ARRAY BIOPHARMA INC
Form 10-K/A
September 13, 2005

# U.S. SECURITIES AND EXCHANGE COMMISSION

**WASHINGTON, D.C. 20549**

# FORM 10-K/A

**(Amendment No. 1)**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF**

**THE SECURITIES EXCHANGE ACT OF 1934**

**For the fiscal year ended June 30, 2004**

**Commission File Number: 000-31979**

# Array BioPharma Inc.

(Exact Name of Registrant as Specified in Its Charter)

| | | |
|---|---|---|
| **Delaware** | | **84-1460811** |
| (State of Incorporation) | | (I.R.S. Employer Identification No.) |
| | | |
| **3200 Walnut Street, Boulder, Colorado 80301** | | |
| (Address of principal executive offices) | | |
| | | |
| **(303) 381-6600** | | |
| (Registrant s telephone number, including area code) | | |
| | | |

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

| | | |
|---|---|---|
| | | |

| Securities registered pursuant to Section 12(g) of the Act: |
| --- |
| **Common Stock, Par Value $.001 Per Share** |

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 ý No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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. ý

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ý No o

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

The aggregate market value of voting stock held by non-affiliates of the registrant as of August 30, 2004 was $163,620,758 (For this computation, the registrant has excluded the market value of all shares of its common stock reported as beneficially owned by executive officers and directors of the registrant; such exclusion shall not be deemed to constitute an admission that any such person is an affiliate of the registrant.)

Number of shares outstanding of the registrant s class of common stock as of August 30, 2004: 28,907,630.

**EXPLANATORY NOTE**

This Amendment No. 1 to the Annual Report on Form 10-K ( Form 10-K/A ) is being filed in order to correct the previously issued historical financial statements of Array BioPharma Inc. ( Array or the Company ) as of June 30, 2004 and June 30, 2003 and for each of the three years in the period ended June 30, 2004, contained in the Company s annual report on Form 10-K for the fiscal year ended June 30, 2004 initially filed with the Securities and Exchange Commission (the SEC ) on September 3, 2004 (the Original Filing ). The corrections are to properly account for scheduled rent increases related to the Company s facilities leases in accordance with Financial Accounting Standards Board Technical Bulletin No. 85-3, Accounting for Operating Leases with Scheduled Rent Increases. In addition, this Form 10-K/A reflects the Company s determination during fiscal 2005 to separately classify restricted cash. Previously, such cash balances had been classified as cash and cash equivalents. Accordingly the Company has revised the classification to report these investments as restricted cash on the balance sheet as of June 30, 2004 and 2003. The Company has also made corresponding adjustments to the statements of cash flows for each of the three years in the period ended June 30, 2004, to reflect the increase in these balances as investing activities rather than as a component of cash and cash equivalents.

See Note 2: Restatement and Reclassification of Financial Statements under Notes to Financial Statements included in Item 8 Financial Statements and Supplementary Data of this Form 10-K/A for additional discussion and a summary of the effect of these changes on the Company s financial statements as of June 30, 2004 and June 30, 2003 and for each of the three years in the period ended June 30, 2004.

This Form 10-K/A amends and restates only Items 6, 7, 8 and 9A of Part II and Item 15 of Part IV of the Original Filing to reflect the effects of this restatement of our financial statements for the periods presented or as deemed necessary in connection with the completion of restated financial statements. Except for the forgoing amended information, this Form 10-K/A continues to describe conditions as of the date of the Original Filing, and the Company has not updated any disclosures or forward-looking statements made in the Original Filing to reflect subsequent events. Consequently, this Form 10-K/A and the Original Filing should be read in conjunction with the periodic reports the Company has filed or will file with the SEC after the original filing date.

**FORWARD-LOOKING STATEMENTS**

This Form 10-K/A, including 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 that involve significant risks and uncertainties. These statements do not relate to historical matters and reflect our current expectations concerning future events. Therefore 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 achieve and maintain profitability, 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, our ability to continue to fund and successfully progress internal research efforts and to create effective, commercially viable drugs, risks associated with our dependence on our collaborators for the clinical development and commercialization of our out-licensed drug candidates, the ability of our collaborators and of Array to meet objectives, including clinical trials, tied to milestones and royalties, our ability to attract and retain experienced scientists and management, and the risk factors set forth elsewhere in this report and in our annual reports on Form 10-K under the caption Risk Factors. We are providing this information as of the date of the Original Filing, except for the amended information set forth in this Form 10-K/A, which is as of the date of this report, as described in the foregoing Explanatory Footnote. 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.

**PART II**

**Item 6.** ***Selected Financial Data***

The following selected financial data are derived from our audited financial statements. These historical results do not necessarily indicate future results. When you read this data, it is important that you also read our financial statements and related notes, as well as the section Management s Discussion and Analysis of Financial Condition and Results of Operations appearing elsewhere in this Annual Report on Form 10-K/A. The financial data for the fiscal years ended June 30, 2004, 2003, 2002, 2001 and 2000 have been restated to reflect adjustments that are further discussed in the Explanatory Note in the forepart of this Form 10-K/A and in Note 2: Restatement and Reclassification of Financial Statements under Notes to Financial Statements included in Item 8 Financial Statements and Supplementary Data of this Form 10-K/A.

| | Years Ended June 30, | | | | |
|---|---|---|---|---|---|
| | 2004 | 2003 | 2002 (Restated, See Note 2) | 2001 | 2000 |
| | (in thousands, except per share data) | | | | |
| **Statements of Operations Data** | | | | | |
| Revenue | | | | | |
| Collaboration revenue | $ 28,186 | $ 33,633 | $ 33,854 | $ 16,364 | $ 6,774 |
| License, royalty and milestone revenue | 6,645 | 1,492 | 1,235 | 642 | |
| Total revenue | 34,831 | 35,125 | 35,089 | 17,006 | 6,774 |
| | | | | | |
| Costs and expenses* | | | | | |
| Cost of revenue (1) | 23,285 | 21,943 | 20,512 | 12,984 | 4,445 |
| Provision for excess inventory | 5,616 | 4,100 | | | |
| Research and development expenses: | | | | | |
| for proprietary drug discovery | 15,905 | 11,395 | 5,542 | 1,587 | 1,120 |
| for collaborations (2) | 8,356 | 9,093 | 8,247 | 6,710 | 2,843 |
| Selling, general and administrative expenses (3) | 8,016 | 8,901 | 6,918 | 7,671 | 3,478 |
| Total operating expenses | 61,178 | 55,432 | 41,219 | 28,952 | 11,886 |
| | | | | | |
| Loss from operations | (26,347) | (20,307) | (6,130) | (11,946) | (5,112) |
| Interest expense including loss from early extinguishment of debt | | | | (812) | (384) |
| Interest income | 381 | 787 | 1,483 | 2,092 | 356 |
| Other expense - loss on investment | | (500) | | | |
| Net loss | (25,966) | (20,020) | (4,647) | (10,666) | (5,140) |
| Deemed dividend related to beneficial conversion feature of preferred stock | | | | (5,000) | |
| Net loss applicable to common stockholders | $ (25,966) | $ (20,020) | $ (4,647) | $ (15,666) | $ (5,140) |
| | | | | | |
| Basic and diluted net loss per share applicable to common stockholders | $ (0.91) | $ (0.72) | $ (0.19) | $ (1.00) | $ (1.68) |

| | | | | | |
|---|---|---|---|---|---|
| Number of shares used to compute per share data | 28,511 | 27,830 | 24,920 | 15,693 | 3,063 |

| *** Includes compensation related to option grants** | | | | | |
|---|---|---|---|---|---|
| (1) Cost of revenue | $ 895 | $ 859 | $ 1,040 | $ 998 | $ 43 |
| (2) Research and development expenses for collaborations | 597 | 572 | 691 | 644 | 35 |
| (3) Selling, general and administrative expenses | 485 | 452 | 690 | 3,012 | 1,040 |
| Total | $ 1,977 | $ 1,883 | $ 2,421 | $ 4,654 | $ 1,118 |

| | Years Ended June 30, | | | | |
|---|---|---|---|---|---|
| | 2004 | 2003 | 2002 (Restated, See Note 2) | 2001 | 2000 |
| | (in thousands, except per share data) | | | | |
| **Balance Sheet Data** | | | | | |
| Cash, cash equivalents and marketable securities | $ 37,446 | $ 34,130 | $ 59,598 | $ 47,712 | $ 5,784 |
| Property, plant and equipment, gross | 57,557 | 53,939 | 44,365 | 21,458 | 8,406 |
| Working capital | 24,652 | 38,321 | 57,350 | 44,917 | 2,210 |
| Total assets | 77,764 | 83,830 | 107,915 | 70,950 | 15,823 |
| Long-term liabilities | 5,303 | 674 | 228 | 62 | 2,841 |
| Total stockholders equity | 54,493 | 77,039 | 93,673 | 62,406 | 6,660 |

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

The 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 realizing new revenue streams and obtaining future collaboration agreements that include milestone and/or royalty payments, the success of our internal proprietary drug discovery activities and our future headcount requirements. These statements involve significant risks and uncertainties, including those discussed below and those described more fully under the caption Risk Factors in our annual report on Form 10-K and in other reports filed by Array BioPharma with the Securities and Exchange Commission.

The following discussion of our financial condition and results of operations should be read in conjunction with the financial statements and notes to those statements included elsewhere in this report.

**Restatement of Prior Financial Information**

During fiscal year 2005, we reviewed our accounting practices with respect to leasing transactions and determined that our then-current method of accounting of rent expense for leased facilities was not in compliance with Financial Accounting Standards Board Technical Bulletin No. 85-3, *Accounting for Operating Leases with Scheduled Rent Increases* ( FTB 85-3 ). We concluded on August 4, 2005, after discussion with our Audit Committee, and our current and former independent registered public accounting firms, that a restatement of certain historical financial statements was required to correct the accounting for annual rental rate escalations under our facilities leases. FTB 85-3 indicates that the lessee should recognize scheduled rent increases on a straight-line basis over the lease term, which may include optional lease renewal terms, and deferred rent expense should be recognized to reflect the difference between the rent paid in the current period and the calculated straight-line amount. By not accounting for the future annual increases on a straight-line basis, we understated rent expense and liability for deferred rent in prior fiscal years. Although we do not believe that the impact of this change is material to any prior periods, we are restating our prior financial statements because correcting this error in a single quarter would have had a material effect on our results of operations for the fourth quarter of fiscal 2005.

The cumulative effect of this restatement resulted in an increase in the accumulated deficit of approximately $62,000 as of June 30, 2001 and increases in net loss of approximately $462,000, $446,000, and $166,000 for the fiscal years ended June 30, 2004, 2003, and 2002, respectively. See Note 2: Restatement and Reclassification of Financial Statements under Notes to Financial Statements included in Item 8 Financial Statements and Supplementary Data of this Form 10-K/A for further information, including the effect of the changes on our balance sheets and statements of operations for the affected periods.

All amounts referred to in the following Management s Discussion and Analysis of Financial Condition and Results of Operations reflect the balances and amounts on a restated basis.

**Overview**

Array BioPharma is a biopharmaceutical company focused on the discovery, development and commercialization of orally active drugs to address significant unmet medical needs. Our proprietary drug development pipeline is primarily focused on the treatment of cancer and

inflammatory disease and includes several small molecule drug candidates that are designed to regulate targets in therapeutically important biologic pathways. In addition, leading pharmaceutical and biotechnology companies access our drug discovery technologies and expertise through collaborations to design, create, optimize and evaluate drug candidates across a broad range of therapeutic areas. Our goal is to be the most efficient inventor of therapeutic products in the pharmaceutical industry.

Using the Array Discovery Platform, our integrated suite of drug discovery technologies, we have identified multiple drug candidates in our own proprietary programs and in collaborations with other drug companies. Our proprietary research has resulted in out-licensing three programs to AstraZeneca and Genentech, two of the world s leading oncology companies. Since our inception through June 30, 2004, our out-license and collaboration agreements have generated $18.0 million in up-front payments and $5.1 million in milestone payments, and we have recognized $121.0 million in research funding revenue from our collaborators. Under our existing out-license and

collaboration agreements, we have the potential to earn over $200 million in additional milestone payments if we achieve all of the drug discovery objectives under these agreements, as well as royalties on any resulting product sales from 14 different programs.

We have incurred net losses since inception and expect to incur losses in the near future as we continue to invest in our proprietary drug discovery programs. To date, we have funded our operations primarily through the issuance of equity securities and revenue from our collaborators. As of June 30, 2004, we had an accumulated deficit of $70.8 million.

We generate revenue through the out-licensing of select proprietary drug discovery programs for up-front fees, research funding and potential development milestone payments and royalties on future product sales. Four programs have been out-licensed to date and as a result we received up-front license or technology access fees of $18.0 million in total from AstraZeneca, Genentech and Amgen. We are also entitled to receive development milestone payments and royalties on resulting product sales. We intend to progress proprietary drug programs internally through clinical testing and continue to evaluate select programs for out-licensing opportunities with pharmaceutical or biotechnology partners.

We also generate revenue through collaborations aimed at inventing drug candidates for our collaborators. We receive research funding based on the number of full-time equivalent employees contractually assigned to a program, plus certain expenses. Under certain of these agreements, we are entitled to receive additional payments upon the achievement of certain drug development milestones and/or royalty payments based on sales of products created as a result of these collaborations.

In addition, we license our Lead Generation Libraries, which are a collection of structurally related chemical compounds that may have the potential of becoming drug candidates, on a non-exclusive basis to our collaborators for internal research purposes. We retain all other rights to the compounds, which permits us to license the same compounds to other collaborators. Some of our Lead Generation Library agreements allow our collaborators to obtain exclusive rights to commercialize particular compounds upon the payment of additional fees. We are not currently adding or producing any new Lead Generation Libraries. For the fiscal year 2002, 2003 and 2004, Lead Generation Library revenue represented 25%, 12% and 10%, respectively, of total revenue. This declining revenue trend is expected to continue in the future. We sell our Optimer® building blocks, which are the starting materials used to create more complex chemical compounds in the drug discovery process, on a per-compound basis without any restrictions on use. Custom collections of chemical compounds we create and custom chemical syntheses we perform under our collaboration agreements are typically charged on a per-compound basis, plus a charge for research and development services.

Collaboration revenue in our statement of operations includes revenue for lead generation and lead optimization, custom synthesis and process research, the development and sale of chemical compounds and the co-development of proprietary drug programs we out-license. License, royalty and milestone revenue received under our collaboration agreements, which includes our out-licensing agreements, is combined and reported separately from collaboration revenue.

We recognize revenue from fees under our collaboration agreements on a monthly basis as work is performed. Development and fixed-fee revenue is recognized on a percentage-of-completion basis. Per-compound revenue is recognized as compounds are shipped. Revenue from license fees and up-front fees is recognized on a straight-line basis over the expected period of the related research program. Payments received in advance of performance are recorded as advance payments from collaborators until the revenue is earned. Royalty revenue is recorded when earned. Portions of milestone payments are recognized as revenue when we have met the contracted performance criterion of the related milestone, while the balance of the payment is recognized ratably over the remainder of the research program. Revenue recognition related to license fees, up-front payments and milestone payments could be accelerated in the event of early termination of programs.

Although we have increased the number of our collaboration agreements, our top 20 collaborators contributed over 90% of our total revenue for fiscal 2004 and our top three collaborators, AstraZeneca, Genentech and Eli Lilly accounted for 18%, 13% and 12%, respectively, of our total revenue. During fiscal 2003, ICOS, Merck and Eli Lilly, accounted for 21%, 15% and 12%, respectively, of our total revenue. In general, our collaborators may terminate their collaboration agreements with us on 30 to 90 days prior notice.

Cost of revenue consists mainly of compensation, associated fringe benefits and other collaboration-related costs, including recruiting and relocation, fine chemicals, supplies, small tools, facilities, depreciation and other direct and indirect chemical handling and laboratory support costs, excluding any costs related to research and development. We review inventories periodically and reduce items considered to be slow moving or obsolete to estimated net realizable value through an appropriate reserve. We reduced the carrying value of our Lead Generation Library in the fourth quarter of fiscal 2003 as a result of difficult market conditions. In fiscal 2004 we accelerated the evolution of our business model to focus primarily on drug discovery; increasing the investment in proprietary research and out-licensing three proprietary drug programs. Due to this evolution, it is not expected that Lead Generation Libraries will be a significant source of revenues in future periods, and no new Lead Generation Libraries will be produced other than for Array s own proprietary research. In light of the foregoing, an in-depth review of the inventory levels and carrying values for Lead Generation Libraries, Optimer building blocks and fine chemicals was undertaken during the third quarter of fiscal 2004. As a result of this review which was based on expected future sales and industry standards relating to net carrying values, it was determined that there was an excess level of Lead Generation Library and Optimer building block inventory. It was also determined that inventory of fine chemicals used as the starting materials for Lead Generation Libraries exceeded anticipated usage. Accordingly, the reserves were increased by $5.6 million for these inventories. We continue to assess the current levels and value of our inventories, and we may determine that further increases in our inventory reserves are necessary.

Research and development expenses consist of the same type of scientific expenditures that comprise cost of revenue. Research and development expenses for collaborations consist of expenses related to the development of custom libraries, Lead Generation Libraries and Optimer building blocks where we have not yet proven technological feasibility. Costs associated with activities where technological feasibility has been proven are charged directly to cost of revenue. Research and development expenses for proprietary drug discovery consist of all costs associated with the development of a program until it is out-licensed. Subsequent costs that are not directly reimbursed for the development of our out-licensed programs are included as research and development expenses for collaborations.

Selling, general and administrative expenses consist mainly of compensation and associated fringe benefits and other management, business development, accounting, information technology and administration costs, including recruiting and relocation, consulting and professional services, travel and meals, advertising, sales commissions, facilities, depreciation and other office expenses. In addition, termination related costs of approximately $541,000 associated with a reduction in workforce completed in March 2003 were recorded as selling, general and administrative expenses.

We currently license or sell our compounds 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 addition, we license or sell our compounds and collaborations in Japan through an agent. International revenue represented 33% of our total revenue during fiscal year 2004, up significantly from 14% for fiscal year 2003. Our international revenue is attributable to both European and Japanese collaborations and increased in fiscal 2004 due to our collaboration and out-license agreements with AstraZeneca. All of our collaboration agreements and purchase orders are denominated in United States dollars.

We plan to continue to increase our investment in our proprietary research programs and to seek additional collaborations in which we participate in the success of our proprietary drug candidates through a combination of licensing fees, payments for continued research and down-stream payments that include milestone and/or royalty payments. We intend to progress proprietary programs through clinical development while also evaluating opportunities for out-licensing to maximize the risk-adjusted return on our proprietary programs. We also intend to continue to grow revenue with our existing collaborators and realize new revenue streams through collaborations with a diversified group of pharmaceutical and biotechnology companies. In addition, we expect to enter into additional agreements that allow us to participate in the success of potential drug candidates with our collaborators through milestone and/or royalty payments.

**Deferred Stock Compensation**

We recorded compensation expense related to stock option grants of $2.0 million, $1.9 million and $2.4 million in fiscal years 2004, 2003 and 2002, respectively. The compensation expense related to stock option grants is charged

to cost of revenue, research and development expenses, and selling, general and administrative expenses, based on the functional responsibility of the associated employee. As of June 30, 2004, we had approximately $151,000 of remaining deferred stock compensation to be amortized in the first quarter of fiscal 2005.

**Results of Operations**

***Fiscal Years Ended June 30, 2004, 2003 and 2002:***

| | Years Ended June 30, | | | % increase (decrease) | |
|---|---|---|---|---|---|
| | 2004 | 2003 | 2002 | 2003 to 2004 | 2002 to 2003 |
| | | (in thousands) | | | |
| Collaboration revenue | $ 28,186 | $ 33,633 | $ 33,854 | (16)% | (1)% |
| License, royalty and milestone revenue | 6,645 | 1,492 | 1,235 | 345% | 21% |
| Total revenue | $ 34,831 | $ 35,125 | $ 35,089 | | |

*Fiscal 2004 as compared to fiscal 2003*: Total revenue for fiscal 2004 and 2003 remained relatively flat. Increased revenue from up-front licenses and milestones largely offset the decline in collaboration revenue. Payments from AstraZeneca for the up-front license fee and Phase I milestone for ARRY-142886 and the up-front license payment from Genentech represented the majority of the increase to license, royalty and milestone revenue. Decreased collaboration revenue from expired programs with ICOS, Amgen, Merck and Vertex Pharmaceuticals was partially offset by revenue earned from new collaborations with Genentech, AstraZeneca and GenPath Pharmaceuticals. In addition, collaboration revenue from our Lead Generation Libraries and Optimer building blocks declined $1.4 million in 2004 compared to 2003 primarily due to increased competition from foreign chemistry service providers. As we devote more resources to drug discovery and our proprietary drug programs, we expect that revenue from the sale of our research tools will continue to decline as a percentage of total revenue.

*Fiscal 2003 as compared to fiscal 2002:* Total revenue increased slightly in 2003. This increase was primarily the result of $6.1 million of additional revenue generated from our lead optimization collaborations with ICOS, Vertex Pharmaceuticals, Takeda, InterMune, Japan Tobacco and Syrrx, Inc., and our custom library collaboration with a Japanese collaborator. This gain was partially offset by decreased revenue from subscriptions and sales of chemical compounds from our Array Discovery Platform of $6.3 million in 2003 compared to 2002. This decrease is attributable to a net reduction of $5.3 million in sales of chemical compounds to a single major pharmaceutical company.

| | Years Ended June 30, | | | % increase | |
|---|---|---|---|---|---|
| | 2004 | 2003 | 2002 | 2003 to 2004 | 2002 to 2003 |
| | | (in thousands) | | | |
| Cost of revenue | $ 23,285 | $ 21,943 | $ 20,512 | 6% | 7% |

*Fiscal 2004 as compared to fiscal 2003:* The increased cost of revenue and decreased gross margin as a percentage of

revenue for fiscal 2004 are related to increased costs associated with staffing the various collaborations, including increased scientific salaries and utility charges. During 2004, the average pricing received from collaborations decreased slightly from the prior year. Also, during 2004 we had a lower percentage of total revenue generated from subscriptions and sales of chemical compounds from Lead Generation Libraries and Optimer building blocks.

*Fiscal 2003 as compared to fiscal 2002:* The increased cost of revenue and reduced gross margin as a percentage of revenue for fiscal 2003 is related to increased costs to support the growth in our lead optimization collaborations over the same period. These cost increases were primarily attributable to additional scientific staff, associated salaries and benefits, and the expenditures associated with equipping and commencing operations in our new and expanded facilities during the year. Also, during 2003 we had a lower percentage of total revenue generated from subscriptions and sales of chemical compounds from our Array Discovery Platform.

| | Years Ended June 30, | | | % increase | |
|---|---|---|---|---|---|
| | 2004 | 2003 | 2002 | 2003 to 2004 | 2002 to 2003 |
| | (in thousands) | | | | |
| Provision for excess inventory | $ 5,616 | $ 4,100 | $ | 37% | |

*Fiscal 2004 as compared to fiscal 2003:* During fiscal 2004, we accelerated the evolution of our business model to focus primarily on drug discovery, increasing the investment in proprietary research and out-licensing three proprietary drug programs in December 2003 to AstraZeneca and Genentech for further development and commercialization. Due to this evolution, it is not expected that Lead Generation Libraries will be a significant source of revenues in future periods, and no new Lead Generation Libraries will be produced other than for our own proprietary research. Consequently, we reviewed the inventory levels and carrying values for Lead Generation Libraries, Optimer building blocks and fine chemicals during the third quarter of fiscal 2004. Based on this review and on an analysis of expected future sales and industry standards relating to net carrying values, it was determined that there was an excess level of Lead Generation Library and Optimer building block inventory. It was also determined that inventory of fine chemicals used as the starting materials for Lead Generation Libraries exceeded anticipated usage. Accordingly, we increased the reserves for these inventories, which resulted in a non-cash charge for excess inventory of $5.6 million in the third quarter of fiscal 2004.

*Fiscal 2003 as compared to fiscal 2002:* During the fourth quarter of fiscal year 2003, we increased our inventory reserves for Lead Generation Libraries by $4.1 million. The carrying values at that time were reduced in light of difficult market conditions and resulting declines in Lead Generation Library revenue experienced during the second half of fiscal 2003.

| | Years Ended June 30, | | | % increase (decrease) | |
|---|---|---|---|---|---|
| | 2004 | 2003 | 2002 | 2003 to 2004 | 2002 to 2003 |
| | (in thousands) | | | | |
| Research and development expenses: | | | | | |
| for proprietary drug discovery | $ 15,905 | $ 11,395 | $ 5,542 | 40% | 106% |
| for collaborations | 8,356 | 9,093 | 8,247 | (8)% | 10% |
| Total research and development | $ 24,261 | $ 20,488 | $ 13,789 | 18% | 49% |

*Fiscal 2004 as compared to fiscal 2003*: Research and development expenses for proprietary drug discovery increased 41% related to our expanded efforts to advance compounds into regulated safety testing. In addition, a number of new programs were initiated during the year, and the lead compound in our MEK for cancer program advanced through regulated safety assessment. Supporting these efforts were additional scientists and increased pharmacology studies. We expect that proprietary research and development spending will continue to increase as we focus more resources on our proprietary drug discovery programs. Research and development expenses for collaborations declined in 2004 due to a reduced focus on creating new Lead Generation Libraries and custom libraries. Partially offsetting this decline were increased costs from the Phase I clinical trial that Array is conducting as part of the AstraZeneca collaboration.

*Fiscal 2003 as compared to fiscal 2002*: The expansion of our proprietary drug discovery efforts was the main reason for the increase in research and development expense in fiscal 2003 over 2002, and to a lesser degree spending for our Lead

Generation Libraries, Optimer building blocks and custom library collaborations. These expanded research efforts required the recruitment and relocation of additional scientific staff and associated salaries and benefits, and the expenditures associated with equipping and commencing operations in our new and expanded facilities.

| | Years Ended June 30, | | | % increase (decrease) | |
|---|---|---|---|---|---|
| | 2004 | 2003 | 2002 | 2003 to 2004 | 2002 to 2003 |
| | (in thousands) | | | | |
| Selling, general and administrative expenses | $ 8,016 | $ 8,902 | $ 6,918 | (10)% | 29% |

*Fiscal 2004 as compared to fiscal 2003:* The decrease in selling, general and administrative expenses is attributable to a March 2003 workforce reduction whereby we reduced our workforce by 31 employees in order to reduce costs and match our headcount resources with the near-term demand for our collaboration programs. This reduction resulted in a fiscal 2003 charge to selling, general and administrative expenses of approximately $541,000 for termination-related costs consisting primarily of severance payments and out-placement services for affected employees. The remaining year over year decrease was attributable to cost savings associated with the elimination of certain administrative positions that were affected by this reduction in workforce.

*Fiscal 2003 as compared to fiscal 2002:* A portion of the increase in selling, general and administrative expenses was related to the March 2003 reduction in workforce described above. Selling, general and administrative expenses also increased during fiscal 2003 due to expanded management and increased business development and administrative staffing levels as well as increased facilities-related expenditures.

| | Years Ended June 30, | | | % increase (decrease) | |
|---|---|---|---|---|---|
| | 2004 | 2003 | 2002 | 2003 to 2004 | 2002 to 2003 |
| | (in thousands) | | | | |
| Compensation related to option grants | $ 1,977 | $ 1,883 | $ 2,421 | 5% | (22)% |

*Fiscal 2004 as compared to fiscal 2003:* Compensation expense relates to certain stock options that were granted prior to our November 2000 initial public offering. This non-cash charge is recognized on a straight-line basis over the vesting periods of the related options, which are generally four years, except for options with performance-based vesting provisions.

*Fiscal 2003 as compared to fiscal 2002:* The 2003 decrease in compensation related to stock options is the result of the expiration of unvested options upon termination of employment.

| | Years Ended June 30, | | | % decrease | |
|---|---|---|---|---|---|
| | 2004 | 2003 | 2002 | 2003 to 2004 | 2002 to 2003 |
| | (in thousands) | | | | |
| Net interest income | $ 381 | $ 787 | $ 1,483 | (52)% | (47)% |

*Fiscal 2004 as compared to fiscal 2003*: The decrease in interest income in fiscal 2004 compared to fiscal 2003 is due to lower investment interest rates earned on a lower average cash balance.

*Fiscal 2003 as compared to fiscal 2002*: The decrease in interest income in fiscal 2003 compared to fiscal 2002 is due to lower investment interest rates earned on a lower average cash balance. No interest expense was incurred in any of the reportable years.

*Other Expense Loss on investment.* In March 2002, we entered into a drug discovery collaboration agreement with Aptus Genomics, Inc. to create small molecule therapeutics against select G-Protein Coupled Receptor (GPCR) targets. Array worked exclusively with Aptus on a select number of GPCR targets and provided Aptus access to its Lead Generation Libraries in exchange for $500,000 of common stock in Aptus. During fiscal 2003, the value of Aptus common stock decreased significantly. We determined this reduction in value to be other-than-temporary and as a result, wrote off our investment in the company.

*Income taxes.* There was no current or deferred tax expense for the fiscal years ended June 30, 2004, 2003 or 2002. At June 30, 2004, we had federal and Colorado income tax net operating loss carryforwards for income tax purposes of $46.9 million, which will expire beginning in 2019 and continuing through 2025. We have provided a

100% valuation allowance against the related deferred tax assets, as based on available evidence, it is more likely than not that the deferred tax asset will not be realized.

**Liquidity and Capital Resources**

| | As of June 30, | | |
|---|---|---|---|
| | 2004 | 2003 | 2002 |
| | (in thousands) | | |
| Cash, cash equivalents and marketable securities | $ 37,446 | $ 34,130 | $ 59,598 |
| Working capital (deficit) excluding cash, cash equivalents and marketable securities | (11,541) | 5,322 | (2,247) |
| Purchases of property, plant and equipment | 3,627 | 9,570 | 22,907 |
| Cash flow provided by (used in): | | | |
| Operating activities | 5,499 | (17,585) | 1,420 |
| Investing activities | (4,190) | 4,090 | (32,514) |
| Financing activities | 1,609 | 1,517 | 33,590 |

*Fiscal 2004 as compared to fiscal 2003*: We have historically funded our operations through revenue from our collaborations and the issuance of equity securities. As of June 30, 2004, cash, cash equivalents and marketable securities totaled $37.4 million compared to $34.1 million at June 30, 2003. Net cash provided by operating activities was $5.5 million for fiscal year 2004, compared to net cash used in operating activities of $17.6 million for the same period in 2003. During fiscal year 2004, our net loss of $26.0 million was reduced by noncash charges of $16.1 million associated with depreciation, deferred rent, compensation related to stock option grants and a provision for excess inventory. For the fiscal year 2004, our working capital, excluding cash and marketable securities, decreased by $16.9 million primarily due to a $12.0 million increase in the current portion of advance payments from collaborators and a $5.0 million decrease in inventories. Advance payments from collaborators increased due to the receipt of up-front license and milestone payments totaling $20.8 million for fiscal 2004. We recognized $6.6 million of these up-front license and milestone payments as revenue during 2004, and recorded the remaining amounts as advance payments from collaborators. Inventories decreased by $5.0 million due to the increased inventory reserves for Lead Generation Libraries, Optimer building blocks and certain fine chemicals used as the starting materials for Lead Generation Libraries.

During fiscal year 2004, we invested $3.6 million in capital equipment and leasehold improvements primarily associated with equipping and commencing operations in our new pharmacology and drug metabolism facilities. Financing activities provided $1.6 million of cash resulting from the exercise of stock options under our stock option plan and purchases of stock under our employee stock purchase plan.

*Fiscal 2003 as compared to fiscal 2002*: As of June 30, 2003, cash, cash equivalents and marketable securities totaled $34.1 million compared to $59.6 million at June 30, 2002. Net cash used in operating activities was $17.6 million for fiscal year 2003, compared to net cash provided by operating activities of $1.4 million for the same period in 2002. During fiscal year 2003, our net loss of $20.0 million was reduced by noncash charges of $14.1 million associated with depreciation, deferred rent, compensation related to stock option grants, a provision for excess inventory and the

unrealized investment loss, yet our working capital excluding cash and marketable securities increased by $7.6 million. Working capital rose primarily due to declining liability balances within accounts payable and advance payments from customers.

During fiscal year 2003, we invested $9.6 million in capital equipment and leasehold improvements associated with equipping and commencing operations in our new and expanded facilities. Net proceeds from the sale or maturity of marketable securities provided $13.7 million of cash. Financing activities provided $1.5 million of cash primarily related to exercise of stock options under our stock option plan and purchases of stock under our employee stock purchase plan. Approximately $157,000 was received in September 2002 from one of Array s founders as full repayment of an outstanding note receivable balance, including accrued interest.

Our future capital requirements will depend on a number of factors, including the rate at which we grow our business and our investment in proprietary research activities, the ability of our current and future collaborators to fund outside research and development activities, our success in increasing sales of both existing and new products and collaborations, expenses associated with unforeseen litigation, regulatory changes, competition, technological developments, general economic conditions and potential future merger and acquisition activity. We believe that our existing cash, cash equivalents and marketable securities and anticipated cash flow from existing collaboration agreements will be sufficient to support our current operating plan for at least the next 12 months. This estimate of our future capital requirements is a forward-looking statement that is based on assumptions that may prove to be wrong and that involve substantial risks and uncertainties. Our actual future capital requirements could vary as a result of a number of factors, including:

- the progress of our research activities;
- our ability to enter into agreements to out-license and co-develop our proprietary drug candidates;
- the number and scope of our research programs;
- the progress of our preclinical and potential clinical development activities;
- the progress of the development efforts of our collaborators;
- our ability to establish and maintain current and new collaboration agreements;
- the ability of our collaborators to fund research and development programs;
- the costs involved in enforcing patent claims and other intellectual property rights;
- the costs and timing of regulatory approvals; and
- the costs of establishing business development and distribution capabilities.

Future capital requirements will also depend upon the extent to which we acquire or invest in other businesses, products and technologies. Until we can generate sufficient levels of cash from our operations, which we do not expect to achieve in the foreseeable future, we expect to continue to utilize our existing cash and marketable securities resources that were primarily generated from the proceeds of our equity offerings. In addition, we may finance future cash needs through the sale of equity securities, strategic collaboration agreements and debt financing. We cannot assure that we will be successful in obtaining new or in retaining existing out-license or collaboration agreements, in securing agreements for the co-development of our proprietary drug candidates, or in receiving milestone and/or royalty payments under those agreements, that our existing cash and marketable securities resources will be adequate or that additional financing will be available when needed or that, if available, this financing will be obtained on terms favorable to us or our stockholders. Insufficient funds may require us to delay, scale back or eliminate some or all of our research or development programs or to relinquish greater or all rights to product candidates at an earlier stage of development or on less favorable terms than we would otherwise choose, or may adversely affect our ability to operate as an ongoing concern. If we raise additional funds by issuing equity securities, substantial dilution to existing stockholders may result.

**Obligations and Commitments**

The following table shows our contractual obligations and commitments as of June 30, 2004.

| | Payments due by period (in thousands) | | | | |
|---|---|---|---|---|---|
| | Less than 1 year | 1-3 years | 4-5 years | After 5 years | Total |
| Operating lease obligations | $ 4,891 | $ 9,045 | $ 9,056 | $ 33,780 | $ 56,772 |
| Purchase obligations | 937 | | | | 937 |
| Total obligations | $ 5,828 | $ 9,045 | $ 9,056 | $ 33,780 | $ 57,709 |

We are obligated under noncancelable operating leases for our facilities and certain equipment. Original lease terms for our facilities range from five to eight years with renewal options and generally require us to pay a proportionate share of real estate taxes, insurance, common area and other operating costs. Equipment leases generally range from three to five years.

Due to the high cost to replace and the limited availability of laboratory facilities, we concluded that the exercise of a portion of our lease term options associated with our facilities leases for at least 15 years was reasonably assured. The reasonably assured lease term as of June 30, 2004 for our facility located in Boulder, Colorado expires in March 2016 and the reasonably assured lease terms for our facilities located in Longmont, Colorado expire in May 2005 and in March 2008. The portion of operating lease obligations that is related to optional extension periods for our Boulder facility is $5.5 million within 4-5 years and $33.8 million after 5 years. Because the rental rates for the optional extension terms under our Longmont facility leases were undeterminable, no operating lease obligations beyond the original terms expiring in May 2005 and March 2008 are included in the foregoing table.

At June 30, 2004, we had restricted cash of $1.3 million as a compensating balance to support outstanding standby letters of credit that were issued during the prior fiscal years in relation to our facilities leases.

**Critical Accounting Policies**

We believe the policies identified below are critical to the understanding of our results of operations and require our management to make significant judgments in preparing the financial statements included in this report. Management has made estimates and assumptions based on these policies. We do not believe that there is a great likelihood that materially different amounts would be reported if different assumptions were used. However, the application of these policies involves judgments and assumptions as to future events and, as a result, actual results could differ. The impact and any associated risks related to these policies on our business operations is discussed throughout Management s Discussion and Analysis of Financial Condition and Results of Operations where such policies affect our reported and expected financial results.

*Revenue Recognition*

We believe our revenue recognition policy is significant because the amount and timing of revenue is a key component of our results of operations. We follow the guidance of Staff Accounting Bulletin No. 101, (as amended by Staff Accounting Bulletin No. 104) which requires that a series of criteria be met in order to recognize revenue related to the performance of services or the shipment of products. If these criteria are not met, the associated revenue is deferred until the criteria are met. We recognize revenue when (a) persuasive evidence of an arrangement exists, (b) products are delivered or services are rendered, (c) the sales price is fixed or determinable and (d) collectibility is assured.

We recognize revenue from fees under our collaboration agreements on a monthly basis as work is performed. Development and fixed-fee revenue is recognized on a percentage-of-completion basis. Per-compound revenue is recognized as compounds are shipped. Revenue from license fees and up-front fees is recognized on a straight-line basis over the expected period of the related research program. Royalty revenue is recorded when earned. Portions of milestone payments are recognized as revenue when we have met the contracted performance criterion of the related milestone, while the balance of the payment is recognized ratably over the remainder of the research program. Revenue recognition related to license fees, up-front payments and milestone payments could be accelerated in the event of early termination of programs.

In general, contract provisions include predetermined payment schedules or the submission of appropriate billing detail. Payments received in advance of performance are recorded as advance payments from collaborators until the revenue is earned.

We report revenue for lead generation and lead optimization research, custom synthesis and process research, the development and sale of chemical compounds and the co-development of proprietary drug candidates we out-license, as collaboration revenue. License, royalty and milestone revenue is combined and reported separately from collaboration revenue.

*Inventory Valuation*

Our inventories primarily consist of individual chemical compounds in the form of Optimer building blocks, Lead Generation Libraries, custom libraries and commercially available fine chemicals. Our inventories are stated at the lower of cost or market, cost being determined under the first-in, first-out method. We have designed and produced chemical compounds comprising our Optimer building blocks, Lead Generation Libraries and custom libraries, and capitalize costs into inventory only after technological feasibility has been established. We periodically review and, when required, write down the value of our inventories for non-marketability to estimated net realizable value through an appropriate reserve when the cost of inventory exceeds its estimated market value based upon assumptions about future demand and market conditions.

**Recent Accounting Pronouncement**

In January 2003, the Emerging Issues Task Force ( EITF ) issued EITF Statement No. 00-21, *Accounting for Revenue Arrangements with Multiple Deliverables* ( EITF 00-21 ). EITF 00-21 addresses how to determine whether a revenue arrangement involving multiple deliverables contains more than one unit of accounting for purposes of revenue recognition and how the revenue arrangement consideration should be measured and allocated to the separate units of accounting. EITF 00-21 applies to all revenue arrangements that are executed in fiscal periods beginning after June 15, 2003. Array adopted EITF 00-21 during the quarter ended September 30, 2003. The adoption of this statement did not have a significant impact on our financial statements.

Item 8. Financial Statements and Supplementary Data

**INDEX TO FINANCIAL STATEMENTS**

**REPORT OF ERNST & YOUNG LLP, INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of

Array BioPharma Inc.

We have audited the accompanying balance sheets of Array BioPharma, Inc. as of June 30, 2004 (as restated) and 2003 (as restated), and the related statements of operations, shareholders equity, and cash flows for each of the three years in the period ended June 30, 2004 (as restated). Our audits also included financial statement schedule II. These financial statements and schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and schedules 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. We were not engaged to perform an audit of the Company s internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and 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. at June 30, 2004 (as restated) and 2003 (as restated), and the consolidated results of its operations and its cash flows for each of the three years in the period ended June 30, 2004 (as restated), in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 2 to the financial statements, the balance sheets as of June 30, 2004 and 2003, and the related statements of operations, stockholders equity, and cash flows for each of the three years in the period ended June 30, 2004 have been restated.

/s/ Ernst & Young

Denver, Colorado

July 29, 2004

except for Footnotes 2 and 8 of Form 10-K/A, as to which the date is September 12, 2005

**ARRAY BIOPHARMA INC.**

**BALANCE SHEETS**

| | As of June 30, | |
|---|---|---|
| | 2004 | 2003 |
| | (Restated, See Note 2) | |
| **ASSETS** | | |
| Current assets | | |
| Cash and cash equivalents | $ 6,499,589 | $ 3,581,891 |
| Marketable securities | 29,693,301 | 29,416,247 |
| Accounts receivable, net | 1,080,330 | 1,643,746 |
| Inventories, net | 4,030,681 | 9,064,548 |
| Prepaid expenses and other | 1,315,786 | 730,679 |
| Total current assets | 42,619,687 | 44,437,111 |
| Property, plant and equipment, net | 33,810,952 | 38,180,684 |
| Restricted cash - long term | 1,253,223 | 1,132,312 |
| Other assets | 80,246 | 80,246 |
| Total assets | $ 77,764,108 | $ 83,830,353 |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | |
| Current liabilities | | |
| Accounts payable trade | $ 2,408,718 | $ 2,522,871 |
| Advance payments from collaborators - current | 14,108,118 | 2,102,346 |
| Accrued compensation and benefits | 1,048,909 | 1,054,779 |
| Other current liabilities | 402,090 | 436,840 |
| Total current liabilities | 17,967,835 | 6,116,836 |
| Advance payments from collaborators - long term | 4,166,665 | |
| Deferred rent payable - long term | 1,136,188 | 674,350 |
| Total long-term liabilities | 5,302,853 | 674,350 |
| Total liabilities | 23,270,688 | 6,791,186 |
| Stockholders equity | | |
| Preferred stock, $0.001 par value; 10,000,000 shares authorized, no shares issued or outstanding | | |
| Common stock, $0.001 par value; 60,000,000 shares authorized; 28,871,979 and 28,221,080 shares issued and outstanding at June 30, 2004 and 2003, respectively | 28,872 | 28,221 |
| Additional paid-in capital | 125,555,122 | 124,050,659 |
| Accumulated deficit | (70,796,155) | (44,830,295) |
| Accumulated other comprehensive income (loss) | (143,415) | 21,856 |
| Deferred compensation | (151,004) | (2,231,274) |
| Total stockholders equity | 54,493,420 | 77,039,167 |
| Total liabilities and stockholders equity | $ 77,764,108 | $ 83,830,353 |

See accompanying notes.

**ARRAY BIOPHARMA INC.**

**STATEMENTS OF OPERATIONS**

| | Years Ended June 30, | | |
|---|---|---|---|
| | 2004 | 2003 (Restated, See Note 2) | 2002 |
| **Revenue** | | | |
| Collaboration revenue | $ 28,185,609 | $ 33,633,601 | $ 33,853,996 |
| License, royalty and milestone revenue | 6,645,381 | 1,491,812 | 1,235,086 |
| Total revenue | 34,830,990 | 35,125,413 | 35,089,082 |
| | | | |
| **Costs and expenses*** | | | |
| Cost of revenue (1) | 23,284,516 | 21,942,766 | 20,512,311 |
| Provision for excess inventory | 5,616,424 | 4,100,000 | |
| Research and development expenses: | | | |
| for proprietary drug discovery | 15,905,107 | 11,394,941 | 5,542,185 |
| for collaborations (2) | 8,355,912 | 9,093,331 | 8,246,652 |
| Selling, general and administrative expenses (3) | 8,015,746 | 8,901,853 | 6,917,513 |
| Total operating expenses | 61,177,705 | 55,432,891 | 41,218,661 |
| | | | |
| Loss from operations | (26,346,715) | (20,307,478) | (6,129,579) |
| | | | |
| Interest income | 380,855 | 787,087 | 1,482,981 |
| Other expense - loss on investment | | (500,000) | |
| Net loss | $ (25,965,860) | $ (20,020,391) | $ (4,646,598) |
| | | | |
| Basic and diluted net loss per share | $ (0.91) | $ (0.72) | $ (0.19) |
| | | | |
| Number of shares used to compute per share data | 28,511,457 | 27,829,527 | 24,920,103 |

| | | | |
|---|---|---|---|
| *** Includes compensation related to option grants** | | | |
| (1) Cost of revenue | $ 895,257 | $ 858,541 | $ 1,040,009 |
| (2) Research and development expenses for collaborations | 596,838 | 572,365 | 690,511 |
| (3) Selling, general and administrative expenses | 484,563 | 451,865 | 690,163 |
| Total | $ 1,976,658 | $ 1,882,771 | $ 2,420,683 |

See accompanying notes.

**ARRAY BIOPHARMA INC.**

**STATEMENTS OF STOCKHOLDERS EQUITY**

| | Common Stock Shares | Common Stock Amount | Additional Paid-In Capital | Accumulated Deficit (as restated See Note 2) | Notes Receivable for Common Stock - Related Party | Accumulated Other Comprehensive Income (Loss) | Deferred Compensation | Total |
|---|---|---|---|---|---|---|---|---|
| Balance at June 30, 2001 (as restated, See Note 2) | 23,262,878 | $ 23,262 | $ 90,023,407 | $ (20,163,306) | $ (266,625) | $ 116,801 | $ (7,328,086) | $ 62,405,453 |
| Issuance of common stock for cash-public offering, net of offering costs of $2,710,106 | 3,450,000 | 3,450 | 31,786,444 | | | | | 31,789,894 |
| Issuance of common stock under stock option and employee stock purchase plans | 774,465 | 775 | 1,675,319 | | | | | 1,676,094 |
| Issuance of common stock upon the exercise of warrants | 33,437 | 33 | (33) | | | | | |
| Interest accrued on notes receivable | | | | | (13,099) | | | (13,099) |
| Repayment of notes receivable | | | | | 124,099 | | | 124,099 |
| Compensation related to stock option grants | | | | | | | 2,420,683 | 2,420,683 |
| Reversal of prior year deferred stock compensation for terminated employees | | | (210,388) | | | | 210,388 | |
| Net loss (as restated, See Note 2) | | | | (4,646,598) | | | | (4,646,598) |
| Change in unrealized gain (loss) on marketable securities | | | | | | (83,501) | | (83,501) |
| Comprehensive loss | | | | | | | | (4,730,099) |
| Balance at June 30, 2002 (as restated, See Note 2) | 27,520,780 | 27,520 | 123,274,749 | (24,809,904) | (155,625) | 33,300 | (4,697,015) | 93,673,025 |
| Issuance of common stock under stock option and employee stock purchase plans | 700,300 | 701 | 1,358,880 | | | | | 1,359,581 |
| Interest accrued on notes receivable | | | | | (1,558) | | | (1,558) |
| Repayment of notes receivable | | | | | 157,183 | | | 157,183 |
| Compensation related to stock option grants | | | | | | | 1,882,771 | 1,882,771 |
| Reversal of prior year deferred stock compensation for terminated employees | | | (582,970) | | | | 582,970 | |
| Net loss (as restated, See Note 2) | | | | (20,020,391) | | | | (20,020,391) |
| Change in unrealized gain (loss) on marketable securities | | | | | | (11,444) | | (11,444) |
| Comprehensive loss | | | | | | | | (20,031,835) |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Balance at June 30, 2003 (as restated, See Note 2) | 28,221,080 | 28,221 | 124,050,659 | (44,830,295) | | 21,856 | (2,231,274) | 77,039,167 |
| Issuance of common stock under stock option and employee stock purchase plans | 650,899 | 651 | 1,608,075 | | | | | 1,608,726 |
| Compensation related to stock option grants | | | | | | | 1,976,658 | 1,976,658 |
| Reversal of prior year deferred stock compensation for terminated employees | | | (103,612) | | | | 103,612 | |
| Net loss (as restated, See Note 2) | | | | (25,965,860) | | | | (25,965,860) |
| Change in unrealized gain (loss) on marketable securities | | | | | | (165,271) | | (165,271) |
| Comprehensive loss | | | | | | | | (26,131,131) |
| Balance at June 30, 2004 (as restated, See Note 2) | 28,871,979 | $ 28,872 | $ 125,555,122 | $ (70,796,155) | $ | $ (143,415) | $ (151,004) | $ 54,493,420 |

See accompanying notes.

**ARRAY BIOPHARMA INC.**

**STATEMENTS OF CASH FLOWS**

| | Years Ended June 30, | | |
|---|---|---|---|
| | 2004 | 2003 (Restated, See Note 2) | 2002 |
| **Operating activities** | | | |
| Net loss | $ (25,965,860) | $ (20,020,391) | $ (4,646,598) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | | | |
| Depreciation | 7,996,750 | 7,177,177 | 4,540,222 |
| Deferred rent | 461,838 | 446,339 | 165,963 |
| Compensation related to stock option grants | 1,976,658 | 1,882,771 | 2,420,683 |
| Provision for excess inventory | 5,616,424 | 4,100,000 | |
| Loss on investment | | 500,000 | |
| Accrued interest on notes receivable for common stock | | (1,558) | (13,099) |
| Changes in operating assets and liabilities: | | | |
| Accounts receivable | 563,416 | 848,003 | (1,511,875) |
| Inventories | (582,557) | (4,694,885) | (4,332,556) |
| Prepaid expenses and other | (585,107) | 74,565 | (233,830) |
| Accounts payable trade | (114,153) | (3,846,670) | 3,496,073 |
| Advance payments from collaborators - current | 12,005,772 | (3,795,121) | 900,876 |
| Advance payments from collaborators - long term | 4,166,665 | | |
| Accrued compensation and benefits | (5,870) | (47,623) | 282,691 |
| Other current liabilities | (34,750) | (207,699) | 351,386 |
| Net cash provided by (used in) operating activities | 5,499,226 | (17,585,092) | 1,419,936 |
| | | | |
| **Investing activities** | | | |
| Purchases of property, plant and equipment | (3,627,018) | (9,569,799) | (22,907,401) |
| Purchases of marketable securities | (250,192,325) | (234,788,434) | (154,136,052) |
| Proceeds from sale or maturity of marketable securities | 249,750,000 | 248,441,280 | 144,881,000 |
| Increase in restricted cash | (120,911) | (175,193) | (218,557) |
| (Additions) reductions to other long-term assets | | 182,270 | (133,225) |
| Net cash provided by (used in) investing activities | (4,190,254) | 4,090,124 | (32,514,235) |
| | | | |
| **Financing activities** | | | |
| Proceeds from sale of common stock, net of issuance costs | | | 31,789,894 |
| Proceeds from exercise of stock options, warrants and shares issued under the employee stock purchase plan | 1,608,726 | 1,359,581 | 1,676,094 |
| Proceeds from repayment of notes receivable | | 157,183 | 124,099 |
| Net cash provided by financing activities | 1,608,726 | 1,516,764 | 33,590,087 |
| | | | |
| Net increase (decrease) in cash and cash equivalents | 2,917,698 | (11,978,204) | 2,495,788 |
| Cash and cash equivalents, beginning of period | 3,581,891 | 15,560,095 | 13,064,307 |
| Cash and cash equivalents, end of period* | $ 6,499,589 | $ 3,581,891 | $ 15,560,095 |

**Supplemental disclosure of cash flow information**

For the fiscal year ended June 30, 2002, the Company excluded the effect of non-cash transactions from the advance payments from customers and other long-term asset balances. See Note 4 to the financial statements for further details.

* Excludes marketable securities totaling $29,693,301, $29,416,247 and $43,080,537 as of June 30, 2004, 2003 and 2002, respectively. See Note 2 to the financial statements for further details.

See accompanying notes.

**ARRAY BIOPHARMA INC.**

**NOTES TO FINANCIAL STATEMENTS**

**1. Business and Summary of Significant Accounting Policies**

***Business Operations***

Array BioPharma Inc. (the Company ) is a biopharmaceutical company focused on the discovery, development and commercialization of orally active drugs to address significant unmet medical needs. The Company s proprietary drug development pipeline is primarily focused on the treatment of cancer and inflammatory disease and includes several small molecule drug candidates that are designed to regulate targets in therapeutically important biologic pathways. In addition, leading pharmaceutical and biotechnology companies access the Company s drug discovery technologies and expertise through collaborations to design, create, optimize and evaluate drug candidates across a broad range of therapeutic areas.

**2. Restatement and Reclassification of Financial Statements**

During fiscal year 2005, the Company reviewed its accounting practices with respect to leasing transactions and determined that its then-current method of accounting of rent expense for leased facilities was not in compliance with Financial Accounting Standards Board Technical Bulletin No. 85-3, *Accounting for Operating Leases with Scheduled Rent Increases* ( FTB 85-3 ). The Company concluded on August 4, 2005, after discussion with its Audit Committee, and its current and former independent registered public accounting firms, that a restatement of certain historical financial statements was required to correct the accounting for annual rental rate escalations under its facilities leases. FTB 85-3 indicates that the lessee should recognize scheduled rent increases on a straight-line basis over the lease term, which may include optional lease renewal terms, and deferred rent expense should be recognized to reflect the difference between the rent paid in the current period and the calculated straight-line amount. By not accounting for the future annual increases on a straight-line basis, the Company understated rent expense and liability for deferred rent in prior fiscal years. Although the Company does not believe that the impact of this change is material to any prior periods, the Company restated its prior financial statements because correcting this error in a single quarter would have had a material effect on the Company s results of operations for the fourth quarter of fiscal 2005.

The cumulative effect of this restatement resulted in an increase in the accumulated deficit of approximately $62,000 as of June 30, 2001 and increases in net loss of approximately $462,000, $446,000 and $166,000 for the fiscal years ended June 30, 2004, 2003 and 2002, respectively.

The following is a summary of the effects of these changes on the Company s balance sheets as of June 30, 2004 and 2003, as well as the effect of these changes on the Company s statements of operations for fiscal years ended June 30, 2004, 2003 and 2002. Net cash provided by (used in) operating, investing and financing activities was unaffected by this lease accounting restatement for all periods presented.

**BALANCE SHEETS**

| | As Previously Reported | Adjustments | As Restated |
|---|---|---|---|
| **June 30, 2004** | | | |
| Cash and cash equivalents | $ 7,752,812 | $ (1,253,223) | $ 6,499,589 |
| Restricted cash - long term | | 1,253,223 | 1,253,223 |
| Deferred rent payable - long term | | 1,136,188 | 1,136,188 |
| Total long-term liabilities | 4,166,665 | 1,136,188 | 5,302,853 |
| Total liabilities | 22,134,500 | 1,136,188 | 23,270,688 |
| Accumulated deficit | (69,659,967) | (1,136,188) | (70,796,155) |
| Total stockholders equity | 55,629,608 | (1,136,188) | 54,493,420 |
| | | | |
| **June 30, 2003** | | | |
| Cash and cash equivalents | $ 4,714,203 | $ (1,132,312) | $ 3,581,891 |
| Restricted cash - long term | | 1,132,312 | 1,132,312 |
| Deferred rent payable - long term | | 674,350 | 674,350 |
| Total long-term liabilities | | 674,350 | 674,350 |
| Total liabilities | 6,116,836 | 674,350 | 6,791,186 |
| Accumulated deficit | (44,155,945) | (674,350) | (44,830,295) |
| Total stockholders equity | 77,713,517 | (674,350) | 77,039,167 |

**STATEMENTS OF OPERATIONS**

| | | | |
|---|---|---|---|
| **Fiscal Year 2004** | | | |
| Cost of revenue | $ 23,042,193 | $ 242,323 | $ 23,284,516 |
| Research and development expenses: | | | |
| for proprietary drug discovery | 15,727,939 | 177,168 | 15,905,107 |
| for collaborations | 8,360,634 | (4,722) | 8,355,912 |
| Selling, general and administrative expenses | 7,968,677 | 47,069 | 8,015,746 |
| Total operating expenses | 60,715,867 | 461,838 | 61,177,705 |
| Loss from operations | (25,884,877) | (461,838) | (26,346,715) |
| Net loss | (25,504,022) | (461,838) | (25,965,860) |
| Basic and diluted net loss per share | $ (0.89) | $ (0.02) | $ (0.91) |
| | | | |
| **Fiscal Year 2003** | | | |
| Cost of revenue | $ 21,812,750 | $ 130,016 | $ 21,942,766 |
| Research and development expenses: | | | |
| for proprietary drug discovery | 11,175,674 | 219,267 | 11,394,941 |
| for collaborations | 9,039,587 | 53,744 | 9,093,331 |
| Selling, general and administrative expenses | 8,858,541 | 43,312 | 8,901,853 |
| Total operating expenses | 54,986,552 | 446,339 | 55,432,891 |
| Loss from operations | (19,861,139) | (446,339) | (20,307,478) |
| Net loss | (19,574,052) | (446,339) | (20,020,391) |
| Basic and diluted net loss per share | $ (0.70) | $ (0.02) | $ (0.72) |
| | | | |
| **Fiscal Year 2002** | | | |
| Cost of revenue | $ 20,450,999 | $ 61,312 | $ 20,512,311 |
| Research and development expenses: | | | |
| for proprietary drug discovery | 5,508,927 | 33,258 | 5,542,185 |
| for collaborations | 8,189,506 | 57,146 | 8,246,652 |
| Selling, general and administrative expenses | 6,903,266 | 14,247 | 6,917,513 |
| Total operating expenses | 41,052,698 | 165,963 | 41,218,661 |
| Loss from operations | (5,963,616) | (165,963) | (6,129,579) |
| Net loss | (4,480,635) | (165,963) | (4,646,598) |
| Basic and diluted net loss per share | $ (0.18) | $ (0.01) | $ (0.19) |

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Further, the Company concluded that it was appropriate to separately classify restricted cash. Previously, such cash balances had been classified as cash and cash equivalents. Accordingly we have revised the classification to report these investments as restricted cash on the balance sheet as of June 30, 2004 and 2003. The Company has also made corresponding adjustments to the statements of cash flows for each of the three years in the period ended June 30, 2004, to reflect the increase in these balances as investing activities rather than as a component of cash and cash equivalents.

**STATEMENTS OF CASH FLOWS**

| | As Previously Reported | Adjustments | As Restated |
|---|---|---|---|
| **Fiscal Year 2004** | | | |
| Increase in restricted cash | $ | $ (120,911) | $ (120,911) |
| Net cash used in investing activities | (4,069,343) | (120,911) | (4,190,254) |
| Net increase in cash and cash equivalents | 3,038,609 | (120,911) | 2,917,698 |
| Cash and cash equivalents, beginning of period | 4,714,203 | (1,132,312) | 3,581,891 |
| Cash and cash equivalents, end of period | 7,752,812 | (1,253,223) | 6,499,589 |
| | | | |
| **Fiscal Year 2003** | | | |
| Increase in restricted cash | $ | $ (175,193) | $ (175,193) |
| Net cash provided by investing activities | 4,265,317 | (175,193) | 4,090,124 |
| Net decrease in cash and cash equivalents | (11,803,011) | (175,193) | (11,978,204) |
| Cash and cash equivalents, beginning of period | 16,517,214 | (957,119) | 15,560,095 |
| Cash and cash equivalents, end of period | 4,714,203 | (1,132,312) | 3,581,891 |
| | | | |
| **Fiscal Year 2002** | | | |
| Increase in restricted cash | $ | $ (218,557) | $ (218,557) |
| Net cash used in investing activities | (32,295,678) | (218,557) | (32,514,235) |
| Net increase in cash and cash equivalents | 2,714,345 | (218,557) | 2,495,788 |
| Cash and cash equivalents, beginning of period | 13,802,869 | (738,562) | 13,064,307 |
| Cash and cash equivalents, end of period | 16,517,214 | (957,119) | 15,560,095 |

**3. Summary of Significant Accounting Policies**

***Cash Equivalents and Marketable Securities***

Cash equivalents consist of short-term, highly liquid financial instruments that are readily convertible to cash and have maturities of three months or less from the date of purchase and may consist of money market funds, taxable commercial paper, U.S. government agency obligations and corporate notes and bonds with high credit quality. Marketable securities consist of similar financial instruments with maturities of greater than three months. The fair market value of cash equivalents, based on quoted market prices is substantially equal to their carrying value at June 30, 2004 and 2003.

At June 30, 2004 and 2003, management designated marketable securities held by the Company as available-for-sale securities for purposes of Statement of Financial Accounting Standards No. 115, *Accounting for Certain Investments in Debt and Equity Securities.* Securities available-for-sale are carried at fair value, with unrealized gains and losses reported as a component of stockholders equity until their disposition. The amortized cost of debt securities in this category is adjusted for amortization of premiums and accretion of discounts to

maturity. Such amortization is included in investment income. Realized gains and losses and declines in value judged to be other-than-temporary on securities available-for-sale are included in investment income. Interest and dividends on securities available-for-sale are included in investment income. The cost of securities sold is based on the specific identification method.

***Fair Value of Financial Instruments***

At June 30, 2004 and 2003, the Company s financial instruments consisted of cash, cash equivalents, marketable securities, accounts receivable, and accounts payable. Marketable securities recorded as available-for-sale are

recorded at their approximate fair value. The carrying amounts of all other instruments approximate fair value due to their short-term nature. See Note 2 for a discussion of the fair value of the Company s marketable securities.

***Accounts Receivable and Allowance for Doubtful Accounts***

The Company evaluates the collectibility of its accounts receivable based on a combination of factors. In circumstances when the Company is aware of a specific customer s potential inability to meet its financial obligation, the Company records a specific reserve for bad debt against amounts due. For all other instances, the Company reviews the historical collections experience for its customers in determining if an allowance for doubtful accounts is deemed necessary. As of June 30, 2004 and June 30, 2003, the allowance for doubtful accounts was $54,550 and $26,500, respectively.

***Concentration of Credit Risk***

Financial instruments that potentially subject the Company to concentrations of credit risk are primarily cash and cash equivalents, accounts receivable and investments in marketable securities. The Company maintains its cash balances in the form of bank demand deposits. Cash equivalents and marketable securities consist of money market funds, auction rate securities and federal agency mortgage-backed securities. All cash, cash equivalents and marketable securities are maintained with financial institutions that management believes are creditworthy. Accounts receivable are typically unsecured and are concentrated in the pharmaceutical and biotechnology industries. Accordingly, the Company may be exposed to credit risk generally associated with pharmaceutical and biotechnology companies.

During fiscal year 2004, revenue from three of the Company s customers represented approximately 18%, 13% and 12% of total revenue. During fiscal year 2003, revenue from three of the Company s customers represented approximately 21%, 15% and 12% of total revenue. During fiscal year 2002, revenue from four of the Company s customers represented approximately 17%, 16%, 15% and 14% of total revenue.

The Company enters into agreements directly with pharmaceutical and biotechnology companies throughout the United States, Europe and Japan. International revenue represented 33%, 14% and 12% of the Company s total revenue during fiscal years 2004, 2003 and 2002, respectively.

***Inventories***

Inventories primarily consist of individual chemical compounds in the form of Optimer building blocks, Lead Generation Libraries, custom libraries and commercially available fine chemicals. Inventories are stated at the lower of cost or market, cost being determined under the first-in, first-out method. The Company has designed and produced the chemical compounds comprising its Lead Generation Libraries, custom libraries and Optimer building blocks and capitalizes costs into inventory only after technological feasibility has been established. Inventories are reviewed periodically, and items considered to be slow moving or obsolete are reduced to estimated net realizable value through an appropriate reserve.

***Property, Plant and Equipment***

Property, plant and equipment are stated at cost. Repairs and maintenance are charged to operations as incurred, and significant expenditures for additions and improvements are capitalized. Depreciation and amortization of equipment are computed using the straight-line method based on the following estimated useful lives:

| Type of Property and Equipment | Estimated Useful Life |
|---|---|
| Computer hardware and software | 3 years |
| Laboratory and analytical equipment | 5 years |
| Furniture and fixtures | 7 years |
| Leasehold improvements | 15 years |

Leasehold improvements were depreciated over 7 years prior to fiscal year 2002. During 2002, the Company entered into a new building lease and modified an existing one, and in this process obtained options for extending all significant building leases up to, and beyond, 15 years. The Company has incurred significant expenditures for leasehold improvements and believes the current facilities are suitable for continued use over the option periods. As a result, the estimated useful lives of the leasehold improvements were revised to 15 years during fiscal year 2002.

***Software Development Costs***

In order for costs to be capitalized, the computer software project must be intended to create a new system or add identifiable functionality to an existing system. All other costs are expensed in the period incurred. Total capitalized costs were approximately $351,000, $430,000 and $929,000 for fiscal years 2004, 2003 and 2002, respectively, and are being depreciated over a period of three years.

***Long-Lived Assets***

Long-lived assets are reviewed for impairment when events or changes in circumstances indicate the book value of the assets may not be recoverable. Recoverability is measured by comparison of the assets book value to future net undiscounted cash flows the assets are expected to generate. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the book value of the assets exceed the projected discounted future net cash flows arising from the assets.

***Deferred Rent***

The Company s facilities leases provide for annual rent increases over the term of the leases, which may include optional lease term extensions. The Company recognizes the average annual rent expense on a straight-line basis over the lease term. As a result, the amount of rent expense will exceed the Company s actual cash rent payments during the early part of the lease term. The Company records deferred rent equal to the difference between the actual cash payments and the amount recognized as rent expense on a straight-line basis for the Company s leases. Rent expense is recognized ratably over the life of the base lease for the Company s Boulder facility, which expires in March 2008, plus the first eight-year extension period, for a total of fifteen years. Rent expense is recognized over the life of only the base leases for the Company s Longmont facilities, with one lease expiring on May 2005 and the other on March 2008, as the amounts of rent increases during the optional extension terms is not determinable.

***Revenue Recognition***

The Company recognizes revenue from fees under its collaboration agreements on a monthly basis as work is performed. Development and fixed-fee revenue is recognized on a percentage-of-completion basis. Per-compound revenue is recognized as compounds are shipped. Revenue from license fees and up-front fees is recognized on a straight-line basis over the expected period of the related research program. Royalty revenue is recorded when earned. Portions of milestone payments are recognized as revenue when the Company has met the contracted performance criterion of the related milestone, while the balance of the payment is recognized ratably over the remainder of the research program. Revenue recognition related to license fees, up-front payments and milestone payments could be accelerated in the event of early termination of programs.

In general, contract provisions include predetermined payment schedules or the submission of appropriate billing detail. Payments received in advance of performance are recorded as advance payments from collaborators until the revenue is earned. The Company reports revenue from lead generation and lead optimization research, custom synthesis and process research, the development and sale of chemical compounds and the co-development of proprietary drug candidates it out-licenses, as collaboration revenue. License, royalty and milestone revenue is combined and reported separately from collaboration revenue.

***Shipping and Handling Costs***

Costs incurred for shipping and handling of products are included in cost of revenue. Amounts billed to customers for shipping and handling are reported within collaboration revenue.

***Research and Development Costs***

Research and development costs are expensed as incurred.

***Advertising and Promotion Expenses***

Advertising and promotion costs are expensed when incurred. The amount charged against operations for the years ended June 30, 2004, 2003 and 2002 was approximately $47,000, $149,000 and $155,000, respectively.

***Patents and Patent Application Costs***

Patents and patent application costs are expensed as incurred. Prior to fiscal year 2003, all costs directly incurred in pursuing patent applications were capitalized as patent costs. When such applications resulted in an issued patent, the related costs were amortized on a straight-line method over the estimated remaining life of the patent. During 2003, the Company reviewed its issued patents and pending patent applications and determined that the amount of capitalized patents was immaterial and as a result expensed the entire balance.

***Accounting for Stock-Based Compensation***

The Company accounts for its stock-based compensation arrangements under the provisions of Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* ( APB 25 ), and its related interpretations. Under the provisions of APB 25, no compensation expense is recognized when stock options are granted with exercise prices equal to or greater than market value on the date of grant.

The Company is required to disclose pro forma information regarding net loss and net loss per share by Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* ( SFAS 123 ), determined as if the Company had accounted for its employee stock options and purchases under its employee stock purchase plan using the fair value method of that statement. The Company uses the Black-Scholes option pricing model under SFAS 123 and used the following assumptions for its Stock Option and Incentive Plan and Employee Stock Purchase Plan.

| | Risk-Free Interest Rate | Dividend Yield | Volatility Factor | Option Life in Years | Calculated Fair Value of Options Granted |
|---|---|---|---|---|---|
| Fiscal Year 2004 | 3.77% | 0% | 81.6% | 5 | $ 5.07 |
| Fiscal Year 2003 | 2.41% | 0% | 90.0% | 5 | $ 5.08 |
| Fiscal Year 2002 | 4.03% | 0% | 79.2% | 5 | $ 6.48 |

The Black-Scholes option valuation method described above requires the input of highly subjective assumptions. Because the Company s employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management s opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

The Company adopted the disclosure requirements of Statement of Financial Accounting Standards No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure* ( SFAS 148 ), which amends the disclosure provisions of SFAS 123, and APB Opinion No. 28, *Interim Financial Reporting*. SFAS 148 requires disclosure of the method of accounting used for stock-based compensation and the effects of this method on reported net income and earnings per share for annual and interim financial statements. The following table illustrates the effect on net loss and net loss per share assuming the estimated fair value of the options granted is amortized to expense over the option-vesting period as required by SFAS 123.

| | Years Ended June 30, | | |
|---|---|---|---|
| | 2004 | 2003 (Restated, See Note 2) | 2002 |
| Net loss, as reported | $ (25,965,860) | $ (20,020,391) | $ (4,646,598) |
| Add: Stock-based employee compensation expense included in reported net loss | 1,976,658 | 1,882,771 | 2,420,683 |
| Less: Total stock-based employee compensation expense determined under fair value based methods for all options granted | (7,723,166) | (8,487,330) | (5,512,706) |
| Pro forma net loss | $ (31,712,368) | $ (26,624,950) | $ (7,738,621) |
| Net loss per share: | | | |
| Basic and diluted - as reported | $ (0.91) | $ (0.72) | $ (0.19) |
| Basic and diluted - pro forma | $ (1.11) | $ (0.96) | $ (0.31) |
| Number of shares used to compute per share data | 28,511,457 | 27,829,527 | 24,920,103 |

***Comprehensive Loss***

The Company discloses, in addition to net loss, comprehensive income (loss) and its components including unrealized gains and losses on certain investments in debt and equity securities. The Company has disclosed comprehensive loss in its statements of stockholders equity.

***Net Loss Per Share***

Basic and diluted net loss per share has been computed by dividing net loss for the period by the weighted average number of common shares outstanding during the period. The Company has excluded the effects of outstanding stock options from the calculation of diluted net loss per share because all such securities are anti-dilutive for all applicable periods presented. The number of common share equivalents relating to these stock options excluded from the diluted loss per share calculations for the years ended June 30, 2004, 2003 and 2002 were 623,365 shares, 576,687 shares and 938,181 shares, respectively.

***Segment Information***

Since its inception, the Company has conducted its operations in one operating segment.

***Use of Estimates***

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

***Reclassifications***

Certain reclassifications have been made to the prior year s amounts to conform to the current year s presentation. These reclassifications had no impact on the reported results of operations. See Note 2 above regarding certain reclassifications of restricted cash balances.

***Recent Accounting Pronouncement***

In January 2003, the Emerging Issues Task Force ( EITF ) issued EITF Statement No. 00-21, *Accounting for Revenue Arrangements with Multiple Deliverables* ( EITF 00-21 ). EITF 00-21 addresses how to determine whether a revenue arrangement involving multiple deliverables contains more than one unit of accounting for purposes of revenue recognition and how the revenue arrangement consideration should be measured and allocated to the separate units of accounting. EITF 00-21 applies to all revenue arrangements that are executed in fiscal periods beginning after June 15, 2003. Array adopted EITF 00-21 during the quarter ended September 30, 2003. The adoption of this statement did not have a significant impact on its financial statements.

**4. Cash, Cash Equivalents and Marketable Securities**

All cash, cash equivalents and marketable securities classified as available-for-sale as of June 30, 2004 and 2003 consist of the following:

| | As of June 30, | |
|---|---|---|
| | **2004** | **2003** |
| Cash and cash equivalents: | | |
| Cash | $ 5,451,105 | $ 1,260,971 |
| Money market fund (Restated, See Note 2) | 1,048,484 | 2,320,920 |
| Total | $ 6,499,589 | $ 3,581,891 |
| | | |
| Marketable securities: | | |
| Auction rate securities | $ 10,257,750 | $ 18,357,789 |
| Federal agency mortgage-backed securities | 19,435,551 | 11,058,458 |
| Total | $ 29,693,301 | $ 29,416,247 |
| | | |
| Restricted cash - long term (Restated, See Note 2) | | |
| Money market fund | $ 1,253,223 | $ 1,132,312 |

Unrealized losses on available-for-sale securities at June 30, 2004 were approximately $143,000 while unrealized gains at June 30, 2003, were approximately $22,000. At June 30, 2004, the unrealized losses were related to the Company s investment in federal agency mortgage-backed securities, which have been in an unrealized loss position for less than twelve months. The fair values of these investments at June 30, 2004 were $19.4 million compared to the Company s original cost of $19.5 million. Because the decline in market value is attributable to changes in interest rates and not credit quality, the Company does not consider these investments to be other-than-temporarily impaired at June 30, 2004.

At June 30, 2004 and June 30, 2003, the Company had restricted cash of $1.3 million and $1.1 million, respectively, as a compensating balance to support outstanding standby letters of credit. The standby letters of credit were issued during the fiscal years of 2002 and 2003 and increased during fiscal year 2004 in relation to the Company s facilities leases.

Debt securities at June 30, 2004 and 2003, by contractual maturity, are shown below. Actual maturities may differ from contractual maturities because issuers of the securities may have the right to prepay obligations.

| | As of June 30, | |
|---|---|---|
| | 2004 | 2003 |
| Marketable securities: | | |
| Due in one year or less | $ 10,257,750 | $ 18,357,789 |
| Due after one year through four years | 19,435,551 | 11,058,458 |
| Total | $ 29,693,301 | $ 29,416,247 |

**5. Balance Sheet Components**

| | As of June 30, | |
|---|---|---|
| | **2004** | **2003** |
| Inventories: | | |
| Fine chemicals | $ 2,909,619 | $ 3,463,230 |
| Lead Generation Libraries, custom libraries and Optimer building blocks | 7,749,446 | 11,252,962 |
| Total inventories at cost | 10,659,065 | 14,716,192 |
| Less reserves | (6,628,384) | (5,651,644) |
| Total inventories, net | $ 4,030,681 | $ 9,064,548 |

During fiscal 2004, the Company accelerated the evolution of its business model to focus primarily on drug discovery, increasing its investment in proprietary research, and out-licensing three proprietary drug programs in December 2003 to AstraZeneca and Genentech for further development and commercialization. Due to this evolution, it is not expected that Lead Generation Libraries will be a significant source of revenues in future periods, and no new Lead Generation Libraries will be produced other than for the Company s own proprietary research.

In light of the foregoing, an in-depth review of the inventory levels and carrying values for Lead Generation Libraries, Optimer building blocks and fine chemicals was undertaken during the third quarter of fiscal 2004. Based on this review and on an analysis of expected future sales and industry standards relating to net carrying values, it was determined that there was an excess level of Lead Generation Library and Optimer building block inventory. It was also determined that inventory of fine chemicals used as the starting materials for Lead Generation Libraries exceeded anticipated usage. Accordingly, the reserves were increased by $5.6 million for these inventories. At June 30, 2004, fully reserved inventory of $5.6 million was written off and applied to these established reserves. The Company has not and does not anticipate recognizing any revenue from sales or licensing of inventory that has been written off.

During the fourth quarter of fiscal year 2003, the Company increased its inventory reserves for Lead Generation Libraries by $4.1 million. The carrying values at that time were reduced in light of difficult market conditions and resulting declines in Lead Generation Library revenue experienced during the second half of fiscal 2003.

| | As of June 30, | |
|---|---|---|
| | **2004** | **2003** |
| Property, plant and equipment: | | |
| Laboratory and analytical equipment | $ 24,786,661 | $ 22,542,082 |
| Computer hardware and software | 7,803,505 | 7,361,804 |
| Furniture and fixtures | 1,369,555 | 1,124,182 |
| Leasehold improvements | 23,018,334 | 22,701,886 |
| Equipment and computer software in progress | 578,460 | 208,951 |
| Total property, plant and equipment, gross | 57,556,515 | 53,938,905 |
| Less accumulated depreciation | (23,745,563) | (15,758,221) |
| Total property, plant and equipment, net | $ 33,810,952 | $ 38,180,684 |

**6. Other Expense** ***Loss on investment***

In March 2002, the Company entered into a drug discovery collaboration agreement with Aptus Genomics, Inc. to create small molecule therapeutics against select G-Protein Coupled Receptor (GPCR) targets. The Company worked exclusively with Aptus on a select number of GPCR targets and provided Aptus access to its Lead Generation Libraries in exchange for $500,000 of common stock in Aptus. During fiscal 2003, the value of Aptus common stock decreased significantly. The Company determined this reduced value to be other-than-temporary and as a result, wrote off its investment in the company.

**7. Restructuring** ***Fiscal year 2003***

In March 2003, the Company reduced its workforce in order to reduce costs and match its headcount resources with the near-term demand for its collaboration programs, which resulted in the termination of 31 employees across all employee levels and business functions. This reduction resulted in a charge to operations in Fiscal 2003 for termination-related costs of approximately $541,000. Such costs included severance packages and out-placement services for affected employees and were included in selling, general and administrative expenses in the statement of operations.

**8. Commitments** ***Leases***

The Company leases facilities and equipment under various noncancelable operating lease agreements. Rent expense under these agreements was $4.3 million, $3.6 million and $2.7 million for the years ended June 30, 2004, 2003 and 2002, respectively, including deferred rent expense of approximately $462,000, $446,000, and $166,000, respectively. As of June 30, 2004, future minimum rental commitments, by fiscal year and in the aggregate, for the Company s operating leases are as follows:

| | Amount (Restated, See Note 2) |
|---|---|
| 2005 | $ 4,891,109 |
| 2006 | 4,474,277 |
| 2007 | 4,571,176 |
| 2008 | 4,597,469 |
| 2009 | 4,459,121 |
| Thereafter | 33,780,113 |
| Total minimum lease payments | $ 56,773,265 |

The Company has options to extend the lease terms on all of its existing facilities leases in Boulder and Longmont, Colorado. The Boulder lease, expiring on April 1, 2008, offers options to renew the lease for three additional terms for up to 18 years. One of the Longmont leases, expiring on May 31, 2005, offers options to renew for four additional terms for up to 16 years. The other Longmont lease expires on March 31, 2008 and offers the options to renew for three additional terms for up to 13 years. All options to renew are at the then-prevailing market rental rates.

Due to the high cost to replace and the limited availability of laboratory facilities, the Company concluded that the exercise of a portion of its lease term options associated with its facilities leases for at least 15 years was reasonably assured. The reasonably assured lease term as of June 30, 2004 for the Company s facility located in Boulder, Colorado expires in March 2016 and the reasonably assured lease terms for the Company s facilities located in Longmont, Colorado expire in May 2005 and in March 2008. The portion of operating lease obligations that is related to optional extension periods for our Boulder facility is $1.0 million, $4.5 million and $33.8 million for the fiscal years 2008, 2009 and thereafter, respectively. Because the rental rates for the optional extension terms under the Company s Longmont facility leases were undeterminable, no operating lease obligations beyond the original terms expiring in May 2005 and March 2008 are included in the foregoing table.

**9. Financial Guarantees**

At June 30, 2004 and June 30, 2003, the Company had restricted cash of $1.3 million and $1.1 million, respectively, as a compensating balance to support outstanding standby letters of credit. The standby letters of credit were issued during the fiscal years of 2003 and 2002 and increased during fiscal year 2004 in relation to the Company s facilities leases.

**10. Employee Savings Plan**

The Company has a 401(k) plan that allows participants to contribute 1% to 60% of their salary; subject to eligibility requirements and annual IRS limits. The Company matches employee contributions on a discretionary basis as determined by the Company s Board of Directors. During fiscal year 2004, 2003 and 2002, the Company paid matching contributions of approximately $326,000, $351,000 and $269,000, respectively. Company contributions are fully vested after four years of employment.

**11. Stock Compensation Plans, Stock Warrants and Stockholder Rights Plan**

***Stock Options***

In September 2000, the Company s Board of Directors approved the Amended and Restated Stock Option and Incentive Plan (the Plan ), which is the successor equity incentive plan to the Company s 1998 Stock Option Plan (the 1998 Plan ), initially adopted by the Board of Directors in July 1998. Upon the closing of the Company s initial public offering, the Plan became effective and no additional grants were made under the 1998 Plan. A total of 10,728,370 shares of common stock have been reserved for issuance under the Plan to eligible employees, consultants and directors of the Company. Additional authorized shares may be reserved on any given day in an amount equal to the difference between: (i) 25% of the Company s 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 Plan plus the number of shares available for future grants of awards under the Plan on that date. The number of shares available for issuance under the Plan as incentive stock options may not exceed 10,728,370 shares. The Plan provides that this number will increase on January 1 of each year from 2003 through 2006 by 250,000 shares, provided that this number may not exceed the total number of shares reserved under the Plan. As of June 30, 2004, there were 1,851,887 shares available for future issuance under the Plan.

The Plan provides for awards of both nonstatutory stock options and incentive stock options within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended, and other incentive awards and rights to purchase shares of the Company s common stock.

The 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 and to determine whether and to what extent stock options and other stock incentive awards are to be granted, the number of shares of common stock to be covered by each award, the vesting schedule of stock options, generally straight-line over a period of four years, and all other terms and conditions of each award.

A summary of activity in the Plan is as follows:

| | Number of Options | Weighted-Average Exercise Price |
|---|---|---|
| Balance, June 30, 2001 | 3,491,649 | $ 1.575 |
| Granted | 2,760,482 | 9.796 |
| Exercised | 515,699 | 0.689 |

| | | | |
|---|---|---|---|
| Terminated or expired | 260,983 | | 6.451 |
| Balance, June 30, 2002 | 5,475,449 | | 5.571 |
| Granted | 1,021,458 | | 7.205 |
| Exercised | 428,159 | | 0.510 |
| Terminated or expired | 353,171 | | 6.991 |
| Balance, June 30, 2003 | 5,715,577 | | 6.155 |
| Granted | 1,281,749 | | 5.126 |
| Exercised | 410,034 | | 1.749 |
| Terminated or expired | 308,455 | | 7.042 |
| Balance, June 30, 2004 | 6,278,837 | $ | 6.189 |

A summary of options outstanding as of June 30, 2004, is as follows:

| | Outstanding Options | | | Exercisable Options | |
|---|---|---|---|---|---|
| Exercise Price | Shares Under Option | Weighted-Average Remaining Contractual Life | Weighted-Average Exercise Price | Shares Currently Exercisable | Weighted-Average Exercise Price |
| $0.00-$0.24 | 375,651 | 4.7 | $ 0.235 | 375,651 | $ 0.235 |
| $0.25-$0.60 | 986,228 | 5.6 | 0.600 | 971,735 | 0.600 |
| $0.61-$3.00 | 211,545 | 7.1 | 2.819 | 137,830 | 2.965 |
| $3.01-$6.00 | 1,065,080 | 8.8 | 3.667 | 94,202 | 5.067 |
| $6.01-$8.50 | 920,640 | 7.7 | 8.159 | 380,434 | 7.963 |
| $8.51-$9.00 | 905,593 | 8.2 | 8.657 | 272,048 | 8.675 |
| $9.01-$10.50 | 1,220,900 | 7.8 | 9.313 | 543,300 | 9.324 |
| $10.51-$14.28 | 593,200 | 7.6 | 11.730 | 301,100 | 11.906 |
| | 6,278,837 | 7.4 | $ 6.189 | 3,076,300 | $ 5.070 |

***Deferred Stock-Based Compensation***

As of June 30, 2004 and 2003, the Company had deferred stock compensation balances of approximately $151,000 and $2.2 million, respectively, in accordance with APB 25, SFAS 123 and FIN 44, related to certain stock options granted to employees prior to the Company s initial public offering. Stock compensation expense is being recognized on a straight-line basis over the vesting periods of the related options, which is generally four years, except for options with performance-based vesting provisions. The Company recognized stock compensation expense of $2.0 million, $1.9 million and $2.4 million for fiscal years 2004, 2003 and 2002, respectively.

***Employee Stock Purchase Plan***

During fiscal year 2001, the Company adopted an Employee Stock Purchase Plan (the Purchase Plan ), authorizing the issuance of 800,000 shares of its common stock pursuant to purchase rights granted to eligible employees of the Company. During fiscal 2003, shareholders approved an increase of 400,000 shares for a total of 1.2 million authorized shares for issuance under the Plan. The Purchase Plan provides a means by which employees purchase common stock of the Company through payroll deductions of up to 15% of their base compensation. The Compensation Committee determines the length and duration of the periods during which payroll deductions will be accumulated to purchase shares of common stock. This period is known as the offering period. Within a single offering period, the Company permits periodic purchases of stock, known as purchase periods. Currently, offering periods are six-month periods. The purchase periods are currently three-month periods. The Compensation Committee may modify the duration of the offering periods and the purchase periods in the future. At the end of each of four purchase periods during a calendar year, the Company uses accumulated payroll deductions to purchase, on behalf of participating employees, shares of common stock at a price equal to the lower of 85% of the fair market value of a share of common stock (i) at the beginning of the offering period or (ii) at the end of the purchase period. The purchase periods under the Purchase Plan end on March 31, June 30, September 30 and December 31 of each year. Generally, all employees, including executive officers, who work at least 20 hours per week and five months per year may participate in the Purchase Plan. Employees who are deemed to own greater than 5% of the combined voting power of all classes of stock of the Company are not eligible for participation in the Purchase Plan. For the fiscal years 2004, 2003 and 2002, total shares issued under the Purchase Plan were 240,865, 272,141 and 258,766, respectively. As of June 30, 2004, there were 338,468 shares available for future issuance under the Purchase Plan.

***Stock Warrants***

During fiscal years 1999 and 2000 the Company had issued warrants to purchase shares of the Company s preferred stock, generally in connection with the Company s equipment financing. Upon the closing of the Company s initial public offering in November 2000, in conjunction with the automatic conversion of the preferred

stock, these warrants became exercisable for the same number of shares of common stock. The warrants expire on various dates through fiscal year 2009. During July 2001, warrants to acquire 63,750 shares of common stock were exercised on a net basis, resulting in the issuance of 33,437 shares of common stock. As of June 30, 2004 and 2003, no warrants were outstanding.

***Stockholder Rights Plan***

In August 2001, the Company adopted a Stockholder Rights Plan designed to ensure that the Company s stockholders receive fair and equal treatment in the event of an unsolicited attempt to take control of the Company and to deter coercive or unfair tactics by potential acquirers. The Stockholder Rights Plan imposes a significant penalty upon any person or group that acquires 15% or more of the Company s outstanding common stock without the approval of the Company s Board of Directors. Under the Stockholder Rights Plan, a dividend of one Preferred Stock Purchase Right was declared for each common share held of record as of the close of business on August 27, 2001. Each right entitles the holder to purchase 1/100$^{th}$ of a share of Series A Junior Participating Preferred Stock for an exercise price of $70.00 per share. The rights generally will not become exercisable unless an acquiring entity accumulates or initiates a tender offer to purchase 15% or more of the Company s common stock. In that event, each right will entitle the holder, other than the unapproved acquirer and its affiliates, to purchase upon the payment of the exercise price a number of shares of the Company s common stock having a value of two times the exercise price. If the Company is not the surviving entity in a merger or stock exchange, or 50% or more of the Company s assets or earning power are sold in one or more related transactions, each right would entitle the holder thereof to purchase for the exercise price a number of shares of common stock of the acquiring company having a value of two times the exercise price. The rights expire on August 2, 2011.

**12. Common Stock**

On February 12, 2002, the Company completed a follow-on public offering of 3,450,000 shares of its common stock, including 450,000 shares for the exercise of the underwriters over-allotment option. The Company received net proceeds of $31.8 million from this public offering, net of $2.7 million in expenses and underwriters discount relating to the issuance and distribution of the securities.

During fiscal year 2002 and 2003, the Company received approximately $124,000 and $157,000, respectively, from two separate Company founders as full repayment of outstanding note receivable balances, including accrued interest. These payments were in connection with the purchase by the founders of shares of the Company s common stock in May 1998. All notes receivable for common stock have been fully repaid by the Company s founders.

**13. Income Taxes**

A deferred tax liability or asset (net of a valuation allowance) is provided in the financial statements by applying the provisions of applicable tax laws to measure the deferred tax consequences of temporary differences that will result in net taxable or deductible amounts in future years as a result of events recognized in the financial statements in the current or preceding years.

A reconciliation of the Company s effective tax rate from the federal statutory income tax rate is as follows:

| | Years Ended June 30, | | |
|---|---|---|---|
| | 2004 | 2003 (Restated, See Note 2) | 2002 |
| Expected federal income tax expense at statutory rate of 34% | 34.0% | 34.0% | 34.0% |
| Effect of permanent differences | (1.4)% | (1.7)% | (12.2)% |
| State income tax expense, net of federal benefit | 2.9% | 2.9% | 1.9% |
| Valuation allowance | (35.5)% | (35.2)% | (23.7)% |
| | % | % | % |

The components of the Company s deferred tax assets and liabilities are as follows:

| | As of June 30, | |
|---|---|---|
| | 2004 | 2003 |
| | (Restated, See Note 2) | |
| Deferred tax assets: | | |
| Net operating loss carryforwards | $ 17,385,247 | $ 14,113,901 |
| Research and development credit carryforwards | 2,728,800 | 1,768,962 |
| Deferred revenue | 5,249,571 | |
| Deferred rent | 421,024 | 249,886 |
| Inventory reserve | 2,456,201 | 2,094,262 |
| Other | 293,109 | 266,584 |
| | 28,533,952 | 18,493,595 |
| Valuation allowance | (27,002,434) | (16,444,458) |
| | 1,531,518 | 2,049,137 |
| Deferred tax liabilities: | | |
| Depreciation | (1,531,518) | (2,049,137) |
| Net deferred tax assets and liabilities | $ | $ |

The Company has recorded a valuation allowance equal to the excess of deferred tax assets over deferred tax liabilities as the Company was unable to determine that it is more likely than not that the deferred tax asset will be realized. As of June 30, 2004 and 2003, approximately $1.6 million and $1.2 million, respectively, of net operating loss deferred tax assets related to disqualifying dispositions of employee stock options. In future periods, if the Company determines that a valuation allowance is no longer necessary, the portion related to disqualifying dispositions of employee stock options will reverse against additional paid-in capital rather than be recognized as an income tax benefit on the statement of operations.

At June 30, 2004, the Company has the following net operating loss and tax credit carryforwards for income tax purposes:

| Expiration date: | Net Operating Losses | Research and Development Credits |
|---|---|---|
| 2019 | $ 49,000 | $ |
| 2020 | 4,468,000 | 135,000 |
| 2021 | 4,494,000 | 147,000 |
| 2022 | 5,560,000 | 287,000 |
| 2023 | 6,180,000 | 485,000 |
| 2024 | 17,328,000 | 715,000 |
| 2025 | 8,837,000 | 960,000 |
| | $ 46,916,000 | $ 2,729,000 |

The Tax Reform Act of 1986 contains provisions that limit the utilization of net operating loss and tax credit carryforwards if there has been a change of ownership as described in Section 382 of the Internal Revenue Code. Such a change of ownership may limit the Company s utilization of its net operating loss and tax credit carryforwards, and could be triggered by subsequent sales of securities by the Company or its stockholders.

**14. Selected Quarterly Financial Data (Unaudited)**

The tables below summarize the Company s unaudited quarterly operating results for fiscal years 2004 and 2003.

| | 1st Quarter | 2nd Quarter | 3rd Quarter | 4th Quarter |
|---|---|---|---|---|
| | | | (Restated, See Note 2) | |
| FISCAL YEAR 2004 | | | | |
| Total revenue | $ 7,195,472 | $ 7,594,913 | $ 9,687,916 | $ 10,352,689 |
| Cost of revenue | 5,082,322 | 5,069,887 | 6,105,934 | 7,026,373 |
| Provision for excess inventory | | | 5,616,424 | |
| Net loss | (6,052,199) | (6,376,670) | (9,848,208) | (3,688,783) |
| Basic and diluted net loss per share (1) | (0.21) | (0.22) | (0.34) | (0.13) |
| FISCAL YEAR 2003 | | | | |
| Total revenue | $ 10,503,746 | $ 9,502,439 | $ 8,026,517 | $ 7,092,711 |
| Cost of revenue | 6,032,153 | 5,702,825 | 5,786,078 | 4,421,710 |
| Provision for excess inventory | | | | 4,100,000 |
| Net loss | (1,325,788) | (3,005,482) | (6,225,080) | (9,464,041) |
| Basic and diluted net loss per share | (0.05) | (0.11) | (0.22) | (0.34) |

(1) Net loss per share is calculated independently for each of the quarters presented. Therefore, the sum of the quarterly net loss per share will not necessarily equal the total for the full fiscal year.

**Item 9A.** ***Controls and Procedures***

*Evaluation of Disclosure Controls and Procedures*

We maintain disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act )) that are designed to provide reasonable assurance that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms, and that such information is accumulated and communicated to our management, including the Chief Executive Officer and the Chief Financial Officer, as appropriate, to allow timely decisions regarding required financial disclosures. Because of inherent limitations, disclosure controls and procedures, no matter how well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of disclosure controls and procedures are met.

We evaluated, under the supervision and with the participation of our Chief Executive Officer, Chief Financial Officer and other senior management personnel, the effectiveness of the design and operation of our disclosure controls and procedures. Based on this evaluation, management concluded that, as of June 30, 2004, Array s disclosure controls and procedures were effective.

*Changes in Internal Control Over Financial Reporting*

There were no changes in our internal control over financial reporting that occurred during our fourth quarter ended June 30, 2004 that materially affected, or were reasonably likely to materially affect, our internal control over financial reporting.

During the fourth quarter of fiscal 2005, management implemented certain controls, including implementing a compliance checklist and secondary review of new leases, to ensure that facilities leases are reviewed and accounted for in accordance with Statement of Financial Accounting Standards No. 13, *Accounting for Leases*, and Financial Accounting Standards Board Technical Bulletin No. 85-3, *Accounting for Operating Leases with Scheduled Rent Increases*.

**PART IV**

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

(a) 1. FINANCIAL STATEMENTS

The financial statements are listed under Part II, Item 8 of this report.

Index to Financial Statements

| | |
|---|---|
| (a) | Balance Sheets at June 30, 2004 and 2003 |
| (b) | Statements of Operations for each of the three years in the period ended June 30, 2004 |
| (c) | Statements of Stockholders Equity for each of the three years in the period ended June 30, 2004 |
| (d) | Statements of Cash Flows for each of the three years in the period ended June 30, 2004 |
| (e) | Notes to Financial Statements |

2. FINANCIAL STATEMENT SCHEDULES

Schedule II was not restated and therefore has not been provided with this filing. See the Company s annual report on Form 10-K for the fiscal year ended June 30, 2004 for the original schedule.

3. EXHIBITS

Exhibits are set forth in the Exhibit Index below.

(b) EXHIBITS Registrant hereby files as part of this Annual Report Form 10-K/A the exhibits listed on the Exhibit Index below.

**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.

ARRAY BIOPHARMA INC.

Dated: September 12, 2005

By: /s/ Robert E. Conway
Robert E. Conway
*Chief Executive Officer*

**EXHIBIT INDEX**

| | |
|---|---|
| 23.1 | Consent of Independent Registered Public Accounting Firm |
| 31.1 | Certification of Robert E. Conway pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | Certification of R. Michael Carruthers pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.0 | Certifications of Robert E. Conway and R. Michael Carruthers pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |