ARRAY BIOPHARMA INC
Form 10-Q
October 30, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2012

or

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

For the transition period from to

Commission File Number: 001-16633

Array BioPharma Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**84-1460811**
(State or Other Jurisdiction of Incorporation or Organization)	*(I.R.S. Employer Identification No.)*
3200 Walnut Street, Boulder, CO	**80301**
(Address of Principal Executive Offices)	*(Zip Code)*

(303) 381-6600

(Registrant s Telephone Number, Including Area Code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes x No o

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

Large Accelerated Filer o Accelerated Filer x

Non-Accelerated Filer o Smaller Reporting Company o

(do not check if smaller reporting company)

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

Yes o No x

As of October 19, 2012, the registrant had 95,401,234 shares of common stock outstanding.

ARRAY BIOPHARMA INC.

QUARTERLY REPORT ON FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2012

TABLE OF CONTENTS

EXHIBIT INDEX

Certification of Chief Executive Officer Pursuant to Section 302
Certification of Chief Financial Officer Pursuant to Section 302
Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906

101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED FINANCIAL STATEMENTS

ARRAY BIOPHARMA INC.

Condensed Balance Sheets

(Amounts in Thousands, Except Share and Per Share Amounts)

(Unaudited)

	September 30, 2012	June 30, 2012
ASSETS		
Current assets		
Cash and cash equivalents	$ 49,054	$ 55,799
Marketable securities	18,279	33,378
Prepaid expenses and other current assets	3,581	3,930
Total current assets	70,914	93,107
Long-term assets		
Marketable securities	542	473
Property and equipment, net	11,717	12,059
Other long-term assets	2,318	2,434
Total long-term assets	14,577	14,966
Total assets	$ 85,491	$ 108,073
LIABILITIES AND STOCKHOLDERS DEFICIT		
Current liabilities		
Accounts payable	$ 4,309	$ 6,466
Accrued outsourcing costs	4,448	5,394
Accrued compensation and benefits	9,172	7,530
Other accrued expenses	1,955	1,390
Co-development liability	10,098	9,178
Deferred rent	3,528	3,489
Deferred revenue	33,107	42,339
Current portion of long-term debt	150	150
Total current liabilities	66,767	75,936
Long-term liabilities		
Deferred rent	10,572	11,480
Deferred revenue	10,322	13,228
Long-term debt, net	93,178	92,106
Derivative liabilities	527	656
Other long-term liabilities	542	473
Total long-term liabilities	115,141	117,943
Total liabilities	181,908	193,879
Commitments and contingencies		
Stockholders deficit		
Preferred stock, $0.001 par value; 10,000,000 shares authorized, 10,135 shares designated as Series B convertible preferred stock; 0 and 2,721	-	8,054

shares issued and outstanding as of September 30, 2012 and June 30, 2012, respectively		
Common stock, $0.001 par value; 120,000,000 shares authorized; 94,901,839 and 92,063,645 shares issued and outstanding, as of September 30, 2012 and June 30, 2012, respectively	95	92
Additional paid-in capital	446,608	437,401
Warrants	39,385	39,385
Accumulated other comprehesive income (loss)	-	(1)
Accumulated deficit	(582,505)	(570,737)
Total stockholders deficit	(96,417)	(85,806)
Total liabilities and stockholders deficit	$ 85,491	$ 108,073

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

ARRAY BIOPHARMA INC.

Condensed Statements of Operations and Comprehensive Loss

(Amounts in Thousands, Except Per Share Data)

(Unaudited)

	Three Months Ended September 30,	
	2012	**2011**
Revenue		
License and milestone revenue	$ 12,476	$ 18,462
Collaboration revenue	3,357	3,669
Total revenue	15,833	22,131
Operating expenses		
Cost of revenue	6,539	6,444
Research and development for proprietary programs	13,534	12,598
General and administrative	4,780	3,720
Total operating expenses	24,853	22,762
Loss from operations	(9,020)	(631)
Other income (expense)		
Interest income	11	6
Interest expense	(2,759)	(2,955)
Total other expenses, net	(2,748)	(2,949)
Net loss	$ (11,768)	$ (3,580)
Change in unrealized gains and losses on marketable securities	1	(4)
Comprehensive loss	$ (11,767)	$ (3,584)
Weighted average shares outstanding - basic and diluted	92,606	57,025
Net loss per share - basic and diluted	$ (0.13)	$ (0.06)

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

ARRAY BIOPHARMA INC.

Condensed Statement of Stockholders Deficit

(Amounts in Thousands)

(Unaudited)

	Preferred Stock		Common Stock		Additional Paid-in		Accumulated Other Comprehensive	Accumulated	
	Shares	Amounts	Shares	Amounts	Capital	Warrants	Income	Deficit	Total
Balance as of July 1, 2012	3	$ 8,054	92,064	$ 92	$ 437,401	$ 39,385	$ (1)	$ (570,737)	$ (85,806)
Issuance of common stock under stock option and employee stock purchase plans	-	-	117	-	361	-	-	-	361
Share-based compensation expense	-	-	-	-	795	-	-	-	795
Conversion of Preferred Stock to Common	(3)	(8,054)	2,721	3	8,051				-
Change in unrealized gain on marketable securities	-	-	-	-	-	-	1	-	1
Net loss	-	-	-	-	-	-	-	(11,768)	(11,768)
Balance as of September 30, 2012	-	$ -	94,902	$ 95	$ 446,608	$ 39,385	$ -	$ (582,505)	$ (96,417)

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

ARRAY BIOPHARMA INC.

Condensed Statements of Cash Flows

(Amounts in Thousands)

(Unaudited)

	Three Months Ended September,	
	2012	**2011**
Cash flows from operating activities		
Net loss	$ (11,768)	$ (3,580)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization expense	1,146	1,334
Non-cash interest expense	1,029	1,145
Share-based compensation expense	795	567
Changes in operating assets and liabilities:		
Prepaid expenses and other current assets	379	1,605
Accounts payable other accrued expenses	(1,593)	509
Accrued outsourcing costs	(946)	(661)
Accrued compensation and benefits	1,642	1,077
Deferred rent	(869)	(829)
Deferred revenue	(12,138)	12,368
Accrued and other liabilities	953	(8)
Net cash provided by (used in) operating activities	(21,370)	13,527
Cash flows from investing activities		
Purchases of property and equipment	(804)	(433)
Purchases of marketable securities	(12,416)	(4,801)
Proceeds from sales and maturities of marketable securities	27,484	15,937
Net cash provided by investing activities	14,264	10,703
Cash flows from financing activities		
Proceeds from exercise of stock options and shares issued under the employee stock purchase plan	361	53
Payment of offering costs	-	(15)
Net cash provided by financing activities	361	38
Net increase (decrease) in cash and cash equivalents	(6,745)	24,268
Cash and cash equivalents as of beginning of period	55,799	48,099
Cash and cash equivalents as of end of period	$ 49,054	$ 72,367
Supplemental disclosure of cash flow information		
Cash paid for interest	$ 1,735	$ 1,811

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

NOTE 1 - OVERVIEW AND BASIS OF PRESENTATION

Organization

Array BioPharma Inc. is a biopharmaceutical company focused on the discovery, development and commercialization of targeted small molecule drugs to treat patients afflicted with cancer. Array is evolving into a late-stage development company, with two wholly-owned programs, ARRY-614 and ARRY-520, and three partnered programs, selumetinib partnered with AstraZeneca, MEK162 partnered with Novartis, and danoprevir, an NS3 protease inhibitor, partnered with InterMune / Roche, having the potential to begin pivotal trials by the end of calendar year 2013.

Basis of Presentation

We follow the accounting guidance outlined in the Financial Accounting Standards Board Codification. The accompanying unaudited Condensed Financial Statements have been prepared without audit and do not include all of the disclosures required by the Financial Accounting Standards Board Codification, which have been omitted pursuant to the rules and regulations of the Securities and Exchange Commission, whom we refer to as the SEC, relating to requirements for interim reporting. The June 30, 2012 Condensed Balance Sheet data were derived from audited financial statements but do not include all disclosures required by generally accepted accounting principles in the United States, commonly referred to as GAAP. The unaudited Condensed Financial Statements reflect all adjustments (consisting only of normal recurring adjustments) that, in the opinion of management, are necessary to present fairly our financial position as of September 30, 2012 and June 30, 2012, and our results of operations and our cash flows for the three months ended September 30, 2012 and 2011. Operating results for the three months ended September 30, 2012 are not necessarily indicative of the results that may be expected for the year ending June 30, 2013.

These unaudited Condensed Financial Statements should be read in conjunction with our audited Financial Statements and the notes thereto included in our Annual Report on Form 10-K for the year ended June 30, 2012 filed with the SEC on August 16, 2012.

Use of Estimates

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

We believe the accounting estimates having the most significant impact on the financial statements relate to (i) estimating the stand-alone value of deliverables for purposes of determining revenue recognized under collaborations involving multiple elements; (ii) estimating the periods over which up-front and milestone payments from collaboration agreements are recognized; (iii) estimating accrued outsourcing costs for clinical trials and preclinical testing; and (iv) estimating the fair value of our long-term debt and the associated embedded derivatives.

Liquidity

We have incurred operating losses and an accumulated deficit as a result of ongoing research and development spending since inception. As of September 30, 2012, we had an accumulated deficit of $582.5 million. We had net losses of $11.8 million for the quarter ended September 30, 2012, and $23.6 million, $56.3 million and $77.6 million for the fiscal years ended June 30, 2012, 2011 and 2010, respectively.

We have historically funded our operations from up-front fees and license and milestone payments received under our collaboration and out-licensing transactions, from the issuance and sale of equity securities and through debt provided by our credit facilities. For example, we received net proceeds of approximately $56.1 million in February 2012 from an underwritten public offering of our common stock and have received $174.3 million in the last three years through the date of filing this Quarterly Report, including the following payments under our collaborations:

- In December 2009, we received a $60 million up-front payment from Amgen Inc. under a Collaboration and License Agreement.
- In May and June 2010, we received a total of $45 million in up-front and milestone payments under a License Agreement with Novartis Pharmaceutical International Ltd.
- In December 2010, we received a $10 million milestone payment under a License Agreement with Celgene Corporation.
- In May 2011, we received a $10 million milestone payment under a License Agreement with Novartis Pharmaceutical International Ltd.
- In September 2011, we received a $28 million milestone payment under a License Agreement with Genentech, Inc.
- In June 2012, we received an $8.5 million milestone payment from Amgen following achievement of a pre-defined patient enrollment milestone in a Phase 2 trial.

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

During the second quarter of fiscal 2013, we will begin paying our percentage share of the combined development costs incurred since inception under the MEK162 program licensed to Novartis, as discussed in *Note 4 Deferred Revenue Novartis International Pharmaceutical Ltd.* We have reported $10.1 million and $9.2 million payable in the accompanying Balance Sheet as co-development liability for this obligation as of September 30, 2012 and June 30, 2012, respectively.

Management believes that the cash, cash equivalents and marketable securities as of September 30, 2012 will enable us to continue to fund operations in the normal course of business, including receipt of potential up-front and milestone payments, for at least the next 12 months. Because sufficient funds may not be available to us when needed from existing collaborations, we expect that we will be required to continue to fund our operations in part through the sale of debt or equity securities and through licensing select programs that include up-front and/or milestone payments.

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

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

- The drug development process is risky and highly uncertain, and we may not be successful in generating proof-of-concept data to create partnering opportunities and, even if we are successful, we or our collaborators may not be successful in commercializing drug candidates we create;
- We may fail to select the best drug from our wholly-owned pipeline to advance and invest in registration or Phase 3 studies;
- Our collaborators have substantial control and discretion over the timing and continued development and marketing of drug candidates we create and, therefore, we may not receive milestone, royalty or other payments when anticipated or at all;
- The drug candidates we develop may not obtain regulatory approval;
- If regulatory approval is received, drugs we develop will remain subject to regulation or may not gain market acceptance, which could delay or prevent us from generating milestone, royalty revenue or product revenue from the commercialization of these drugs; and
- We cannot control or predict the spending priorities and willingness of pharmaceutical companies to in-license drugs for further development and commercialization.

Our assessment of our future need for funding and our ability to continue to fund our operations for the next 12 months is a forward looking statement that is based on assumptions that may prove to be wrong and that involve substantial risks and uncertainties. Our actual future capital requirements could vary as a result of a number of factors, including:

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

If we are unable to obtain additional funding when needed, or to the extent needed, it may be necessary to significantly reduce the current rate of spending through further reductions in staff and delaying, scaling back, or stopping certain research and development programs, including more costly Phase 2 and Phase 3 clinical trials on our wholly-owned or co-development programs as these programs progress into later stage development. Insufficient liquidity may also require us to relinquish greater rights to product candidates at an earlier stage of development or on less favorable terms to us and our stockholders than we would otherwise choose in order to obtain up-front license fees needed to fund operations. These events could prevent us from

successfully

executing our operating plan and in the future could raise substantial doubt about our ability to continue as a going concern. Further, the entire outstanding debt balance of $14.7 million with Comerica Bank (Comerica) and $92.6 million with Deerfield Private Design Fund, L.P. and certain of its affiliates (collectively referred to as Deerfield) becomes due and payable if our total cash, cash equivalents and marketable securities falls below $22 million and $20 million at the end of a fiscal quarter, respectively. Based on our current forecasts and expectations, which are subject to many factors outside of our control, we do not anticipate that our cash and cash equivalents and marketable securities will fall below this level prior to maturity of such debt.

Revenue Recognition

We recognize revenue based on four criteria, each of which must be met, in order to recognize revenue for the performance of services or the shipment of products. Revenue is recognized when (a) persuasive evidence of an arrangement exists, (b) products are delivered or as services are rendered, (c) the sales price is fixed or determinable and (d) collectability is reasonably assured.

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

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

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

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

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

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

Cost of Revenue and Research and Development Expenses for Proprietary Programs

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

Recent Accounting Pronouncements

In June 2011, the FASB issued FASB ASU No. 2011-05*, Comprehensive Income (Topic 220): Presentation of Comprehensive Income in U.S. GAAP and IFRS*. This ASU provides companies the option to present the components of net income and other comprehensive income either as one continuous statement of comprehensive income or as two separate but consecutive statements. It eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders equity. The provisions of this new guidance are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. We adopted this disclosure standard in the first quarter of fiscal 2013 and it did not have a material impact on our results of operations.

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

NOTE 2 SEGMENTS, GEOGRAPHIC INFORMATION AND SIGNIFICANT COLLABORATORS

Segments

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

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

Significant Collaborators

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

	Three Months Ended September 30,	
	2012	**2011**
Amgen	35.5%	27.0%
Novartis	22.2%	15.5%
Genentech	16.4%	48.3%
Celgene	14.7%	8.2%
	88.8%	99.0%

The loss of one or more of our significant collaborators could have a material adverse effect on our business, operating results or financial condition. We do not require collateral from our collaborators, though most pay in advance. Although we are impacted by economic conditions in the biotechnology and pharmaceutical sectors, management does not believe significant credit risk exists as of September 30, 2012.

Geographic Information

The following table details revenue from collaborators by geographic area based on the country in which collaborators are located or the ship-to destination for compounds (dollars in thousands):

	Three Months Ended September 30,	
	2012	**2011**
North America	$ 12,218	$ 18,531
Europe	3,615	3,596
Asia Pacific	-	4
	$ 15,833	$ 22,131

NOTE 3 - MARKETABLE SECURITIES

Marketable securities consisted of the following as of September 30, 2012 (dollars in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Short-term available-for-sale securities:				
U.S. Government agency securities	$ 18,061	$ -	$ -	$ 18,061
Mutual fund securities	218	-	-	218
Sub-total	18,279	-	-	18,279
Long-term available-for-sale securities:				
Mutual fund securities	542	-	-	542
Sub-total	542	-	-	542
Total	$ 18,821	$ -	$ -	$ 18,821

Marketable securities consisted of the following as of June 30, 2012 (dollars in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Short-term available-for-sale securities:				
U.S. Government agency securities	$ 33,129	$ -	$ (1)	$ 33,128
Mutual fund securities	250	-	-	250
Sub-total	33,379	-	(1)	33,378
Long-term available-for-sale securities:				
Mutual fund securities	473	-	-	473
Sub-total	473	-	-	473
Total	$ 33,852	$ -	$ (1)	$ 33,851

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

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

	September 30, 2012	June 30, 2012
Quoted prices in active markets for identical assets (Level 1)	$ 18,821	$ 33,851
Observable inputs other than quoted prices in active markets (Level 2)	-	-
Significant unobservable inputs (Level 3)	-	-
	$ 18,821	$ 33,851

The amortized cost and estimated fair value of available-for-sale securities by contractual maturity as of September 30, 2012 was as follows (dollars in thousands):

	Amortized Cost	Fair Value
Due in one year or less	$ 18,279	$ 18,279
Due in one year to three years	542	542
	$ 18,821	$ 18,821

NOTE 4 DEFERRED REVENUE

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

	September 30, 2012	June 30, 2012
Amgen, Inc.	$ 5,506	$ 11,129
Celgene Corporation	9,021	11,340
DNA BioPharma, Inc.	1,250	500
Genentech, Inc.	6,302	7,810
Novartis International Pharmaceutical Ltd	21,350	24,788
Total deferred revenue	43,429	55,567
Less: Current portion	(33,107)	(42,339)
Deferred revenue, long term	$ 10,322	$ 13,228

Amgen Inc.

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

In partial consideration for the rights granted to Amgen under the agreement, Amgen paid us an up-front fee of $60 million. In June 2012, we received an $8.5 million milestone payment following achievement of a pre-defined patient enrollment milestone in a Phase 2a trial. Amgen has also paid us for research on second generation compounds based on the number of full-time-equivalent scientists who worked on the discovery program. We substantially completed the funded discovery research under the agreement in the second quarter of fiscal 2012.

We are also entitled to receive up to approximately $658 million in additional aggregate milestone payments if all clinical and commercialization milestones specified in the agreement for AMG 151 and at least one backup compound are achieved. We will also receive royalties on sales of any approved drugs developed under the agreement.

We estimate that our obligations under the agreement will continue until December 31, 2012 and, therefore, are recognizing the up-front fee from the date of the agreement over the resulting three-year period on a straight-line basis. This fee is recorded in License and Milestone Revenue in the accompanying Condensed Statements of Operations and Comprehensive Loss. We recognized $4.9 million of License Revenue under the agreement for each three-month period ended September 30, 2012 and 2011. We recognized $698 thousand of Milestone Revenue under the agreement for the three-month period ended September 30, 2012.

We record revenue for research performed by our scientists working on second generation compounds and for reimbursed development expenses in Collaboration Revenue in the accompanying Condensed Statements of Operations and Comprehensive Loss. We recognized $1.1 million under this agreement for the three months ended September 30, 2011. We do not expect to be paid additional amounts or to recognize additional revenue for research because we completed most of the required deliverables under this agreement during the second quarter of fiscal 2012.

Either party may terminate the agreement in the event of a material breach of a material obligation under the agreement by the other party upon 90 days prior notice. Amgen may terminate the agreement at any time upon notice of 60 or 90 days depending on the development activities in progress at the time of such notice. The parties have also agreed to indemnify each other for certain liabilities arising under the agreement.

Novartis International Pharmaceutical Ltd.

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

In consideration for the rights granted to Novartis under the agreement, we received $45 million, comprising an up-front and milestone payment, in the fourth quarter of fiscal 2010. We are entitled to receive up to approximately $422 million in aggregate milestone payments if all clinical, regulatory and commercial milestones specified in the agreement are achieved. In March 2011, we earned a $10 million milestone payment which was received in the fourth quarter of fiscal 2011. Novartis will also pay us royalties on worldwide sales of any approved drugs. In addition, so long as we continue to co-develop products under the program, the royalty rate on U.S. sales is significantly higher than the rate on sales outside the U.S. as described below.

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