ARRAY BIOPHARMA INC
Form 10-Q
February 05, 2016

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 December 31, 2015

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 ¨

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 ¨

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

Large Accelerated Filer ¨	Accelerated Filer x

Non-Accelerated Filer ¨ Smaller Reporting Company ¨
(do not check if smaller reporting company)

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

As of January 29, 2016, the registrant had 143,337,065 shares of common stock outstanding.

ARRAY BIOPHARMA INC.
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 2015
TABLE OF CONTENTS

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED FINANCIAL STATEMENTS

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

	December 31, 2015	June 30, 2015
Assets		
Current assets		
Cash and cash equivalents	$57,253	$55,691
Marketable securities	62,631	122,635
Accounts receivable	64,782	6,307
Prepaid expenses and other current assets	7,216	6,414
Total current assets	191,882	191,047
Long-term assets		
Marketable securities	705	496
Property and equipment, net	5,694	5,050
Other long-term assets	1,637	1,614
Total long-term assets	8,036	7,160
Total assets	$199,918	$198,207
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$12,110	$4,570
Accrued outsourcing costs	20,481	17,402
Accrued compensation and benefits	5,635	7,507
Other accrued expenses	2,266	2,714
Deferred rent	670	1,285
Deferred revenue	11,858	8,946
Total current liabilities	53,020	42,424
Long-term liabilities		
Deferred rent	3,038	3,314
Deferred revenue	26,895	2,040
Long-term debt, net	110,386	107,280
Other long-term liabilities	705	496
Total long-term liabilities	141,024	113,130
Total liabilities	194,044	155,554
Commitments and contingencies		
Stockholders' equity		
Preferred stock, $0.001 par value; 10,000,000 shares authorized, no shares issued and outstanding	—	—

Common stock, $0.001 par value; 220,000,000 shares authorized; 143,337,065 and 142,107,025 shares issued and outstanding as of December 31, 2015 and June 30, 2015, respectively	143	142
Additional paid-in capital	759,486	751,073
Accumulated other comprehensive income (loss)	(37)	5
Accumulated deficit	(753,718)	(708,567)
Total stockholders' equity	5,874	42,653
Total liabilities and stockholders' equity	$199,918	$198,207

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

3

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2015	2014	2015	2014
Revenue				
Reimbursement revenue	$27,348	$—	$36,971	$—
Collaboration and other revenue	6,977	6,820	13,551	12,720
License and milestone revenue	1,105	20,099	1,105	20,268
Total revenue	35,430	26,919	51,627	32,988
Operating expenses				
Cost of partnered programs	5,663	13,098	11,875	25,275
Research and development for proprietary programs	41,351	11,817	62,349	24,007
General and administrative	9,938	8,078	17,296	14,877
Total operating expenses	56,952	32,993	91,520	64,159
Loss from operations	(21,522)	(6,074)	(39,893)	(31,171)
Other income (expense)				
Interest income	51	8	91	21
Interest expense	(2,693)	(2,545)	(5,349)	(5,054)
Total other expense, net	(2,642)	(2,537)	(5,258)	(5,033)
Net loss	$(24,164)	$(8,611)	$(45,151)	$(36,204)
Change in unrealized gain (loss) on marketable securities	(54)	(1,059)	(42)	13,461
Comprehensive loss	$(24,218)	$(9,670)	$(45,193)	$(22,743)
Net loss per share – basic	$(0.17)	$(0.06)	$(0.32)	$(0.27)
Net loss per share – diluted	$(0.17)	$(0.06)	$(0.32)	$(0.27)
Weighted average shares outstanding – basic	142,833	133,815	142,524	132,820
Weighted average shares outstanding – diluted	142,833	133,815	142,524	132,820

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

Table of Contents

ARRAY BIOPHARMA INC.
Condensed Statement of Stockholders' Equity
(In thousands)
(Unaudited)

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total
	Shares	Amounts				
Balance as of June 30, 2015	142,107	$142	$751,073	$5	$(708,567)	$42,653
Shares issued for cash under employee share plans, net	675	1	1,917	—	—	1,918
Employee share-based compensation expense	—	—	3,612	—	—	3,612
Issuance of common stock, net of offering costs	555	—	2,884	—	—	2,884
Change in unrealized gain (loss) on marketable securities	—	—	—	(42)	—	(42)
Net loss	—	—	—	—	(45,151)	(45,151)
Balance as of December 31, 2015	143,337	$143	$759,486	$(37)	$(753,718)	$5,874

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

Table of Contents

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

	Six Months Ended December 31, 2015	2014
Cash flows from operating activities		
Net loss	$(45,151)	$(36,204)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization expense	859	1,805
Non-cash interest expense	3,106	2,827
Share-based compensation expense	3,612	3,212
Changes in operating assets and liabilities:		
Accounts receivable	(26,555)	551
Prepaid expenses and other assets	(825)	892
Accounts payable and other accrued expenses	7,092	3,576
Accrued outsourcing costs	3,079	4,148
Accrued compensation and benefits	(1,872)	(3,299)
Co-development liability	—	8,864
Deferred rent	(891)	(1,879)
Deferred revenue	(4,153)	(1,497)
Other long-term liabilities	238	221
Net cash used in operating activities	(61,461)	(16,783)
Cash flows from investing activities		
Purchases of property and equipment	(1,503)	(1,720)
Purchases of marketable securities	(74,853)	(63,694)
Proceeds from sales and maturities of marketable securities	134,577	50,426
Net cash provided by (used) in investing activities	58,221	(14,988)
Cash flows from financing activities		
Proceeds from the issuance of common stock	2,952	30,702
Proceeds from employee stock purchases and options exercised	1,918	1,242
Payment of stock offering costs	(68)	(619)
Net cash provided by financing activities	4,802	31,325
Net increase (decrease) in cash and cash equivalents	1,562	(446)
Cash and cash equivalents at beginning of period	55,691	68,591
Cash and cash equivalents at end of period	$57,253	$68,145
Supplemental disclosure of cash flow information		
Cash paid for interest	$2,224	$2,223
Change in unrealized gain (loss) on marketable securities	$(42)	$13,461
Receivable and corresponding deferred revenue related to collaboration and license agreements	$31,920	$—

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

Table of Contents

ARRAY BIOPHARMA INC.
Notes to the Unaudited Condensed Financial Statements

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

Organization

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

Basis of Presentation

The accompanying unaudited condensed financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") for interim reporting and, as permitted under those rules, do not include all of the disclosures required by U.S. generally accepted accounting principles ("U.S. GAAP") for complete financial statements. The unaudited condensed financial statements reflect all normal and recurring adjustments that, in the opinion of management, are necessary to present fairly the Company's financial position, results of operations and cash flows for the interim periods presented. Operating results for an interim period are not necessarily indicative of the results that may be expected for a full year. The Company's management performed an evaluation of its activities through the date of filing of this Quarterly Report on Form 10-Q and concluded that there are no subsequent events.

These unaudited condensed financial statements should be read in conjunction with the Company's audited financial statements and the notes thereto for the fiscal year ended June 30, 2015, included in its Annual Report on Form 10-K filed with the SEC, from which the Company derived its balance sheet data as of June 30, 2015.

The Company operates in one reportable segment and, accordingly, no segment disclosures have been presented herein. All of the Company's equipment, leasehold improvements and other fixed assets are physically located within the U.S., and all agreements with its partners are denominated in U.S. dollars.

Reclassifications

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

Use of Estimates

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

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

Table of Contents

Liquidity

With the exception of the prior fiscal year, the Company has incurred operating losses and an accumulated deficit as a result of ongoing research and development spending since inception. As of December 31, 2015, the Company had an accumulated deficit of approximately $753.7 million and it had net losses of approximately $24.2 million and $45.2 million for the three and six months ended December 31, 2015, respectively. The Company had net losses of approximately $8.6 million and $36.2 million for the three and six months ended December 31, 2014, respectively.

In the third quarter of fiscal 2015, in connection with the closing of the asset transfer agreements with Novartis Pharma AG and Novartis International Pharmaceutical Ltd. (collectively "Novartis") relating to binimetinib and encorafenib, as discussed below under Note 3 - Collaboration and Other Agreements (the "Novartis Agreements"), the Company received an $85.0 million up-front cash payment and $5.0 million for the reimbursement of certain transaction costs, extinguished net co-development liabilities of $21.6 million and recorded deferred revenue of $6.6 million. Also during the third quarter of fiscal 2015, the Company entered into a third party agreement to complete the Novartis transactions for a net consideration payment of $25.0 million.

On November 10, 2015, the Company entered into a Development and Commercialization Agreement with Pierre Fabre Medicament SAS, (“Pierre Fabre” or "PFM"), which the Company and Pierre Fabre amended and restated as of December 3, 2015 to make certain minor changes required by the European Commission on Competition (as amended and restated, the "PF Agreement"). Under the Pierre Fabre Agreement, the Company granted Pierre Fabre rights to commercialize binimetinib and encorafenib in all countries except for the United States, Canada, Japan, Korea and Israel, where Array retains its ownership rights. The PF Agreement satisfies the Company’s commitment to secure a development and commercialization partner for the European market for both encorafenib and binimetinib acceptable to European Commission regulatory agencies made in connection with the Novartis Agreements.

In December 2015, the Company closed the PF Agreement following approval of the agreement by the European Commission on Competition. In connection with the closing, the Company recorded a $30.0 million receivable from PFM and $30.0 million in deferred revenue related to a non-refundable, upfront license payment, which the Company received in January 2016. The Company is also entitled to receive up to $425.0 million in milestone payments from PFM if certain regulatory and sales goals are achieved, and royalties on combined annual net sales. Array and Pierre Fabre have agreed to split future development costs on a 60:40 basis (Array:Pierre Fabre) with initial funding committed for new clinical trials in colorectal cancer and melanoma. All ongoing binimetinib and encorafenib clinical trials remain substantially funded through completion by Novartis. Unless terminated early (for breach, bankruptcy of one of the parties, or safety reasons), the PF Agreement continues as long as PFM continues to develop and commercialize the products, and PFM can terminate the PF Agreement on a region by region basis with 6 months’ notice except for the European Economic Area market. The PF Agreement also provides for customary indemnifications.

The Company has historically funded its operations from up-front fees, proceeds from research and development reimbursement arrangements, and license and milestone payments received under its drug collaborations and license agreements, the sale of equity securities, and debt provided by convertible debt and other credit facilities. The Company believes that its cash, cash equivalents, marketable securities and accounts receivable as of December 31, 2015 will enable it to continue to fund operations in the normal course of business for at least the next 12 months. Until the Company can generate sufficient levels of cash from operations, which it does not expect to achieve in the next two years, and because sufficient funds may not be available to it when needed from existing collaborations, the Company expects that it will be required to continue to fund its operations in part through the sale of debt or equity securities, and through licensing select programs or partial economic rights that include up-front, royalty and/or milestone payments.

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

Table of Contents

The Company's assessment of its future need for funding and its ability to continue to fund its operations is a forward-looking statement that is based on assumptions that may prove to be wrong and that involve substantial risks and uncertainties.

If the Company is unable to generate enough revenue from its existing or new collaboration and license agreements when needed or to secure additional sources of funding and receive related full and timely collections of amounts due, it may be necessary to significantly reduce the current rate of spending through reductions in staff and delaying, scaling back, or stopping certain research and development programs, including more costly late phase clinical trials on its wholly-owned programs. Insufficient liquidity may also require the Company to relinquish greater rights to product candidates at an earlier stage of development or on less favorable terms to the Company and its stockholders than the Company would otherwise choose in order to obtain up-front license fees needed to fund operations. These events could prevent the Company from successfully executing its operating plan and, in the future, could raise substantial doubt about its ability to continue as a going concern. Further, as discussed in Note 4 – Long-term Debt, if at any time the Company's balance of total cash, cash equivalents and marketable securities at Comerica Bank and approved outside accounts falls below $22.0 million, the Company must maintain a balance of cash, cash equivalents and marketable securities at Comerica at least equivalent to the entire outstanding debt balance with Comerica, which is currently $14.6 million. the Company must also maintain a monthly liquidity ratio for the revolving line of credit with Comerica.

Summary of Significant Accounting Policies

Revenue Recognition - Reimbursement Revenue

The Company records as reimbursement revenue amounts received for reimbursement of costs it incurs from its license partners where Array acts as a principal, controls the research and development activities, bears credit risk and may perform part of the services required in the transactions, consistent with Accounting Standards Codification ("ASC") 605-45-15. Novartis currently provides financial support to Array in the form of reimbursement for all associated out-of-pocket costs and for one-half or more of Array's fully-burdened full-time equivalent ("FTE") costs based on an agreed-upon FTE rate for all clinical trials involving binimetinib and encorafenib, as further discussed in Note 3 - Collaboration and Other Agreements. The gross amount of these pass-through reimbursed costs are reported as reimbursement revenue in the accompanying condensed statements of operations and comprehensive loss in accordance with ASC 605-45-15. The actual expenses for which the Company is reimbursed are reflected as research and development for proprietary programs.

Revenue Recognition - PFM Upfront License Payment

As discussed above, on November 10, 2015, the Company entered into the PF Agreement with Pierre Fabre pursuant to which the Company granted Pierre Fabre rights to commercialize binimetinib and encorafenib in all countries except for the United States, Canada, Japan, Korea and Israel, where Array will retain its ownership rights. The PF Agreement satisfies the Company's commitment to secure a development and commercialization partner for the European market for both encorafenib and binimetinib acceptable to European Commission regulatory agencies made in connection with the Novartis Agreements.

The terms of the PF Agreement include substantial ongoing collaboration and cost-sharing activities between the companies, and require Array to perform future development and commercialization activities. The Company determined that the PF Agreement does not have stand-alone value apart from these ongoing collaboration and cost-sharing activities. Accordingly, non-refundable upfront amounts received under the PF agreement are recorded as deferred revenue and will be recognized on a straight-line basis over 10 years, the period during which management expects that substantial development activities will be performed. Revenue recognized under this agreement was immaterial for the quarter ended December 31, 2015; at December 31, 2015 deferred revenue associated with this agreement was approximately $29.9 million.

The Company's other significant accounting policies are described in Note 1 to its audited financial statements for the fiscal year ended June 30, 2015, included in its Annual Report on Form 10-K filed with the SEC.

Table of Contents

Concentration of Business Risks

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2015	2014	2015	2014
Novartis	79.7	—	75.1 %	— %
Loxo	10.9	7.5	13.0	13.0
Oncothyreon	—	76.3	—	65.4
	90.6 %	83.8 %	88.1 %	78.4 %

The loss of one or more of the Company's significant partners or collaborators could have a material adverse effect on its business, operating results or financial condition. Although the Company is impacted by economic conditions in the biotechnology and pharmaceutical sectors, management does not believe significant credit risk exists as of December 31, 2015.

Geographic Information

The following table details revenue by geographic area based on the country in which the Company's counterparties are located (in thousands):

	Three Months Ended December 31,		Six Months Ended December 31,	
	2015	2014	2015	2014
North America	$7,055	$26,880	$12,726	$32,873
Europe	28,375	33	38,901	46
Asia Pacific	—	6	—	69
Total revenue	$35,430	$26,919	$51,627	$32,988

Accounts Receivable

Novartis and Pierre Fabre accounted for 49%, and 46%, respectively, of the Company's total accounts receivable balance as of December 31, 2015. Novartis accounted for approximately 95% of the Company's total accounts receivable balance as of June 30, 2015.

Loss Per Share

All common stock equivalents are excluded from the computation of diluted earnings per share during periods in which losses are reported since the result would be anti-dilutive. Common stock equivalents not included in the calculations of diluted earnings per share because to do so would have been anti-dilutive, include the following as of the end of the period (in thousands):

	December 31,	
	2015	2014
Convertible senior notes	18,762	18,762
Warrants	12,000	12,000
Stock options	10,331	8,705
Restricted stock units	619	577
Total anti-dilutive common stock equivalents excluded from diluted loss per share calculation	41,712	40,044

Table of Contents

Adoption of Recent Accounting Pronouncements

In August 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-15, Interest - Imputation of Interest: Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements, which clarifies the treatment of debt issuance costs from line-of-credit arrangements after the adoption of ASU No. 2015-03, Interest - Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs. In particular, ASU No. 2015-15 clarifies that the SEC staff would not object to an entity deferring and presenting debt issuance costs related to a line-of-credit arrangement as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of such arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. The Company adopted ASU No. 2015-15 during the first quarter of fiscal 2016, and its adoption did not have a material impact on its condensed financial statements.

Recent Accounting Pronouncements

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

In August 2014, the FASB issued ASU No. 2014-15, Presentation of Financial Statements-Going Concern, which defines management's responsibility to assess an entity's ability to continue as a going concern, and requires related footnote disclosures if there is substantial doubt about its ability to continue as a going concern. ASU No. 2014-15 is effective for Array for the fiscal year ending on June 30, 2017, with early adoption permitted. The Company is currently evaluating the impact of adopting ASU No. 2014-15 and its related disclosures.

In November 2015, FASB issued ASU No. 2015-17, Balance Sheet Classification of Deferred Taxes. ASU No. 2015-17 requires that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. ASU No. 2015-17 is effective for financial statements issued for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. The Company is currently evaluating the impact that ASU No. 2015-17 will have on its balance sheet and financial statement disclosures.

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

Table of Contents

NOTE 2 – MARKETABLE SECURITIES

Marketable securities consisted of the following as of December 31, 2015 and June 30, 2015 (in thousands):

	December 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Short-term available-for-sale securities:				
U.S. treasury securities	$62,359	$33	$(70)	$62,322
Mutual fund securities	309	—	—	309
	62,668	33	(70)	62,631
Long-term available-for-sale securities:				
Mutual fund securities	705	—	—	705
	705	—	—	705
Total	$63,373	$33	$(70)	$63,336

	June 30, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Short-term available-for-sale securities:				
U.S. treasury securities	$122,199	$8	$(3)	$122,204
Mutual fund securities	431	—	—	431
	122,630	8	(3)	122,635
Long-term available-for-sale securities:				
Mutual fund securities	496	—	—	496
	496	—	—	496
Total	$123,126	$8	$(3)	$123,131

The 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 the Company's marketable securities, all of which are classified as Level 1 (quoted prices are available), was $63.3 million and $123.1 million as of December 31, 2015 and June 30, 2015, respectively. The estimated fair value of the Company's marketable securities is determined using quoted prices in active markets for identical assets based on the closing price as of the balance sheet date.

As of December 31, 2015, the amortized cost and estimated fair value of available-for-sale securities by contractual maturity were as follows (in thousands):

	Amortized Cost	Fair Value
Due in one year or less	$62,359	$62,322
Total	$62,359	$62,322

Table of Contents

NOTE 3 – COLLABORATION AND OTHER AGREEMENTS

The following table summarizes total revenue recognized for the periods indicated (in thousands):

	Three Months Ended December 31,		Six Months Ended December 31,	
	2015	2014	2015	2014
Reimbursement revenue				
Novartis (1)	$27,348	$—	$36,971	$—
Collaboration and other revenue				
Loxo	2,849	2,011	5,719	4,303
Biogen Idec	1,598	1,233	2,816	2,315
Novartis (2)	900	—	1,800	—
Celgene	721	1,713	1,442	2,689
Mirati	898	—	1,574	—
Oncothyreon	15	527	44	1,567
Other partners	(4)	1,336	156	1,846
Total collaboration and other revenue	6,977	6,820	13,551	12,720
License and milestone revenue				
Oncothyreon	—	20,000	—	20,000
Loxo	1,000	—	1,000	—
Pierre Fabre	105	—	105	—
Genentech	—	99	—	268
Total license and milestone revenue	1,105	20,099	1,105	20,268
Total revenue	$35,430	$26,919	$51,627	$32,988

(1) Consists of reimbursable expenses incurred and accrued as reimbursement revenue that are receivable under the Novartis Agreements (see discussion below).

(2) Represents the recognition of revenue that was deferred from the consideration received in March 2015 upon the effective date of the Binimetinib Agreement (see discussion below).

Deferred revenue balances were as follows for the dates indicated (in thousands):

	December 31, 2015	June 30, 2015
Pierre Fabre	$29,895	$—
Biogen Idec	—	1,125
Celgene	1,683	3,126
Loxo	2,947	921
Mirati	623	400
Novartis	3,600	5,400
Other partners	5	14
Total deferred revenue	38,753	10,986
Less: Current portion	(11,858)	(8,946)
Deferred revenue, long-term portion	$26,895	$2,040

Table of Contents

Binimetinib and Encorafenib Agreements

On March 2, 2015 (the "Effective Date"), Array regained all development and commercialization rights to binimetinib, which Array had previously licensed to Novartis, on the closing of the transactions contemplated by the Termination and Asset Transfer Agreement with Novartis (as amended on January 19, 2015, the “Binimetinib Agreement”). On the Effective Date, Array also obtained all development and commercialization rights to encorafenib (LGX-818) under the Asset Transfer Agreement with Novartis dated January 19, 2015 (the "Encorafenib Agreement" and collectively with the Binimetinib Agreement, the "Novartis Agreements").

During the third quarter of fiscal 2015, the Company received an $85.0 million up-front cash payment and $5.0 million for the reimbursement of certain transaction costs, extinguished net co-development liabilities of $21.6 million related to the Company's previous License Agreement with Novartis for binimetinib dated April 19, 2010, and recorded deferred revenue of $6.6 million.

Novartis is continuing to conduct all ongoing clinical trials involving binimetinib and encorafenib as they had been conducted prior to the Effective Date and will continue to do so until specified transition dates. Array will continue to conduct and complete the Phase 3 low-grade serous ovarian cancer trial (MILO). Pursuant to the Transition Agreements, Novartis will provide substantial financial support to Array in the form of reimbursement for all associated out-of-pocket costs and for one-half of Array’s FTE costs based on an agreed-upon FTE rate for all clinical trials involving binimetinib and encorafenib, including ongoing Array-conducted trials in existence at the Effective Date. Novartis will transition responsibility for the following Novartis-conducted trials at designated points for each trial and will provide continuing financial support to Array to complete these trials:

- COLUMBUS trial: Novartis will be responsible for continued conduct of the ongoing Phase 3 BRAF melanoma clinical trial through completion of last patient first visit, but no later than June 30, 2016, before transitioning conduct of the trial to Array.
- NEMO trial: Novartis will conduct the Phase 3 NRAS melanoma clinical trial through no later than June 30, 2016, before transitioning conduct of the trial to Array.
- Other trials: Novartis conducts all other Novartis-sponsored trials, including a series of planned clinical pharmacology and pediatric trials, through December 31, 2015, and will transfer at other designated times all ongoing and planned investigator sponsored clinical trials.

The Novartis Agreements involve multiple elements. The Company therefore identified each item given and received and determined how each item should be recognized and classified. In the third quarter of fiscal 2015, the Company deferred $6.6 million of the consideration received from Novartis to reflect the estimated fair value of certain future obligations the Company is to perform under the Novartis Agreements, including completion of certain trials that are partially funded by Novartis. The amount deferred was determined using the estimated fair value of the services to be provided by the Company's full-time employees that the Company does not anticipate will be covered in the reimbursements it will receive from Novartis under the Transition Agreements. The estimated fair value was based on amounts the Company has billed to other third parties in other transactions for similar services. The Company is recording revenue over a deferral period of 22 months, which is the estimated number of months the Company expects will be required to complete its performance with respect to the applicable clinical trials. The Company also records as reimbursement revenue and as an account receivable, expenses that it incurs that are reimbursable by Novartis under the Transition Agreements. The Company invoices Novartis fwrap align="left" valign="bottom">

G. Griffith
14,000 (4) 30.66 2/9/2020 6,275 (10) 241,650 16,600 (13) 639,266 3,400
6,800 (5) 20.12 2/3/2019 3,984 1,991 (6) 58.57 3/10/2018
8,000 51.16 2/7/2017 4,950 28.76 5/1/2016

5,000	31.38	11/8/2014

(1) The unvested shares reflected in this column are time-based restricted shares.

(2) Based upon the closing market price of our common stock on the NYSE on December 31, 2010, which was $38.51.

(3) The unearned shares reflected in this column are performance-based restricted shares.

(4) On February 9, 2011, one-third of these options vested. The remaining options will vest in two equal installments on February 9, 2012 and 2013.

(5) On February 3, 2011, one-half of these options vested. The remaining options will vest on February 3, 2012.

(6) These options vested on March 10, 2011.

(7) These shares vested on March 10, 2011 as to 5,000 shares, and will vest on February 3, 2012 as to 7,400 shares and on February 9, 2013 as to 16,300 shares.

(8) These shares vested on March 10, 2011 as to 1,200 shares and will vest on February 3, 2012 as to 1,600 shares and on February 9, 2013 as to 4,400 shares.

(9) These shares vested on March 10, 2011 as to 1,200 shares and will vest on February 3, 2012 as to 1,600 shares and on February 9, 2013 as to 3,800 shares.

(10) These shares vested on March 10, 2011 as to 875 shares and will vest on February 3, 2012 as to 1,600 shares and on February 9, 2013 as to 3,800 shares.

Table of Contents

(11) In March 2011, the Compensation Committee determined that 607 of these shares had been earned, and these shares have been issued to Mr. Scaminace. As a result of the determination of the Compensation Committee regarding the extent to which applicable performance goals were satisfied, 18,093 shares were forfeited by Mr. Scaminace. The remaining shares are subject to satisfaction of performance goals for performance periods that end on December 31, 2011 as regards 26,000 shares and December 31, 2012 as regards to 32,000 shares.

(12) In March 2011, the Compensation Committee determined that 149 shares had been earned by each of Mr. Haber, Mr. Dunmead and Ms. Sachs, and these shares have been issued to these executives. As a result of the determination of the Compensation Committee regarding the extent to which applicable performance goals were satisfied, 4,451 shares were forfeited by each of Mr. Haber, Mr. Dunmead and Ms. Sachs. The remaining shares are subject to satisfaction of performance goals for performance periods that end on December 31, 2011 as regards to 5,700 shares for each executive and December 31, 2012 as regards to 8,600 shares for Mr. Haber and Mr. Dunmead and 7,600 shares as regards to Ms. Sachs.

(13) In March 2011, the Compensation Committee determined that 107 of these shares had been earned, and these shares have been issued to Mr. Griffith. As a result of the determination of the Compensation Committee regarding the extent to which applicable performance goals were satisfied, 3,193 shares were forfeited by Mr. Griffith. The remaining shares are subject to satisfaction of performance goals for performance periods that end on December 31, 2011 as regards to 5,700 shares and December 31, 2012 as regards to 7,600 shares.

Option Exercises and Stock Vested During 2010

	Option Awards		**Stock Awards**	
Name	**Number of Shares Acquired on Exercise (#)**	**Value Realized on Exercise ($)**	**Number of Shares Acquired on Vesting (#)**	**Value Realized on Vesting ($)**
J. Scaminace	147,745	$ 1,861,909	38,379	$ 1,291,806
K. Haber			8,272	278,608
S. Dunmead			8,272	278,608
V. Sachs			8,272	278,608
G. Griffith			6,144	207,119

Nonqualified Deferred Compensation

We maintain a nonqualified deferred compensation program for select key management employees who have been designated to participate in such program by the Compensation Committee of our Board of Directors and whose tax-qualified plan benefits are subject to certain limitations under the Internal Revenue Code. The currently active component of this program is the Deferred Compensation Plan (the DCP). In general, the DCP allows participating executives to defer up to 75% of their base salary and up to 100% of their bonuses, and any other cash or equity-based compensation determined by the Compensation Committee to be deferrable under the DCP, as reduced by any applicable taxes and employee benefit plan deductions. All amounts deferred are 100% vested. In addition, the accounts of DCP participants will be credited with employer make-up contributions as calculated under our 401(k) plan as regards certain participant deferrals to the DCP, and also credited with employer restoration contributions to reflect contributions (calculated in the same manner) that could not be made under that 401(k) plan due to Internal

Revenue Code limitations. Make-up and restoration contributions are made only to the extent that the executive participates in our tax-qualified 401(k) plan. Under our 401(k) plan, we contribute 3.5% of compensation as a basic retirement savings contribution, match 100% on the first 3% of participant savings and match 50% on the next 2% of participant savings. The Compensation Committee s compensation consultant has advised that this maximum employer contribution of 7.5% of compensation under a 401(k) plan would provide median retirement benefits to our executives. We do not maintain any defined benefit plan or supplemental employee retirement plan for any executive.

Table of Contents

These employer contributions generally will be credited to participant accounts in the year following the year of the related participant deferral. The accounts of DCP participants also may be credited with discretionary employer contributions that are approved by the Compensation Committee (no such contributions were approved for 2010). Amounts credited to DCP accounts are deemed to be invested in one or more investment options as selected by each participant from investment options determined by the Compensation Committee to be available for DCP accounts, which currently are the same investment options available to all employees participating in our tax-qualified 401(k) plan and do not include any premium or guaranteed returns.

Participants in the DCP are entitled to receive benefits upon separation from service and upon death and disability, as well as upon any specified date that has been established by the participant with respect to compensation that has been deferred. Subject to applicable provisions of Section 409A of the Internal Revenue Code, DCP participants may receive account balances in a lump sum upon separation from service or an established specified benefit date, unless they have elected to receive such balance in annual installments for up to a 15-year period in the case of a separation from service and up to a five-year period in the case of a specified benefit date. Non-employee directors may defer their directors fees under the DCP.

We also maintain a separate nonqualified Benefit Restoration Plan (the BRP), under which participating executives historically were credited with specified amounts not permitted to be allocated to their accounts under our tax-qualified plan and credited with amounts related to profit-sharing payments made by us to employees generally. The BRP is no longer active, such that no amounts were credited to BRP accounts during 2010 and no further amounts will be credited to BRP accounts in the future, other than earnings on the balance in each participating executive s account. Earnings are calculated by multiplying the balance of a participating executive s account at the beginning of the year by the five-year rolling average annual composite yield on Moody s Corporate Bond Yield Index for the immediately preceding five years. BRP participants are fully vested in their BRP accounts and, subject to any applicable provisions of Internal Revenue Code Section 409A, generally will receive their BRP account balances in a lump sum upon separation from service or a change in control (both as defined in Section 409A).

The following table sets forth information regarding our deferred compensation plans.

Name	Executive Contributions in Last FY ($)	Registrant Contributions in Last FY (2)($)	Aggregate Earnings in Last FY ($)(3)	Aggregate Withdrawals/ Distributions ($)	Aggregate Balance at Last FYE ($)(4)
J. Scaminace		$ 154,349	$ 44,472		$ 1,110,545
K. Haber		31,175	11,376		239,404
S. Dunmead	$ 32,892(1)	30,624	45,499		524,897
V. Sachs		26,982	10,721		257,693
G. Griffith		16,706	3,997		108,623

(1) This amount reflects a portion of salary that the indicated executive elected to defer during 2010. This amount is included in the Salary column of the Summary Compensation Table above.

(2) Reflects restoration contributions made by us based upon participation by the indicated executives in the DCP during 2010. All contributions are included in the All Other Compensation column of the Summary Compensation Table above. No make-up contributions were required to be credited to the indicated executives for 2010 pursuant to the DCP.

(3) This column includes the amounts of above-market earnings shown in the Change in Pension Value and Nonqualified Deferred Compensation Earnings column of the Summary Compensation Table above.

(4) Of the totals in this column, amounts previously reported in the Summary Compensation Table for previous years are as follows: Mr. Scaminace $821,067; Mr. Haber $137,173; Mr. Dunmead $206,302; Ms. Sachs $202,081; and Mr. Griffith $79,669.

34

Table of Contents

Potential Payments upon Termination or Change in Control

We maintain employment agreements, severance agreements and change in control agreements with certain of our named executive officers, who also participate in our long-term incentive compensation plans. The following summaries describe and quantify the payments that each named executive officer would receive if his or her employment with us were terminated or if we had a change in control and such executive officer s employment were terminated following the change in control. The summaries assume that the termination and/or change in control occurred on December 31, 2010 and that the relevant stock price is the closing market price of our common stock on the NYSE on December 31, 2010, which was $38.51.

Payments Pursuant to Employment Agreement with Chief Executive Officer

As indicated above under Compensation Discussion and Analysis Elements of Direct Compensation Base Salary, Mr. Scaminace s employment agreement will expire on May 31, 2011 and is not expected to be renewed. The discussion below is based upon Mr. Scaminace s employment agreement as currently in effect.

Under the employment agreement with Mr. Scaminace, our chief executive officer, if we terminate Mr. Scaminace s employment for cause, we will not be obligated to make any payments to him other than salary earned but not yet paid as of the termination date. As defined in his employment agreement, cause means (a) commission of a felony (other than felonious operation of a motor vehicle), (b) fraud, embezzlement or misappropriation of our funds or acts of dishonesty that are materially inimical to our best interest, (c) violation of the noncompetition provision contained in the employment agreement, or (d) consistent failure to perform duties and responsibilities, other than for reason of disability, for thirty consecutive days after the board has advised Mr. Scaminace of such failure.

If we terminate Mr. Scaminace s employment without cause or if Mr. Scaminace terminates his employment agreement with good reason, Mr. Scaminace will receive payments that consist of (a) his base salary earned but unpaid through the date of termination, to be paid within ten days of the termination pursuant to our normal payroll practices, (b) an amount reflecting his accrued but unused vacation days, to be paid within ten days of the termination pursuant to our normal payroll practices, and (c) a lump-sum payment of two times the total of his base salary in effect as of the date of the termination and the average of his cash bonus compensation amounts paid to him for the three immediately preceding years, to be paid within ten days after the expiration of the six-month period following the termination.

As defined in the employment agreement, good reason means (a) Mr. Scaminace s base salary is reduced from the highest level in effect at any time, (b) Mr. Scaminace is excluded from full participation in any incentive, option, restricted stock or other compensatory plan that is generally available to our executive officers, (c) Mr. Scaminace determines in good faith that his responsibilities, duties or authorities are materially reduced from those consistent with his current positions as chairman of our board and chief executive officer (including status, offices, titles and reporting requirements) and such reduction is not cured within thirty days after Mr. Scaminace provides notice to our board of his election to terminate his employment based upon such reduction, (d) our board adopts a strategic plan that varies materially from the strategic plan that existed prior to its adoption and as to which Mr. Scaminace disapproves, in the context of specified changes in the composition of the board of directors, (e) Mr. Scaminace ceases to be a member of our board for any reason other than death, disability or voluntary resignation, or (f) we provide notice to Mr. Scaminace of our determination not to extend the term of his change in control agreement unless such determination not to extend is based upon Mr. Scaminace s refusal to consent to amendments that are also generally applicable to all change in control agreements.

If Mr. Scaminace suffers from a disability, defined as a condition that renders him unable to perform his duties with reasonable accommodation, by reason of physical or mental inability for a period of more than twenty-six consecutive weeks, we have the right to terminate his employment. If terminated for reason of disability, Mr. Scaminace will receive the same payments as described above for a termination without cause or termination with good reason, offset by the present value of any disability benefits to which Mr. Scaminace is entitled to receive for the two-year period following such termination under any disability plan maintained by us at the time of the disability. If Mr. Scaminace dies, we will pay his beneficiary or estate the same payments as described above for a termination without cause or termination with good reason.

Mr. Scaminace s employment agreement requires that he comply with certain covenants and requirements upon termination. Mr. Scaminace must maintain the confidentiality of all of our information, must not solicit present employees or customers for a period of two years following termination, must not compete with us for a period of two years following termination, and must not disparage us, our employees, stockholders, officers or directors.

The payments that would have been made to Mr. Scaminace pursuant to his employment agreement, assuming a termination of his employment as of December 31, 2010, are as follows:

	Earned But Unpaid Salary	Accrued Vacation	Severance
Without Cause or With Good Reason	$ 35,292		$ 4,085,843
Disability(1)	35,292		4,085,843(1)
Death	35,292		4,085,843

(1) These payments will be decreased by the present value of any disability benefits to which Mr. Scaminace is entitled to receive for the two-year period following his termination under any disability plan maintained by us.

Payments Pursuant to Severance Agreements

We have entered into severance agreements with Messrs. Haber, Dunmead and Griffith and with Ms. Sachs. Each of Messrs. Haber, Dunmead and Griffith and Ms. Sachs is entitled to certain payments in the event of termination during the term of the severance agreement. Termination means (a) termination for any reason other than death, disability, or cause (which includes commission of a felony; fraud, embezzlement or misappropriation of our funds; acts of dishonesty in the course of employment that are materially inimical to our best interests; and the failure to perform duties other than due to disability) and (b) the assignment of duties that are materially inconsistent with the executive s position, authority, duties and responsibilities or results in the material diminution of the executive s position. Ms. Sachs s severance agreement also defines termination to include a material change in her reporting structure. In the event of a termination under a severance agreement, each executive is entitled to a lump-sum payment equal to 1.5 times his or her respective annual base salary then in effect plus any base salary earned through the termination date and bonus for the prior fiscal year, to the extent not otherwise paid. The payment must be made within ten days of termination pursuant to our normal payroll practices.

In order to receive the payments outlined above, each executive must provide us with an agreement that contains a general release from future liability or suit, a nonsolicitation and nondisparagement provision, a waiver of continued participation in our employee benefit and welfare plans, a requirement to maintain the confidentiality of our information and a six-month noncompetition provision.

The payments that would have been made to each executive, assuming a termination as of December 31, 2010, are indicated below.

	Earned But Unpaid

	Salary	Severance
K. Haber	$ 14,035	$ 547,347
S. Dunmead	14,863	579,638
V. Sachs	13,901	542,135
G. Griffith	10,712	417,768

Table of Contents

Payments in the Event of Death, Disability or Retirement

If any named executive officer dies, becomes disabled or retires while employed by us, any unvested options held by that executive officer will become exercisable immediately. If any named executive officer dies or becomes disabled, a pro rata portion (determined by the number of days from the date of grant as compared to the full three-year period) of unvested time-based restricted stock will vest, and the executive will remain eligible to receive a pro rata portion (determined in the same manner) of unvested performance-based restricted stock, as determined at the end of the performance period. If any named executive officer retires, all unvested time-based restricted stock will vest and all unvested performance-based restricted stock will vest at the target performance level. As discussed above under Nonqualified Deferred Compensation, each named executive officer s benefits accumulated under our deferred compensation program will be distributed in the event of retirement, death or disability. In addition, if Mr. Scaminace s employment ceases by reason of death or disability, he will receive those payments described above under Payments Pursuant to Employment Agreement with Chief Executive Officer.

The table below sets forth payments that would have been made and the value of outstanding awards that would have been received in the event of death, disability or retirement, assuming that such event had occurred on December 31, 2010, assuming each executive was eligible for retirement at that date under our retirement policy, and based upon the closing market price of our common stock on the NYSE on that date ($38.51 per share). The death or disability column includes payments under our deferred compensation program, the value of unvested options that would have become exercisable upon death or disability, and the value of time-based restricted stock that would have vested upon such an event. No amount is included in the death or disability column for performance-based restricted stock awards since payment of such awards is made only at the end of the performance period upon satisfaction of applicable performance goals. The retirement column includes payments under our deferred compensation program and, for eligible individuals, the value of unvested options that would have become exercisable upon retirement and the value of restricted stock awards that would have vested upon retirement (at target level, as regards performance-based awards).

	Death or Disability	Retirement(1)
J. Scaminace	$ 2,673,005	$ 4,706,256
K. Haber	623,031	1,131,248
S. Dunmead	907,524	1,415,741
V. Sachs	618,727	1,091,476
G. Griffith	457,950	904,858

(1) Retirement under our retirement policy means separation from service after attainment of both age 55 and ten years of service. None of our named executives was eligible for retirement at December 31, 2010.

Payments in Event of a Change in Control

We have entered into a change in control agreement with each of our named executive officers. In the event that payments are made pursuant to these agreements, the payments and covenants required under these agreements supersede any other agreement between us and the named executive officer. For example, if Mr. Scaminace is terminated following a change in control and receives the benefits outlined below, he will not receive any of the payments or benefits under his employment agreement or any other agreement with us.

Under each change in control agreement, two events must take place before an executive receives payment. First, a change in control must occur. A change in control is defined as any of the following: (a) the acquisition by an individual, group or entity of beneficial ownership of 33% or more of our outstanding voting shares (not including any acquisition from us, by us or by our employee benefit plan), (b) the members of the board of directors in place at the time of the agreement cease to constitute a majority of the board (for reasons other than death or disability), subject to certain circumstances, or (c) the consummation of a

37

Table of Contents

reorganization, merger or consolidation or sale of all or substantially all of our assets, subject to certain limitations and conditions set forth in the agreement.

Second, the executive s employment must be terminated, either by us without cause or by the executive for good reason, during the term of the change in control agreement. Termination without cause means termination for any reason other than death, retirement, disability or cause, as each term is defined in the agreement. Termination for good reason includes: (a) the assignment of duties inconsistent with the executive s position or any other action that results in the diminution in such position, authority, duties or responsibilities, (b) the failure to provide the executive with salary and benefits equal to or greater than those in effect prior to a change in control, (c) the requirement that the executive work from a location that is more than 50 miles from the location from which he or she worked prior to the change in control, or a requirement that the executive travel on business to a substantially greater extent than prior to the change in control, or (d) the failure to require any successor to our business to assume and agree to the change in control agreement. In addition to the above, Mr. Scaminace s agreement includes the following additional good reason termination provisions: (i) a reduction in his salary from the highest level in effect for the year prior to the change in control, (ii) the aggregate compensatory opportunities provided to him after a change in control are reduced below the levels provided prior to a change in control, subject to certain limitations, (iii) after the change in control, he is not permitted to participate in the compensatory programs generally available to executives of the surviving entity, (iv) the surviving entity has headquarters outside of the Cleveland metropolitan area, (v) he determines in good faith that he is unable to fulfill his duties as chief executive officer after the change in control or that the company s strategic plan varies materially from the plan that was in place prior to the change in control, or (vi) he ceases to be a member of the board of directors of the surviving entity for reasons other than death, disability or voluntary resignation.

In the event that both triggering events occur, each named executive officer will be entitled to the following payments:

Full base salary earned through date of termination and bonus for last completed fiscal year, to the extent not otherwise paid;

Target bonus (based on 100% achievement of performance goals) for the fiscal year of termination, prorated based on the number of days employed by us during that year;

Lump-sum payment equal to two times the sum of (a) base salary equal to the greater of the annual base salary in effect immediately before the change in control or the highest rate of base salary in effect at any time prior to termination and (b) additional compensation as defined in the agreement and based on the three-year average (or modified average if the period of employment is less than three years) of the total annual incentive compensation, commissions, bonuses and nonqualified deferred compensation amounts. In Mr. Scaminace s case, this payment will be equal to three times the sum of (x) the highest base salary in effect prior to termination and (y) additional compensation as defined in the agreement and based on the three-year average (or modified average if the period of employment is less than three years) of the total annual incentive compensation, commissions, bonuses and nonqualified deferred compensation amounts, which amount shall not be less than $950,000;

Lump-sum payment equal to the aggregate spread between the exercise prices of all stock options held by the executive and the higher of (a) the mean of the high and low trading prices of our common stock on the NYSE on the termination date or (b) the highest price per share actually paid in connection with the change in control;

The immediate vesting and redemption of all unvested shares of restricted stock at a price equal to the higher of (a) the mean of the high and low trading prices of our common stock on the NYSE on the termination date or (b) the highest price per share actually paid in connection with the change in control;

Cash payment equal to any unvested portion of the executive s interest in any of our nonqualified retirement plans or tax-qualified pension plans;

38

Table of Contents

Continued coverage or lump-sum payment to fund continuing coverage under the life and health insurance programs, as well as any other lump-sum payment equal to 15% of the amount in the Additional Payment column of the following table to fund continuing disability coverage and any other employee benefit programs, in which the executive participated prior to termination, all for a period of two years (three years for Mr. Scaminace) following termination; and

Gross-up payments to reimburse the executive for any excise taxes incurred in relation to the above payments. We have modified our form of change in control agreement to remove the provision for gross-up payments, with the result that the change in control agreement entered into with our new vice president of human resources in November 2010 did not provide for a gross-up payment and change in control agreements entered into with executive officers in the future will not provide for such payments.

If an executive receives payment under these agreements, then the executive agrees not to compete with our successor for a period of one year from the termination date. The executive also agrees to maintain the confidentiality of our and our successor s information and to not disparage us or our successor or our respective directors, partners, officers or employees. The executive also must provide a general release of all claims and causes of action against us arising from or relating to the executive s employment with us.

The payments that would have been made to each of our named executive officers, assuming a change in control and related termination had occurred on December 31, 2010 and based upon the closing market price of our common stock on the NYSE on that date ($38.51 per share), are as follows:

	Salary	Bonus	Target Bonus	Additional Payment	Stock Option Payment	Restricted Stock Payment	Retirement Plan Payment	Welfare Benefit Payment	Tax Gross-Up Payment*	T
ace	$ 35,292		$ 917,600	$ 6,128,764	$ 2,712,544	$ 4,058,954	$ 1,110,545	$ 946,508		$ 15,
	14,035		218,939	1,325,927	415,553	1,005,111	239,404	234,008	$ 882,335	4,
ad	14,863		193,213	1,327,586	629,453	1,005,111	523,897	243,906		3,
	13,901		180,712	1,229,089	988,198	943,495	257,693	219,483		3,
n	10,712		139,256	948,318	381,391	880,916	108,623	187,016	673,798	3,

* We have modified our form of change in control agreement to remove the provision for gross-up payments, with the result that the change in control agreement entered into with our new vice president of human resources in November 2010 did not provide for a gross-up payment and change in control agreements entered into with executive officers in the future will not provide for such payments.

Director Compensation Table

The following table reflects the compensation that we paid to non-employee directors for the fiscal year ended December 31, 2010. Mr. Scaminace, a director who is also our chief executive officer, does not receive additional compensation for his service as a director.

In 2010, each of our non-employee directors received an annual fee at the rate of $120,000 per year through September 30, at which time the annual fee was increased to a rate of $135,000 per year, with the additional amount in the form of shares of our common stock. The chairperson of the Audit Committee received an additional annual payment of $20,000, and the chairperson of the Nominating and Governance Committee received an additional annual payment of $10,000. Our lead independent director received an additional annual payment of $20,000. The chairperson of the Compensation Committee received an additional annual payment at the rate of $10,000 per year through September 30, at which time such payment was increased to a rate of $12,500 per year. The annual fee for non-employee directors continues at $135,000 for 2011.

Our 2007 Incentive Compensation Plan provides that our non-employee directors may receive all or any portion of his or her annual compensation in the form of shares of our common stock, as determined annually by the Board. Pursuant to the provisions of this Plan, we paid a portion of the annual compensation earned by each of our non-employee directors during 2010 in shares of our common stock, as indicated in the table

Table of Contents

below. Our Board of Directors has determined that approximately $60,000 of the annual compensation to be earned during 2011 by each of our non-employee directors will be paid in the form of shares of our common stock.

Name	Fees Earned Or Paid in Cash ($)	Stock Awards ($)(1)	Option Awards ($)(2)	Non-Equity Incentive Plan Compensation ($)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)	All Other Compensation ($)	Total ($)
R. Blackburn	$ 95,068	$ 48,682					$ 143,750
S. Demetriou	85,693	48,682					134,375
K. Plourde	85,068	48,682					133,750
D. Pugh(3)	27,021	16,166					43,187
W. Reidy	95,068	48,682					143,750
G. Ulsh	75,068	48,682					123,750

(1) The amounts in this column represent the market value of shares of our common stock received in payment of a portion of the annual compensation for serving as a director, based upon the average of the high and low sale price of our common stock on the last business day of the quarter for which compensation was paid in common stock.

(2) As of December 31, 2010, Mr. Reidy and Ms. Plourde held outstanding stock options for the purchase of 3,220 and 2,700 shares, respectively, of our common stock, from grants made prior to 2010.

(3) Mr. Pugh did not stand for re-election at our annual meeting of stockholders held on May 11, 2010.

COMPENSATION COMMITTEE REPORT

The Compensation Committee has reviewed and discussed with management the Compensation Discussion and Analysis included in this proxy statement. Based on this review and discussions, the Compensation Committee recommended to the Board of Directors that such Compensation Discussion and Analysis be included in this proxy statement and the Annual Report on Form 10-K for the fiscal year ended December 31, 2010 filed with the Securities and Exchange Commission.

Compensation Committee

Steven J. Demetriou, Chairperson
Richard W. Blackburn
Gordon A. Ulsh

Table of Contents

DESCRIPTION OF PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table sets forth the fees paid for services provided by Ernst & Young LLP, our independent registered public accountant, for the fiscal years ended December 31, 2010 and 2009.

	2010	2009
Audit Fees	$ 2,415,900	$ 2,369,058
Audit-Related Fees	1,600	1,600
Tax Fees	40,055	150,200
Total	$ 2,457,555	$ 2,520,858

The following is a description of the nature of the services related to the fees disclosed in the table above. All of the nonaudit services provided by the independent auditor in 2010 and 2009 were pre-approved by the Audit Committee. Services of a similar nature and amount were pre-approved by the Audit Committee in prior years. The Audit Committee has considered whether Ernst & Young s provision of nonaudit services is compatible with maintaining its independence.

Audit Fees

These are fees for professional services rendered by Ernst & Young for the audits of our annual consolidated financial statements and the effectiveness of internal control over financial reporting, the review of unaudited condensed consolidated financial statements included in our quarterly reports on Form 10-Q, audits of foreign subsidiary financial statements required by local statutes, and other services that are typically rendered in connection with statutory and regulatory filings or engagements.

Audit-Related Fees

These are fees for assurance and related services rendered by Ernst & Young that are reasonably related to the performance of the audit or the review of our consolidated financial statements that are not included as audit fees. These services include primarily technical assistance on financial accounting and reporting matters.

Tax Fees

These are fees for professional services rendered by Ernst & Young with respect to tax compliance, tax advice and tax planning. These services include primarily tax assistance in foreign jurisdictions.

REPORT OF THE AUDIT COMMITTEE

The Audit Committee has reviewed and discussed with our management and with our independent registered public accountant, Ernst & Young LLP, the consolidated financial statements of OM Group, Inc. and its subsidiaries as set forth in our Annual Report on Form 10-K for the fiscal year ended December 31, 2010. The Audit Committee has (a) discussed with Ernst & Young those matters required to be discussed by Statement on Auditing Standards No. 61, *Communications with Audit Committees*, as amended (AICPA, *Professional Standards*, Vol. 1, AU Section 380), as adopted by the Public Company Accounting Oversight Board (PCAOB) in Rule 3200T, (b) received from Ernst & Young the written communications required by applicable requirements of the PCAOB regarding the independent accountant s communications with the audit committee concerning independence, and (c) discussed with Ernst & Young its independence from us and our management. Ernst & Young has confirmed to us that it is in compliance with all rules, standards and policies of PCAOB Ethics and Independence Rule 3526, *Communication with Audit Committees Concerning Independence*, and the Securities and Exchange Commission governing auditor independence. Based on these reviews and discussions, the Audit Committee recommended to the Board of Directors that the audited consolidated

41

Table of Contents

financial statements for the fiscal year ended December 31, 2010 be included in the Annual Report on Form 10-K for the fiscal year ended December 31, 2010 filed with the Securities and Exchange Commission.

Audit Committee

William J. Reidy, Chairperson
Richard W. Blackburn
Katharine L. Plourde
Gordon A. Ulsh

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires officers, directors and persons who own more than 10% of a registered class of equity securities to file reports of ownership and changes in ownership with the Securities and Exchange Commission. Officers, directors and greater than 10% stockholders are required by SEC regulations to furnish us with copies of all Section 16(a) reports they file.

Based solely upon a review of Forms 3 and 4 (including amendments to such forms) furnished to us during 2010 and Forms 5 furnished with respect to 2010, no director, officer or beneficial owner of more than 10% of our outstanding common stock failed to file on a timely basis during 2010 or prior fiscal years any reports required by Section 16(a), except that a required Form 4 report was inadvertently filed late by our chief executive officer with respect to the sale of 7,889 shares on March 2, 2010.

STOCKHOLDER PROPOSALS FOR THE 2012 ANNUAL MEETING

Any stockholder who intends to present a proposal at the 2012 annual meeting and who wishes to have the proposal included in our proxy statement and form of proxy for that meeting must deliver the proposal to us at our executive offices no later than December 3, 2011.

Any stockholder who intends to present a proposal at the 2012 annual meeting other than for inclusion in our proxy statement and form of proxy must deliver the proposal to us at our executive offices not later than February 1, 2012 or such proposal will be untimely. If a stockholder fails to submit the proposal by February 1, 2012, we reserve the right to exercise discretionary voting authority on the proposal.

SOLICITATION BY BOARD; EXPENSES OF SOLICITATION

Our Board of Directors has sent you this proxy statement. We will pay all expenses in connection with the solicitation of the enclosed proxy. In addition to solicitation by mail, our officers and employees may solicit proxies by telephone, in writing or in person, without receiving any extra compensation for such activities. We have retained The Proxy Advisory Group, LLC, a proxy soliciting firm, to assist in the solicitation of proxies for an estimated fee of $11,500 plus reimbursement of reasonable out-of-pocket expenses. We also will reimburse brokers and nominees who hold shares of our common stock in their names for their expenses incurred to furnish proxy materials to the beneficial owners of such shares.

OM GROUP, INC.

Valerie Gentile Sachs

Secretary

Table of Contents

Electronic Voting Instructions
You can vote by Internet or telephone!
Available 24 hours a day, 7 days a week!
Instead of mailing your proxy, you may choose one of the two voting
methods outlined below to vote your proxy.

VALIDATION DETAILS ARE LOCATED BELOW IN THE TITLE BAR.
Proxies submitted by the Internet or telephone must be received by
12:00 am Eastern Time on May 10, 2011.

Vote by Internet
Log on to the Internet and go to
www.investorvote.com/OMG
Follow the steps outlined on the secured website.

Vote by telephone
Call toll free 1-800-652-VOTE (8683) within the USA, US territories & Canada any time on a touch tone telephone. There is **NO CHARGE** to you for the call.

Follow the instructions provided by the recorded message.

Using a **black ink** pen, mark your votes with an **X** as shown in this example. Please do not write outside the designated areas. x

Annual Meeting Proxy Card

IF YOU HAVE NOT VOTED VIA THE INTERNET OR TELEPHONE, FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE.

A Proposals The Board of Directors recommends a vote FOR all the nominees listed, FOR Proposals 2 and 3, for 1 YR for Proposal 4 and AGAINST Proposal 5.

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1. ELECTION OF DIRECTORS:	For	Withhold		For	Withhold
01 - William J. Reidy*	o	o	02 - Joseph Scaminace*	o	o

* Nominees for Election as Directors with Terms Expiring in 2014

	For	Against	Abstain		For	Against	Abstain
2. APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC	o	o	o	3. ADVISORY VOTE ON COMPENSATION OF NAMED EXECUTIVE	o	o	o

ACCOUNTANT.					OFFICERS.			
	1 Yr	**2 Yrs**	**3 Yrs**	**Abstain**		**For**	**Against**	**Abstain**
4. FREQUENCY OF STOCKHOLDER ADVISORY VOTE ON EXECUTIVE COMPENSATION.	o	o	o	o	5. STOCKHOLDER PROPOSAL TO DEVELOP INDICATORS FOR A HUMAN RIGHTS POLICY.	o	o	o

B Non-Voting Items

Change of Address Please print new address below.

Authorized Signatures This section must be completed for your vote to be counted. Date and Sign Below

Please sign exactly as name(s) appears hereon. Joint owners should each sign. When signing as attorney, executor, administrator, corporate officer, trustee, guardian, or custodian, please give full title.

Date (mm/dd/yyyy) Please print date below.	Signature 1 Please keep signature within the box.	Signature 2 Please keep signature within the box.
/ /		

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Table of Contents

YOUR VOTE IS IMPORTANT

If you do not vote by telephone or Internet, please sign and date this proxy card and return it promptly in the enclosed postage-paid envelope so your shares may be represented at the Annual Meeting.

If you vote by telephone or Internet, please do not send your proxy card by mail.

IF YOU HAVE NOT VOTED VIA THE INTERNET OR TELEPHONE, FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE.

Proxy OM Group, Inc.

127 Public Square
1500 Key Tower
Cleveland, Ohio 44114-1221
Notice of Annual Meeting of Stockholders to be Held May 10, 2011
PROXY SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS

The undersigned appoints Joseph Scaminace and Valerie Gentile Sachs, and each of them, with full power of substitution, to vote the shares of the undersigned at the Annual Meeting of Stockholders of OM Group, Inc. to be held on Tuesday, May 10, 2011 and at any adjournment thereof.

The Board of Directors recommends that votes be cast FOR the election of the nominees listed, FOR the confirmation of the appointment of Ernst & Young LLP, FOR the compensation of the named executive officers, for 1 Yr with respect to the frequency of a stockholder advisory vote regarding executive compensation and AGAINST the stockholder proposal. If no specification is made, authority is granted to cast the vote of the undersigned FOR the election of the nominees listed, FOR the confirmation of the appointment of Ernst & Young LLP, FOR the compensation of the named executive officers, for 1 Yr with respect to the frequency of a stockholder advisory vote regarding executive compensation and AGAINST the stockholder proposal.

Stockholders of record at the close of business on March 18, 2011 are entitled to notice of and to vote at the meeting. The proxy statement and this accompanying proxy card were mailed to stockholders on or about March 31, 2011.

We cordially invite you to attend the meeting. To ensure your representation at the meeting, please vote promptly by mail, telephone or the Internet by following the instructions on the enclosed proxy card, even if you plan to attend the meeting. Mailing your completed proxy card, or using our telephone or Internet voting systems, will not prevent you from voting in person at the meeting if you wish to do so.

(Continued and to be signed on reverse side)