receive cost sharing payments, up to \$63.5 million in additional development and commercialization milestone payments, and up to double-digit royalties on future sales. Array will retain full commercialization rights for all compounds in all indications in territories outside of Asia and within Asia retain full rights to cancer indications for all compounds excluding those being developed by AKP.

In accordance with the revenue recognition criteria under ASC Topic 605, the Company determined that the AKP agreement is a multi-deliverable arrangement with the following deliverables: (1) the license rights, and (2) clinical development and other services. The Company determined that the license granted to AKP does not have stand-alone value apart from the services Array will provide. Accordingly, non-refundable upfront amounts received under the AKP agreement are recorded as deferred revenue and are being recognized on a straight-line basis over five years, the period during which management expects that substantial development activities will be performed. Revenue recognized under this agreement was \$0.6 million for the year ended June 30, 2016; at June 30, 2016 deferred revenue associated with this agreement was approximately \$11.4 million.

The milestone payments include up to \$11.0 million related to the achievement of four regulatory milestones for up to five drug candidates and up to \$52.5 million for a milestone payment at the time of the first commercial sale and the achievement of three commercialization milestones if certain net sales amounts are achieved for any licensed drug candidates.

Cascadian Therapeutics (formerly Oncothyreon Inc.)

### License Agreement

Effective December 11, 2014, Array entered into a License Agreement with Cascadian Therapeutics ("Cascadian"). Pursuant to the License Agreement, Array has granted Cascadian an exclusive license to develop, manufacture and commercialize ONT-380 (previously known also as ARRY-380), an orally active, reversible and selective small-molecule HER2 inhibitor currently in Phase 2 clinical trials. The License Agreement replaces and terminates the prior Development and Commercialization Agreement under which Cascadian and Array were jointly developing ONT-380, and going forward, Cascadian will be solely responsible for all preclinical and clinical development, regulatory and commercialization activities relating to ONT-380.

Under the terms of the License Agreement, Cascadian paid Array a non-refundable, up-front fee of \$20 million. In addition, if Cascadian sublicenses rights to ONT-380 to a third party, Cascadian will pay Array a percentage of any sublicense payments it receives, with the percentage varying according to the stage of development of ONT-380 at the time of the sublicense. If Cascadian is acquired within three years of the effective date of the License Agreement, and ONT-380 has not been sublicensed to another entity prior to such acquisition, then the acquirer will be required to make certain milestone payments of up to \$280 million to Array, which are primarily based on potential ONT-380 sales. Array is also entitled to receive up to a double-digit royalty based on net sales of ONT-380.

Pursuant to the accounting guidance for revenue recognition for multiple-element arrangements, we determined that the exclusive license is the only non-contingent deliverable with stand-alone value under the License Agreement. Array must also expend a nominal amount of effort related to technology transfer, which was completed as of December 31, 2014, but because the technology transfer deliverable does not meet the separation criteria, it was recognized as a combined unit of accounting with the license. Potential payments for a percentage of sublicensing rights, milestone payments and royalties cannot be estimated. Also, at its separate expense Cascadian may request additional technology transfer and/or transition services from Array. Due to uncertainty of the likelihood and timing of all of the potential payments and additional services, their consideration is not considered fixed and determinable, therefore no portion of the up-front fee has been allocated to them.



The entire \$20.0 million up-front fee was allocated to the combined license/initial technology transfer unit of accounting, which we recognized in full in license revenue during December 2014.

The License Agreement will expire on a country-by-country basis on the later of 10 years following the first commercial sale of the product in each respective country or expiration of the last to expire patent covering the product in such country, but may be terminated earlier by either party upon material breach of the License Agreement by the other party or the other party's insolvency, or by Cascadian on 180 days' notice to Array. Cascadian and Array have also

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agreed to indemnify the other party for certain of their respective warranties and obligations under the License Agreement.

AstraZeneca

In December 2003, we entered into a Collaboration and License Agreement with AstraZeneca to develop our MEK program. Under the agreement, AstraZeneca acquired exclusive worldwide rights to our clinical development candidate, selumetinib (previously known as AZD6244, or ARRY- 142886), together with two other compounds, which we invented during the collaboration, for oncology indications. We retained the rights to all therapeutic indications for MEK compounds not selected by AstraZeneca for development, subject to the parties' agreement to work exclusively together. In April 2009, the exclusivity of the parties' relationship ended, and both companies are now free to independently research, develop and commercialize small molecule MEK inhibitors in the field of oncology. Our research obligations ended in 2004 and AstraZeneca is responsible for all future development and commercialization of the compounds under the collaboration. To date, we have earned \$26.5 million in up-front and milestone payments. The agreement also provided for research funding, which is now complete, and provides potential additional development milestone payments of approximately \$70.0 million (with \$30 million specific for selumetinib) and royalties on product sales.

Development Status: AstraZeneca is continuing to advance selumetinib in two registration trials: differentiated thyroid cancer (ASTRA) and Neurofibromatosis Type 1, or NF1. AstraZeneca estimates the availability of top-line results for both trials in 2017. In August 2016, AstraZeneca announced results from the Phase 3 SELECT-1 trial of selumetinib in combination with docetaxel chemotherapy as 2nd-line treatment in patients with KRAS mutation-positive locally-advanced or metastatic non-small cell lung cancer. The results showed that the trial did not meet its primary endpoint of progression-free survival, and selumetinib did not have a significant effect on overall survival. The adverse event profiles for selumetinib and docetaxel were consistent with those seen previously.

The AstraZeneca Agreement contains substantive potential milestone payments of up to \$36.0 million for nine remaining developmental milestones for Selumetinib and up to \$34.0 million for the achievement of three commercialization milestones if certain net sales amounts are achieved in the United States, the European Union and Japan for Selumetinib.

Genentech, Inc.

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

Under the 2003 agreement, Genentech made an up-front payment and provided research funding to Array, and we are entitled to receive additional milestone payments based on achievement of certain development and commercialization milestones and royalties on certain resulting product sales under the agreement. The 2003 agreement was expanded in 2005, 2008, and 2009 to develop clinical candidates directed against additional targets and, in 2010 the term of funded research was extended through January 2013, after which the research term ended. In February 2015, the parties again amended the 2003 agreement to terminate each party's continuing rights and obligations with respect to one of the molecular targets under the agreement in exchange for a payment by Array to Genentech that was made in March 2015 following the effectiveness of the amendment on March 2, 2015. Genentech is advancing 2 collaborative drugs: ipatasertib, an AKT inhibitor, in multiple Phase 2 trials and GDC-0994, an ERK inhibitor, in a Phase 1 trial.

We have received up-front and milestone payments totaling \$23.5 million under the 2003 agreement. We are eligible to earn an additional \$23.0 million in payments if Genentech continues development and achieves the remaining milestones set forth in the 2003 agreement.

The partnered drugs under the Chk-1 agreement included Genentech's compound GDC-0425 and Array's compound GDC-0575 (ARRY-575). In 2014, Genentech selected GDC-0575 over GDC-0425 to advance into further clinical trials. Under the terms of the Chk-1 collaboration agreement, Genentech acquired a license to Array's compound GDC-0575 and is responsible for all clinical development and commercialization activities. We received an up-front payment of \$28 million during the first quarter of fiscal 2012 and are eligible to receive payments of up to \$380 million

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based on the achievement of clinical and commercial milestones under this agreement. We will also receive up to double-digit royalties on sales of any drugs resulting from the Chk-1 agreement.

Pursuant to the accounting guidance for revenue recognition for multiple-element arrangements, we determined that Array is obligated to deliver three non-contingent deliverables related to the Chk-1 agreement that meet the separation criteria and therefore are treated as separate units of accounting. These deliverables are (i) the delivery of specified clinical materials for GDC-0575 for use in future clinical trials, (ii) the transfer of the license and related technology with ongoing regulatory services to assist in filing the Investigational New Drug ("IND") application and to provide supporting data, and (iii) activities related to the achievement of a specified milestone. The Chk-1 agreement provides for no general right of return for any non-contingent deliverable.

The first and second non-contingent deliverables were completed during fiscal 2012 and revenue for both of these deliverables was recognized in full during that period. The initial recognition period for revenue allocated to the third obligation was from inception of the Chk-1 agreement until such time that the specified milestone is estimated to be achieved. During the three months ended March 31, 2015, however, we elected to recognize the remaining license revenue of \$99 thousand due to the immaterial amount remaining although the milestone has not been achieved. We will be entitled to an additional milestone payment if and when the specified milestone is achieved.

The Chk-1 agreement also includes a contingent deliverable whereby Genentech could, at its sole option, require us to perform chemical and manufacturing control ("CMC") activities for additional drug product or improved processes. The CMC option is a contingent deliverable because the scope, likelihood and timing of the potential services are unclear. Certain critical terms of the services have not yet been negotiated, including the fee that we would receive for the service and Genentech could elect to acquire the drug materials without our assistance either by manufacturing them in-house or utilizing a third-party vendor. Therefore, no portion of the up-front payment was allocated to the contingent CMC services.

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

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



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## NOTE 6 – PROPERTY AND EQUIPMENT, NET

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

	June 30,	
	2016	2015
Furniture and fixtures	\$2,647	\$2,647
Equipment	26,120	26,120
Computer hardware and software	15,953	14,336
Leasehold improvements	15,577	15,335
Property and equipment, gross	60,297	58,438
Less: accumulated depreciation and amortization	(53,617)	(53,388)
Property and equipment, net	\$6,680	\$5,050

## NOTE 7 – LONG-TERM DEBT

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

	June 30,	
	2016	2015
Comerica term loan	\$14,550	\$14,550
Convertible senior notes	132,250	132,250
Long-term debt, gross	146,800	146,800
Less: Unamortized debt discount and fees	(33,145 )	(39,520 )
Long-term debt, net	\$113,655	\$107,280

## Comerica Bank

We entered into a Loan and Security Agreement with Comerica Bank dated June 28, 2005, which has been subsequently amended and provides for a \$15 million term loan and a revolving line of credit of \$2.8 million. The term loan bears interest at a variable rate and we currently have \$14.6 million outstanding under the term loan. The revolving line of credit was established to support standby letters of credit in relation to our facilities leases, and has not been drawn upon.

Under the terms of the amended Loan and Security Agreement, the term loan will mature in October 2017 and the revolving line of credit will mature in September 2016 unless extended. Effective December 31, 2013, the interest rate on the term loan was amended to be equal to the Prime Rate, if the balance of our cash, cash equivalents and marketable securities maintained at Comerica is greater than or equal to \$10 million, or equal to the Prime Rate plus 2% if this balance is less than \$10 million. As of June 30, 2016, the term loan with Comerica had an interest rate of 3.5% per annum. All principal is due at maturity and interest is paid monthly.

The Loan and Security Agreement requires us to maintain a balance of cash at Comerica that is at least equivalent to our total outstanding obligation under the term loan if our overall balance of cash, cash equivalents and marketable securities at Comerica and approved outside accounts is less than \$22 million. Additionally, we are required to comply with a financial covenant that applies if we draw down on the revolving line of credit. In this event, we must maintain a ratio equal to at least 1.25 to 1.00 as of the last day of each month calculated as follows: (A) total cash, cash equivalents and marketable securities less all outstanding obligations to Comerica under the term loan, plus specified percentages of the respective values of eligible accounts, equipment and eligible inventory, divided by (B) the aggregate amount outstanding under the revolving letter of credit sublimit. No amounts are outstanding under the

revolving line of credit and we do not expect to make any draws under this facility.

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

We use a discounted cash flow model to estimate the fair value of the Comerica term loan. The fair value was estimated at \$14.6 million as of both June 30, 2016 and 2015, and was determined using Level 2, observable inputs other than quoted prices in active markets.

3.00% Convertible Senior Notes Due 2020

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

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

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

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

In accordance with ASC 470-20, we used an effective interest rate of 10.25% to determine the liability component of the Notes. This resulted in the recognition of \$84.2 million as the liability component of the Notes and the recognition of the residual \$48.0 million as the debt discount with a corresponding increase to additional paid-in capital for the equity component of the Notes. The underwriting discount and estimated offering expenses of \$4.3 million were allocated between the debt and equity issuance costs in proportion to the allocation of the liability and equity components of the Notes. Debt issuance costs of \$2.7 million were included in other long-term assets on our balance sheet as of the issuance date. Equity issuance costs of \$1.6 million were recorded as an offset to additional paid-in



capital. The debt discount and debt issuance costs will be amortized as non-cash interest expense through June 1, 2020. The balance of unamortized debt issuance costs was \$1.8 million and \$2.1 million as of June 30, 2016 and 2015, respectively.

The fair value of the Notes was \$110.2 million and \$142.2 million at June 30, 2016 and 2015, respectively, and was determined using Level 2 inputs based on their quoted market values.

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## Summary of Interest Expense

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

	Year Ended June 30,		
	2016	2015	2014
<b>Comerica Term Loan</b>			
Simple interest	\$501	\$480	\$479
Amortization of fees paid for letters of credit	31	44	48
Total interest expense on the Comerica term loan	532	524	527
<b>Convertible Senior Notes</b>			
Contractual interest	3,967	3,968	3,979
Amortization of debt discount	6,033	5,447	4,932
Amortization of debt issuance costs	342	308	278
Total interest expense on the convertible senior notes	10,342	9,723	9,189
Total interest expense	\$10,874	\$10,247	\$9,716

## Commitment Schedule

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

	Principal Due
2017	\$—
2018	14,550
2019	—
2020	132,250
2021	—
Thereafter	—
	\$146,800

## NOTE 8 – COMMITMENTS AND CONTINGENCIES

## Operating Leases

We lease facilities and equipment under various non-cancelable operating leases that expire through 2025. Our most significant lease in Boulder, Colorado was amended during the 2015 fiscal year, expires on March 31, 2025 and includes an option to extend the lease for up to two terms of five years each. We are currently leasing approximately 131,000 square feet. In addition to minimum lease payments, we are contractually obligated under some of our lease agreements to pay certain operating expenses during the term of the lease, such as maintenance, taxes and insurance.

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Future minimum rental commitments for our operating leases, by fiscal year and in the aggregate, as of June 30, 2016, are (in thousands):

	Rental Payments
2017	\$ 3,750
2018	3,540
2019	3,539
2020	3,581
2021	3,651
Thereafter	14,347
	\$ 32,408

Our facilities rent expense was as follows (dollars in thousands):

	Year Ended June 30,		
	2016	2015	2014
Cash paid for rent	\$4,785	\$8,276	\$8,878
Deferred rent credits	(1,270 )	(3,236 )	(3,645 )
Rent expense, net	\$3,515	\$5,040	\$5,233

## Legal Proceedings

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

## NOTE 9 – STOCKHOLDERS' EQUITY (DEFICIT)

## Stock Option and Incentive Plan

In September 2000, our Board of Directors approved the Amended and Restated Stock Option and Incentive Plan (the "Option and Incentive Plan"). As of June 30, 2016, 19,228,677 shares of common stock are reserved for future issuance under the Option and Incentive Plan to our eligible employees, consultants and directors. Of the shares available for future issuance, 2,282,592 are available for issuance as incentive stock options. The remaining shares can be used for other awards. In addition, the Option and Incentive Plan provides for the reservation of additional authorized shares on any given day in an amount equal to the difference between:

- (i) 25% of our issued and outstanding shares of common stock, on a fully diluted and as-converted basis; and
- (ii) the number of outstanding shares relating to awards under the Option and Incentive Plan plus the number of shares available for future grants of awards under the Option and Incentive Plan on that date.

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



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

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

## Warrants

Associated with our previously outstanding long-term debt arrangements with Deerfield Capital, which have been paid in full, we issued warrants to Deerfield to purchase 6,000,000 shares of common stock at an exercise price of \$3.65 and warrants to purchase 6,000,000 shares of common stock at an exercise price of \$4.19. The warrants contain the same terms, except for the lower per share exercise price. We valued the warrants at issuance based on a Black-Scholes option pricing model and then allocated a portion of the proceeds under the debt to the warrants based upon their relative fair values. The warrants were recorded in stockholders' deficit with the offset to debt discount. The debt discount was amortized using the effective interest method and recorded as interest expense in the accompanying statements of operations and comprehensive income (loss) from the respective draw dates until June 10, 2013, when the Deerfield credit facilities were repaid and the recognition of the remaining debt discount was accelerated. The warrants were sold by Deerfield Capital to an unrelated third party during the fiscal year 2015. During fiscal year 2016, 3,996,298 warrants with an exercise price of \$3.65 were exercised on a cashless basis for approximately 223,000 common shares. Additionally, approximately 12,000 warrants with an exercise price of \$3.65 were exercised for approximately 12,000 common shares. All of the remaining warrants expired on June 30, 2016.

## Controlled Equity Offering

On March 27, 2013, we entered into a Sales Agreement with Cantor Fitzgerald & Co. ("Cantor"), pursuant to which we could sell up to \$75 million in shares of our common stock from time to time through Cantor, acting as our sales agent, in an at-the-market offering. We completed the sale of all shares available under the Sales Agreement in June 2014. On August 15, 2014, we amended the Sales Agreement with Cantor to allow us to sell up to \$47.5 million in additional shares under the Sales Agreement. All sales of shares have been made pursuant to an effective shelf registration statement on Form S-3 filed with the SEC. We paid Cantor a commission of approximately 2% of the aggregate gross proceeds we received from all sales of our common stock under the Sales Agreement. The amended Sales Agreement continues until the earlier of selling all shares available under the Sales Agreement, or March 27, 2016. We completed the sale of shares under the amended agreement in June 2015.

In August 2015, the Company amended its Sales Agreement with Cantor Fitzgerald & Co. ("Cantor") dated March 27, 2013 to permit the sale by Cantor, acting as its sales agent, of up to \$75 million in additional shares of the Company's common stock from time to time in an at-the-market offering under the Sales Agreement. All sales of shares have been and will continue to be made pursuant to an effective shelf registration statement on Form S-3 filed with the SEC. The Company pays Cantor a commission of approximately 2% of the aggregate gross proceeds the Company receives from all sales of the Company's common stock under the Sales Agreement. The amended Sales Agreement continues indefinitely until either party terminates the Sales Agreement, which may be done on 10 days prior written notice. From July 1, 2016 through July 31, 2016, the Company sold 1.3 million shares of common stock in accordance with the amended Sales Agreement for net proceeds of approximately \$4.8 million.



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The following table summarizes our total sales under the Sales Agreement for the periods indicated (in thousands, except per share amounts):

	Year Ended	
	June 30,	
	2016	2015
Total shares of common stock sold	566	8,965
Average price per share	\$5.28	\$5.30
Gross proceeds	\$2,992	\$47,500
Commissions earned by Cantor and other costs	\$100	\$956

## NOTE 10 – SHARE-BASED COMPENSATION

Total share-based compensation expense recorded for employee equity awards issued pursuant to the Option and Incentive Plan and for shares issued under the ESPP was \$7.3 million, \$7.8 million and \$4.3 million for the fiscal years ended June 30, 2016, 2015 and 2014, respectively. Share-based compensation for the year ending June 30, 2016, 2015 and 2014 consisted of:

	Year Ended June 30,		
	2016	2015	2014
Awards issued to employees	\$7,283	\$7,513	\$4,331
Options issued to transitioned CMC employees, net of other CMC share-based compensation amounts	—	251	—
Other non-employee awards	—	296	—
Total share-based compensation expense	\$7,283	\$8,060	\$4,331

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

• Risk-free interest rate - We determine the risk-free interest rate by using a weighted average assumption equivalent to the expected term based on the U.S. Treasury constant maturity rate.

• Expected term - We estimate the expected term of our options based upon historical exercises and post-vesting termination behavior.

• Expected volatility - We estimate expected volatility using daily historical trading data of our common stock.

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

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## Option Awards

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

	Year Ended June 30,		
	2016	2015	2014
Risk-free interest rate	1.30% - 1.83%	1.5% - 2.1%	1.7% - 2.1%
Expected option term in years	5.5 - 6.25	6.25	6.25
Expected volatility	55.7% - 60.1%	60.8% - 67.1%	67.8% - 68.9%
Dividend yield	0%	0%	0%
Weighted average grant date fair value	\$1.95	\$3.86	\$2.91

The fair values of our non-employee option awards were estimated using the assumptions below, which yielded the following weighted average grant date fair value for the period presented:

	Year Ended June 30, 2015
Risk-free interest rate	0.4% - 0.6%
Expected option term in years	1.25 - 2.00
Expected volatility	58.9% - 61.2%
Dividend yield	0%
Weighted average grant date fair value	\$2.16

The following table summarizes our stock option activity under the Option and Incentive Plan for the year ended June 30, 2016:

	Number of Options	Weighted Average Exercise Price	Weighted Average Term (in years)	Remaining Contractual	Aggregate Intrinsic Value (in thousands)
Outstanding at June 30, 2015	10,750,863	\$ 5.30			
Granted	3,275,669	\$ 3.69			
Exercised	(419,179 )	\$ 3.43			
Forfeited	(1,245,008 )	\$ 6.08			
Expired or canceled	(714,750 )	\$ 5.82			
Outstanding balance at June 30, 2016	11,647,595	\$ 4.80	7.5		\$ 1,777
Vested and expected to vest at June 30, 2016	9,816,010	\$ 4.83	7.2		\$ 1,310
Exercisable at June 30, 2016	5,627,819	\$ 4.88	5.9		\$ 521

The aggregate intrinsic value in the above table is calculated as the difference between the closing price of our common stock at June 30, 2016, of \$3.56 per share and the exercise price of the stock options that had strike prices below the closing price. The total intrinsic value of all options exercised during the years ended June 30, 2016, 2015 and 2014 was \$0.7 million, \$2.3 million, and \$2.0 million, respectively.



As of June 30, 2016, there was approximately \$9.5 million of total unrecognized compensation expense, including estimated forfeitures, related to the unvested stock options in the table above, which is expected to be recognized over a weighted average period of 2.7 years.

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## Restricted Stock Units ("RSUs")

The Option and Incentive Plan provides for the issuance of RSUs that each represent the right to receive one share of Array common stock, cash or a combination of cash and stock, typically following achievement of time- or performance-based vesting conditions. Our RSU grants that vest subject to continued service over a defined period of time, will typically vest between two to four years, with a percentage vesting on each anniversary date of the grant, or they may be vested in full on the date of grant. RSUs will be settled upon the vesting date, upon a predetermined delivery date, upon a change in control of Array, or upon the employee leaving Array. All outstanding RSUs may only be settled through the issuance of common stock to recipients, and we intend to continue to grant RSUs that may only be settled in stock. RSUs are assigned the value of Array common stock at date of grant issuance, and the grant date fair value is amortized over the applicable vesting period.

A summary of the status of our non-vested RSUs as of June 30, 2016 and changes during the year ended June 30, 2016, is presented below:

	Number of RSUs	Weighted Average Grant Date Fair Value
Unvested at June 30, 2015	678,247	\$ 5.35
Granted	329,597	\$ 3.31
Vested	(160,828)	\$ 5.12
Forfeited	(14,916 )	\$ 7.30
Unvested at June 30, 2016	832,100	\$ 4.55

As of June 30, 2016, there was \$1.7 million of total unrecognized compensation cost related to non-vested RSUs granted under the Option and Incentive Plan. The cost is expected to be recognized over a weighted-average period of approximately 2.7 years. The fair value for RSUs that vested during the year ended June 30, 2016 and 2015, was \$0.8 million and \$1.8 million, respectively. RSUs granted during the year ended June 30, 2016 and 2015 had a fair value of \$1.1 million and \$4.9 million at grant date, respectively.

## Employee Stock Purchase Plan

Following approval by our shareholders at our 2014 Annual Meeting, an additional 600,000 shares of our common stock were reserved for issuance under the ESPP, bringing the total amount of our common shares reserved for issuance under the ESPP to an aggregate of 5,250,000 shares. The ESPP allows qualified employees (as defined in the ESPP) to purchase shares of our common stock at a price equal to 85% of the lower of (i) the closing price at the beginning of the offering period or (ii) the closing price at the end of the offering period. Effective each January 1, a new 12-month offering period begins that will end on December 31 of that year. However, if the closing stock price on July 1 is lower than the closing stock price on the preceding January 1, then the original 12-month offering period terminates, and the purchase rights under the original offering period roll forward into a new six-month offering period that begins July 1 and ends on December 31. As of June 30, 2016, we had 586,104 shares available for issuance under the ESPP. We issued 265,179, 240,366 and 309,287 shares under the ESPP during fiscal 2016, 2015 and 2014, respectively.

## NOTE 11 – EMPLOYEE BENEFIT PLAN

## Employee Savings Plan

Array has a 401(k) plan that allows participants to contribute from 1% to 60% of their salary, subject to eligibility requirements and annual IRS limits. Array matches up to 4% of employee contributions on a discretionary basis as determined by our Board of Directors. Company contributions are fully vested after four years of employment. We paid matching contributions of approximately \$952 thousand, \$1.1 million, and \$1.2 million, during the years ended June 30, 2016, 2015 and 2014, respectively.

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## NOTE 12 – RESTRUCTURING CHARGES

On August 5, 2013, we implemented a 20% reduction in our workforce and the affected employees were immediately notified. The reduction in force supports our strategy to fund our development organization with strategic collaborations and to focus our resources to progress our hematology and oncology programs to later stage development. The actions associated with the reductions were substantially completed during the first quarter of fiscal 2014 and, as a result of the reductions, we recorded a one-time restructuring charge of \$2.8 million for termination benefits in the same period. Of this charge, \$2.2 million was recorded in research and development for proprietary programs and \$602 thousand was recorded in general and administrative expense. The restructuring charge is associated with cash payments of \$2.6 million and \$194 thousand made during the first quarter and second quarter, respectively, of fiscal 2014.

## NOTE 13 – INCOME TAXES

We have accumulated net losses since inception and have not recorded an income tax provision or benefit during fiscal 2016, 2015 and 2014.

A reconciliation of income taxes at the statutory federal income tax rate to net income taxes included in the accompanying statements of operations and comprehensive income (loss) is set forth in the following table:

	Year Ended June 30,		
	2016	2015	2014
U.S. federal income tax expense at the statutory rate	34.0 %	34.0 %	34.0 %
Change in valuation allowance	(53.4)	110.2	(37.5)
Change in tax contingency reserve (releases)	(5.7 )	38.4	(0.3 )
State income taxes, net of federal taxes	2.1	11.1	3.1
Stock-based compensation	(1.1 )	10.5	(1.2 )
Available research and experimentation tax credits	5.0	(29.6 )	2.0
Orphan drug credit	19.3	(176.0)	—
Rate change	—	1.0	—
Effect of other permanent differences	—	0.4	(0.1 )
Other	(0.2 )	—	—
Total	0.0 %	0.0 %	0.0 %

Deferred tax assets and liabilities reflect the net tax effects of net operating losses, credit carryforwards and temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for income tax purposes.

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The components of our deferred tax assets and liabilities are (in thousands):

	June 30,	
	2016	2015
Deferred tax assets		
Accrued benefits	\$2,568	\$2,030
Inventory reserve	1,514	1,514
Net operating loss carryforwards	201,571	178,120
Capital loss carryforwards	—	61
Research and experimentation credit carryforwards	33,834	31,004
Orphan drug credit carryforwards	45,420	21,838
Third party agreement payment	8,452	9,070
Deferred revenue	670	3,818
Deferred rent	1,772	1,707
Stock compensation	4,499	3,375
Depreciation of property and equipment	4,112	4,519
Loan costs on convertible senior notes	278	371
Other	35	12
Total deferred tax assets	304,725	257,439
Deferred tax liabilities		
Discount on convertible senior notes	(11,639)	(13,877)
Unrealized gain (loss) on marketable securities	(3 )	(2 )
Total deferred tax liabilities	(11,642)	(13,879)
Less valuation allowance	(293,083)	(243,560)
Net deferred tax assets	\$—	\$—

As of each reporting date, we consider existing evidence, both positive and negative, that could impact our view with regard to future realization of deferred tax assets. We had a net loss of \$92.8 million for the year ended June 30, 2016. We continue to believe that it is more likely than not that the benefit for deferred tax assets will not be realized. In recognition of this uncertainty, we continue to provide a full valuation allowance on our deferred tax assets. We did not record a tax provision for the years ended June 30, 2016, 2015 and 2014, due to our estimate that the effective tax rate for each year being 0%.

Future realization depends on the future earnings of Array, if any, the timing and amount of which are uncertain as of June 30, 2016. In the future, should management conclude that it is more likely than not that the deferred tax assets are partially or fully realizable, the valuation allowance would be reduced to the extent of such expected realization and the amount would be recognized as a deferred income tax benefit in our statements of operations and comprehensive income (loss).

Certain tax benefits from employee stock option exercises are included in the deferred tax asset balances as of June 30, 2016 and 2015 as a component of our net operating loss carryforwards. The deferred tax asset balances as of June 30, 2016 and 2015 do not include excess tax benefits from stock option exercises of approximately \$5.3 million and \$5.3 million, respectively. Equity will be increased if and when management determines that it is more likely than not that such excess tax benefits will ultimately be realized.

As of June 30, 2016, we had available total net operating loss carryforwards of approximately \$560.5 million, which expire in the years 2020 through 2036, federal research and experimentation credit carryforwards of \$38.9 million, which expire in the years 2022 through 2036, and orphan drug credit carryforwards of \$52.2 million, which begin to expire in 2033.

The Tax Reform Act of 1986 and certain state tax statutes limit the utilization of net operating loss and tax credit carryforwards to offset future taxable income and tax, and may therefore result in the expiration of a portion of those carryforwards before they are utilized, if there has been a "change of ownership" as described in Section 382 of the

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Internal Revenue Code ("IRC"), and under similar state provisions. The Company has performed a detailed analysis of Section 382 of the IRC through June 30, 2016. Based on our analysis, approximately \$40 thousand of our net operating losses as of the year ended June 30, 2016, may not be used to offset taxable income. We have provided a valuation allowance against the entire amount of our net operating loss and tax credit carryforwards. The effect of an ownership change would be the imposition of an annual limitation on the use of net operating loss carryforwards attributable to periods before the change. Any limitation may result in expiration of a portion of the net operating loss or research and development credit carryforwards before utilization. We will continue to evaluate future events that could limit our ability to utilize our net operating losses and tax credit carryforwards in future years.

We follow a comprehensive model for recognizing, measuring, presenting and disclosing uncertain tax positions taken or expected to be taken on a tax return. Tax positions must initially be recognized in the financial statements when it is more likely than not that the position will be sustained upon examination by the tax authorities. Such tax positions must initially and subsequently be measured as the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the tax authority assuming full knowledge of the position and relevant facts.

The cumulative effect of accounting for tax contingencies in this manner has been recorded in deferred tax assets, net of the full valuation allowance, which resulted in no liability being recorded on our accompanying balance sheets. The total amount of unrecognized tax benefits as of and for the years ended June 30, 2016, 2015, and 2014 are (in thousands):

	Year Ended June 30,		
	2016	2015	2014
Balance at beginning of year	\$7,311	\$3,676	\$3,428
Additions based on tax positions related to the current year	5,071	3,551	712
Additions for tax positions of prior year	1,323	559	—
Reductions for tax positions of prior year	(544 )	(475 )	(464 )
Balance at end of year	\$13,161	\$7,311	\$3,676

There are open statutes of limitations for taxing authorities in federal and state jurisdictions to audit our tax returns from inception of Array. Our policy is to account for income tax related interest and penalties in income tax expense in the accompanying statements of operations and comprehensive income (loss). There have been no income tax related interest or penalties assessed or recorded.

## NOTE 14 - NET EARNINGS (LOSS) PER SHARE

Basic and diluted earnings (loss) per common share are computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share includes the determinants of basic net income (loss) per share and, in addition, gives effect to the potential dilution that would occur if securities or other contracts to issue common stock were exercised, vested or converted into common stock, unless they are anti-dilutive. Diluted weighted average common shares include common stock potentially issuable under our convertible notes, vested and unvested stock options and unvested RSUs.

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The following table sets forth the computation of earnings per share (amounts in thousands except per share data):

	Year Ended June 30,		
	2016	2015	2014
Net earnings (loss) - basic and diluted	\$(92,840)	\$9,369	\$(85,257)
Weighted average shares outstanding - basic	142,964	136,679	123,403
Warrants	—	3,560	—
Stock options	—	1,300	—
RSUs	—	153	—
Weighted average shares outstanding - diluted	142,964	141,692	123,403
Per share data:			
Basic	\$(0.65 )	\$0.07	\$(0.69 )
Diluted	\$(0.65 )	\$0.07	\$(0.69 )

For the periods where we reported losses, all common stock equivalents are excluded from the computation of diluted earnings (loss) per share, since the result would be anti-dilutive. Common stock equivalents (measured at the end of each fiscal period) that are not included in the calculations of diluted earnings (loss) per share because to do so would have been anti-dilutive, include the following (amounts in thousands):

	Year Ended June 30,		
	2016	2015	2014
Convertible senior notes	18,762	18,762	18,762
Warrants	—	—	12,000
Stock options	11,648	7,332	6,922
RSUs	832	275	—
Total anti-dilutive common stock equivalents excluded from diluted loss per share calculation	31,242	26,369	37,684



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## NOTE 15 – SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

The tables below summarize our unaudited quarterly operating results for the fiscal years ended June 30, 2016 and 2015 (dollars in thousands, except per share data):

Fiscal Year Ended June 30, 2016	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenue	\$16,197	\$35,430	\$43,047	\$43,205
Research and development for proprietary programs	\$20,998	\$41,351	\$48,802	\$49,504
Total operating expenses	\$34,568	\$56,952	\$63,055	\$65,513
Net loss	\$(20,987)	\$(24,164)	\$(22,675)	\$(25,014)
Net earnings (loss) per share – basic	\$(0.15 )	\$(0.17 )	\$(0.16 )	\$(0.17 )
Net earnings (loss) per share – diluted	\$(0.15 )	\$(0.17 )	\$(0.16 )	\$(0.17 )
Weighted average shares outstanding – basic	142,216	142,833	143,338	143,475
Weighted average shares outstanding – diluted	142,216	142,833	143,338	143,475
Fiscal Year Ended June 30, 2015	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenue	\$6,069	\$26,919	\$6,601	\$12,320
Research and development for proprietary programs	\$12,190	\$11,817	\$11,817	\$18,618
Total operating expenses	\$31,166	\$32,993	\$32,144	\$33,964
Net income (loss)	\$(27,593)	\$(8,611 )	\$58,307	\$(12,734)
Net earnings (loss) per share – basic	\$(0.21 )	\$(0.06 )	\$0.42	\$(0.09 )
Net earnings (loss) per share – diluted	\$(0.21 )	\$(0.06 )	\$0.37	\$(0.09 )
Weighted average shares outstanding – basic	131,826	133,815	139,769	141,393
Weighted average shares outstanding – diluted	131,826	133,815	166,265	141,393

The net earnings (loss) per share amounts above may not sum to the annual amounts presented in our accompanying statements of operations and comprehensive income (loss) due to rounding.

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## EXHIBIT INDEX

Exhibit Number	Description of Exhibit	Incorporated by Reference		
		Form	File No.	Date Filed
3.1	Amended and Restated Certificate of Incorporation of Array BioPharma Inc., as amended		Filed herewith	
3.2	Bylaws of Array Biopharma Inc., as amended and restated on October 30, 2008	8-K	001-16633	11/4/2008
4.1	Specimen certificate representing the common stock	S-1/A	333-45922	10/27/2000
4.2	Indenture dated June 10, 2013 between the registrant and Wells Fargo Bank, National Association	8-K	001-16633	6/10/2013
4.3	First Supplemental Indenture dated June 10, 2013 between the registrant and Wells Fargo Bank, National Association (including the form of global note for the 3.00% Convertible Senior Notes due 2020)	8-K	001-16633	6/10/2013
10.1	Amended and Restated Investor Rights Agreement between registrant and the parties whose signatures appear on the signature pages thereto, dated November 16, 1999	S-1	333-45922	9/15/2000
10.2	Amendment No. 1 to Amended and Restated Investor Rights Agreement between registrant and the parties whose signatures appear on the signature pages thereto, dated August 31, 2000	S-1	333-45922	9/15/2000
10.3	Amended and Restated Array BioPharma Inc. Stock Option and Incentive Plan, as amended*	DEF-14A	001-16633	9/18/2015
10.4	Amendment to Amended and Restated Array BioPharma Inc. Stock Option and Incentive Plan, as amended*	10-K	001-16633	8/16/2012
10.5	Form of Incentive Stock Option Agreement, as amended*	10-K	001-16633	9/1/2006
10.6	Form of Nonqualified Stock Option Agreement, as amended*	10-K	001-16633	9/1/2006
10.7	Form of Restricted Stock Unit Agreement*	8-K	001-16633	8/20/2014
10.8	Amended and Restated Array BioPharma Inc. Employee Stock Purchase Plan*	DEF-14A	001-16633	9/12/2014
10.9	Employment Agreement, dated April 26, 2012, between registrant and Ron Squarer*	8-K	001-16633	5/1/2012
10.10	Noncompete Agreement, dated April 26, 2012, between registrant and Ron Squarer*	8-K	001-16633	5/1/2012
10.11	Confidentiality and Inventions Agreement, dated April 26, 2012, between registrant and Ron Squarer*	8-K	001-16633	5/1/2012
10.12	Employment Agreement, effective as of March 4, 2002, between registrant and John Moore*	10-K	001-16633	9/30/2002
10.13	Employment Agreement, dated May 13, 2014, between registrant and Nicholas A. Saccomano, Ph.D.*	10-K	001-16633	8/15/2014
10.14	Employment Agreement, dated August 29, 2014, between registrant and Victor Sandor, M.D.*	8-K	001-16633	9/12/14
10.15	Noncompete Agreement, dated August 29, 2014, between registrant and Victor Sandor, M.D.*	8-K	001-16633	9/12/14
10.16	Confidentiality and Inventions Agreement, dated August 29, 2014, between registrant and Victor Sandor, M.D.*	8-K	001-16633	9/12/14
10.17	Employment Agreement, dated September 11, 2014, between registrant and Andrew Robbins*	8-K	001-16633	9/12/14
10.18	Amended and Restated Deferred Compensation Plan of Array BioPharma Inc., dated December 20, 2004*	8-K	001-16633	12/21/2004

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10.19	First Amendment to the Amended and Restated Deferred Compensation Plan of Array BioPharma Inc.*	10-Q	001-16633	2/6/2006
10.20	Research Services Agreement between registrant and Eli Lilly and Company, dated March 22, 2000, as amended**	S-1	333-45922	9/15/2000
10.21	Research Agreement between registrant and Amgen Inc., dated as of November 1, 2001**	8-K/A	001-16633	2/6/2002
10.22	Lead Generation Collaboration Agreement between registrant and Takeda Chemical Industries, Ltd., dated July 18, 2001**	10-Q	001-16633	11/14/2001
10.23	Collaboration and License Agreement between registrant and AstraZeneca AB, dated December 18, 2003**	10-Q	001-16633	2/2/2004

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Exhibit Number	Description of Exhibit	Incorporated by Reference		
		Form	File No.	Date Filed
10.24	Drug Discovery Collaboration Agreement between registrant and Genentech, Inc., dated December 22, 2003**	10-Q	001-16633	2/2/2004
10.25	Second Amendment, dated October 1, 2005, to the Drug Discovery Collaboration Agreement between registrant and Genentech, Inc.**	10-Q	001-16633	2/6/2006
10.26	Letter Agreement dated, July 30, 2009, between the registrant and Genentech, Inc.**	10-Q	001-16633	11/2/2009
10.27	Sixth Amendment to Drug Discovery Collaboration Agreement, dated as of September 30, 2010, between the registrant and Genentech, Inc.	10-Q	001-16633	11/9/2010
10.28	Seventh Amendment to Drug Discovery Collaboration Agreement, dated as of February 10, 2015, between the registrant and Genentech, Inc.**	10-Q	001-16633	5/7/2015
10.29	License Agreement, dated August 5, 2011, between the registrant and Genentech, Inc.**	10-Q	001-16633	11/2/2011
10.30	Drug Discovery Collaboration Agreement between registrant and InterMune, Inc., dated September 13, 2002, along with Amendment No. 1 dated May 8, 2003, Amendment No. 2 dated January 7, 2004, Amendment No. 3 dated September 10, 2004, Amendment No. 4 dated December 7, 2004, Amendment No. 4A dated March 10, 2005 and Amendment No. 5 dated June 30, 2005**	10-K	001-16633	9/13/2005
10.31	Amendment No. 6, dated February 3, 2006, to the Drug Discovery Collaboration Agreement between registrant and InterMune, Inc., dated September 13, 2002**	10-K	001-16633	9/1/2006
10.32	Amendment No. 7, dated June 28, 2006, to the Drug Discovery Collaboration Agreement between registrant and InterMune, Inc., dated September 13, 2002**	10-K	001-16633	9/1/2006
10.33	Exercise of Option to Extend Funding of Research FTEs, dated August 31, 2006, to the Drug Discovery Collaboration Agreement between registrant and InterMune, Inc., dated September 13, 2002	10-Q	001-16633	11/6/2006
10.34	Drug Discovery Agreement between registrant and Ono Pharmaceutical Co., Ltd., dated November 1, 2005**	10-Q	001-16633	2/6/2006
10.35	Loan and Security agreement, dated June 28, 2005, by and between registrant and Comerica Bank	10-K	001-16633	9/13/2005
10.36	First Amendment to Loan and Security agreement, dated December 19, 2005, by and between registrant and Comerica Bank	10-Q	001-16633	2/6/2006
10.37	Second Amendment to Loan and Security Agreement, dated July 7, 2006, between the registrant and Comerica Bank	10-Q	001-16633	11/6/2006
10.38	Third Amendment to Loan and Security Agreement, dated June 12, 2008, between the registrant and Comerica Bank	10-K	001-16633	8/12/2010
10.39	Fourth Amendment to Loan and Security Agreement, dated March 11, 2009, between the registrant and Comerica Bank	10-K	001-16633	8/12/2010
10.40	Fifth Amendment to Loan and Security Agreement, dated September 30, 2009, between the registrant and Comerica Bank	8-K	001-16633	10/5/2009
10.41	Sixth Amendment to Loan and Security Agreement, dated March 31, 2010, between the registrant and Comerica Bank	8-K	001-16633	4/6/2010
10.42	Seventh Amendment to Loan and Security Agreement, dated June 11, 2011, between the registrant and Comerica Bank	10-K	001-16633	8/12/2011
10.43		10-Q	001-16633	2/6/2013

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	Eighth Amendment to Loan and Security Agreement, dated December 28, 2012, between the registrant and Comerica Bank			
10.44	Ninth Amendment to Loan and Security Agreement dated June 4, 2013, by and between the registrant and Comerica Bank	8-K	001-16633	6/10/2013
10.45	Tenth Amendment to Loan and Security Agreement, dated December 31, 2013, between the registrant and Comerica Bank	10-Q	001-16633	2/5/14
10.46	Eleventh Amendment to Loan and Security Agreement, dated August 3, 2015, between the registrant and Comerica Bank	10-K	001-16633	8/21/2015
10.47	Twelve Amendment to Loan and Security Agreement, dated November 4, 2015, between the registrant and Comerica Bank	10-Q	001-16633	11/5/2015
10.48	Facilities Lease and Assignment, dated July 7, 2006, between the registrant and BMR-3200 Walnut Street LLC	10-Q	001-16633	11/6/2006
10.49	Description of Performance Bonus Program*	8-K	001-16633	8/3/2016

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Exhibit Number	Description of Exhibit	Incorporated by Reference		
		Form	File No.	Date Filed
10.50	Collaboration and License Agreement, dated July 12, 2011, between the registrant and ASLAN Pharmaceuticals**	10-Q	001-16633	11/2/2011
10.51	Sales Agreement, dated March 27, 2013, by and between registrant and Cantor Fitzgerald & Co.	8-K	001-16633	3/27/2013
10.52	Amendment No. 1 to Sales Agreement, dated August 15, 2014, by and between registrant and Cantor Fitzgerald & Co.	POS-AM	333-189048	8/18/2014
10.53	Amendment No. 2 to Sales Agreement, dated August 3, 2015, by and between registrant and Cantor Fitzgerald & Co.	S-3ASR	333-206525	8/21/2016
10.54	Amendment No. 3 to Sales Agreement, dated November 4, 2015, by and between registrant and Cantor Fitzgerald & Co.	10-Q	001-16633	11/5/2015
10.55	Drug Discovery and Collaboration Agreement, dated July 3, 2013, between registrant and Loxo Oncology, Inc.**	10-K	001-16633	8/12/2013
10.56	Amendment No. 1 to Drug Discovery Collaboration Agreement, dated November 26, 2013, by and between registrant and Loxo Oncology, Inc.**	10-K	001-16633	8/15/2014
10.57	Amendment No. 2 to Drug Discovery Collaboration Agreement, dated April 10, 2014, by and between registrant and Loxo Oncology, Inc.**	10-K	001-16633	8/15/2014
10.58	Amendment No. 3 to Drug Discovery Collaboration Agreement, dated October 13, 2014, between registrant and Loxo Oncology, Inc.**	10-Q	001-16633	2/4/2015
10.59	Amendment No. 4 to Drug Discovery Collaboration Agreement, dated March 31, 2015, by and between registrant and Loxo Oncology, Inc.***	10-K	001-16633	8/21/2015
10.60	Drug Discovery and Development Option and License Agreement, dated July 17, 2013, between the registrant and Celgene Corporation and Celgene Alpine Investment Co., LLC**	10-Q	001-16633	11/1/2013
10.61	License Agreement, dated December 11, 2014, between registrant and Oncothyreon, Inc.**	10-Q	001-16633	2/4/2015
10.62	Termination and Asset Transfer Agreement, dated November 26, 2014, between registrant and Novartis Pharmaceutical International Ltd. and Novartis Pharma AG**	10-Q	001-16633	2/4/2015
10.63	First Amendment to Termination and Asset Transfer Agreement, dated January 19, 2015, between registrant, Novartis Pharma AG and Novartis Pharmaceutical International Ltd.**	10-Q	001-16633	5/7/2015
10.64	LGX818 Asset Transfer Agreement, dated January 19, 2015, between registrant and Novartis Pharma AG**	10-Q	001-16633	5/7/2015
10.65	Transition Agreement, dated March 2, 2015, between the registrant and Novartis Pharma AG (binimetinib)**	10-Q	001-16633	5/7/2015
10.66	Transition Agreement, dated March 2, 2015, between the registrant and Novartis Pharma AG (encorafenib)**	10-Q	001-16633	5/7/2015
10.67	Asset Purchase Agreement, dated June 1, 2015, by and between registrant and Accuratus Lab Services, Inc.**	10-K	001-16633	8/21/2015
10.68	First Amendment to and Partial Termination of Lease, dated June 1, 2015, between the registrant and BMR-3200 Walnut Street LLC	10-K	001-16633	8/21/2015
10.69	Amended and Restated Development and Commercialization Agreement, dated December 2, 2015, between the registrant and Pierre Fabre Medicament SAS**	10-Q/A	001-16633	6/8/2016

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10.70	Thirteenth Amendment to Loan and Security Agreement, dated June 29, 2016, between the registrant and Comerica Bank	Filed herewith
10.71	Employment Agreement, dated July 28, 2016, between registrant and Jason Haddock*	Filed herewith
10.72	Noncompete Agreement, dated July 28, 2016, between registrant and Jason Haddock*	Filed herewith
10.73	Confidentiality and Inventions Agreement, dated July 28, 2016, between registrant and Jason Haddock*	Filed herewith
23.1	Consent of KPMG LLP, Independent Registered Public Accounting Firm	Filed herewith
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended	Filed herewith

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Table of Contents

Exhibit Number	Description of Exhibit	Incorporated by Reference	
		Form	File No. Date Filed
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended		Filed herewith
32.1	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002		Furnished
101.INS	XBRL Instance Document		Filed herewith
101.SCH	XBRL Taxonomy Extension Schema Document		Filed herewith
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document		Filed herewith
101.LAB	XBRL Taxonomy Extension Label Linkbase Document		Filed herewith
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document		Filed herewith
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document		Filed herewith

\* Management contract or compensatory plan.

\*\* Confidential treatment of redacted portions of this exhibit has been granted.