ARRAY BIOPHARMA INC
Form 424B5
May 02, 2007

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**Filed Pursuant to Rule 424(b)(5)**
**Registration File No. 333-137874**

**PROSPECTUS SUPPLEMENT**
**(To Prospectus dated October 6, 2006)**

# 7,000,000 Shares

## Common Stock

We are offering 7,000,000 shares of our common stock, par value $0.001 per share.

Our common stock is quoted on the Nasdaq Global Market under the symbol "ARRY." The last reported sale price of our common stock on the Nasdaq Global Market was $13.53 per share on May 1, 2007.

**Investing in our common stock involves a high degree of risk. Before buying any shares, you should read carefully the discussion of material risks of investing in our common stock under the heading "Risk Factors" beginning on page S-13 of this prospectus supplement and incorporated by reference in this prospectus supplement and the accompanying prospectus.**

| | Per share | Total |
|---|---|---|
| Public offering price | $ 13.00 | $ 91,000,000 |
| Underwriting discounts and commissions | $ 0.78 | $ 5,460,000 |
| Proceeds, before expenses, to us | $ 12.22 | $ 85,540,000 |

We have granted the underwriters the right to purchase up to 1,050,000 additional shares of common stock to cover any over-allotments. The underwriters can exercise this right at any time within 30 days after the offering.

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

The underwriters expect to deliver the shares against payment on May 7, 2007.

**JPMorgan** **Banc of America Securities LLC**

**Jefferies & Company** **Piper Jaffray**

The date of this prospectus supplement is May 1, 2007

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**Prospectus supplement**



**Prospectus**



**You should rely only on the information contained or incorporated by reference in this prospectus supplement, the accompanying prospectus and any free writing prospectus that we authorize to be distributed to you. We have not, and the underwriters have not, authorized anyone to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus supplement, the accompanying prospectus, the documents incorporated by reference in this prospectus supplement and the accompanying prospectus, and any free writing prospectus is accurate only as of the date of those respective documents. Our business, financial condition, results of operations and prospects may have changed since those dates. You should read this prospectus supplement, the accompanying prospectus, the documents incorporated by reference in this prospectus supplement and the accompanying prospectus, and any free writing prospectus when making your investment decision. You should also read and consider the information in the documents we have referred you to in the sections of this prospectus supplement entitled "Information Incorporated by Reference" and of the prospectus entitled "Where You Can Find More Information" and "Incorporation of Certain Information by Reference."**

## Market and Industry Data

Unless otherwise indicated, information contained or incorporated by reference in this prospectus supplement concerning the cancer market, the inflammatory market, the drug market and our markets, including our general expectations and market position, market opportunity and market share, is based on information from independent industry analysts and third party sources, such as EvaluatePharma and Datamonitor, and management estimates. Management estimates are derived from publicly available information released by independent industry analysts and third-party sources, as well as data from our internal research, and are based on assumptions made by us based on such data and our knowledge of such industry and markets, which we believe to be reasonable. None of the sources cited or incorporated by reference in this prospectus has consented to the inclusion of any data from its reports, nor have we sought their consent. Our internal research has not been verified by any independent source, and we have not independently verified any third-party information and cannot assure you of its accuracy or completeness. In addition, while we believe the market position, market opportunity and market share information included or incorporated by reference in this prospectus is generally reliable, such information is inherently imprecise. Such data involves risks and uncertainties and are subject to change based on various factors, including those discussed under the heading "Risk Factors."

## About this Prospectus Supplement

This document is in two parts. The first part is this prospectus supplement, which describes the terms of this offering of common stock and also adds to and updates information contained in the accompanying prospectus and the documents incorporated by reference. The second part is the accompanying prospectus, which gives more general information, some of which may not apply to this offering of common stock. To the extent the information contained in this prospectus supplement differs or varies from the information contained in the accompanying prospectus or any document incorporated by reference, the information in this prospectus supplement shall control.

References in this prospectus supplement to "Array," "the company," "we," "our" or "us" refer to Array BioPharma Inc. Our trademarks include the Array BioPharma logo and the terms "Array BioPharma," "Array BioPharma The Discovery Research Company," "Turning Genomics Into Breakthrough Drugs," "Optimer," and "Array Discovery Platform." Other brand names, trademarks and trade names appearing in this prospectus supplement and the accompanying prospectus are the property of the respective holders of such trademarks and trade names.

## Prospectus Supplement Summary

*This summary does not contain all of the information that you should consider before investing in our common stock. You should read this entire prospectus supplement and the accompanying prospectus carefully, including the factors described under the heading "Risk Factors" in this prospectus supplement and in our annual report on Form 10-K, and the financial statements and other information incorporated by reference in this prospectus supplement and the accompanying prospectus, before making an investment in our common stock.*

**Our Business**

Array BioPharma Inc. is a biopharmaceutical company focused on the discovery, development and commercialization of targeted small molecule drugs to treat debilitating and life-threatening diseases. Our proprietary drug development pipeline is focused on the treatment of cancer and inflammatory disease and includes clinical candidates that are designed to regulate therapeutically important target proteins. We currently have 10 programs in our development pipeline, eight of which are wholly owned by us.

Our eight most advanced programs that we wholly own and control consist of ARRY-543, an ErbB-2/EGFR dual inhibitor for cancer; ARRY-162, a MEK inhibitor for inflammation; ARRY-797, a p38 inhibitor for inflammation and for cancer; ARRY-520, a KSP inhibitor for cancer; ARRY-380, an ErbB-2 inhibitor for cancer; and ARRY-614, a p38 and Tie2 dual inhibitor for inflammation and for cancer. In addition, we have out-licensed to AstraZeneca PLC three MEK inhibitors for cancer including ARRY-886 (AZD6244), currently in multiple Phase 2 clinical trials, and ARRY-704 (AZD8330), currently in a Phase 1 clinical trial. Our agreements with AstraZeneca and Genentech each provide for up-front payments, research funding, success-based milestone payments and royalties on product sales. We have also invented a drug candidate that is currently in clinical development for InterMune, Inc. (HCV NS3/4 protease inhibitor, ITMN-191).

In addition to these development programs, we have out-licensed two cancer programs to Genentech, Inc., and we have a portfolio of discovery programs that we believe will generate two to three Investigational New Drug, or IND, applications per year over the next three years. Our discovery efforts have also generated additional early-stage drug candidates that we may choose to out-license through research partnerships. We believe this business strategy will enable us to receive a greater portion of the potential financial upside than our previous research collaborations while controlling development costs. A recent example of this is our collaboration with VentiRx Pharmaceuticals, Inc., which is described below. We also believe this strategy will allow us to maximize our scientific efforts and other resources on programs for which we have particular expertise or which have synergies with our other development programs.

We have created our proprietary pipeline of development and discovery programs on a modest investment of approximately $118 million in research and development expenses from our inception through December 31, 2006. Additionally, we have recognized a total of $240 million in research funding and in up-front and milestone payments from our collaboration partners through December 31, 2006. Under our existing collaboration agreements, we have the potential to earn over $260 million in additional milestone payments if we achieve all of the drug discovery objectives detailed in these agreements, as well as royalties on any resulting product sales from 16 different drug development programs.

**Research and Development**

Our primary research efforts are centered on cancer and inflammatory disease. We believe there is significant synergy between these two research areas, and developing drugs in one of the areas may lead to therapies in the other area. Our research focuses on biologic functions, or pathways, that

have been identified as important in the treatment of human disease based on human clinical, genetic or preclinical data. Within these pathways, we seek to create first-in-class drugs regulating important therapeutic targets to treat patients with serious or life-threatening conditions, primarily in cancer, inflammatory disease as well as in other important disease areas. In addition, we identify opportunities to improve upon existing therapies or drugs in clinical development by creating clinical candidates with superior, or best-in-class, drug characteristics, including efficacy, tolerability or dosing, to provide safer, more effective drugs.

**Drug Development Pipeline**

The following pipeline chart shows our 10 most advanced programs in the areas of cancer and inflammatory disease and their stage in the drug discovery and development process.

| Drug | Drug Target | Marketing Rights | Status |
|---|---|---|---|
| ***Cancer*** | | | |
| ARRY-886 | MEK | AstraZeneca | **Multiple Phase 2 trials ongoing**<br>(Phase 2 data expected June 2008) |
| ARRY-543 | ErbB-2/EGFR | Array | **Phase 1 trial ongoing**<br>(Plan to initiate Phase 2 trial in second half 2007) |
| ARRY-797 | P38 | Array | **IND effective**<br>(Plan to initiate Phase 1 trial in 2007) |
| ARRY-520 | KSP | Array | **IND effective**<br>(Plan to initiate Phase 1 trial in second quarter 2007) |
| ARRY-704 | MEK | AstraZeneca | **Phase 1 trial ongoing** |
| ARRY-380 | ErbB-2 | Array | **Regulated Safety Assessment**<br>(IND expected to be filed in 2007) |
| ARRY-614 | p38/Tie2 | Array | **Regulated Safety Assessment**<br>(IND expected to be filed in second half 2007[(1)]) |
| ***Inflammation*** | | | |
| ARRY-162 | MEK | Array | **Phase 1b trial ongoing**<br>(Plan to initiate Phase 2a trial in second half 2007) |
| ARRY-797 | P38 | Array | **Phase 1 trial ongoing** |
| ARRY-614 | p38/Tie2 | Array | **Regulated Safety Assessment**<br>(IND expected to be filed in second half 2007[(1)]) |

(1) A single IND for this compound is expected to be filed in the second half of 2007.

***ARRY-886 (AZD6244) and ARRY-704 (AZD8330) Targeting MEK for Cancer***

We initiated an anti-cancer research program targeting MEK in July 2001 and within 17 months identified ARRY-886, an orally active clinical candidate. ARRY-886 and a subsequently identified clinical candidate, ARRY-704, have both shown tumor suppressive or regressive activity in multiple preclinical models of human cancer including melanoma, pancreatic, colon, lung and breast cancers. Potential advantages of MEK inhibitors over current therapies include improved efficacy and

reduced side effects. In December 2003, we entered into an out-licensing and collaboration agreement with AstraZeneca to develop our MEK program solely in the field of oncology. We retain the rights to all MEK compounds not selected by AstraZeneca.

Under our collaboration with AstraZeneca, we were responsible for conducting Phase 1 clinical testing, which we initiated in June 2004. The trial evaluated tolerability and pharmacokinetics of ARRY-886 following oral administration to patients with advanced cancer. In addition, the trial examined patients for indications of biological activity as well as pharmacodynamic and tumor biomarkers. As we reported in November 2006, Phase 1 testing showed that ARRY-886 inhibited the MEK pathway in tumor tissue at the dose that was later selected for the Phase 2 study and provided prolonged disease stabilization in a number of heavily pre-treated cancer patients.

In June 2006, AstraZeneca initiated a Phase 2 study for ARRY-886 in malignant melanoma, resulting in a $3 million milestone payment to us. The trial is a randomized Phase 2 study that compares ARRY-886 to temozolomide in the treatment of stage III / IV melanoma patients. AstraZeneca expects to enroll up to 180 patients at approximately 40 centers worldwide. AstraZeneca initiated additional Phase 2 studies for ARRY-886 in colorectal, pancreatic and non-small cell lung cancer during the second half of 2006. AstraZeneca has indicated that it expects to present Phase 2 results at the ASCO conference in June 2008.

In March 2007, AstraZeneca dosed its first cancer patient in a Phase 1 clinical trial with our MEK inhibitor, ARRY-704 (AZD8330), triggering a $2 million milestone payment to us.

***ARRY-543, Targeting ErbB-2 / EGFR for Cancer***

ErbB-2 and EGFR are receptor kinase targets that are over-expressed in a number of malignancies, including breast, lung, pancreas, colon, and head and neck cancers. Herceptin is an intravenously-dosed protein therapeutic currently on the market for the treatment of breast cancers that over-express ErbB-2. Herceptin has also recently been reported to show promising therapeutic benefits in early, post-surgery, breast cancer patients being treated chronically. We believe these results suggest a high potential value for an orally active drug which regulates ErbB-2 that can be conveniently dosed for extended periods of time. Erbitux, an intravenously-dosed protein therapeutic, and Tarceva, a small molecule inhibitor, are currently marketed drugs that modulate EGFR only. Tykerb, a small molecule drug that modulates ErbB-2 and EGFR, has been approved for the treatment of certain Herceptin-resistant breast cancers and is still undergoing clinical trials for other cancers.

We believe the concurrent inhibition of ErbB-2 and EGFR provides enhanced efficacy in cancer treatment. ARRY-543, a novel orally active dual inhibitor of EGFR and ErbB-2, behaves as a reversible ATP-competitive inhibitor with nanomolar potency both *in vitro* and in cell-based proliferation assays. Selectivity for inhibition of ErbB family target proteins has been demonstrated by profiling against a panel of kinases *in vitro*. In preclinical models, ARRY-543 demonstrated significant dose related tumor growth inhibition when administered orally. ARRY-543 has demonstrated efficacy in certain preclinical models where Tarceva or Herceptin are not active, and we believe has shown equivalent or improved efficacy compared to Tykerb.

We are nearing completion of a Phase 1a clinical trial in the United States and Canada of ARRY-543 and are preparing to initiate an expansion trial. We reported interim Phase 1a data in December 2006 for ARRY-543: the compound demonstrated consistent drug exposure and four patients had stable disease at well tolerated doses. We plan to initiate Phase 2 trials in the second half of 2007.

***ARRY-520, Targeting KSP for Cancer***

Current cancer therapies include taxanes and vinca alkaloids, agents which inhibit tumor growth by preventing mitotic spindle formation and cell division. ARRY-520 inhibits kinesin spindle protein, or KSP, a protein that plays an essential role in mitotic spindle formation, with subnanomolar potency in both enzymatic and cellular assays. Unlike taxanes and vinca alkaloids, KSP inhibitors do not demonstrate certain side effects such as peripheral neuropathy because the KSP protein is not expressed in non-proliferating nerve cells.

*In vivo*, ARRY-520 caused marked tumor regression in preclinical models of human cancer at tolerated doses, often leading to complete durable responses. In studies comparing the most clinically advanced competitor compound and standard of care agents like taxanes and vinca alkaloids, ARRY-520 has shown superior efficacy in multiple xenograft models. We filed an IND application with the U.S. Food and Drug Administration, or FDA, in December 2006 and plan to dose cancer patients in a Phase 1 trial in the second quarter of 2007.

***ARRY-380, Targeting ErbB-2 for Cancer***

ErbB-2 is a receptor kinase target that has been found to be over-expressed in breast and other cancers. Our orally active ErbB-2 inhibitor, ARRY-380, has shown efficacy and a low side effect profile in preclinical models of human cancer. Recently, Herceptin, the intravenously-dosed protein therapeutic currently on the market that modulates ErbB-2, has shown promising therapeutic benefit when dosed as an adjuvant to surgery in cancer patients. This scientific finding expanded an already large market for an ErbB-2 inhibitor. We believe the advantages of ARRY-380 include patient preference for an orally-active drug as well as improved efficacy versus standard of care in preclinical models of human breast cancer. ARRY-380 is currently in regulated safety assessment, and we plan to file an IND application with the FDA during 2007.

***ARRY-162, Targeting MEK for Inflammation***

Pro-inflammatory proteins, or cytokines, have been broadly implicated as playing detrimental roles in a number of inflammatory diseases. Modulation of certain cytokines has been shown to provide clinical benefit for the treatment of inflammatory disease. Injected protein therapeutics currently on the market, including Enbrel, Remicade, Humira and Kineret, bind to and modulate the activity of the cytokines TNF or IL-1. MEK has been demonstrated to regulate the biosynthesis of certain pro-inflammatory cytokines, in particular, TNF, IL-6 and IL-1. We believe inhibition of MEK will have applications in inflammatory diseases driven by these cytokines, such as arthritis, chronic obstructive pulmonary disease, or COPD, renal and cardiovascular disease. Our extensive experience with inhibitors of MEK leads us to believe that this target may be amenable to chronic modulation that is well tolerated by patients. ARRY-162, an orally active MEK inhibitor, has shown efficacy and a low side effect profile in preclinical models of human arthritis and other inflammatory diseases. We believe this compound may provide broad therapeutic benefits in the treatment of inflammatory and chronic degenerative diseases. We initiated Phase 1 clinical trials in healthy volunteers in April 2006 and reported interim data in October 2006. ARRY-162 showed no serious adverse events through 14 days of continuous dosing and significantly inhibited cytokine production after *ex-vivo* stimulation of clinical samples. We are completing a Phase 1b combination trial with Methotrexate in rheumatoid arthritis patients and long-term toxicology studies. Given appropriate results, we plan to initiate a Phase 2a trial in the second half of 2007.

***ARRY-797, Targeting p38 for Inflammation and Cancer***

p38 is another kinase target that regulates the production of TNF, IL-6 and IL-1. As described above, we believe that inhibition of p38 will regulate inflammatory cytokine production and will benefit

patients with inflammatory disease. These cytokines can also act as cellular growth factors or are up-regulated in certain cancers including prostate, ovarian and multiple myeloma. Additionally, p38 may play a role in certain resistance mechanisms or metastatic progression in cancer. As a result, we believe inhibition of p38 may provide a therapeutic benefit in certain cancer patients. ARRY-797, a selective orally active p38 inhibitor, has shown good efficacy, controlled tissue distribution and a low side effect profile in preclinical models of human arthritis and certain cytokine-driven cancers. We filed an IND application with the FDA in October 2006 and initiated Phase 1 clinical trials in healthy volunteers. We also filed an IND application to initiate a Phase 1b trial in cancer patients in April 2007. We plan to initiate additional exploratory trials in both cancer and inflammation patients in 2007.

***ARRY-614, Targeting p38 / Tie2 for Inflammation and Cancer***

Increased production of certain cytokines can cause aberrant tissue proliferation. The growth, differentiation and maintenance of new blood vessels, or angiogenesis, in proliferating tissue can lead to the uncontrolled cell growth that characterizes cancer and chronic inflammatory diseases. p38 regulates the production of numerous pro-inflammatory and pro-proliferative cytokines, such as TNF, IL-6 and IL-1. Tie2 plays an important role in angiogenesis and blood vessel growth. ARRY-614, an orally active compound that inhibits both p38 and Tie2, has been shown to block angiogenesis, to inhibit inflammation and to antagonize tumor growth, while showing a low side effect profile with prolonged dosing in preclinical models. We believe this compound will have broad therapeutic benefits in various cancers and chronic inflammatory diseases. This compound is in regulated safety assessment and we plan to file an IND application and start first-in-human clinical trials in the second half of 2007.

**Opportunity**

There is a tremendous opportunity in creating drugs for debilitating and life-threatening diseases, especially in cancer and inflammation. The medical community is seeking selective targeted therapies that treat disease more effectively with an improved safety profile. We believe the future of medicine will be to genetically characterize patients and treat them with these targeted therapies. Also, clinical trials aimed at a well defined patient population should show an improved response rate and increase the chances for approval by the FDA. This approach may result in a greater number of marketed drugs aimed at a smaller subset of patients. Our research benefits from the evolving scientific understanding of how modulating specific protein targets can potentially treat both cancer and inflammatory disease. As a result, a drug designed to treat cancer may also be useful in treating inflammatory disease, and vice-versa.

According to EvaluatePharma, the worldwide cancer therapy market is expected to grow from $36 billion in 2006 to $73 billion in 2012, of which the total worldwide market for targeted cancer drugs is expected to grow from $16 billion in 2006 to $47 billion in 2012, representing the market's fastest growing segment. The inflammatory disease market is highly diverse and includes rheumatoid arthritis, osteoarthritis, COPD, cardiovascular disease, psoriasis, and kidney diseases. According to EvaluatePharma, the worldwide market for injectable targeted therapies for rheumatoid arthritis alone is expected to grow from $10 billion in 2006 to $18 billion in 2012. Additionally, with the safety concerns over the class of pain medications known as COX-2 inhibitors, new markets for replacement drugs to treat pain associated with rheumatoid arthritis and osteoarthritis are likely to develop.

Another positive trend for us is the pharmaceutical industry's ongoing need to fill their clinical development pipelines with quality drug candidates to drive future revenue growth. Despite increased spending on internal research, the industry has been unable to meet this demand. The scarcity of later stage clinical assets is driving drug companies to enter into licensing deals at earlier stages. According to research published by Datamonitor in July 2006, among the largest 55 pharmaceutical and biotechnology companies, total investment as a percentage of total sales on drugs licensed at an early

stage (Phase 1 and earlier) has increased from an average of 20% of total sales in 2002 to 24% in 2005, and is expected to increase further to 28% in 2010. These percentages do not include drugs acquired through mergers or acquisitions. Accordingly, the reliance on external sources for drug candidates is even higher. We believe this increasing demand for a limited number of clinical assets will further increase the value of our drug pipeline.

***Cancer***

Despite a wide range of available cancer therapies, patient responses to these therapies remain limited and variable. Targeted therapies offer a more specific approach than first generation, cytotoxic chemotherapy drugs by regulating discrete aspects of cellular function affecting cancer cells to a greater extent than normal cells, providing an improved side effect profile and potentially increased efficacy. We believe certain cancers will eventually become chronic diseases, treated with a combination of targeted therapies. Our research focus in the cancer market is to build a pipeline of complimentary targeted therapies.

According to the American Cancer Society, approximately 10.5 million Americans with a history of cancer were alive in January 2003 and more than 1.4 million new cases are expected to be diagnosed in 2007. The following table shows estimated new cases diagnosed in the United States:

| | **Estimated New Cases in 2007** |
|---|---|
| Prostate | 218,890 |
| Lung | 213,380 |
| Breast | 180,510 |
| Colon | 112,340 |
| Melanoma | 59,940 |
| Pancreas | 37,170 |

***Inflammatory Disease***

Inflammation is a natural biologic response to injury or infectious attack to the human body. Unregulated inflammation results in a broad range of conditions, most of which are classified by the tissue or organ where the inflammation occurs. These conditions include rheumatoid arthritis in the joint, psoriasis in the skin, COPD in the lung, fibrotic disease in the liver and kidney, Crohn's disease in the intestine, CHF and arteriosclerosis in the arteries. Currently, some of the most effective treatments for these diseases are injected protein therapeutics, which have significant cost and patient compliance issues. Injectable protein therapeutics currently on the market, such as Enbrel, Remicade, Humira and Kineret, bind to and/or modulate the activity of the inflammatory cytokines TNF or IL-1. There remains a significant unmet medical need for improved therapies to treat COPD, asthma, fibrosis and cardiovascular diseases. We believe there is a significant opportunity to create orally active drugs to treat many of these often-chronic diseases. We are developing drugs that modulate important biological targets in key intracellular pathways that control inflammation, potentially providing the ability to treat multiple diseases with a single oral agent.

**Partnered Research and Development**

We have research partnerships with leading pharmaceutical and biotechnology companies for which we design, create and optimize drug candidates, and conduct preclinical testing across a broad range of therapeutic areas. In certain partnerships, we also perform process research and development, and manufacture clinical supplies. These partnerships involve either continued research and development on programs we have out-licensed or drug discovery and development on targets selected by our partners. These collaborations provide research funding and, in a number of our current agreements, up-front fees, milestone payments and/or royalties based upon the success of the program.

Our largest partners, from whom we are receiving research funding or have the potential for future milestones or royalties, include AstraZeneca, Genentech, InterMune, Ono Pharmaceutical Co., Ltd., Amgen Inc., Eli Lilly and Company (ICOS Corporation), Japan Tobacco Inc., Takeda Pharmaceutical Company, Ltd.

Below are summaries of some of our partnered programs in which we are receiving research funding and/or are based on our out-licensed programs.

***AstraZeneca MEK for Cancer Program / ARRY-886 and ARRY-704***

In December 2003, we entered into an out-licensing and collaboration agreement with AstraZeneca to develop our MEK program solely in the field of oncology. Under the agreement, AstraZeneca acquired exclusive worldwide rights to our clinical development candidate, ARRY-886, together with ARRY-704 and another second-generation compound we developed during the collaboration, for oncology indications. We retain the rights to all non-oncology therapeutic indications for MEK compounds not selected by AstraZeneca for development. To date, we have earned $21.5 million in upfront and milestone payments. The agreement also provided for research funding, which is now complete, and potential additional development milestone payments of over $75 million and royalties on product sales. AstraZeneca is responsible for further clinical development and commercialization for ARRY-886, and for clinical development and commercialization for ARRY-704 and for the third compound it licensed.

***Genentech Oncology Programs***

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

In April 2005, we expanded our collaboration agreement with Genentech to develop clinical candidates directed against an additional cancer target. Under the expanded agreement, we receive additional research funding, as well as potential research and development milestone payments and product royalties based on the success of the new program. Genentech has the sole responsibility for clinical development and commercialization of any resulting products. In October 2005, we further expanded our collaboration with Genentech; under the current agreement, we expect to receive a total of $50 million in research funding through December 2008, plus milestone and royalty payments based on success of the programs. Genentech may terminate its agreement with us upon 120 days notice.

***InterMune Hepatitis C Virus Programs***

Our scientists and InterMune scientists have collaborated since 2002 to discover novel small molecule inhibitors of the Hepatitis C Virus (HCV) NS3/4 protease. As a result, our team of scientists discovered ITMN-191, which InterMune is now developing. Under the terms of the agreement, InterMune funds drug discovery, preclinical testing, process development and manufacturing in conformity with current Good Manufacturing Practices, or cGMP, we conduct and will make milestone payments to us based on the selection and progress of clinical drug candidates, as well as royalties on sales of any products derived from the collaboration. As a result of our research progress, we received

our first milestone payment from InterMune in June 2004. Research funding under this agreement ends June 30, 2007.

We designed compounds under this program using computational modeling techniques and optimized them to achieve superior efficacy and targeted tissue penetration. During 2006, we produced and delivered cGMP clinical supplies of ITMN-191, and InterMune initiated a Phase 1 clinical trial. We received a $500,000 milestone payment in February of 2007 after the first subject was dosed.

***Ono Pharmaceutical Research Program***

We entered into a drug discovery collaboration with Ono Pharmaceutical in October 2005 to create small molecule drug candidates against a series of kinases selected by Ono. Ono provides research funding and milestone and royalty payments based on the success of the program. Ono is responsible for clinical development and commercialization of any resulting products. The research funding for this program ends May 1, 2008.

***VentiRx Pharmaceuticals Toll-Like Receptor Program***

We entered into a licensing and collaboration agreement with VentiRx, a privately held biopharmaceutical company in February 2007, granting VentiRx exclusive worldwide rights to our toll-like receptor, or TLR, program. The program contains a number of compounds targeting TLRs to activate innate immunity. VentiRx expects to develop its first two candidates in oncology and allergy. We received an equity stake in VentiRx as well as an upfront payment, potential milestone payments and royalties on product sales. We retain the option to acquire a 50% ownership position in all VentiRx clinical oncology products developed under this agreement.

**Our Research and Development Technologies and Expertise**

Our scientists use the Array Discovery Platform, an integrated suite of drug discovery and development technologies, to create drug candidates and to conduct preclinical and clinical development. A critical capability within the Array Discovery Platform is our proprietary software, which enables our scientists to share information across our company, analyze databases of existing drugs, generate novel predictive databases and design novel drugs with potential competitive advantages over current therapies. We use *in vitro* and *in vivo* predictive pharmacodynamic and pharmacokinetic models to select compounds for potential development. Early in the drug discovery process, our scientists engineer desirable drug characteristics, such as improved potency, specificity and dosing regimen and reduced side effect profile, into drug candidates. The resulting compounds are tested for safety, efficacy and metabolism to select the most promising clinical candidates.

Our expanding development capabilities include innovative clinical trials designs that incorporate early markers of biological activity; in-house cGMP facilities, which allow us to rapidly produce clinical drug supplies; clinical development strategies that incorporate trials in diseases that provide rapid proof of concept; therapeutically focused clinical teams that drive rapid protocol development, clinical site selection, trial initiation and monitoring, and study result evaluation.

We believe our drug discovery and development approach can significantly improve on the industry's existing clinical attrition rates through our use of:

- Proprietary chemoinformatic databases that relate chemical structure to compound development potential;
- Multiple lead generation strategies including high throughput screening, virtual screening and proprietary *de novo* design software;
- State-of-the-art protein x-ray crystallography, structural databases and computational modeling;
- An extensive battery of *in vivo* and *in vitro* metabolic and safety drug profiling assays;

A company-wide electronic laboratory notebook that enables our scientists to collect, analyze and share information across the organization; and

Innovative clinical trial designs, incorporating markers of biological activity.

**Our Strategy**

We are building a fully integrated, commercial-stage biopharmaceutical company that invents, develops and markets safe and effective small molecule drugs, primarily in cancer and inflammation. We intend to accomplish this through the following strategies:

Inventing targeted small molecule drugs that demonstrate a competitive advantage over existing therapies to fill our clinical pipeline;

Commercializing drugs that require a therapeutically directed sales force;

Partnering late-stage development and commercialization of select drugs;

Partnering continued research and development of select early-stage programs under which we would receive research funding, plus significant milestones and royalties; and

Evaluating opportunities to in-license later stage clinical or commercial programs to accelerate our transition to a commercial-stage biotech company.

**Our Corporate Information**

Founded in 1998, we are headquartered in Boulder, Colorado and employ a staff of over 300, including 220 scientists and physicians, housed in 230,000 square feet of laboratory facilities. We became a public company in November 2000, and our stock is listed on the Nasdaq Global Market under the symbol "ARRY." The mailing address and telephone number of our principal executive offices are 3200 Walnut Street, Boulder, Colorado 80301, (303) 381-6600.

## The Offering

| | |
|---|---|
| Issuer | Array BioPharma Inc. |
| Common stock we are offering | 7,000,000 shares |
| Common stock to be outstanding after this offering | 47,000,768 shares |
| Use of proceeds | We intend to use the net proceeds of this offering to fund our research and development efforts, including clinical trials, and for general corporate purposes, including working capital. See "Use of Proceeds." |
| Nasdaq Global Market Symbol | ARRY |
| Transfer Agent | American Stock Transfer and Trust Company |
| Risk Factors | See "Risk Factors" beginning on page S-13 for a discussion of factors you should carefully consider before deciding to invest in shares of our common stock. |

The number of shares of our common stock to be outstanding after this offering is based on 40,000,768 shares of common stock outstanding as of March 31, 2007 and excludes:

- 7,287,565 shares issuable upon exercise of options outstanding as of March 31, 2007 at a weighted average exercise price of $7.09 per share, of which 4,753,862 were exercisable at March 31, 2007;
- 3,241,116 shares of common stock available for future issuance under our stock option plan; and 353,784 shares of common stock available for future issuance under our employee stock purchase plan.

Unless otherwise indicated, all information in this prospectus supplement assumes no exercise of the underwriters' over-allotment option to purchase 1,050,000 additional shares of our common stock.

## Summary Financial Data

The tables below present summary statement of operations and balance sheet data. The summary financial data for the years ended June 30, 2006, June 30, 2005 and June 30, 2004 are derived from our audited financial statements for those periods, which are incorporated by reference into this prospectus supplement. We derived the summary balance sheet data as of December 31, 2006 and summary statement of operations data for the six months ended December 31, 2006 and 2005 from our unaudited financial statements, which are incorporated by reference into this prospectus supplement. The unaudited financial statement data includes, in our opinion, all adjustments (consisting only of normal recurring adjustments) that are necessary for a fair presentation of our financial position and results of operations for these periods. Operating results for the six months ended December 31, 2006 are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2007. The as adjusted balance sheet data gives effect to the issuance and sale by us of 7,000,000 shares of our common stock in this offering at the public offering price of $13.00 per share, after deducting underwriting discounts and commissions and estimated offering expenses payable by us. This information is only a summary and should be read in conjunction with our historical financial statements and related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in our periodic reports on file with the SEC and incorporated by reference in this prospectus supplement and the accompanying prospectus.

| | Years Ended June 30, | | | Six Months Ended December 31, | |
|---|---|---|---|---|---|
| **Statement of operations data:** | **2006** | **2005** | **2004** | **2006** | **2005** |
| | | | | **(unaudited)** | |
| | **(In thousands, except share and per share data)** | | | | |
| **Revenue** | | | | | |
| Collaboration revenue | $ 37,738 | $ 34,343 | $ 28,186 | $ 15,535 | $ 17,515 |
| License and milestone revenue | 7,265 | 11,162 | 6,645 | 3,049 | 5,667 |
| Total revenue | 45,003 | 45,505 | 34,831 | 18,584 | 23,182 |
| **Operating expenses** | | | | | |
| Cost of revenue | 39,611 | 38,048 | 37,257 | 12,485 | 19,403 |
| Research and development for proprietary drug discovery | 33,381 | 22,871 | 15,905 | 25,638 | 16,427 |
| Selling, general and administrative expenses | 13,789 | 9,372 | 8,016 | 6,252 | 6,833 |
| Total operating expenses | 86,781 | 70,291 | 61,178 | 44,375 | 42,663 |
| Loss from operations | (41,778) | (24,786) | (26,347) | (25,791) | (19,481) |
| Interest expense | (670) | | | (489) | (282) |
| Interest income | 2,835 | 1,542 | 381 | 2,177 | 1,380 |
| Net loss | $ (39,613) | $ (23,244) | $ (25,966) | $ (24,103) | $ (18,383) |
| Basic and diluted net loss per share | $ (1.02) | $ (0.68) | $ (0.91) | $ (0.61) | $ (0.48) |
| Number of shares used to compute per share data | 38,759 | 34,043 | 28,511 | 39,309 | 38,557 |

| Balance sheet data: | As of December 31, 2006 | |
|---|---|---|
| | Actual | As adjusted |
| | (unaudited, in thousands) | |
| Cash, cash equivalents and marketable securities | $ 84,400 | $ 169,640 |
| Property, plant and equipment, gross | 68,245 | 68,245 |
| Working capital | 68,220 | 153,460 |
| Total assets | 114,614 | 199,854 |
| Long term debt | 15,000 | 15,000 |

## Risk Factors

*Investment in our common stock involves a high degree of risk. In addition to the other information included or incorporated by reference in this prospectus supplement and the accompanying prospectus, you should carefully consider the specific risks set forth below before making an investment decision. The risks and uncertainties described below could adversely affect our business, operating results and financial condition, as well as cause the value of our common stock to decline. You may lose all or part of your investment as a result. You should also refer to the other information contained in this prospectus supplement and the accompanying prospectus or incorporated by reference, including our financial statements and the notes to those statements, and the information set forth under the caption "Forward-Looking Statements."*

**Risks Related to Our Business**

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

We are at an early stage of executing our business plan, and we have a limited history of developing and out-licensing our proprietary drug candidates and offering our drug discovery capabilities. We have incurred significant operating and net losses and negative cash flows from operations since our inception. As of December 31, 2006, we had an accumulated deficit of $157.8 million. We had net losses of $24.1 million for the six months ended December 31, 2006, and of $39.6 million, $23.2 million and $26.0 million for the fiscal years ended June 30, 2006, 2005 and 2004, respectively. We expect to incur additional losses and negative cash flows in the future, and these losses may continue or increase due in part to anticipated increases in expenses for research and development, particularly clinical development, expansion of our clinical and scientific capabilities, and acquisitions of complementary technologies or in-licensed drug candidates. At the same time, we expect that revenue from the sale of our research tools and services will continue to decline as a percentage of total revenue as we devote more resources to drug discovery and our proprietary drug programs. As a result, we may not be able to achieve or maintain profitability.

Moreover, if we do achieve profitability, the level of any profitability cannot be predicted and may vary significantly. Much of our current revenue is non-recurring in nature and unpredictable as to timing and amount. While several of our out-license and collaboration agreements provide for royalties on product sales, given that none of our drug candidates have been approved for commercial sale, that our drug candidates are at early stages of development and that drug development entails a high risk of failure, we do not expect to receive any royalty revenue for several years, if at all. For the same reasons, we may never realize much of the milestone revenue provided for in our out-license and collaboration agreements. Similarly, drugs we select to commercialize ourselves or partner for later-stage co-development and commercialization may not generate revenue for several years, or at all.

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

The drug discovery and development process is highly uncertain, and we have not developed, and may never develop, a drug candidate that ultimately leads to a commercially viable drug. All of our drug candidates are in the early stages of development, and we do not have any drugs approved for commercial sale. Before a drug product is approved by the FDA for commercial marketing, it is tested for safety and effectiveness in extensive and rigorous clinical trials that can take up to six years or longer. At any time, the FDA may place a clinical trial on "clinical hold," or temporarily or permanently stop the trial for a variety of reasons, principally for safety concerns. Only one of our candidates, ARRY-886, is in a Phase 2 clinical trial initiated in June 2006 by our partner, AstraZeneca. AstraZeneca has initiated a Phase 1 clinical trial for ARRY-704; five of our other candidates, ARRY-543, ARRY-162, ARRY-797, ARRY-520 and ARRY-614, are currently in Phase 1 trials; and

another, ARRY-380, is expected to enter a Phase 1 trial during 2007. Promising results in preclinical development or clinical trials may not be predictive of results obtained in later clinical trials. A number of pharmaceutical companies have experienced significant setbacks in advanced clinical trials, even after obtaining promising results in earlier preclinical and clinical trials. We or our collaborators may experience numerous unforeseen events during, or as a result of, the clinical process that could delay or prevent our drug candidates from being approved, including:

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

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

***We may not be successful in entering into additional out-license agreements on favorable terms.***

We are committing significant resources to create our own proprietary drug candidates and to build a commercial-stage biopharmaceutical company. In fiscal 2006, we increased our investment in proprietary research to $33.4 million in research and development expenses, compared to $22.9 million, and $15.9 million for fiscal years 2005 and 2004, respectively. Our proprietary drug discovery programs are in their early stage of development and are unproven. To date, we have entered into four out-licensing agreements for the development and commercialization of our drug candidates. Although we have expended, and continue to expend, resources on internal research and development for our proprietary programs, we may not be successful in entering into additional out-licensing agreements with favorable terms, including up-front, milestone, royalty and/or license payments, as a result of factors, many of which are outside of our control, and include:

- our ability to create valuable proprietary drug candidates targeting large market opportunities;
- the research and spending priorities of potential licensing partners;
- the willingness of and the resources available to pharmaceutical and biotechnology companies to in-license drug candidates to fill their clinical pipelines;
- we may not be able to agree with the potential partner on the value of the proprietary drug candidates, or on the related term; or

we may believe the maximum value of a proprietary drug candidate is best achieved by retaining the rights and not seeking a partner.

In addition, we may undertake and fund, solely at our expense, further development, clinical trials, manufacturing and marketing activities for a greater number of proprietary candidates than we planned. As a result, our requirements for capital could increase significantly, and we may be unable to raise additional capital on favorable terms, or at all, or we may be required to substantially reduce our development efforts, which would delay, limit or prevent our ability to commercialize our drug candidates.

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

A critical aspect of our business strategy is to out-license drug candidates for late-stage co-development and commercialization to obtain the highest possible value while also evaluating earlier out-licensing opportunities to maximize our risk-adjusted return on our investment in proprietary research. Because the costs and risk of failure of bringing a drug to market are high, the value of out-licensing a drug candidate generally increases as it successfully progresses through clinical trials. We may choose or be forced to out-license a drug candidate or program on terms that require us to relinquish commercial or market rights or at a point in the research and development process that does not provide as great a value or return than what might have been obtained if we had further developed the candidate or program internally. Likewise, we may decline, or be unable to obtain, favorable, early out-licensing opportunities in programs that do not result in a commercially viable drug, which could leave the resulting program with little or no value even though significant resources were invested in its development.

***We expect that revenue from our funded research collaborations will decline in the future as we focus more resources on our proprietary research programs.***

We expect that revenue from our funded research collaborations to discover drug candidates against targets our collaborators select will decline. Historically, revenue from these collaborations has partially funded development of a fully capable drug discovery platform for identifying and developing early stage drug candidates. We believe the value of the drug candidates we have created for many of our collaborators under these collaboration agreements has exceeded the economic reward provided to us under the agreements. One of our primary business strategies is to transition to a partnering strategy where, in addition to obtaining potentially higher milestone and royalty rates, we would out-license later stage candidates and retain commercialization or co-promotional rights in parts of the world. In order to transition to this approach, we expect to make significant investments in our own drug discovery efforts to discover additional candidates for out-licensing and that our collaboration revenue will decline as our historical collaborations end.

***We have limited clinical development and commercialization experience.***

One of our business strategies is to develop select drug candidates through later stage clinical trials before out-licensing them to a pharmaceutical or biotechnology partner for further clinical development and commercialization and to commercialize select drug candidates ourselves. To date, we have filed six IND applications and initiated four Phase 1 clinical trials, and we have not yet conducted a Phase 2 or later stage clinical trial ourselves, nor have we commercialized a drug. We have limited experience conducting clinical trials and obtaining regulatory approvals, and we may not be successful in some or all of these activities. We have no experience as a company in the sales, marketing and distribution of pharmaceutical products and do not currently have a sales and marketing organization. We expect to expend significant amounts to recruit and retain high quality personnel with clinical development experience. Developing commercialization capabilities would be expensive and

time-consuming, could delay any product launch, and we may never be able to develop this capacity. To the extent we are unable or determine not to develop these resources internally, we may be forced to rely on third-party clinical investigators, clinical research or marketing organizations, which could subject us to costs and to delays that are outside our control. If we are unable to establish adequate capabilities independently or with others, we may be unable to generate product revenues for certain candidates.

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

Delays in the commencement or completion of clinical testing could significantly affect our product development costs. We do not know whether planned clinical trials will begin on time or be completed on schedule, if at all. The commencement and completion of clinical trials can be delayed for a number of reasons, including delays related to:

- obtaining regulatory approval to commence a clinical trial;
- reaching agreement on acceptable terms with prospective clinical research organizations, or CROs, and trial sites, the terms of which can be subject to extensive negotiation and may vary significantly among different CROs and trial sites;
- manufacturing sufficient quantities of a product candidate for use in clinical trials;
- obtaining institutional review board, or IRB, approval to conduct a clinical trial at a prospective site;
- recruiting and enrolling patients to participate in clinical trials for reasons including competition from other clinical trial programs for the same or similar indications; and
- retaining patients who have initiated a clinical trial but may be prone to withdraw due to side effects from the therapy, lack of efficacy or personal issues, or who are lost to further follow-up.

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

- failure to conduct the clinical trial in accordance with regulatory requirements or our clinical protocols;
- inspection of the clinical trial operations or trial sites by the FDA or other regulatory authorities resulting in the imposition of a clinical hold;
- unforeseen safety issues; and
- lack of adequate funding to continue the clinical trial.

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

***The sale and manufacture of drug candidates that we develop with our collaborators or on our own may not receive regulatory approval.***

The development and commercialization of drug candidates for our collaborators and our own internal drug discovery efforts are subject to regulation. Pharmaceutical products require lengthy and costly testing in animals and humans and regulatory approval by governmental agencies prior to commercialization. It takes several years to complete testing and failure can occur at any stage of testing. Results attained in preclinical testing and early clinical trials for any of our drug candidates may not be indicative of results that are obtained in later studies, and significant setbacks in advanced clinical trials may arise, even after promising results in earlier studies. Clinical trials may not demonstrate sufficient safety and efficacy to obtain the requisite regulatory approvals or result in marketable products. Furthermore, data obtained from preclinical and clinical studies are susceptible to varying interpretations that may delay, limit or prevent regulatory approval. In addition, the administration of any drug candidate we develop may produce undesirable side effects or safety issues that could result in the interruption, delay or suspension of clinical trials, or the failure to obtain FDA approval for any or all targeted indications. Based on results at any stage of testing, we or our collaborators may decide to repeat or redesign a trial or discontinue development of a drug candidate.

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

In light of widely publicized events concerning the safety of certain drug products, such as Vioxx, regulatory authorities, members of Congress, the Government Accountability Office ("GAO"), medical professionals, and the general public have raised concerns about potential drug safety issues. These events have resulted in the withdrawal of drug products, revisions to drug labeling that further limit use of the drug products, and establishment of risk management plans that may, for instance, restrict distribution of drug products. Although drug safety concerns have occurred over time, the increased attention to this issue may result in a more cautious approach by the FDA. As a result, data from clinical trials may receive greater scrutiny with respect to safety. Safety concerns may result in the FDA or other regulatory authorities terminating clinical trials before completion or requiring longer or additional clinical trials that may result in substantial additional expense and a delay or failure in obtaining approval or approval for a more limited indication than originally sought.

***Even if our drug candidates obtain regulatory approval, we and our collaborators will be subject to ongoing government regulation.***

Even if regulatory authorities approve any of our drug candidates, the manufacture, labeling, storage, recordkeeping, distribution, marketing and sale of these drugs will be subject to strict and ongoing regulation. Compliance with these regulations consumes substantial financial and management resources and may expose us and our collaborators to the potential for other adverse circumstances. For example, approval for a drug may be conditioned on costly post-marketing follow-up studies. Based on these studies, if a regulatory authority does not believe that the drug demonstrates a clinical benefit to patients, it could limit distribution of the drug or limit the indications for which a drug may be sold or revoke the drug's marketing approval. In addition, identification of certain side effects after a drug is on the market may result in the subsequent withdrawal of approval, product recall, reformulation of a drug, additional preclinical and clinical trials and changes in labeling or distribution. Any of these

events could delay or prevent us from generating revenue from the commercialization of these drugs and cause us to incur significant additional costs.

Given the number of recent high profile safety events with certain drug products, FDA may require, as a condition of approval, costly risk management programs with components including safety surveillance, restricted distribution and use, patient education, enhanced labeling, special packaging or labeling, expedited reporting of certain adverse events, preapproval of promotional materials, and restrictions on direct-to-consumer advertising. Furthermore, heightened Congressional scrutiny on the adequacy of the FDA's drug approval process and the agency's efforts to assure the safety of marketed drugs has resulted in the proposal of new legislation addressing drug safety issues. If enacted, any new legislation could result in delays or increased costs for manufacturers and drug sponsors during the period of product development, clinical trials, and regulatory review and approval, as well as increased costs to assure compliance with any new post-approval regulatory requirements.

In addition, the marketing of these drugs by us or our collaborators will be regulated by federal and state laws pertaining to health care "fraud and abuse," such as the federal anti-kickback law prohibiting bribes, kickbacks or other remuneration for the order, purchase or recommendation of items or services reimbursed by federal health care programs. Many states have similar laws applicable to items or services reimbursed by commercial insurers. Violations of fraud and abuse laws can result in fines and/or imprisonment.

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

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

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

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

***If we need but are unable to obtain additional funding to support our operations, we could be unable to successfully execute our operating plan or be forced to reduce our operations.***

We have historically funded our operations through revenue from our collaborations and the issuance of equity securities. We used $24.3 million in our operating activities in fiscal 2006 while we used $17.2 million in our operating activities in fiscal 2005. Although we anticipate that we will use more cash in our operating activities in future periods, we believe that our existing cash, cash equivalents and marketable securities, anticipated cash flow from existing out-license and collaboration agreements and the proceeds from this offering will be sufficient to support our current operating plan for at least the next 12 months. However, our current operating plan and assumptions could change as a result of many factors, and we could require additional funding sooner than anticipated.

To the extent that the cash from our future operating activities is insufficient to meet our future capital requirements, we will have to raise additional funds to continue our proprietary research and development. We may not be able to raise funds on favorable terms, if at all. To the extent that we

raise additional capital through the sale of equity or convertible debt securities, the issuance of those securities would result in dilution to our stockholders. We have a credit facility providing for a $10 million term loan, and a $5 million equipment line, of which a total of $15 million was advanced to us as of December 31, 2006. In addition we have a $6.8 million revolving line of credit to support standby letters of credit. A portion of our cash flow will be dedicated to the payment of principal and interest on such indebtedness, and possibly to fund increased compensating and restricted cash balances with the lender, which could render us more vulnerable to competitive pressures and economic downturns and imposes some restrictions on our operations. If we are unable to obtain additional funds when needed, we may be required to curtail operations significantly or to obtain funds through other arrangements on unattractive terms, which could prevent us from successfully executing our operating plan.

***Our collaborators have substantial control and discretion over the timing and the continued development and marketing of drug candidates we create for them.***

Our collaborators have significant discretion in determining the efforts and amount of resources that they dedicate to our collaborations. Our collaborators may determine not to proceed with clinical development or commercialization of a particular drug candidate for a number of reasons that are beyond our control, even under circumstances where we might have continued such a program. In addition, our ability to generate milestone payments and royalties from our collaborators depends on our collaborators' abilities to establish the safety and efficacy of our drug candidates, obtain regulatory approvals and achieve market acceptance of products developed from our drug candidates. We also depend on our collaborators to manufacture clinical scale quantities of some of our drug candidates and would depend on them in the future for commercial scale manufacture, distribution and direct sales. Our collaborators may not be successful in manufacturing our drug candidates on a commercial scale or in successfully commercializing them.

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

- our collaborators may develop and commercialize, either alone or with others, products and services that are similar to or competitive with the products that are the subject of the collaboration with us;
- our collaborators may underfund or not commit sufficient resources to the testing, marketing, distribution or other development of our drug candidates;
- our collaborators may not properly maintain or defend our intellectual property rights or they may utilize our proprietary information in such a way as to invite litigation that could jeopardize or potentially invalidate our intellectual property or proprietary information or expose us to potential liability;
- our collaborators may encounter conflicts of interest, changes in business strategy or other business issues which could adversely affect their willingness or ability to fulfill their obligations to us (for example, pharmaceutical and biotechnology companies historically have re-evaluated their priorities following mergers and consolidations, which have been common in recent years in these industries); and
- disputes may arise between us and our collaborators delaying or terminating the research, development or commercialization of our drug candidates, resulting in significant litigation or arbitration that could be time-consuming and expensive, or causing collaborators to act in their own self-interest and not in the interest of our stockholders.

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

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

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

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

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

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

***If our drug discovery and development programs do not progress as anticipated, our revenue and stock price could be negatively impacted.***

We estimate the timing of a variety of preclinical, clinical, regulatory and other milestones for planning purposes, including when a drug candidate is expected to enter clinical trials, when a clinical trial will be completed or when an application for regulatory approval will be filed. Some of our estimates are included in this registration statement. We base our estimates on facts that are currently known to us and on a variety of assumptions, many of which are beyond our control. Delays may be caused by regulatory or patent issues, interim or final results of on-going clinical trials, scheduling conflicts with participating clinics and the availability of patients who meet the criteria for, and the rate of patient enrollment in, clinical trials. If we or our collaborators do not achieve milestones when anticipated, we may not achieve our planned revenue, and our stock price could decline.

***We may not realize anticipated benefits from future acquisitions.***

As part of our business strategy, we may acquire, invest in or form strategic partnerships with businesses with complementary products, services and/or technologies. Acquisitions and strategic partnerships involve numerous risks, including, but not limited to:

- difficulties and increased costs in connection with integration of the personnel, operations, technologies and products of acquired companies;
- diversion of management's attention from other operational matters;
- the potential loss of key employees;
- the potential loss of key collaborators;
- lack of synergy, or the inability to realize expected synergies, resulting from the acquisition or partnership; and
- impairment of acquired intangible assets as a result of technological advancements or worse-than-expected performance of the acquired company or the partnered assets.

Mergers and acquisitions are inherently risky and involve significant investments in time and resources to effectively manage these risks and integrate an acquired business. Even with investments in time and resources, an acquisition or strategic partnership may not produce the revenues, earnings or business synergies we anticipate. An acquisition or strategic partnership that fails to meet our expectations could materially and adversely affect our business, financial condition and results of operations.

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

A relatively small number of collaborators account for a significant portion of our revenue. Genentech, InterMune, AstraZeneca and Ono Pharmaceuticals, Co. Ltd accounted for 39%, 25%, 16% and 13%, respectively, of our total revenue for the six months ended December 31, 2006, and for 35%, 24%, 16% and 7%, respectively, of our total revenue in fiscal 2006. In fiscal 2005 the same collaborators accounted for 28%, 10%, 27% and less than 1% respectively, of our total revenue. We expect that revenue from a limited number of collaborators, including Genentech and Ono will account for a large portion of our revenue in future quarters. In general, our collaborators may terminate their contracts with us upon 90 to 120 days' notice for a number of reasons. In addition, some of our major collaborators can determine the amount of products delivered and research or development performed under these agreements. As a result, if any one of our major collaborators cancels, declines to renew or reduces the scope of its contract with us, our revenue may significantly decrease.

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

We have approximately 300 employees as of March 31, 2007, and our future success depends upon our ability to attract, retain and motivate highly skilled scientists and management. Our ability to achieve our business strategies, including progressing drug candidates through later stage development or commercialization, attracting new collaborators and retaining, renewing and expanding existing collaborations, depends on our ability to hire and retain high caliber scientists and other qualified experts. We compete with pharmaceutical and biotechnology companies, contract research companies and academic and research institutions to recruit personnel and face significant competition for qualified personnel, particularly clinical development personnel. We may incur greater costs than

anticipated, or may not be successful, in attracting new scientists or management or in retaining or motivating our existing personnel.

Our future success also depends on the personal efforts and abilities of the principal members of our senior management and scientific staff to provide strategic direction, manage our operations and maintain a cohesive and stable environment. In particular, we rely on the services of Robert E. Conway, our Chief Executive Officer; Dr. Kevin Koch, our President and Chief Scientific Officer; Dr. David L. Snitman, our Chief Operating Officer and Vice President, Business Development; R. Michael Carruthers, our Chief Financial Officer; and John R. Moore, our Vice President and General Counsel. We have employment agreements with all of the above personnel that are terminable upon 30 days' prior notice. In addition, we believe that successfully building our clinical development capabilities depends to a great extent on our ability to recruit and retain a high caliber Chief Medical Officer. If we cannot attract and retain a Chief Medical Officer or other qualified scientists and management, we may not be able to successfully execute our operating plan.

***Our cGMP and pharmacology facilities and practices may fail to comply with government regulations.***

All facilities and manufacturing processes used in the production of Active Pharmaceutical Ingredients for clinical use in the United States must be operated in conformity with cGMP requirements, as established by the FDA. These requirements include, among other things, quality control, quality assurance and the maintenance of records and documentation. If we fail to comply with these regulatory requirements, we may not be able to continue the production of our products, and we could be subject to fines and penalties, suspension of production, suspension or delay in product approval, product seizure or recall, or withdrawal of product approval. We operate a clinical-scale manufacturing facility that we believe conforms with cGMP requirements. This facility and our cGMP practices are subject to periodic regulatory inspections to ensure compliance with cGMP requirements. In addition, we could be required to comply with specific requirements of our collaborators, which may exceed FDA requirements. Failure on our part to comply with applicable regulations and specific requirements of our collaborators could result in the termination of ongoing research, disqualification of data for submission to regulatory authorities, delays or denials of new product approvals, warning letters, fines, consent decrees restricting or suspending manufacturing operations, injunctions, civil penalties, recall or seizure of products, and criminal prosecution. Material violations of cGMP requirements could result in regulatory sanctions and, in severe cases, could result in a mandated closing of our cGMP facility.

In connection with our application for commercial approvals and, if any drug candidate is approved by the FDA or other regulatory agencies for commercial sale, a significant scale-up in manufacturing may require additional validation studies. If we are unable to successfully increase the manufacturing capacity for a drug candidate, the regulatory approval or commercial launch of that drug candidate may be delayed, or there may be a shortage of supply, which could limit our ability to commercialize the drug.

In addition, our pharmacology facility may be subject to the United States Department of Agriculture, or the USDA, regulations for certain animal species. Failure on our part to comply with applicable regulations and specific requirements of our collaborators could result in the termination of ongoing pharmacology research. Material violations of USDA requirements could result in additional regulatory sanctions and, in severe cases, could result in a mandated closing of our pharmacology facility for certain species.

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

We develop, test and manufacture drug candidates that are generally intended for use in humans. Our drug discovery activities, including clinical trials we or our collaborators conduct, that

result in the future manufacture and sale of drugs by us or our collaborators expose us to the risk of liability for personal injury or death to persons using these drugs. We may be required to pay substantial damages or incur legal costs in connection with defending any of these product liability claims, or we may not receive revenue from expected royalty or milestone payments if the commercialization of a drug is limited or ceases as a result of such claims. We have product liability insurance that contains customary exclusions and provides coverage up to $7.0 million per occurrence and in the aggregate, which we believe is customary in our industry for our current operations. However, our product liability insurance does not cover every type of product liability claim that we may face or loss we may incur, and may not adequately compensate us for the entire amount of covered claims or losses or for the harm to our business reputation. We may be unable to acquire or maintain additional or maintain our current insurance policies at acceptable costs or at all.

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

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

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

Our operations are dependent upon the continued use of our highly specialized laboratories and equipment in Boulder and Longmont, Colorado. Catastrophic events, including fires or explosions, could damage our laboratories, equipment, scientific data, work in progress or inventories of chemical compounds and may materially interrupt our business. We employ safety precautions in our laboratory activities in order to reduce the likelihood of the occurrence of these catastrophic events; however, we cannot eliminate the chance that such an event will occur. The availability of laboratory space in these locations is limited, and rebuilding our facilities could be time consuming and result in substantial delays in fulfilling our agreements with our collaborators. We maintain business interruption insurance in the amount of $18.0 million to cover continuing expenses and lost revenue caused by such occurrences. However, this insurance does not compensate us for the loss of opportunity and potential harm to customer relations that our inability to meet our collaborators' needs in a timely manner could create.

**Risks Related to Our Industry**

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

There are a limited number of pharmaceutical and biotechnology companies, and these companies represent a significant portion of the market for our capabilities. The number of our potential collaborators could decline even further through consolidation among these companies. If the number of our potential collaborators declines even further, they may be able to negotiate greater

rights to the intellectual property they license from us, price discounts or other terms that are unfavorable to us.

***Capital market conditions may reduce our biotechnology collaborators' ability to fund research.***

Traditionally, many unprofitable biotechnology companies have funded their research and development expenditures through raising capital in the equity markets. Declines and uncertainties in these markets have severely restricted raising new capital at times in the past and have affected these companies' ability to continue to expand or fund existing research and development efforts. If our current or future biotechnology collaborators are unable to raise sufficient capital to fund research and development expenditures, we may not be able to expand or maintain current revenue.

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

In the United States, there have been and we expect there will continue to be a number of legislative and regulatory proposals to change the healthcare system in ways that could significantly affect our business. Federal and state lawmakers regularly propose and, at times, enact legislation that would result in significant changes to the healthcare system, some of which are intended to contain or reduce the costs of medical products and services. For instance, the Medicare Prescription Drug, Improvement, and Modernization Act of 2003, among other things, added a new Part D prescription drug benefit for Medicare beneficiaries otherwise without prescription drug coverage. Furthermore, future legislation or regulation may limit the prices that can be charged for drugs we develop and may limit our commercial opportunity and reduce any associated revenue and profits. For example, federal laws require drug manufacturers to pay specified rebates for drugs reimbursed by Medicaid and to provide discounts for out-patient drugs purchased by certain public health service entities and "disproportionate share" hospitals and for purchases by some federal governmental departments such as the Department of Veterans Affairs and the Department of Defense. In some countries other than the United States, coverage, reimbursement, pricing and profitability of prescription pharmaceuticals and biopharmaceuticals are subject to government control. We are unable to predict what additional legislation or regulation, if any, relating to the healthcare industry or third-party coverage and reimbursement may be enacted in the future or what effect such legislation or regulation would have on our business.

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

***We or our collaborators may not obtain favorable reimbursement rates for our drug candidates.***

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

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

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

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

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

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

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

Any patents that we may own or license now or in the future may not afford meaningful protection for our drug candidates or our technology and tools. In order to protect or enforce our intellectual property rights, we may have to initiate legal proceedings against third parties. Our efforts to enforce and maintain our intellectual property rights may not be successful and may result in substantial costs and diversion of management time. In addition, other companies may challenge our patents and, as a result, these patents could be narrowed, invalidated or rendered unenforceable, or we

may be forced to stop using the technology covered by these patents or to license the technology from third parties. In addition, current and future patent applications on which we depend may not result in the issuance of patents in the United States or foreign countries. Even if our rights are valid, enforceable and broad in scope, competitors may develop drug candidates or other products based on similar research or technology that is not covered by our patents.

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

Drug candidates we develop that are approved for commercial marketing by the FDA would be eligible for market exclusivity for varying time periods during which generic versions of a drug may not be marketed, and we could apply to extend patent protection for up to five additional years under the provisions of the Drug Price Competition and Patent Term Restoration Act of 1984, known as the "Hatch-Waxman Act." The Hatch-Waxman Act also provides a means for approving generic versions of a drug once the marketing exclusivity period has ended and all relevant patents have expired. The period of exclusive marketing, however, may be shortened if a patent is successfully challenged and defeated, which could reduce the amount of royalties we receive on the product.

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

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

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

The pharmaceutical and biotechnology industries are characterized by rapid and continuous technological innovation. We compete with companies worldwide that are engaged in the research and discovery, licensing, development and commercialization of drug candidates, including Arena Pharmaceuticals Inc.; Arqule; Cytokinetics Inc.; deCODE genetics, Inc.; Exelixis Inc.; Incyte Corporation.; Theravance, Inc.; and Vertex Pharmaceuticals Incorporated. Some of our competitors

have a broader range of capabilities and have greater access to financial, technical, scientific, regulatory, business development, recruiting and other resources than we do. Their access to greater resources may allow them to develop processes or products that are more effective, safer or less costly, or gain greater market acceptance, than products we develop or for which they obtain FDA approval more rapidly than we do. We anticipate that we will face increased competition in the future as new companies enter the market and advanced technologies become available.

***We face potential liability related to the privacy of health information we obtain from research institutions.***

Most health care providers, including research institutions from whom we or our collaborators obtain patient information, are subject to privacy regulations promulgated under the Health Insurance Portability and Accountability Act of 1996, or HIPAA. We are not directly regulated by HIPAA. However, conduct by a person that may not be prosecuted directly under HIPAA's criminal provisions could potentially be prosecuted under aiding and abetting or conspiracy laws. Consequently, depending on the facts and circumstances, we could face substantial criminal penalties if we receive individually identifiable health information from a health care provider or research institution that has not satisfied HIPPA's disclosure standards. In addition, certain state privacy laws and genetic testing laws may apply directly to our operations and/or those of our collaborators and may impose restrictions on our use and dissemination of individuals' health information. Moreover, patients about whom we or our collaborators obtain information, as well as the providers who share this information with us, may have contractual rights that limit our ability to use and disclose the information. Claims that we have violated individuals' privacy rights or breached our contractual obligations, even if we are not found liable, could be expensive and time-consuming to defend and could result in adverse publicity that could harm our business.

**Risks Related to Our Stock and the Offering**

***Our officers and directors have significant control over us and their interests may differ from those of our stockholders.***

At December 31, 2006, our directors and officers beneficially owned or controlled approximately 12.3% of our common stock. Individually and in the aggregate, these stockholders significantly influence our management, affairs and all matters requiring stockholder approval. These stockholders may vote their shares in a way with which other stockholders do not agree. In particular, this concentration of ownership may have the effect of delaying, deferring or preventing an acquisition of us or entrenching management and may adversely affect the market price of our common stock.

***Our quarterly operating results could fluctuate significantly, which could cause our stock price to decline.***

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

Due to the possibility of fluctuations in our revenue and expenses, we believe that quarter-to-quarter comparisons of our operating results are not a good indication of our future

performance. Our operating results in some quarters may not meet the expectations of stock market analysts and investors. If we do not meet analysts' and/or investors' expectations, our stock price could decline.

***Because our stock price may be volatile, our stock price could experience substantial declines.***

The market price of our common stock has historically experienced and may continue to experience volatility. The high and low closing bids for our common stock were $13.57 and $7.55, respectively, for the first half of fiscal 2007, $9.67 and $5.99, respectively, in fiscal 2006, and $9.73 and $5.66, respectively, in fiscal 2005. Our quarterly operating results, the success or failure of our internal drug discovery efforts, developments or disputes concerning our patents or proprietary rights, changes in general conditions in the economy or the financial markets and other developments affecting our collaborators, our competitors or us could cause the market price of our common stock to fluctuate substantially. This volatility coupled with market declines in our industry over the past several years have affected the market prices of securities issued by many companies, often for reasons unrelated to their operating performance, and may adversely affect the price of our common stock. In the past, securities class action litigation has often been instituted following periods of volatility in the market price of a company's securities. A securities class action suit against us could result in potential liabilities, substantial costs and the diversion of management's attention and resources, regardless of whether we win or lose.

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

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

***The ability of our stockholders to control our policies and effect a change of control of our company is limited, which may not be in the best interests of our stockholders.***

There are provisions in our certificate of incorporation and bylaws that may discourage a third party from making a proposal to acquire us, even if some of our stockholders might consider the proposal to be in their best interests. These include the following provisions in our certificate of incorporation:

- Our certificate of incorporation provides for three classes of directors with the term of office of one class expiring each year, commonly referred to as a "staggered board." By preventing stockholders from voting on the election of more than one class of directors at any annual meeting of stockholders, this provision may have the effect of keeping the current members of our board of directors in control for a longer period of time than stockholders may desire.

- Our certificate of incorporation authorizes our board of directors to issue shares of preferred stock without stockholder approval and to establish the preferences and rights of any preferred stock issued, which would allow the board to issue one or more classes or series of preferred stock that could discourage or delay a tender offer or change in control.

In addition, our board of directors approved a Rights Agreement on August 2, 2001, which could prevent or deter a potential unsolicited takeover of us by causing substantial dilution of an acquirer of 15% or more of our outstanding common stock. We are also subject to the business combination provisions of Section 203 of the Delaware General Corporation Law, which, in general,

imposes restrictions upon acquirers of 15% or more of our stock. As a result, it is difficult for a third party to acquire control of us without the approval of the board of directors and, therefore, mergers and acquisitions of us that our stockholders may consider in their best interests may not occur.

***Future sales of our common stock may depress our stock price.***

The market price of our common stock could decline as a result of sales of substantial amounts of our common stock in the public market after the closing of this offering, or the perception that these sales could occur. In addition, these factors could make it more difficult for us to raise funds through future offerings of common stock. There are 40,000,768 shares of common stock outstanding as of March 31, 2007. All of the shares sold in this offering, including shares issuable upon conversion or exercise of any preferred stock or warrants, will be freely transferable without restriction or further registration under the Securities Act of 1933.

We have an aggregate of 10,882,465 shares of common stock remaining as of March 31, 2007 that have been registered or are freely tradeable under an exemption from registration and are reserved for issuance upon exercise of options granted or reserved for grant under our stock option plan and our employee stock purchase plan. Stockholders can sell these shares in the public market upon issuance, subject to restrictions under securities laws. The number of shares we have reserved for issuance under our stock option plan may increase based on our issued and outstanding shares of common stock and we may increase the number of shares reserved for issuance under our employee stock purchase plan. We may register such additional shares in the future. In addition, some of our existing stockholders will be entitled to register their shares of common stock after this offering.

***We have broad discretion in the use of the net proceeds from this offering, and we may not use these proceeds effectively.***

We have not determined the specific allocation of the net proceeds of this offering. Our management will have broad discretion in the application of the net proceeds from this offering and could spend the proceeds in ways that do not necessarily improve our results of operations or enhance the value of our common stock. The failure by our management to apply these funds effectively could result in financial losses that could have a material adverse effect on our business or financial condition, cause the price of our common stock to decline and delay product development.

***You will experience immediate dilution in the book value per share of the common stock you purchase.***

Since the price per share of our common stock being offered is substantially higher than the book value per share of our common stock, you will suffer substantial dilution in the net tangible book value of the common stock you purchase in this offering. Based on the public offering price of $13.00 per share, if you purchase shares of common stock in this offering, you will suffer immediate and substantial dilution of $10.11 per share in the net tangible book value of the common stock. See the section entitled "Dilution" below for a more detailed discussion of the dilution you will incur if you purchase common stock in this offering.

***A substantial number of shares of our outstanding common stock may be sold in this offering, which could cause the price of our common stock to decline.***

In this offering, assuming the underwriter's option to purchase up to 1,050,000 additional shares from us is exercised in full, we will sell 8,050,000 shares, or approximately 20.1% of our outstanding common stock as of March 31, 2007. This sale and any future sales of a substantial number of shares of our common stock in the public market, or the perception that such sales may occur, could adversely affect the price of our common stock. We cannot predict the effect, if any, that market sales of those shares of common stock or the availability of those shares of common stock for sale will have on the market price of our common stock.

## Forward-Looking Statements

This prospectus supplement and the accompanying prospectus contain and incorporate by reference certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements that are not descriptions of historical facts are forward-looking statements, based on management's estimates, assumptions and projections that are subject to risks and uncertainties. These statements can generally be identified by the use of forward-looking terminology such as "believes," "expects," "intends," "may," "will," "should," or "anticipates" or similar terminology.

These statements reflect our current views about future events and are subject to significant risks and uncertainties, including those discussed below and those described more fully in other reports filed by us with the SEC. Because these statements reflect our current expectations concerning future events, our actual results could differ materially from those anticipated in these forward-looking statements. The factors that could cause actual results to differ from our expectations include, but are not limited to, our ability to achieve and maintain profitability; the extent to which the pharmaceutical and biotechnology industries are willing to in-license drug candidates for their product pipelines; our ability to out-license our proprietary candidates on favorable terms; our ability to continue to fund and successfully progress internal research efforts, to grow our clinical development capabilities and to create effective, commercially viable drugs; risks associated with our dependence on our collaborators for the clinical development and commercialization of our out-licensed drug candidates; our ability and the ability of our collaborators to meet objectives, including clinical trials, tied to milestones and royalties; our ability to attract and retain experienced scientists and management; and the risk factors set forth under the caption "Risk Factors." The forward-looking statements contained herein represent our judgment as of the date of this prospectus supplement. We disclaim any intent or obligation to update any forward-looking statement except to the extent required by law.

## Use of Proceeds

Based on the public offering price of $13.00 per share, we estimate that the net proceeds to us from this offering will be approximately $85.2 million (or approximately $98.1 million if the underwriters' over-allotment option is exercised in full), after deducting underwriting discounts and commissions and estimated offering expenses payable by us.

We intend to use the net proceeds from this offering to fund our research and development efforts, including clinical trials for our proprietary candidates, and for general corporate purposes, including working capital. We may also use a portion of the net proceeds to acquire or invest in complementary businesses, technologies, drugs, drug candidates or other intellectual property, although we have no present commitments or agreements to do so.

The amounts and timing of these expenditures will depend on a number of factors, such as the timing and progress of our research and development efforts, technological advances and the competitive environment for our drug candidates. As of the date of this prospectus supplement, we cannot specify with certainty all of the particular uses for the net proceeds to us from this offering. Accordingly, we will retain broad discretion over the use of these proceeds. Pending these uses, we intend to invest the net proceeds in investment-grade, interest-bearing securities.

## Capitalization

The following table shows our unaudited cash, cash equivalents and marketable securities and capitalization as of December 31, 2006:

- on an actual basis; and
- on an as adjusted basis to give effect to our sale of 7,000,000 shares of our common stock in this offering at the public offering price of $13.00 per share, after deducting underwriting discounts and commissions and estimated offering expenses payable by us.

This table should be read with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our financial statements and the related notes appearing in our most recent quarterly and annual reports, which are incorporated by reference in this prospectus supplement and the accompanying prospectus.

| | As of December 31, 2006 | |
|---|---|---|
| | Actual | As adjusted |
| | (unaudited) (in thousands, except share and per share data) | |
| Cash, cash equivalents and marketable securities | $ 84,400 | $ 169,640 |
| Long-term debt | 15,000 | 15,000 |
| Stockholders' equity: | | |
| Preferred stock, par value $0.001 per share; 10,000,000 shares authorized; no shares issued and outstanding, actual and as adjusted | | |
| Common stock, par value $0.001 per share; 60,000,000 shares authorized; 39,892,573 shares issued and outstanding, actual; 46,892,573 shares issued and outstanding, as adjusted | 40 | 47 |
| Additional paid-in-capital | 208,052 | 293,285 |
| Accumulated deficit | (157,757) | (157,757) |
| Accumulated other comprehensive loss | (50) | (50) |
| Total stockholders' equity | 50,285 | 135,525 |
| Total capitalization | $ 65,285 | $ 150,525 |

The information in the table above excludes the following:

- 7,423,621 shares issuable upon exercise of options outstanding as of December 31, 2006 at a weighted average exercise price of $7.02 per share;
- 3,192,817 shares of common stock available for future issuance under our stock option plan as of December 31, 2006; and
- 353,784 shares of common stock available for future issuance under our employee stock purchase plan as of December 31, 2006.

## Dilution

If you invest in our common stock, your interest will be diluted to the extent of the difference between the public offering price per share you pay in this offering and the net tangible book value per share of our common stock immediately after this offering. Our net tangible book value as of December 31, 2006, was approximately $50.3 million, or $1.26 per share of common stock. Net tangible book value per share is calculated by subtracting our total liabilities from our total tangible assets, which is total assets less intangible assets of $0, and dividing this amount by the number of shares of common stock outstanding as of December 31, 2006. After giving effect to the sale by us of 7,000,000 shares of common stock offered in this offering at the public offering price of $13.00 per share and after deducting underwriting discounts and commissions and estimated offering expenses payable by us, our as adjusted net tangible book value as of December 31, 2006 would have been approximately $135.5 million, or $2.89 per share of common stock. This represents an immediate increase in the net tangible book value of $1.63 per share to our existing stockholders and an immediate and substantial dilution in the net tangible book value of $10.11 per share of common stock to new investors. The following table illustrates this calculation on a per share basis:

| | | |
|---|---|---|
| Public offering price per share | | $ 13.00 |
| Net tangible book value per share as of December 31, 2006 | $ 1.26 | |
| Increase per share attributable to new investors | 1.63 | |
| As adjusted net tangible book value per share after the offering | | 2.89 |
| Dilution per share to new investors | | $ 10.11 |

If the underwriters exercise their option to purchase additional shares in full, the as adjusted net tangible book value as of December 31, 2006 would have been $3.09 per share, representing an increase to existing stockholders of $1.83 per share, and there will be an immediate dilution of $9.91 per share to new investors.

The information in the foregoing table does not take into account further dilution to new investors that could occur upon the exercise of outstanding options having a per share exercise price less than the per share offering price to the public in this offering. As of December 31, 2006, there were 39,892,573 shares of common stock outstanding, which does not include:

- 7,423,621 shares issuable upon exercise of options outstanding as of December 31, 2006 at a weighted average exercise price of $7.02 per share;
- 3,192,817 shares of common stock available for future issuance under our stock option plan as of December 31, 2006; and
- 353,784 shares of common stock available for future issuance under our employee stock purchase plan as of December 31, 2006.

## Price Range of Our Common Stock

Our common stock has been quoted on the Nasdaq Global Market under the symbol "ARRY" since our initial public offering on November 17, 2000. The following table sets forth, for the periods indicated, the reported high and low sales prices per share of our common stock as reported by the Nasdaq Global Market:

| **Year ended June 30, 2005** | **High** | **Low** |
|---|---|---|
| First Quarter | $ 8.31 | $ 5.29 |
| Second Quarter | 10.00 | 6.46 |
| Third Quarter | 9.89 | 6.74 |
| Fourth Quarter | 7.09 | 5.61 |

| **Year ended June 30, 2006** | **High** | **Low** |
|---|---|---|
| First Quarter | $ 7.81 | $ 5.90 |
| Second Quarter | 7.75 | 6.05 |
| Third Quarter | 9.81 | 6.82 |
| Fourth Quarter | 9.14 | 6.50 |

| **Year ending June 30, 2007** | **High** | **Low** |
|---|---|---|
| First Quarter | $ 8.83 | $ 7.42 |
| Second Quarter | 13.95 | 8.17 |
| Third Quarter | 14.23 | 11.25 |

On May 1, 2007, the closing price of our common stock as reported by the Nasdaq Global Market was $13.53 per share. As of March 31, 2007, there were approximately 77 stockholders of record of our common stock. This does not include the number of persons whose stock is held in nominee or "street name" accounts through brokers.

## Dividend Policy

We have never declared or paid any cash dividends on our common stock. We currently intend to retain any future earnings to finance the growth and development of our business. Additionally, we are currently restricted from paying any dividends under our credit facility. Therefore, we do not anticipate that we will declare or pay any cash dividends on our common stock in the foreseeable future. Any future determination to pay cash dividends will be at the discretion of our Board of Directors and will depend on our financial condition, results of operations, capital requirements, restrictions under any existing indebtedness and other factors the Board of Directors deems relevant.

## Material U.S. Federal Tax Considerations to Non-U.S. Holders

The following is a general discussion of the principal material U.S. federal income and estate tax considerations with respect to the ownership and disposition of our common stock by a non-U.S. holder (as defined below) as of the date hereof. This discussion is not a complete analysis of all of the potential tax consequences relating to the ownership of our stock. Except where noted, this summary deals only with a non-U.S. holder that holds our common stock as a capital asset.

For purposes of this discussion, a "non-U.S. holder" means a beneficial owner of our common stock (other than a partnership) that is not any of the following for U.S. federal income tax purposes: (i) a citizen or resident of the U.S., (ii) a corporation (or other entity treated as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the U.S., any state thereof, the District of Columbia, or any political subdivision of the Untied States, (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source, or (iv) a trust if (1) its administration is subject to the primary supervision of a court within the U.S. and one or more U.S. persons have the authority to control all of its substantial decisions, or (2) it has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

If an entity classified as a partnership for U.S. federal income tax purposes holds our common stock, the tax treatment of a partner in the partnership will generally depend on the status of the partner and upon the activities of the partnership. If you are a partnership holding our common stock, or a partner in such a partnership, you should consult your tax advisors regarding the specific U.S. federal income tax consequences applicable to you.

This summary is based upon provisions of the Internal Revenue Code of 1986, as amended, or the Code, and regulations, rulings and judicial decisions as of the date hereof. Those authorities may be changed, perhaps retroactively, or be subject to differing interpretations, so as to result in U.S. federal income tax consequences different from those summarized below. This summary does not represent a detailed description of the U.S. federal income tax consequences to you in light of your particular circumstances. In addition, it does not represent a description of the U.S. federal income tax consequences to you if you are subject to special treatment under the U.S. federal income tax laws (including if you are a U.S. expatriate, "controlled foreign corporation" or "passive foreign investment company"). We cannot assure you that a change in law will not alter significantly the tax considerations that we describe in this summary.

**If you are considering the purchase of our common stock, you should consult your own tax advisors concerning the particular U.S. federal tax consequences to you of the ownership and disposition of the common stock, as well as the consequences to you arising under the laws of any other taxing jurisdiction, including any state, local or foreign income tax consequences.**

### Dividends

Payments made on our common stock will generally constitute "dividends" for U.S. federal income tax purposes to the extent paid from our current or accumulated earnings and profits, as determined under U.S. federal income tax principles. Amounts not treated as dividends for U.S. federal income tax purposes will constitute a return of capital and will first be applied against and reduce a holder's adjusted tax basis in the common stock, but not below zero. Any excess amounts will be treated as gain from the sale of the stock.

We have never declared or paid cash dividends on our common stock and we do not intend to declare or pay cash dividends on our common stock in the foreseeable future. If we were to pay dividends in the future on our common stock, they would be subject to U.S. federal income tax in the manner described below.

Dividends paid to a non-U.S. holder of our common stock generally will be subject to withholding of U.S. federal income tax at a 30% rate or such lower rate as may be specified by an applicable income tax treaty. However, dividends that are effectively connected with the conduct of a U.S. trade or business by a non-U.S. holder and, where an income tax treaty applies, are attributable to a U.S. permanent establishment or fixed base of the non-U.S. holder, are not subject to this withholding tax, but instead are subject to U.S. federal income tax on a net income basis at generally applicable individual or corporate graduated rates. Certain certification and disclosure requirements must be complied with in order for effectively connected income to be exempt from this withholding tax, including completion of Internal Revenue Service, or IRS, Form W-8ECI (or successor form). Any such effectively connected dividends received by a foreign corporation may, under certain circumstances, be subject to an additional "branch profits tax" at a 30% rate or such lower rate as may be specified by an applicable income tax treaty.

A non-U.S. holder of our common stock who wishes to claim the benefit of an applicable treaty rate (and avoid backup withholding as discussed below) for dividends will be required to (a) complete IRS Form W-8BEN (or successor form) and certify under penalty of perjury that such holder is not a U.S. person or (b) if the common stock is held through certain foreign intermediaries, satisfy the relevant certification requirements of applicable Treasury regulations. Non-U.S. holders must provide this certification to us or our paying agent prior to the payment of any dividends and it must be updated periodically. If the non-U.S. holder holds the stock through a financial institution or other agent acting on the holder's behalf, the holder will be required to provide appropriate documentation to the agent. The holder's agent will then be required to provide certification to us or our paying agent, either directly or through other intermediaries. These forms must be periodically updated. Non-U.S. holders should consult their tax advisors regarding their entitlement to benefits under an applicable income tax treaty and the manner of claiming the benefits of such treaty (including, without limitation, the need to obtain a U.S. taxpayer identification number).

A non-U.S. holder of our common stock may obtain a refund of any excess amounts withheld by timely filing an appropriate claim for refund with the IRS.

**Gain on Disposition of Common Stock**

A non-U.S. holder generally will not be subject to U.S. federal income tax with respect to gain recognized on a sale or other disposition of our common stock unless (i) the gain is effectively connected with the non-U.S. holder's conduct of a trade or business in the U.S. and, where a tax treaty applies, is attributable to a U.S. permanent establishment or fixed base of the non-U.S. holder, (in which case the net income basis taxation described above would apply, and, for a non-U.S. holder that is a foreign corporation, the branch profits tax described above may also apply), (ii) in the case of a non-U.S. holder who is an individual and holds the common stock as a capital asset, such holder is present in the U.S. for 183 or more days during the taxable year of the sale or other disposition and certain other requirements are met (in which case the gain would be subject to U.S. federal income tax at a flat 30% rate, but may be offset by U.S. source capital losses), or (iii) we are or have been a "U.S. real property holding corporation," or USRPHC, for U.S. federal income tax purposes at any time during the shorter of the five-year period ending on the date of disposition or the period that the non-U.S. holder held the common stock.

Generally, a corporation is a USRPHC if the fair market value of its U.S. real property interests equals or exceeds 50% of the sum of the fair market value of its worldwide real property interests plus its other assets used or held for use in a trade or business. We believe we currently are not, and do not anticipate becoming, a "USRPHC" for U.S. federal income tax purposes. If we are or become a USRPHC, and if our common stock is regularly traded on an established securities market at any time during the calendar year, only a non-U.S. holder who holds or held (at any time during the shorter of the five-year period preceding the date of disposition or the holder's holding period) more

than five percent of our common stock will be subject to U.S. federal income tax on the disposition of the common stock.

**Federal Estate Tax**

Common stock in a U.S. corporation, including Array, held by an individual non-U.S. holder at the time of death will be considered U.S. situs property, will be included in the gross estate of the nonresident alien decedent for U.S. federal estate tax purposes, and, therefore, may be subject to U.S. federal estate tax, unless an applicable estate tax treaty provides otherwise.

**Information Reporting and Backup Withholding**

Generally, we must report annually to the IRS and to each non-U.S. holder the amount of dividends paid to such holder and the tax withheld (if any) with respect to such dividends, regardless of whether withholding was required. Copies of the information returns reporting such dividends and any withholding may also be made available to the tax authorities in the country in which the non-U.S. holder resides under the provisions of an applicable income tax treaty or agreement.

Backup withholding, currently at a 28% rate, generally will not apply to payments of dividends to a non-U.S. holder of our common stock if the holder is a foreign corporation, or if the non-U.S. holder furnishes to us or our paying agent the required certification under penalties of perjury as to its non-U.S. status, such as by providing a valid IRS Form W-8BEN or W-8ECI, or certain other requirements are met. Notwithstanding the foregoing, backup withholding may apply if either we have or our paying agent has actual knowledge, or reason to know, that the holder is a U.S. person that is not an exempt recipient.

Payments of the proceeds from a disposition by a non-U.S. holder of our common stock made by or through a foreign office of a broker generally will not be subject to information reporting or backup withholding. However, information reporting (but not backup withholding) will apply to those payments if the broker does not have documentary evidence that the beneficial owner is a non-U.S. holder, an exemption is not otherwise established, and the broker is: (i) a U.S. citizen; (ii) a controlled foreign corporation for U.S. federal income tax purposes; (iii) a foreign person 50% or more of whose gross income is effectively connected with a U.S. trade or business for a specified three-year period; or (iv) a foreign partnership if at any time during its tax year (1) one or more of its partners are U.S. persons who hold in the aggregate more than 50% of the income or capital interest in such partnership or (2) it is engaged in the conduct of a U.S. trade or business.

Payment of the proceeds from a non-U.S. holder's disposition of our common stock made by or through the U.S. office of a broker generally will be subject to information reporting and backup withholding unless the non-U.S. holder is a foreign corporation, or certifies as to its non-U.S. holder status under penalties of perjury, such as by providing a valid IRS Form W-8BEN or W-8ECI, or otherwise establishes an exemption from information reporting and backup withholding.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules may be allowed as a refund or a credit against a non-U.S. holder's U.S. federal income tax liability, provided the required information is timely furnished to the IRS.

**THE PRECEDING DISCUSSION OF U.S. FEDERAL INCOME TAX CONSIDERATIONS IS FOR GENERAL INFORMATION ONLY. IT IS NOT TAX ADVICE. EACH PROSPECTIVE INVESTOR SHOULD CONSULT ITS OWN TAX ADVISOR REGARDING THE PARTICULAR U.S. FEDERAL, STATE, LOCAL AND FOREIGN TAX CONSEQUENCES OF PURCHASING, HOLDING AND DISPOSING OF OUR COMMON STOCK, INCLUDING THE CONSEQUENCES OF ANY PROPOSED CHANGE IN APPLICABLE LAWS.**

## Underwriting

We are offering the shares of common stock described in this prospectus supplement through a number of underwriters. J.P. Morgan Securities Inc. and Banc of America Securities LLC are acting as joint book running managers of the offering and as representatives of the underwriters. We have entered into an underwriting agreement with the underwriters. Subject to the terms and conditions of the underwriting agreement, we have agreed to sell to the underwriters, and each underwriter has severally agreed to purchase, at the public offering price less the underwriting discounts and commissions set forth on the cover page of this prospectus supplement, the number of shares of common stock listed next to its name in the following table:

| Underwriters | Number of shares |
|---|---|
| J.P. Morgan Securities Inc. | 2,401,000 |
| Banc of America Securities LLC | 2,401,000 |
| Jefferies & Company, Inc. | 1,029,000 |
| Piper Jaffray & Co. | 1,029,000 |
| C.E. Unterberg, Towbin, LLC | 140,000 |
| Total | 7,000,000 |

The underwriters are committed to purchase all the common shares offered by us if they purchase any shares. The underwriting agreement also provides that if an underwriter defaults, the purchase commitments of non-defaulting underwriters may also be increased or the offering may be terminated.

The underwriters propose to offer the shares of common stock directly to the pubic at the public offering price set forth on the cover page of this prospectus supplement and to certain dealers at that price less a concession not in excess of $0.468 per share. The representatives have advised us that the underwriters do not intend to confirm discretionary sales in excess of 5% of the common shares offered in this offering.

The underwriters have an option to buy up to 1,050,000 additional shares of common stock from us to cover sales of shares by the underwriters which exceed the number of shares specified in the table above. The underwriters have 30 days from the date of this prospectus supplement to exercise this over-allotment option. If any shares are purchased with this over-allotment option, the underwriters will purchase shares in approximately the same proportion as shown in the table above.

The following table shows the per share and total underwriting discounts and commissions we will pay to the underwriters assuming both no exercise and full exercise of the underwriters' option to purchase additional shares.

| | No exercise | Full exercise |
|---|---|---|
| Per share | $ 0.7800 | $ 0.7800 |
| Total to be paid by us | $ 5,460,000 | $ 6,279,000 |

We estimate that the total expenses of this offering, including registration, filing and listing fees, printing fees and legal and accounting expenses, but excluding the underwriting discounts and commissions, will be approximately $300,000.

Subject to certain exceptions, our officers and directors have agreed, for a period of 90 days from the date of this prospectus supplement, not to offer, pledge, announce the intention to sell, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, or otherwise transfer or dispose of, directly or indirectly, any shares of our common stock or any securities convertible into or exercisable or exchangeable for our

common stock or enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of ownership of our common stock, whether any such transaction is to be settled by delivery of common stock or such other securities, in cash or otherwise, in each case without the prior written consent of J.P. Morgan Securities Inc. and Banc of America Securities LLC.

These restrictions do not apply to (a) bona fide gifts, provided the recipient agrees in writing with the Underwriters to be bound by the terms of the lock-up agreement or (b) dispositions to any trust, partnership, limited liability company or other entity for the direct or indirect benefit of the undersigned and/or the immediate family of the undersigned; provided that, in the case of any such transfer or disposition, (i) each donee or transferee executes and delivers to the Underwriters an agreement satisfactory to them in which the donee or transferee agrees to be bound by the terms of the lock-up agreement for the remainder of the restricted period and confirms that it has been in compliance with its terms and (ii) no filing under Section 16(a) of the United States Securities Exchange Act of 1934 reporting a reduction in beneficial ownership of shares of Common Stock, will be required or be voluntarily made as a result of the transaction during the restricted period. In addition, in the case of Mr. Conway, these restrictions do not apply to transactions made in accordance with Rule 10b5-1 Sales Plans adopted by Mr. Conway on February 16, 2006 and on February 8, 2007.

Notwithstanding the foregoing, if (1) during the last 17 days of the 90-day restricted period, we issue an earnings release or material news or a material event relating to our company occurs; or (2) prior to the expiration of the 90-day restricted period, we announce that we will release earnings results during the 16-day period beginning on the last day of the 90-day period, the restrictions described above shall continue to apply until the expiration of the 18-day period beginning on the issuance of the earnings release or the occurrence of the material news or material event.

We have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act of 1933.

In connection with this offering, the underwriters may engage in stabilizing transactions, which involves making bids for, purchasing and selling shares of common stock in the open market for the purpose of preventing or retarding a decline in the market price of the common stock while this offering is in progress. These stabilizing transactions may include making short sales of the common stock, which involves the sale by the underwriters of a greater number of shares of common stock than they are required to purchase in this offering, and purchasing shares of common stock on the open market to cover positions created by short sales. Short sales may be "covered" shorts, which are short positions in an amount not greater than the underwriters' over-allotment option referred to above, or may be "naked" shorts, which are short positions in excess of that amount. The underwriters may close out any covered short position either by exercising their over-allotment option, in whole or in part, or by purchasing shares in the open market. In making this determination, the underwriters will consider, among other things, the price of shares available for purchase in the open market compared to the price at which the underwriters may purchase shares through the over-allotment option. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the common stock in the open market that could adversely affect investors who purchase in this offering. To the extent that the underwriters create a naked short position, they will purchase shares in the open market to cover the position.

The underwriters have advised us that, pursuant to Regulation M of the Securities Act of 1933, they may also engage in other activities that stabilize, maintain or otherwise affect the price of the common stock, including the imposition of penalty bids. This means that if the representatives of the underwriters purchase common stock in the open market in stabilizing transactions or to cover short sales, the representatives can require the underwriters that sold those shares as part of this offering to repay the underwriting discount received by them.

These activities may have the effect of raising or maintaining the market price of the common stock or preventing or retarding a decline in the market price of the common stock, and, as a result, the price of the common stock may be higher than the price that otherwise might exist in the open market. If the underwriters commence these activities, they may discontinue them at any time. The underwriters may carry out these transactions on the NASDAQ Global Market, in the over-the-counter market or otherwise.

The underwriters and their affiliates have, from time to time, performed, and may in the future perform, various financial advisory and investment banking services for us, for which they received or will receive customary fees and expenses.

This prospectus supplement and the accompanying prospectus in electronic format may be made available on the websites maintained by one or more underwriters, or selling group members, if any, participating in the offering. The underwriters may agree to allocate a number of shares to underwriters and selling group members for sale to their online brokerage account holders. Internet distributions will be allocated by the representatives to underwriters and selling group members that may make Internet distributions on the same basis as other allocations.

Each Underwriter intends to comply with all applicable laws and regulations in each jurisdiction in which it acquires, offers, sells or delivers shares of common stock or has in its possession or distributes this prospectus supplement or any other material.

In relation to each member state of the European Economic Area which has implemented the Prospectus Directive, or a relevant member state, with effect from and including the date on which the Prospectus Directive is implemented in that relevant member state, or the relevant implementation date, the underwriters have not made and will not make an offer of our common stock to the public in that relevant member state prior to the publication of a prospectus in relation to the common stock which has been approved by the competent authority in that relevant member state or, where appropriate, approved in another relevant member state and notified to the competent authority in that relevant member state, all in accordance with the Prospectus Directive, except that they may, with effect from and including the relevant Implementation Date, make an offer of our common stock to the public in that relevant member state at any time:

to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;

to any legal entity which has two or more of (i) an average of at least 250 employees during the last financial year, (ii) a total balance sheet of more than €43,000,000 and (iii) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; or

in any other circumstances which do not require the publication by the issuer of a prospectus as required by Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of our common stock to the public" in relation to any of our common stock in any relevant member state means the communication in any form and by any means of sufficient information on the terms of the offer and the common stock to be offered so as to enable an investor to decide to purchase or subscribe for our common stock, as the same may be varied in that member state by any measure implementing the Prospectus Directive means Directive 2003/71/EC and includes any relevant implementing measure in each relevant member state.

The underwriters have not made and will not make an offer of our common stock to the public in the United Kingdom within the meaning of section 102B of the Financial Services and Markets Act 2000 (as amended), or the FSMA, except to legal entities which are authorized or regulated to operate

in the financial markets or whose corporate purpose is solely to invest in securities or otherwise in circumstances which do not require the publication by the company of a prospectus as required by the Prospectus Rules of the Financial Services Authority. The underwriters have only communicated and will only communicate an invitation or inducement to engage in investment activity (within the meaning of section 21 of FSMA) to persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 or in circumstances in which section 21 of FSMA does not apply to the company, and the underwriters have complied with and will comply with all applicable provisions of FSMA with respect to anything done by them in relation to our common stock in, from or otherwise involving the United Kingdom.

Neither this prospectus supplement nor any offering material relating to our common stock has been or will be submitted to the *Commission des Opérations de Bourse*" for approval ("*Visa*"), in France. The underwriters have not offered or sold and will not offer or sell any of our common stocks or distribute or cause to be distributed any copies of this prospectus supplement or any offering material relating to our common stock, directly or indirectly, in France, except (a) with the prior authorization of the French Ministry for Economy and Finance in accordance with Articles 9 and 10 of the '*Décret*' of December 29, 1989 regulating financial relations between France and foreign countries, or (b) to qualified investors ("*investisseurs qualifies*"), and/or a restricted group of investors ("*cercle restreint d'investisseurs*"), in each case acting for their account, all as defined in, and in accordance with, Article L. 411-1 and L. 411-2 of the Monetary and Financial Code and "Décret' no. 98-880 dated October 1, 1998.

This prospectus supplement and the accompanying prospects are not a Securities Selling Prospectus within the meaning of the German Securities Sales Prospectus Act of September 9, 1998 and has not been filed with and approved by the German Federal Supervisory Authority (*Bundesanstalt für FinanzdienstleistungsaufsichtI*) or any other competent German governmental authority under the relevant laws. The underwriters have not offered or sold and will not offer or sell any of our common stock or distribute copies of this prospectus supplement and the accompanying prospects or any document relating to our common stock, directly or indirectly, in Germany except to persons falling within the scope of section 2 numbers 1 (persons who as part of their profession, occupation or business, purchase or sell securities for their own account or for the account of third parties), 2 (a restricted circle of persons) and 3 (employees by their employer or related group companies) of the German Securities Sales Prospectus Act of September 8, 1998 and by doing so has not taken, and will not take, any steps which would constitute a public offering of our common stock in Germany.

The offering of our common stock in Italy has not been registered with the Commissione Nazionale per le Societá e la Borsa ("CONSOB") pursuant to Italian securities legislation and, accordingly: (i) our common stock cannot be offered, sold or delivered in the Republic of Italy ("Italy") in a solicitation to the public at large (*sollecitazione all'investimento*) within the meaning of Article 1paragraph 1, letter (t) of Legislative Decree no. 58 of February 24, 198 (the "Financial Services Act"), nor may any copy of this prospectus supplement or any other document relating to our common stock be distributed in Italy, (ii) our common stock cannot be offered, sold and/or delivered, nor may any copy of this prospectus or any other document relating to our common stock be distributed, either in the primary or in the secondary market, to individuals in Italy, and (iii) sales of our common stock in Italy shall only be: (a) negotiated with "Professional Investors" (*operatori qualificati*), as defined under Article 31, paragraph 2, of CONSOB Regulation no. 11522 of July 1, 1998, as amended("CONSOB Regulation No. 11522"), (b) made by an investment firm, bank or financial intermediary permitted to conduct such activities in Italy in accordance with the Italian Banking Act, the Financial Services Act, CONSOB Regulation no. 11522 and all the other relevant provisions of Italian law, and (c) effected in accordance with any other Italian securities, tax and

exchange control and other applicable laws and regulations and any other applicable requirement or limitation which may be imposed by CONSOB or the Bank of Italy.

This prospectus supplement and the accompanying prospectus do not constitute a prospectus within the meaning of Article 652a and Art. 1156 of the Swiss Code of Obligations (*Schweizerisches Obligationenrecht*), and none of this offering of our common stock has been or will be approved by any Swiss regulatory authority.

## Information Incorporated by Reference

The SEC allows us to incorporate by reference the information that we file with the SEC, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is considered to be part of this prospectus supplement. These documents may include periodic reports, such as Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, as well as Proxy Statements. Any documents that we subsequently file with the SEC will automatically update and replace the information previously filed with the SEC. Thus, for example, in the case of a conflict or inconsistency between information set forth in this prospectus and information incorporated by reference into this prospectus, you should rely on the information contained in the document that was filed later.

This prospectus incorporates by reference the documents listed below that we have previously filed (under File No. 001-16633) with the SEC and any additional documents that we may file with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act (which shall not include information furnished under Item 2.02 or Item 7.01 of