DIXIE GROUP INC
Form 10-Q
November 09, 2006

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

Form 10-Q

(Mark One)

S

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

For the quarterly period ended: **September 30, 2006**

or

o

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

For the transition period from _____ to _____

Commission File Number: 0-2585

THE DIXIE GROUP, INC.
(Exact name of Registrant as specified in its charter)

Tennessee		**62-0183370**
(State or other jurisdiction of incorporation or organization)		(I.R.S. Employer Identification No.)
104 Nowlin Lane, Suite 101, Chattanooga, TN	**37421**	**(423) 510-7000**
(Address of principal executive offices)	(zip code)	

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o Accelerated filer S Non-accelerated filer o

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

The number of shares outstanding of each of the issuer's classes of Common Stock as of the latest practicable date.

Class	Outstanding as of October 27, 2006
Common Stock, $3 Par Value	12,077,211 shares
Class B Common Stock, $3 Par Value	840,433 shares
Class C Common Stock, $3 Par Value	0 shares

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

THE DIXIE GROUP, INC.

CONSOLIDATED CONDENSED BALANCE SHEETS

(dollars in thousands)

	(Unaudited) Sept. 30, 2006	Dec. 31, 2005
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	**$ 614**	$ ---
Accounts receivable (less allowance for doubtful accounts of $569 for 2006 and $595 for 2005)	**35,152**	31,633
Inventories	**76,424**	72,871
Other current assets	**8,953**	10,577
TOTAL CURRENT ASSETS	**121,143**	115,081
PROPERTY, PLANT AND EQUIPMENT		
Land and improvements	**6,100**	6,047
Buildings and improvements	**44,661**	44,348
Machinery and equipment	**113,873**	107,993
	164,634	158,388
Less accumulated depreciation and amortization	**(65,860)**	(65,440)
NET PROPERTY, PLANT AND EQUIPMENT	**98,774**	92,948
OTHER ASSETS		
Goodwill	**57,014**	57,177
Other long-term assets	**12,651**	11,797
TOTAL OTHER ASSETS	**69,665**	68,974
TOTAL ASSETS	**$ 289,582**	$ 277,003
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	**$ 13,864**	$ 14,929
Accrued expenses	**21,550**	18,295
Current portion of long-term debt	**7,606**	6,341

TOTAL CURRENT LIABILITIES	**43,020**	39,565
LONG-TERM DEBT		
Senior indebtedness	**67,309**	60,987
Capital lease obligations	**4,269**	4,727
Convertible subordinated debentures	**19,662**	22,162
TOTAL LONG-TERM DEBT	**91,240**	87,876
DEFERRED INCOME TAXES	**10,270**	10,768
OTHER LONG-TERM LIABILITIES	**13,871**	15,310
COMMITMENTS AND CONTINGENCIES	**---**	---
STOCKHOLDERS' EQUITY		
Common Stock ($3 par value per share): Authorized 80,000,000 shares, issued - 15,476,056 shares for 2006 and 15,347,589 shares for 2005	**46,428**	46,043
Class B Common Stock ($3 par value per share): Authorized 16,000,000 shares, issued - 840,433 for 2006 and 714,560 shares for 2005	**2,521**	2,144
Additional paid-in capital	**134,406**	134,353
Unearned stock compensation	**---**	(719)
Retained earnings (accumulated deficit)	**2,990**	(1,406)
Accumulated other comprehensive loss	**(1,075)**	(2,887)
	185,270	177,528
Less Common Stock in treasury at cost - 3,398,845 shares for 2006 and 3,395,390 shares for 2005	**(54,089)**	(54,044)
TOTAL STOCKHOLDERS' EQUITY	**131,181**	123,484
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$ 289,582**	$ 277,003

See accompanying notes to the consolidated condensed financial statements.

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THE DIXIE GROUP, INC.

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

(UNAUDITED)

(dollars in thousands, except per share data)

	Three Months Ended		Nine Months Ended	
	Sept. 30, 2006	Sept. 24, 2005	**Sept. 30, 2006**	Sept. 24, 2005
Net sales	**$ 83,606**	$ 76,661	**$ 250,825**	$ 230,768
Cost of sales	**58,761**	54,208	**179,317**	160,124
Gross profit	**24,845**	22,453	**71,508**	70,644
Selling and administrative expenses	**19,097**	19,213	**57,108**	56,088
Other operating income	**(29)**	(6)	**(599)**	(230)
Other operating expense	**171**	85	**458**	398
Operating income	**5,606**	3,161	**14,541**	14,388
Interest expense	**1,795**	1,553	**5,506**	4,358
Other income	**(14)**	(9)	**(122)**	(242)
Other expense	**53**	21	**107**	67
Income from continuing operations before taxes	**3,772**	1,596	**9,050**	10,205
Income tax provision	**1,069**	343	**2,517**	3,496
Income from continuing operations	**2,703**	1,253	**6,533**	6,709
Loss from discontinued operations, net of tax	**(86)**	(32)	**(2,137)**	(539)
Income on disposal of discontinued operations, net of tax	**---**	**---**	**---**	834
Net income	**$ 2,617**	$ 1,221	**$ 4,396**	$ 7,004
BASIC EARNINGS (LOSS) PER				

SHARE:				
Continuing operations	**$ 0.21**	$ 0.10	**$ 0.52**	$ 0.54
Discontinued operations	**(0.00)**	(0.00)	**(0.17)**	(0.04)
Disposal of discontinued operations	**---**	**---**	**---**	0.07
Net income	**$ 0.21**	$ 0.10	**$ 0.35**	$ 0.57
SHARES OUTSTANDING	**12,736**	12,472	**12,685**	12,356
DILUTED EARNINGS (LOSS) PER SHARE:				
Continuing operations	**$ 0.21**	$ 0.10	**$ 0.50**	$ 0.52
Discontinued operations	**(0.01)**	(0.01)	**(0.16)**	(0.04)
Disposal of discontinued operations	**---**	**---**	**---**	0.06
Net income	**$ 0.20**	$ 0.09	**$ 0.34**	$ 0.54
SHARES OUTSTANDING	**12,982**	12,946	**12,953**	12,868
DIVIDENDS PER SHARE:				
Common Stock	**---**	**---**	**---**	**---**
Class B Common Stock	**---**	**---**	**---**	**---**

See accompanying notes to the consolidated condensed financial statements.

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THE DIXIE GROUP, INC.

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(dollars in thousands)

	Nine Months Ended	
	Sept. 30, 2006	Sept. 24, 2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Income from continuing operations	**$ 6,533**	$ 6,709
Loss from discontinued operations	**(2,137)**	(539)
Income on disposal of discontinued operations	**---**	834
Net income	**4,396**	7,004
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**8,609**	7,927
Change in deferred income taxes	**(1,445)**	(1,403)
Net loss (gain) on property, plant and equipment disposals	**31**	(43)
Stock-based compensation expense	**422**	347
Tax benefits from exercise of stock options	**---**	956
Changes in operating assets and liabilities:		
Accounts receivable	**(3,519)**	(47)
Inventories	**(3,553)**	(15,210)
Accounts payable and accrued expenses	**2,190**	233
Other operating assets and liabilities	**2,030**	2,090
NET CASH PROVIDED BY OPERATING ACTIVITIES	**9,161**	1,854
CASH FLOWS FROM INVESTING ACTIVITIES		
Net proceeds from sales of property, plant and equipment	**51**	823
Purchase of property, plant and equipment	**(13,752)**	(21,806)
NET CASH USED IN INVESTING ACTIVITIES	**(13,701)**	(20,983)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net borrowings on credit line	**3,421**	19,141

Borrowings on term loan		**---**		3,575
Payments on term loan		**(1,282)**		(1,572)
Borrowings from equipment financing		**6,456**		1,610
Payments on equipment financing		**(999)**		(454)
Payments on capitalized leases		**(848)**		(1,096)
Payments on mortgage note payable		**(161)**		(151)
Payment on note payable		**---**		(1,338)
Payments on subordinated indebtedness		**(2,500)**		(2,498)
Common stock issued under stock option plans		**854**		1,912
Common stock acquired for treasury		**(45)**		---
Tax benefits from exercise of stock options		**258**		---
NET CASH PROVIDED BY FINANCING ACTIVITIES		**5,154**		19,129
INCREASE IN CASH AND CASH EQUIVALENTS		**614**		---
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		**---**		---
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**$**	**614**	$	---
Supplemental Cash Flow Information:				
Interest paid	**$**	**5,022**	$	3,597
Income taxes paid, net of tax refunds		**433**		5,559
Equipment purchased under capital leases		**542**		---

See accompanying notes to the consolidated condensed financial statements.

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THE DIXIE GROUP, INC.

CONSOLIDATED CONDENSED STATEMENTS OF STOCKHOLDERS' EQUITY

(dollars in thousands)

	Common Stock and Class B Common Stock	Additional Paid-in Capital	Unearned Stock Compensation	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Loss	Common Stock in Treasury	St
Balance at December 31, 2005	**$ 48,187**	**$ 134,353**	**$ (719)**	**$ (1,406)**	**$ (2,887)**	**$ (54,044)**	**$**
Common Stock acquired for treasury - 3,455 shares	---	---	---	---	---	(45)	
Common Stock and Class B sold under stock option plan - 125,340 shares	375	479	---	---	---	---	
Restricted Stock Grants issued - 129,000 shares	387	(387)	---	---	---	---	
Tax benefit from exercise of stock options	---	258	---	---	---	---	
Stock-based compensation expense	---	422	---	---	---	---	

Reclassification upon adoption of SFAS No. 123[R]	---	(719)	719	---	---	---	
Other comprehensive income	---	---	---	---	1,812	---	
Net income	---	---	---	4,396	---	---	
Balance at September 30, 2006	**$ 48,949**	**$ 134,406**	**$ ---**	**$ 2,990**	**$ (1,075)**	**$ (54,089)**	**$**

See accompanying notes to the consolidated condensed financial statements.

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THE DIXIE GROUP, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(UNAUDITED)
(dollars in thousands, except per share data)

NOTE A - BASIS OF PRESENTATION

The accompanying unaudited consolidated condensed financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial statements which do not include all the information and footnotes required by such accounting principles for annual financial statements. In the opinion of management, all adjustments (generally consisting of normal recurring accruals) considered necessary for a fair presentation have been included in the accompanying financial statements. The financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's 2005 Annual Report on Form 10-K filed with the Securities and Exchange Commission, which includes consolidated financial statements for the fiscal year ended December 31, 2005. Operating results for the three month and nine month periods ended September 30, 2006 are not necessarily indicative of the results that may be expected for the entire 2006 year.

The Company is in one line of business, Carpet Manufacturing.

The financial statements separately report discontinued operations and the results of continuing operations (See Note F). Disclosures included herein pertain to the Company's continuing operations unless noted otherwise.

NOTE B - RECENT ACCOUNTING PRONOUNCEMENTS

In July 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"). FIN 48 clarified the accounting for uncertainty in income taxes recognized in financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes." The interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. It also provides guidance on accounting for adjustments of a previously recognized tax position, classification, interest and penalties, taxes in interim periods and disclosures. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company is currently in the process of evaluating the impact of FIN 48 on its financial statements.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("SFAS No. 157"). SFAS No. 157 defines fair value, establishes a framework for measuring fair

value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Company does not expect the adoption of SFAS No. 157 to have a material effect on its financial statements.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statement No. 87, 88, 106 and 132(R)" ("SFAS No. 158"). SFAS No. 158 requires recognition of the funded status of defined benefit plans in statements of financial position. It also requires recognition in comprehensive income of changes in the funding status of such plans during the year a change occurs, as well as modifies the timing of reporting and disclosure requirements. SFAS No. 158 is effective for recognition of funding status and disclosures as of the end of the fiscal year ending after December 15, 2006. The measurement of defined benefit plan assets and benefit obligations under SFAS No. 158 is effective for fiscal years ending after December 15, 2008. The Company does not expect the adoption of SFAS No. 158 to have a material effect on its financial statements. If the Company had adopted SFAS No. 158 as of December 31, 2005, application of this standard would have decreased other liabilities by approximately $1,000 and increased accumulated other comprehensive income by approximately $1,000. The Company participates in limited sponsorship of defined benefit plans and defined post-retirement benefit plans (See Note K).

In September 2006, the U.S. Securities and Exchange Commission staff issued Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" ("SAB No. 108"). SAB No. 108 eliminates the diversity of practice surrounding how public companies quantify misstatements in prior year financial statements. Staff Accounting Bulletin No. 108 requires quantification of misstatements in prior year financial statements based on the effects of the misstatements on the company's financial statements and the related financial statement disclosures during the period a misstatement is corrected. SAB No. 108 is effective for fiscal years ending after November 15, 2006. The Company does not expect the adoption of SAB No. 108 to have a material effect on its financial statements.

THE DIXIE GROUP, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(UNAUDITED)
(dollars in thousands, except per share data) -- Cont'd.

In June 2005, the FASB issued Statement of Financial Accounting Standards No. 154, "Accounting Changes and Error Corrections" ("SFAS No. 154"), a replacement of APB Opinion No. 20 and FASB Statement No. 3. The statement applies to all voluntary changes in accounting principles and changes the requirements for accounting and reporting a change in accounting principle. SFAS No. 154 requires retrospective application to prior periods' financial statements of voluntary changes in accounting principles unless such retrospective application is impracticable. SFAS No. 154 is effective for accounting changes and correction of errors made in fiscal years beginning after December 15, 2005. Earlier application is permitted for accounting changes and corrections of errors made in fiscal years beginning after June 1, 2005. The statement does not change the transition provisions of any existing accounting pronouncements, including those that are in a transition phase as of the effective date of this statement. The adoption of SFAS No. 154 did not have a material effect on the Company s financial statements.

In February 2006, the FASB issued Statement of Financial Accounting Standards No. 155, "Accounting for Certain Hybrid Financial Instruments - an amendment of FASB Statements No. 133 and 140" ("SFAS No. 155") which is effective for fiscal years beginning after September 15, 2006. The statement was issued to clarify the application of FASB Statement No. 133 to beneficial interests in securitized financial assets and to improve the consistency of accounting for similar financial instruments, regardless of the form of the instruments. The Company does not expect the adoption of SFAS No. 155 to have a material effect on the Company s financial statements.

In March 2006, the FASB issued Statement of Financial Accounting Standards No. 156, "Accounting for Servicing of Financial Assets - an amendment of FASB Statement No. 140" ("SFAS No. 156") which is effective for fiscal years beginning after September 15, 2006. This statement was issued to simplify the accounting for servicing rights and to reduce the volatility that may result from using different measurement attributes. The Company does not expect the adoption of SFAS No. 156 to have a material effect on its financial statements.

NOTE C - SHARE-BASED PAYMENTS

Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123(R), "Share-Based Payment" ("SFAS No. 123(R)"). SFAS No. 123(R) requires that compensation expense relating to share-based payments be recognized in financial statements based on the fair value of the equity or liability instrument issued. The Statement also requires that forfeitures be estimated over the vesting period of the instrument. Actual forfeitures prior to the adoption of SFAS 123(R) were considered by the Company in connection with its application of SFAS No. 123(R).

The Company used the modified prospective method to adopt SFAS 123(R). Accordingly, there was no cumulative effect on the Company's consolidated financial statements as a result of the adoption of SFAS 123(R). Under the modified prospective method, compensation expense for share-based payments is recognized for periods after the date of adoption for (a) all unvested awards granted prior to January 1, 2006, based on the estimated grant-date fair value in accordance with the original provisions of SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123"), and (b) all awards granted subsequent to January 1, 2006, based on the estimated grant-date fair value in accordance with the provisions of SFAS No. 123(R).

Prior to January 1, 2006, as permitted by SFAS No. 123, the Company accounted for share-based payments to employees using Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB No. 25") and accordingly, did not record compensation expense for stock options granted. Results for prior periods have not been retrospectively restated. Following is a pro forma summary of the Company's net income and earnings per share for the three and nine months ended September 24, 2005, as if the Company had determined compensation expense for share-based payments based under the recognition provisions of SFAS No. 123(R).

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THE DIXIE GROUP, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(UNAUDITED)
(dollars in thousands, except per share data) -- Cont'd.

	Three Months Ended Sept. 24, 2005	Nine Months Ended Sept. 24, 2005
Net income, as reported	$ 1,221	$ 7,004
Stock compensation expense, net of taxes	(152)	(1,222)
Adjusted net income	$ 1,069	$ 5,782
Basic earnings per share, as reported	$ 0.10	$ 0.57
Stock compensation expense, net of taxes	(0.01)	(0.10)
Adjusted basic earnings per share	$ 0.09	$ 0.47
Diluted earnings per share, as reported	$ 0.09	$ 0.54
Stock compensation expense, net of taxes	(0.01)	(0.09)
Adjusted diluted earnings per share	12	42

Net increase (decrease) in cash and cash equivalents	$ 5,861	$ 127,728	$ (46,803)

Operating Activities

The use of cash in all periods resulted primarily from our net losses adjusted for non-cash charges and changes in components of working capital. The increase of $25.6 million to cash used in operating activities for the year ended December 31, 2012 in comparison to prior year was due to the growth in rucaparib and CO-1686 research and development costs associated with the expansion of clinical trials, drug formulation and manufacturing costs; initiation of the KIT drug discovery program in the third quarter of 2012; increased CO-101 program expenses related to the closedown of clinical studies and manufacturing development activities upon the discontinuation of the CO-101 program in late 2012; and increased internal salaries, benefits and personnel-related costs resulting from additional headcount hired to support the expanding development activities of our product candidates.

The increase of $5.8 million to cash used in operating activities for the year ended December 31, 2011 in comparison to the prior year was due to an increase in clinical trial costs for CO-101 resulting from an increase in the number of patients enrolled and sites activated for our ongoing LEAP trial, commencement of CO-1686 research and development activities, in-licensed by us in May 2010, and commencement of product development and clinical trial activities for rucaparib, in-licensed by us in June 2011.

Investing Activities

The cash provided by (used in) investing activities for all periods primarily reflects the purchase of available for sale securities offset by maturities and sales of available for sale securities. The decrease of $8.2 million in cash provided by investing activities for the year ended December 31, 2012 in comparison to the prior year was due to a reduction in available for sale security maturities and sales of $7.6 million and an increase of $0.6 million for the purchase of property and equipment.

The increase of $22.0 million in cash provided by investing activities for the year ended December 31, 2011 compared to the prior year was due primarily to the maturities and sale of available for sale securities in 2011 to fund operations. The increase related to the sale and maturities of available for sale securities is partially offset by the purchase of $0.5 million in property and equipment in 2011 compared to $0.8 million in 2010.

Financing Activities

Cash provided by financing activities for the year ended December 31, 2012 reflects the receipt of $70.0 million in net proceeds from the sale of our common stock in April 2012 and $0.3 million of proceeds from the exercise of stock options. Cash provided by financing activities for the year ended December 31, 2011 was due to the issuance of $28.0 million of 5% convertible promissory notes for cash in the second quarter of 2011, the receipt of $129.4 million in net cash proceeds in the fourth quarter of 2011 from the sale of common stock during our initial public offering, and the exercise of stock options for $1.1 million.

Operating Capital Requirements

Assuming we successfully complete clinical trials and obtain requisite regulatory approvals, we do not anticipate commercializing any of our product candidates until 2016 at the earliest. As such, we anticipate that we will continue to generate significant losses for the foreseeable future as we incur expenses to complete our development activities for each of our programs, including clinical trial activities, companion diagnostic development, drug development, establishing our commercial capabilities, and expanding our general and administrative functions to support the growth in our research and development and commercial organizations.

The net proceeds raised from the sale of securities to date will not be sufficient to fund our operations through successful development and commercialization of our product candidates. As a result, we will need to raise additional capital to fund our operations and continue to conduct clinical trials to support additional development and potential regulatory approval, make milestone payments to our licensors and commercialize our product candidates.

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We believe that our existing cash and cash equivalents, will allow us to fund our operating plan through at least the next 12 months. If our available cash and cash equivalents are insufficient to satisfy our liquidity requirements, we may seek to sell additional equity or debt securities or obtain a credit facility. The sale of additional equity and debt securities may result in additional dilution to our shareholders.

In addition, if we raise additional funds through the issuance of debt securities or convertible preferred stock, these securities may have rights senior to those of our common stock and could contain covenants that would restrict our operations. Furthermore, any such required additional capital may not be available on reasonable terms, if at all. If we were unable to obtain additional financing, we may be required to reduce the scope of, delay, or eliminate some or all of our planned development and commercialization activities, which could harm our business.

Because of the numerous risks and uncertainties associated with research, development and commercialization of pharmaceutical products, we are unable to estimate the exact amounts of our working capital requirements. Our future funding requirements will depend on many factors, including but not limited to:

- the number and characteristics of the product candidates, companion diagnostics, and indications we pursue;
- the achievement of various development, regulatory and commercial milestones resulting in required payments to partners pursuant to the terms of our license agreements;
- the scope, progress, results and costs of researching and developing our product candidates and related companion diagnostics and conducting clinical and preclinical trials;
- the timing of, and the costs involved in, obtaining regulatory approvals for our product candidates and companion diagnostics;
- the cost of commercialization activities, if any, assuming our product candidates are approved for sale, including marketing and distribution costs;
- the cost of manufacturing any of our product candidates we successfully commercialize;
- the costs involved in preparing, filing, prosecuting, maintaining, defending and enforcing patent claims, including litigation costs and outcome of such litigation; and
- the timing, receipt and amount of sales, if any, of our product candidates.

Contractual Obligations and Commitments

The following table summarizes our contractual obligations at December 31, 2012 (in thousands):

		Payments due by Period			
	Total	Less than 1 Year	1 to 3 Years	3 to 5 Years	More than 5 Years
Operating lease obligations	$ 1,813	$ 994	$ 819	$	$

In addition, we have certain obligations under licensing agreements with third parties contingent upon achieving various development, regulatory and commercial milestones. Pursuant to our license agreement for the development and commercialization of CO-1686, we may be required to pay an additional aggregate of $115.0 million if certain clinical study objectives and regulatory approvals are achieved. Further, we

may be required to pay an aggregate of up to $120.0 million in sales milestone payments if certain annual sales targets are met for CO-1686. Pursuant to our license agreements for the development of rucaparib, we may be required to pay up to an aggregate $259.7 million in milestone payments upon the successful attainment of development, regulatory and sales milestones. Pursuant to our drug discovery collaboration agreement for the discovery of a novel KIT inhibitor, if any clinical candidates are discovered and we seek to pursue clinical development of such clinical candidates, we may be required to pay up to an aggregate of $192.0 million in milestone payments if certain development and regulatory objectives and annual net sales targets are achieved. Finally, pursuant to terms of each of these license agreements, we will pay royalties to our licensors on sales, if any, of the respective products.

Off-Balance Sheet Arrangements

We did not have during the periods presented, and we do not currently have, any off-balance sheet arrangements, as defined under the rules promulgated by the SEC.

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Tax Loss Carryforwards

As of December 31, 2012, we have net operating loss carryforwards of approximately $136.1 million to offset future federal income taxes. We also have federal research and development tax credit carryforwards of $32.0 million to offset future federal income taxes. The federal net operating loss carryforwards and research and development tax credit carryforwards expire at various times through 2032. We believe that a change in ownership as defined under Section 382 of the U.S. Internal Revenue Code occurred as a result of the Company s public offering of common stock completed in April 2012. Future utilization of the federal net operating losses and tax credit carryforwards accumulated from inception to the change in ownership date will be subject to annual limitations to offset future taxable income. We do not, however, believe this limitation prevents utilization prior to expiration. At December 31, 2012, we recorded a 100% valuation allowance against our net operating losses and research and development tax credit carryforwards of approximately $85.9 million, as we believe it is more likely than not that the tax benefits will not be fully realized. In the future, if we determine that a portion or all of the tax benefits associated with our tax carryforwards will be realized, net income would increase in the period of determination.

Recently Adopted Accounting Standards

On January 1, 2012, the Company adopted Accounting Standards Update (ASU) No. 2011-05, Presentation of Comprehensive Income. The standard eliminates the option to report other comprehensive income and its components in the statement of changes in equity. The Company elected to present the statement of operations and statement of comprehensive loss in two separate, but consecutive statements.

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk related to changes in interest rates. As of December 31, 2012, we had cash and cash equivalents of $144.1 million, consisting of bank demand deposits and money market funds that primarily invest in U.S. government obligations. The primary objectives of our investment policy are to preserve principal and maintain proper liquidity to meet operating needs. Our investment policy specifies credit quality standards for our investments and limits the amount of credit exposure to any single issue, issuer or type of investment. Our primary exposure to market risk is interest rate sensitivity, which is affected by changes in the general level of U.S. interest rates, particularly because our investments are in short-term securities. Our available for sale securities are subject to interest rate risk and will fall in value if market interest rates increase. Due to the short-term duration of our investment portfolio and the low risk profile of our investments, an immediate 100 basis point change in interest rates would not have a material effect on the fair market value of our portfolio.

We contract with CROs, investigational sites, and contract manufacturers globally. We may be subject to fluctuations in foreign currency rates in connection with these agreements. While we periodically hold foreign currencies, primarily Euro and Pound Sterling, we do not use other financial instruments to hedge our foreign exchange risk. Transactions denominated in currencies other than the functional currency are recorded based on exchange rates at the time such transactions arise. As of December 31, 2012 and December 31, 2011, approximately 26% and 31%, respectively, of our total liabilities were denominated in currencies other than the functional currency.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements required by this Item are included in Item 15 of this report and are presented beginning on page F-1.

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

Our disclosure controls and procedures are designed to ensure that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms, and that such information is accumulated and communicated to our management, including the Chief Executive Officer and the Chief Financial Officer, to allow timely decisions regarding required disclosures. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objective.

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As of December 31, 2012, our management, with the participation of our Chief Executive Officer and Chief Financial Officer, performed an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2012, the design and operation of our disclosure controls and procedures were effective.

Management s Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining effective internal control over financial reporting and for the assessment of the effectiveness of internal control over financial reporting. Internal control over financial reporting is a process designed by, or under the supervision of, a company s principal executive officer and principal financial officer and effected by our Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that:

pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;

provide reasonable assurance that transactions are recorded as necessary to permit preparation of the consolidated financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and

provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the consolidated financial statements.

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

As of December 31, 2012, our management, with the participation of our Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of our internal control over financial reporting as defined in Rules 13a-15(f) or 15d-15(f) of the Exchange Act. In making its assessment, management used the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on its assessment, our management determined that, as of December 31, 2012, we maintained effective internal control over financial reporting based on those criteria.

In addition, the effectiveness of our internal control over financial reporting as of December 31, 2012 has been audited by Ernst & Young, LLP, an independent registered public accounting firm.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal controls over financial reporting during the quarter ended December 31, 2012 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

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Report of Independent Registered Public Accounting Firm

The Stockholders and Board of Directors

Clovis Oncology, Inc.

We have audited Clovis Oncology, Inc. s internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Clovis Oncology, Inc. s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company s internal control over financial reporting based on our audit.

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

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

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

In our opinion, Clovis Oncology, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Clovis Oncology, Inc., a corporation in the development stage, as of December 31, 2012 and 2011, and the related consolidated statements of operations, comprehensive loss, convertible preferred stock and stockholders equity (deficit), and cash flows for each of the three years in the period ended December 31, 2012 and for the period from April 20, 2009 (Inception) to December 31, 2012 and our report dated March 14, 2013 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Denver, Colorado

March 14, 2013

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ITEM 9B. OTHER INFORMATION
None.

PART III

Certain information required by Part III is omitted from this Annual Report on Form 10-K and is incorporated herein by reference from our definitive proxy statement relating to our 2013 annual meeting of stockholders, pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, also referred to in this Form 10-K as our 2013 Proxy Statement, which we expect to file with the SEC no later than April 30, 2013.

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE
Information regarding our directors, including the audit committee and audit committee financial experts, and executive officers and compliance with Section 16(a) of the Exchange Act will be included in our 2013 Proxy Statement and is incorporated herein by reference.

We have adopted a Code of Business Ethics for all of our directors, officers and employees as required by NASDAQ governance rules and as defined by applicable SEC rules. Stockholders may locate a copy of our Code of Business Ethics on our website at *www.clovisoncology.com* or request a copy without charge from:

Clovis Oncology, Inc.

Attention: Investor Relations

2525 28th Street, Suite 100

Boulder, CO 80301

We will post to our website any amendments to the Code of Business Ethics, and any waivers that are required to be disclosed by the rules of either the SEC or NASDAQ.

ITEM 11. EXECUTIVE COMPENSATION
The information required by this item regarding executive compensation will be included in our 2013 Proxy Statement and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS
The information required by this item regarding security ownership of certain beneficial owners and management will be included in the 2013 Proxy Statement and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE
The information required by this item regarding certain relationships and related transactions and director independence will be included in the 2013 Proxy Statement and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this item regarding principal accounting fees and services will be included in the 2013 Proxy Statement and is incorporated herein by reference.

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The following documents are being filed as part of this report:
(1) Financial Statements.

Reference is made to the Index to Financial Statements of Clovis Oncology, Inc. appearing on page F-1 of this report.

(2) Financial Statement Schedules.

All financial statement schedules have been omitted because they are not applicable or not required or because the information is included elsewhere in the Financial Statements or the Notes thereto.

(3) Exhibits.

Reference is made to the Index to Exhibits filed as a part of this Annual Report on Form 10-K.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CLOVIS ONCOLOGY, INC.

By: /s/ PATRICK J. MAHAFFY
Patrick J. Mahaffy
President and Chief Executive Officer

Date: March 14, 2013

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

Name	Title	Date
/s/ PATRICK J. MAHAFFY	President and Chief Executive Officer; Director	March 14, 2013
Patrick J. Mahaffy	*(Principal Executive Officer)*	
/s/ ERLE T. MAST	Executive Vice President and Chief Financial Officer	March 14, 2013
Erle T. Mast	*(Principal Financial Officer and Principal Accounting Officer)*	
/s/ BRIAN G. ATWOOD	Director	March 14, 2013
Brian G. Atwood		
/s/ M. JAMES BARRETT	Director	March 14, 2013
M. James Barrett		
/s/ JAMES C. BLAIR	Director	March 14, 2013
James C. Blair		
/s/ PAUL KLINGENSTEIN	Director	March 14, 2013
Paul Klingenstein		
/s/ EDWARD J. MCKINLEY	Director	March 14, 2013
Edward J. McKinley		
/s/ THORLEF SPICKSCHEN	Director	March 14, 2013
Thorlef Spickschen		

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INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Index to Consolidated Financial Statements

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Report of Independent Registered Public Accounting Firm

The Stockholders and Board of Directors

Clovis Oncology, Inc.

We have audited the accompanying consolidated balance sheets of Clovis Oncology, Inc., a corporation in the development stage, as of December 31, 2012 and 2011, and the related consolidated statements of operations, comprehensive loss**,** convertible preferred stock and stockholders equity (deficit), and cash flows for each of the three years in the period ended December 31, 2012 and for the period from April 20, 2009 (Inception) to December 31, 2012. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Clovis Oncology, Inc. at December 31, 2012 and 2011, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2012 and for the period from April 20, 2009 (Inception) to December 31, 2012, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Clovis Oncology, Inc. s internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 14, 2013 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Denver, Colorado

March 14, 2013

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CLOVIS ONCOLOGY, INC.

(A Development Stage Enterprise)

Consolidated Statements of Operations

	For the Year Ended December 31, 2012	For the Year Ended December 31, 2011	For the Year Ended December 31, 2010	Cumulative from April 20, 2009 (Inception) to December 31, 2012
	(in thousands, except per share amounts)			
Revenues	$	$	$	$
Operating Expenses:				
Research and development	58,894	40,726	22,323	123,705
General and administrative	10,638	6,860	4,302	24,009
Acquired in-process research and development	4,250	7,000	12,000	36,335
Operating loss	(73,782)	(54,586)	(38,625)	(184,049)
Other income (expense), net	(228)	(957)	795	(433)
Loss before income taxes	(74,010)	(55,543)	(37,830)	(184,482)
Income taxes	27	(27)		
Net loss	$ (73,983)	$ (55,570)	$ (37,830)	$ (184,482)
Basic and diluted net loss per common share	$ (2.97)	$ (14.42)	$ (28.55)	$ (22.15)
Basic and diluted weighted average common shares outstanding	24,915	3,854	1,325	8,327

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CLOVIS ONCOLOGY, INC.

(A Development Stage Enterprise)

Consolidated Statements of Comprehensive Loss

	For the Year Ended December 31, 2012	For the Year Ended December 31, 2011	For the Year Ended December 31, 2010	Cumulative from April 20, 2009 (Inception) to December 31, 2012
		(in thousands)		
Net loss	$ (73,983)	$ (55,570)	$ (37,830)	$ (184,482)
Other comprehensive income				
Foreign currency translation adjustments	5	47		52
Net unrealized gain (loss) on available for sale securities	(1)	(40)	42	1
Other comprehensive income	4	7	42	53
Comprehensive loss	$ (73,979)	$ (55,563)	$ (37,788)	$ (184,429)

See accompanying notes.

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CLOVIS ONCOLOGY, INC.

(A Development Stage Enterprise)

Consolidated Balance Sheets

	December 31, 2012	2011
	(in thousands, except for share amounts)	
Assets		
Current assets:		
Cash and cash equivalents	$ 144,097	$ 138,236
Available for sale securities		2,012
Prepaid research and development expenses	116	1,020
Other current assets	659	247
Total current assets	144,872	141,515
Property and equipment, net	1,084	1,896
Other assets	38	34
Total assets	$ 145,994	$ 143,445
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	$ 2,297	$ 3,036
Accrued research and development expenses	7,161	5,071
Other accrued expenses	2,702	2,889
Total current liabilities	12,160	10,996
Non-current liabilities	338	656
Commitments and contingencies (Note 9)		
Stockholders equity:		
Preferred stock, par value $0.001 per share; 10,000,000 shares authorized, no shares issued and outstanding at December 31, 2012 and 2011, respectively		
Common stock, $0.001 par value per share, 100,000,000 shares authorized at December 31, 2012 and 2011, respectively; 26,207,190 and 22,375,757 shares issued and outstanding at December 31, 2012 and 2011, respectively	26	22
Additional paid-in capital	317,899	242,221
Accumulated other comprehensive income	53	49
Deficit accumulated during development stage	(184,482)	(110,499)
Total stockholders equity	133,496	131,793
Total liabilities and stockholders equity	$ 145,994	$ 143,445

See accompanying notes.

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CLOVIS ONCOLOGY, INC.

(A Development Stage Enterprise)

Consolidated Statements of Convertible Preferred Stock and Stockholders Equity (Deficit)

	Convertible Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income	Deficit Accumulated During Development Stage	Total Stockholders Equity (Deficit)
	Shares	Amount	Shares	Amount				
	(in thousands, except per share amounts)							
Balance at April 20, 2009 (inception)		$		$	$	$	$	$
Issuance of common stock to founders at $.0029 per share			1,206,899	1	2			3
Issuance of convertible preferred stock; $2.00, $3.00 and $4.62 per share for series A-1, A-2 and B, respectively, net of issuance costs of $174	21,009,196	75,499						
Exercise of stock options			114,659		33			33
Share-based compensation expense					4			4
Net loss							(17,099)	(17,099)
Balance at December 31, 2009	21,009,196	75,499	1,321,558	1	39		(17,099)	(17,059)
Exercise of stock options			15,518		29			29
Share-based compensation expense					68			68
Net unrealized gain on available for sale securities						42		42
Net loss							(37,830)	(37,830)
Balance at December 31, 2010	21,009,196	75,499	1,337,076	1	136	42	(54,929)	(54,750)
Issuance of common stock, net of issuance costs of $9,745			10,700,000	11	129,344			129,355
Exercise of stock options			336,370		76			76
Share-based compensation expense					1,325			1,325
Conversion of convertible promissory notes and accrued interest into common stock			2,757,788	3	35,848			35,851
Conversion of convertible preferred stock into common stock	(21,009,196)	(75,499)	7,244,523	7	75,492			75,499
Net unrealized loss on available for sale securities						(40)		(40)
Currency translation adjustment						47		47
Net loss							(55,570)	(55,570)
Balance at December 31, 2011			22,375,757	22	242,221	49	(110,499)	131,793
Issuance of common stock, net of issuance costs of $5,024			3,750,000	4	69,972			69,976
Issuance of common stock under employee stock purchase plan			12,817		174			174
Exercise of stock options			68,616		583			583
Share-based compensation expense					4,949			4,949
Net unrealized loss on available for sale securities						(1)		(1)
Currency translation adjustment						5		5
Net loss							(73,983)	(73,983)
Balance at December 31, 2012		$	26,207,190	$ 26	$ 317,899	$ 53	$ (184,482)	$ 133,496

See accompanying notes.

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CLOVIS ONCOLOGY, INC.

(A Development Stage Enterprise)

Consolidated Statements of Cash Flows

	Year Ended December 31,			Cumulative from April 20, 2009 (Inception) to December 31, 2012
	2012	2011	2010	
	(in thousands)			
Operating activities				
Net loss	$ (73,983)	$ (55,570)	$ (37,830)	$ (184,482)
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation	353	185	83	627
Share-based compensation expense	4,949	1,325	68	6,346
Amortization of premiums and discounts on available for sale securities	10	141	320	471
Loss on disposal of equipment	1,162			1,162
Gain on sale of available for sale securities		(16)	(18)	(34)
Non-cash acquired in-process research and development		7,000		7,000
Changes in operating assets and liabilities:				
Prepaid and accrued research and development expenses	2,993	2,682	2,896	7,044
Other operating assets	(17)	924	(1,040)	(217)
Accounts payable	(758)	1,656	866	2,298
Other accrued expenses	(93)	1,845	644	2,607
Net cash used in operating activities	(65,384)	(39,828)	(34,011)	(157,178)
Investing activities				
Purchases of property and equipment	(1,058)	(446)	(770)	(2,544)
Purchases of available for sale securities			(27,008)	(27,008)
Maturities and sales of available for sale securities	2,000	9,614	14,957	26,571
Net cash provided by (used in) investing activities	942	9,168	(12,821)	(2,981)
Financing activities				
Proceeds from sale of convertible preferred stock, net of issuance costs				75,499
Proceeds from sale of common stock, net of issuance costs	69,976	129,355		199,335
Proceeds from the exercise of common stock options and employee stock purchase plan	315	1,089	29	1,466
Proceeds from issuance of convertible promissory notes, net of issuance costs		27,902		27,902
Net cash provided by financing activities	70,291	158,346	29	304,202
Effect of exchange rate changes on cash and cash equivalents	12	42		54
Increase (decrease) in cash and cash equivalents	5,861	127,728	(46,803)	144,097
Cash and cash equivalents at beginning of period	138,236	10,508	57,311	
Cash and cash equivalents at end of period	$ 144,097	$ 138,236	$ 10,508	$ 144,097
Non-cash items:				
Conversion of convertible preferred stock to common stock	$	$ 75,499	$	$ 75,499
Conversion of convertible promissory notes and accrued interest to common stock	$	$ 35,851		$ 35,851
Assets recorded for which payment (has)/has not yet occurred	$ (621)	$ 684		$ 63

See accompanying notes.

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CLOVIS ONCOLOGY, INC.

(A Development Stage Enterprise)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of Business

Clovis Oncology, Inc. (the Company), a corporation in the development stage, was incorporated in Delaware on April 20, 2009, and commenced operations in May 2009. The Company is a biopharmaceutical company focused on acquiring, developing and commercializing innovative anti-cancer agents in the United States, Europe and other international markets. The Company has and intends to continue to license or acquire rights to oncology compounds in all stages of clinical development. In exchange for the right to develop and commercialize these compounds, the Company generally expects to provide the licensor with a combination of up-front payments, milestone payments and royalties on future sales. In addition, the Company generally expects to assume the responsibility for future drug development and commercialization costs. The Company currently operates in one segment. Since inception, the Company s operations have consisted primarily of developing in-licensed compounds and their companion diagnostics, evaluating new product acquisition candidates, raising capital and corporate organization activities. The Company has never earned revenue from these activities, and accordingly, the Company is considered to be in the development stage as of December 31, 2012.

On September 22, 2011, the Board of Directors and stockholders of the Company effectuated a 1 for 2.9 reverse split of the Company s common stock. The historical financial statements and related notes have been retrospectively adjusted to give effect to this change.

On November 12, 2012, the Company reported results from a pivotal study for CO-101 in metastatic pancreatic cancer. The study results failed to demonstrate a difference in overall survival between the two study arms, CO-101 versus gemcitabine. Based on the results of the study, the Company has terminated development of CO-101.

Liquidity

The Company has incurred significant net losses since inception and has relied on its ability to fund its operations through private equity financings and public offerings of common stock, and management expects operating losses and negative cash flows to continue for at least the next several years. As the Company continues to incur losses, transition to profitability is dependent upon the successful development, approval, and commercialization of its product candidates and achieving a level of revenues adequate to support the Company s cost structure. The Company may never achieve profitability, and unless and until it does, the Company will continue to need to raise additional cash. Management intends to fund future operations through additional private or public debt or equity offerings, and may seek additional capital through arrangements with strategic partners or from other sources. Based on the Company s operating plan, existing working capital at December 31, 2012 is sufficient to meet the cash requirements to fund planned operations through at least December 31, 2013, without additional sources of cash, although there can be no assurance that this can, in fact, be accomplished.

2. Summary of Significant Accounting Policies

Basis of Presentation

The information reported within the Company s financial statements from April 20, 2009 to December 31, 2010 was based solely on the accounts of Clovis Oncology, Inc. Effective January 1, 2011, Clovis Oncology UK Limited, a wholly owned subsidiary of the Company, commenced operations. All financial information presented after December 31, 2010 was consolidated and includes the accounts of the Company and its wholly owned subsidiary. All significant intercompany balances and transactions have been eliminated in consolidation. The financial statements are prepared in conformity with U.S. generally accepted accounting principles (GAAP). Subsequent events have been evaluated through the date these financial statements were filed with the Securities & Exchange Commission.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, expenses, other comprehensive loss and related disclosures. On an ongoing basis, management evaluates its estimates, including estimates related to clinical trial accruals and share-based compensation expense. The Company bases its estimates on historical experience and other market-specific or other relevant assumptions that it believes to be reasonable under the circumstances. Actual results may differ from those estimates or assumptions.

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CLOVIS ONCOLOGY, INC.

(A Development Stage Enterprise)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Fair Value of Financial Instruments

Cash, cash equivalents and available for sale securities are carried at fair value (see Note 4). Financial instruments, including prepaid expenses, accounts payable and accrued liabilities, are carried at cost, which approximates fair value given their short-term nature.

Cash, Cash Equivalents and Available for Sale Securities

The Company considers all highly liquid investments with original maturities at the date of purchase of three months or less to be cash equivalents. Cash and cash equivalents include bank demand deposits, marketable securities with maturities of three months or less at purchase, and money market funds that invest primarily in certificate of deposits, commercial paper and U.S. government and U.S. government agency obligations. Cash equivalents are reported at fair value.

Marketable securities with original maturities greater than three months are considered to be available for sale securities and historically consisted of U.S. agency obligations, U.S. government obligations and corporate debt obligations. Available for sale securities are reported at fair market value and unrealized gains and losses are included as a separate component of stockholders equity. Realized gains, realized losses, the amortization of premiums and discounts, interest earned and dividends earned are included in other income (expense). The cost of investments for purposes of computing realized and unrealized gains and losses is based on the specific identification method. Investments with maturities beyond one year are classified as short-term based on management s intent to fund current operations with these securities or to make them available for current operations. A decline in the market value of a security below its cost value that is deemed to be other than temporary is charged to earnings, and results in the establishment of a new cost basis for the security.

Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation. Property and equipment are depreciated using the straight-line method over the estimated useful lives of the assets. Equipment purchased for use in manufacturing and clinical trials is evaluated to determine whether the equipment is solely beneficial for a drug candidate in the development stage or whether it has an alternative use. Equipment with an alternative use is capitalized. Leasehold improvements are amortized over the economic life of the asset or the lease term, whichever is shorter. Maintenance and repairs are expensed as incurred. The following estimated useful lives were used to depreciate the Company s assets:

	Estimated Useful Life
Computer hardware and software	3 to 5 years
Leasehold improvements	6 years
Laboratory, manufacturing, and office equipment	5 to 7 years
Furniture and fixtures	10 years

Long-Lived Assets

The Company reviews long-lived assets for impairment when events or changes in circumstances indicate the carrying value of the assets may not be recoverable. Recoverability is measured by comparison of the assets book value to future net undiscounted cash flows that the assets are expected to generate. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the book value of the assets exceed their fair value, which is measured based on the projected discounted future net cash flows arising from the assets. In the fourth quarter of 2012, an impairment of $1.2 million was recorded to research and development expenses for CO-101 manufacturing equipment no longer in use due to termination of the development activities for this product candidate. We have not found an active market to sell the equipment and the full carrying value at December 1, 2012 was impaired.

Other Accrued Expenses

Other accrued expenses are comprised of the following:

	December 31,	
	2012	2011
Accrued personnel costs	$ 2,441	$ 2,373
Accrued corporate legal fees and professional services	63	231
Accrued expenses other	198	285
Other accrued expenses	$ 2,702	$ 2,889

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CLOVIS ONCOLOGY, INC.

(A Development Stage Enterprise)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Research and Development Expense

Research and development costs are charged to expense as incurred and include, but are not limited to, salary and benefits, share-based compensation, clinical trial activities, drug development and manufacturing, companion diagnostic development, and third-party service fees, including clinical research organizations and investigative sites. Costs for certain development activities, such as clinical trials, are recognized based on an evaluation of the progress to completion of specific tasks using data such as patient enrollment, clinical site activations, or information provided to us by our vendors on their actual costs incurred. Payments for these activities are based on the terms of the individual arrangements, which may differ from the pattern of costs incurred, and are reflected in the financial statements as prepaid or accrued research and development.

Acquired In-Process Research and Development Expense

The Company has acquired and expects to continue to acquire the rights to develop and commercialize new drug candidates. The up-front payments to acquire a new drug compound, as well as future milestone payments, are immediately expensed as acquired in-process research and development provided that the drug has not achieved regulatory approval for marketing and, absent obtaining such approval, has no alternative future use.

Share-Based Compensation Expense

Share-based compensation is recognized as expense for all share-based awards made to employees and directors and is based on estimated fair values. The Company determines equity-based compensation at the grant date using the Black-Scholes option pricing model. The value of the award that is ultimately expected to vest is recognized as expense on a straight-line basis over the requisite service period. Any changes to the estimated forfeiture rates are accounted for prospectively.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk are primarily cash, cash equivalents and available for sale securities. The Company maintains its cash and cash equivalent balances in the form of money market accounts with financial institutions that management believes are creditworthy. Available for sale securities are invested in accordance with the Company s investment policy. The investment policy includes guidelines on the quality of the institutions and financial instruments and defines allowable investments that the Company believes minimizes the exposure to concentration of credit risk. The Company has no financial instruments with off-balance-sheet risk of accounting loss.

Foreign Currency

The assets and liabilities of the Company s foreign operations are translated in U.S. dollars at current exchange rates and the results of operations are translated at the average exchange rates for the reported periods. The resulting translation adjustments are included in accumulated other comprehensive income on the consolidated balance sheets. Transactions denominated in currencies other than the functional currency are recorded based on exchange rates at the time such transactions arise. Transaction gains and losses are recorded to other income (expense), net in the Consolidated Statements of Operations. As of December 31, 2012 and 2011, approximately 26% and 31% of the Company s total liabilities were denominated in currencies other than the functional currency, respectively.

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CLOVIS ONCOLOGY, INC.

(A Development Stage Enterprise)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Income Taxes

The Company accounts for income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases using enacted tax rates in effect for the year in which the differences are expected to affect taxable income. Tax benefits are recognized when it is more likely than not that a tax position will be sustained during an audit. Deferred tax assets are reduced by a valuation allowance if current evidence indicates that it is considered more likely than not that these benefits will not be realized.

Recently Adopted and Issued Accounting Standards

On January 1, 2012, the Company adopted Accounting Standards Update (ASU) No. 2011-05, Presentation of Comprehensive Income. The standard eliminates the option to report other comprehensive income and its components in the statement of changes in equity. The Company elected to present the statement of operations and statement of comprehensive loss in two separate, but consecutive statements.

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

3. Property and Equipment

Property and equipment consisted of the following (in thousands):

	December 31,	
	2012	2011
Laboratory, manufacturing and office equipment	$ 555	$ 1,170
Furniture and fixtures	516	520
Computer hardware and software	381	340
Leasehold improvements	140	140
Total property and equipment	1,592	2,170
Less: accumulated depreciation	(508)	(274)
Property and equipment, net	$ 1,084	$ 1,896

Depreciation expense related to property and equipment was $353,000, $185,000, $83,000 and $627,000 for the years ended December 31, 2012, 2011 and 2010, respectively, and for the period from April 20, 2009 (inception) to December 31, 2012.

4. Fair Value Measurements

Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability (at exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The three levels of inputs that may be used to measure fair value include:

Level 1: Quoted prices in active markets for identical assets or liabilities. The Company s Level 1 assets and liabilities consist of money market investments.

Level 2: Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities in active markets or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. The Company s Level 2 assets and liabilities represent U.S. government agency obligations.

Level 3: Unobservable inputs that are supported by little or no market activity. The Company does not have Level 3 assets or liabilities.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table identifies the Company s assets that were measured at fair value on a recurring basis (in thousands):

	Balance	Level 1	Level 2	Level 3
December 31, 2012				
Money market	$ 135,385	$ 135,385	$	$
Total assets at fair value	$ 135,385	$ 135,385	$	$
December 31, 2011				
Money market	$ 136,273	$ 136,273	$	$
U.S. agency obligations	2,012		2,012	
Total assets at fair value	$ 138,285	$ 136,273	$ 2,012	$

There were no security transfers between Levels 1 and 2 in 2012.

5. Available for Sale Securities

The Company s available for sale securities at cost or amortized cost value and fair market value by contractual maturity were (in thousands):

	Cost or Amortized Cost Value	Fair Market Value
December 31, 2011		
Due in one year or less	$ 2,010	$ 2,012
Total	$ 2,010	$ 2,012

The types of securities included in the Company s available for sale investments were (in thousands):

	Cost or Amortized Cost Value	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Market Value
December 31, 2011				
U.S. government agencies	$ 2,010	$ 2	$	$ 2,012

No securities have been in a continuous unrealized loss position for more than 12 months at December 31, 2012 and 2011, respectively, and no impairments have been recorded for the periods presented.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Convertible Promissory Notes

In May 2011, the Company issued $20.0 million of 5% Convertible Promissory Notes to existing investors for cash. In June 2011, the Company issued $15.0 million of 5% Convertible Promissory Notes to Pfizer, which was comprised of a $7.0 million note issued to acquire the global rights to develop and market rucaparib and an $8.0 million note issued for cash (the Notes). The Notes accrued interest at an annual rate of 5% and had a maturity date of May 25, 2012. In connection with the completion of the Company s initial public offering in November 2011, the principal balance and all accrued and unpaid interest due on the Notes was converted into 2,757,788 shares of the Company s common stock.

7. Convertible Preferred Stock and Stockholders Equity

Common Stock

In May 2009, the Company issued 1,206,899 shares of its common stock to the original founders at a purchase price of $.0029 per share. The shares were issued under restricted stock purchase agreements, which allow the Company, at its discretion, to repurchase unvested shares if the founders terminate their employment with the Company. In addition, if the founders employment is terminated by the Company without cause within six months following a change in control, 100% of the unvested shares of the restricted stock will immediately vest upon termination. Upon execution of the restricted stock purchase agreements, 25% of the shares vested immediately and the remaining shares vest ratably on a monthly basis over a four-year term. As of December 31, 2012 and 2011, 94,289 and 320,581 shares remained unvested, respectively.

In November 2011, the Company sold 10,700,000 shares of its common stock in an initial public offering at a price of $13.00 per share. The Company received net proceeds from the offering of $129.4 million, after deduction of $6.9 million of underwriting commissions and $2.8 million of offering expenses.

In April 2012, the Company sold 3,750,000 shares of its common stock in a public offering at $20.00 per share. The net offering proceeds realized after deducting offering expenses and underwriters discounts and commissions was $70.0 million.

The holders of common stock are entitled to one vote per share on all matters to be voted upon by the stockholders of the Company. Subject to the preferences that may be applicable to any outstanding shares of preferred stock, the holders of common stock are entitled to receive ratably such dividends, if any, as may be declared by the Company s Board of Directors.

Preferred Stock

In May 2009, the Company entered into the Series A-1, A-2, B and C Preferred Stock Purchase Agreement with various investors (the Preferred Stock Purchase Agreement). The Preferred Stock Purchase Agreement provided for the issuance of up to $146.3 million of the Company s convertible preferred stock, subject to various terms and conditions. During 2009, the Company issued shares of Series A-1, Series A-2 and Series B convertible preferred stock resulting in total aggregate cash proceeds to the Company of $75.5 million, net of $174,000 related stock issuance costs.

In connection with the completion of the Company s initial public offering in November 2011, all of the outstanding shares of convertible preferred stock were automatically converted into 7,244,523 shares of the Company s common stock. The Series A-1, A-2 and B convertible preferred stock converted at a rate of 2.9 for 1 into common stock based upon the election of the convertible preferred stock holders immediately prior to the closing of the initial public offering.

8. Share-Based Compensation

Stock Options

In May 2009, the Company s Board of Directors approved the 2009 Equity Incentive Plan (the 2009 Plan). The 2009 Plan provided for the granting of stock options and other share-based awards, including restricted stock, stock appreciation rights and restricted stock units to its employees, directors and consultants. Common shares authorized for issuance under the 2009 Plan were 1,330,509 and 1,370,363 at December 31, 2012 and 2011, respectively. Options to purchase common stock under the 2009 Plan were designated as incentive stock options or non-statutory stock options. Stock options granted under this 2009 Plan vest over either a one-year period or three-year period for Board of Director grants and over a four-year period for employee grants and expire 10 years from the date of grant. Upon the closing of the initial public offering in November 2011, the 2009 Plan was closed resulting in the termination of new grants from this plan and the transfer of all shares available for future issuance to the 2011 Stock Incentive Plan. Future forfeitures and cancellations of options previously granted under the 2009 Plan will be transferred to the 2011 Stock Incentive Plan and will be available for grant under the 2011 Plan.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In August 2011, the Company s Board of Directors approved the 2011 Stock Incentive Plan (the 2011 Plan), which became effective upon the closing of the Company s initial public offering in November 2011. The 2011 Plan provides for the granting of incentive and nonqualified stock options, stock appreciation rights, restricted stock, restricted stock units, performance awards and other share-based awards to its employees, directors and consultants. Common shares authorized for issuance under the 2011 Plan were 2,473,592 and 1,388,258 at December 31, 2012 and 2011, respectively, which represents the initial reserve of 1,250,000 shares of common stock plus 178,112 shares of common stock remaining for future grant from the 2009 Equity Incentive Plan and 1,045,480 new shares authorized by the Board of Directors at the 2012 annual meeting of stockholders. Stock options granted to date vest over either a one-year period or three-year period for Board of Director grants or over a four-year period for employee grants and expire 10 years from the date of grant.

Share-based compensation expense for the years ended December 31, 2012, 2011 and 2010, respectively, and the cumulative period from April 20, 2009 to December 31, 2012 has been recognized in the accompanying Statements of Operations as follows:

	Year Ended December 31,			Cumulative Period from April 20, 2009 (Inception) to December 31,
	2012	2011	2010	2012
Research and development	$ 2,391	$ 608	$ 52	$ 3,052
General and administrative	2,558	717	16	3,294
Total share-based compensation expense	$ 4,949	$ 1,325	$ 68	$ 6,346

The Company did not recognize a tax benefit related to share-based compensation expense during the years ended December 31, 2012, 2011 and 2010 and the cumulative period from April 20, 2009 (Inception) to December 31, 2012, respectively, as the Company maintains net operating loss carryforwards and has established a valuation allowance against the entire net deferred tax asset as of December 31, 2012. No share-based compensation expense was capitalized on our Consolidated Balance Sheets as of December 31, 2012 and December 31, 2011.

The following table summarizes the activity relating to the Company s options to purchase common stock:

	Option Shares Outstanding	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Balance at December 31, 2011	934,816	$ 4.88		
Granted	818,198	23.55		
Exercised	(68,616)	2.06		
Forfeited	(85,354)	14.35		
Balance at December 31, 2012	1,599,044	$ 14.05	8.58	$ 9,001,288
Vested and expected to vest at December 31, 2012	1,485,859	$ 13.55	8.54	$ 8,810,577

Vested at December 31, 2012	496,022	$	4.51	7.78	$ 5,697,119

The aggregate intrinsic value in the tables above represents the pretax intrinsic value, based on our closing stock price of $16.00 as of December 31, 2012, which would have been received by the option holders had all option holders with in-the-money options exercised their options as of that date.

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	Year Ended December 31,		
	2012	2011	2010
Weighted-average grant-date fair value per share	$ 15.00	$ 8.62	$ 2.10
Intrinsic value of options exercised	$ 954,927	$ 505,806	$ 19,100
Cash received from stock option exercises	$ 141,182	$ 1,088,737	$ 28,500

The 2009 Plan allows for the option holder to exercise stock option shares prior to the vesting of the option. The shares acquired from an early exercise are subject to repurchase if the option holder terminates employment or service with the Company. The number of unvested common shares at the point of termination will be repurchased by the Company at the stated exercise price of the option. The number of common shares which were exercised prior to vesting was 191,092 and 354,367 at December 31, 2012 and December 31, 2011, respectively. The number of early exercised shares expected to vest using estimated forfeiture rates over the remaining service period of the option term was 153,455 and 300,346 at December 31, 2012 and December 31, 2011, respectively.

The fair value of each share-based award is estimated on the grant date using the Black-Scholes option pricing model using the weighted-average assumptions provided in the following table:

	Year Ended December 31,		
	2012	2011	2010
Risk-free interest rate(a)	1.14%	2.13%	2.10%
Dividend yield			
Volatility(b)	71%	74%	80%
Expected term (years)(c)	6.3	6.0	5.6

(a) *Risk-free interest rate:* The rate is based on the yield on the grant date of a zero-coupon U.S. Treasury bond whose maturity period approximates the option s expected term.
(b) *Volatility:* The expected volatility was estimated using peer data of companies in the biopharmaceutical industry with similar equity plans.
(c) *Expected life:* The expected life of the award was estimated using peer data of companies in the biopharmaceutical industry with similar equity plans.

Unrecognized share-based compensation expense related to nonvested options, adjusted for expected forfeitures, was $12.0 million at December 31, 2012. The unrecognized share-based compensation expense is expected to be recognized over the weighted-average remaining vesting period of 2.8 years at December 31, 2012.

Common Stock Reserved for Issuance

As of December 31, 2012, the Company reserved shares of common stock for future issuance as follows:

	Options Outstanding	Available for Grant or Future Issuance	Total Shares of Common Stock Reserved
2009 Equity Incentive Plan	795,346		795,346
2011 Stock Incentive Plan	803,698	1,669,894	2,473,592
2011 Employee Stock Purchase Plan		438,209	438,209

	1,599,044	2,108,103	3,707,147

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Employee Stock Purchase Plan

In August 2011, our Board of Directors approved the Clovis Oncology, Inc. 2011 Employee Stock Purchase Plan, (the Purchase Plan). Under the Purchase Plan, we are authorized to issue 189,656 shares of common stock to qualified employees. Each year, on the date of our annual meeting of stockholders and at the discretion of our board of directors, the amount of shares reserved for issuance under the Purchase Plan may be increased by up to the lesser of (1) a number of additional shares of our common stock representing 1% of our then-outstanding shares of common stock, (2) 344,828 shares of our common stock and (3) a lesser number of shares as approved by the board. The Purchase Plan will provide for consecutive 6-month offering periods, during which participating employees may elect to have up to 10% of their compensation withheld and applied to the purchase of common stock at the end of each offering period. The purchase price of the common stock will be 85% of the lower of the fair market value of a share of common stock on the first trading date of each offering period or the fair market value of a share of common stock on the last trading day of the offering period. The Purchase Plan will terminate on August 24, 2021, the tenth anniversary of the date of initial adoption of the Purchase Plan. The first offering period of the Purchase Plan commenced on July 1, 2012 and ended on December 31, 2012. We sold 12,817 shares to employees in 2012 at a purchase price of $13.60 per share. The total share-based compensation expense recorded as a result of the Purchase Plan was approximately $104,000 during the year ended December 31, 2012.

The fair value of purchase awards granted to our employees during the year ended December 31, 2012 was estimated using the Black-Scholes option pricing model using the weighted-average assumptions provided in the following table:

Risk-free interest rate(a)	0.15%
Dividend yield	
Volatility(b)	72%
Expected term (years)(c)	0.5

(a) *Risk-free interest rate:* The rate is based on the US Treasury yield in effect at the time of grant with terms similar to the contractual term of the purchase right.
(b) *Volatility:* The expected volatility was estimated using peer data of companies in the biopharmaceutical industry with similar equity plans.
(c) *Expected life:* The expected life of the award represents the six-month offering period for the Purchase Plan.

9. Commitments

The Company leases office space in Boulder, Colorado, San Francisco, California and Cambridge, U.K. under non-cancelable operating lease agreements. The lease agreements contain periodic rent increases that result in the Company recording deferred rent over the term of certain leases. Rental expense under these leases was approximately $849,000, $788,000 and $609,000 for the years ended December 31, 2012, 2011 and 2010, respectively, and $2.3 million from April 20, 2009 (inception) to December 31, 2012. Future minimum rental commitments, by fiscal year and in the aggregate, for the Company s operating leases are provided below (in thousands):

	December 31, 2012
2013	$ 994
2014	521
2015	298
2016	
2017	

Total future minimum lease payments	$ 1,813

10. License Agreements

CO-101

In November 2009, the Company entered into a license agreement with Clavis Pharma ASA (Clavis) to develop and commercialize CO-101 in North America, Central America, South America and Europe. Under terms of the license agreement, the Company made an up-front payment to Clavis in the amount $15.0 million, which was comprised of $13.1 million for development costs incurred prior to the execution of the agreement that was recognized as acquired in-process research and development and $1.9 million for the prepayment of preclinical activities to be performed by Clavis. In November 2010, the license agreement was amended to expand the license territory to include Asia and other international markets. The Company made a payment of $10.0 million to Clavis for the territory expansion and recognized the payment as acquired in-process research and development. As part of the amended license agreement, Clavis also agreed to reimburse up to $3.0 million of the Company s research and development costs for certain CO-101 development activities subject to the Company incurring such costs, all of which was completed in 2011.

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On November 12, 2012, the Company reported results from a pivotal study for CO-101 in metastatic pancreatic cancer. The study results failed to demonstrate a difference in overall survival between the two study arms, CO-101 versus gemcitabine. Based on the results of the study, the Company has terminated development of CO-101.

CO-1686

In May 2010, the Company entered into a worldwide license agreement with Avila Therapeutics, Inc. (Avila) to discover, develop and commercialize a covalent inhibitor of mutant forms of the epidermal growth factor receptor gene product. In March 2012, Avila was acquired by Celgene Corporation (Celgene). CO-1686 was identified as the lead inhibitor candidate developed under the license agreement. The Company is responsible for all preclinical, clinical, regulatory and other activities necessary to develop and commercialize CO-1686. The Company made an up-front payment of $2.0 million upon execution of the license agreement which was recognized as acquired in-process research and development expense. The Company is obligated to pay royalties on net sales of CO-1686, based on the volume of annual net sales achieved. Celgene has the option to increase royalty rates by electing to reimburse a portion of the development expenses incurred by the Company. This option must be exercised within a limited period of time after Celgene is notified of our intent to pursue regulatory approval of CO-1686 in the United States or European Union as a first line therapy.

In January 2012, the U.S. Food and Drug Administration (FDA) accepted our investigational new drug (IND) application to begin clinical investigation of CO-1686. Following the FDA s acceptance of the IND application, we made a milestone payment of $4.0 million to Avila as required by the license agreement and recognized the payment as acquired in-process research and development expense. The Company may be required to pay up to an additional aggregate of $115.0 million in development and regulatory milestone payments if certain clinical study objectives and regulatory filings, acceptances and approvals are achieved. In addition, the Company may be required to pay up to an aggregate of $120.0 million in sales milestones if certain annual sales targets are achieved.

Rucaparib

In June 2011, the Company entered into a worldwide license agreement with Pfizer Inc. to acquire exclusive development and commercialization rights to Pfizer s drug candidate PF-01367338, also known as rucaparib. This drug candidate is a small molecule inhibitor of poly (ADP-ribose) polymerase, or PARP, which the Company is developing for the treatment of selected solid tumors. Pursuant to the terms of the license agreement, the Company made an up-front payment by issuing to Pfizer a $7.0 million convertible promissory note with a 5% annual interest rate, due in 2012. Upon completion of the Company s initial public offering in November 2011, the principal balance and all accrued and unpaid interest due on this note of $7.2 million was converted into 551,222 shares of common stock. The Company is responsible for all development and commercialization costs of rucaparib and, if approved, Pfizer will receive royalties on the net sales of the product. In addition, Pfizer is eligible to receive up to $259 million of further payments, in aggregate, if certain development, regulatory and sales milestones are achieved.

In April 2012, the Company entered into a license agreement with AstraZeneca UK Limited to acquire exclusive rights associated with rucaparib under a family of patents and patent applications that claim methods of treating patients with PARP inhibitors in certain indications. The license enables the development and commercialization of rucaparib for the uses claimed by these patents. Pursuant to the terms of the license agreement, the Company made an up-front payment of $250,000 upon execution of the agreement, which was recognized as acquired in-process research and development expense. The Company may be required to pay up to an aggregate of $0.7 million in milestone payments if certain regulatory filings, acceptances and approvals are achieved. If approved, AstraZeneca will also receive royalties on any net sales of rucaparib.

Drug Discovery Collaboration Agreement

In July 2012, the Company entered into a drug discovery collaboration agreement with Array BioPharma Inc. for the discovery of a novel KIT inhibitor targeting resistance mutations for the treatment of GIST, a gastrointestinal cancer. Under the terms of the agreement, the Company is responsible to fund all costs of the discovery program, as well as costs to develop and commercialize any clinical candidates discovered. If any clinical candidates are discovered and the Company seeks to pursue clinical development of such clinical candidates, the Company may be

required to pay Array up to an aggregate of $192.0 million in milestone payments if certain development and regulatory objectives and annual net sales targets are achieved.

11. Net Loss Per Common Share

Basic net loss per share is calculated by dividing net loss by the weighted-average number of common shares outstanding during the period, without consideration for common stock equivalents. Diluted net loss per share is computed by dividing net loss by the weighted-average number of common share equivalents outstanding for the period determined using the treasury-stock method. For purposes of this calculation, convertible preferred stock and stock options are considered to be common stock equivalents and are only included in the calculation of diluted net loss per share when their effect is dilutive.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The shares outstanding at the end of the respective periods presented in the table below were excluded from the calculation of diluted net loss per share due to their anti-dilutive effect (in thousands):

	Year Ended December 31,			Cumulative from April 20, 2009 (Inception) to December 31,
	2012	2011	2010	2012
Common shares under option	826	935	422	826
Convertible preferred stock			7,245	
Total potential dilutive shares	826	935	7,667	826

12. Income Taxes

A reconciliation of the U.S. statutory income tax rate to the Company s effective tax rate is as follows:

	Year Ended December 31,		
	2012	2011	2010
Federal income tax (benefit) at statutory rate	(34.0)%	(34.0)%	(34.0)%
State income tax benefit, net of federal benefit	(3.8)	(3.6)	(3.6)
Tax credits	(12.5)	(13.4)	(12.9)
Other	1.5	(2.7)	0.3
Change in valuation allowance	48.8	53.7	50.2
Effective income tax rate	%	%	%

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The components of the Company s deferred tax assets and liabilities are as follows (in thousands):

	December 31,	
	2012	2011
Deferred tax assets:		
Net operating loss carryforward	$ 53,860	$ 26,129
Tax credit carryforwards	31,999	18,167
Product acquisition costs	4,417	11,169
Share-based compensation expense	1,286	322
Accrued liabilities and other	123	79
Total deferred tax assets	91,685	55,866
Valuation allowance	(91,448)	(55,342)
Deferred tax assets, net of valuation allowance	237	524
Deferred tax liabilities:		
Prepaid expenses	(142)	(435)
Depreciation	(95)	(89)
Total deferred tax liabilities	(237)	(524)
Net deferred tax assets	$	$

The realization of deferred tax assets is dependent upon future earnings, the timing and amount of these future earnings is uncertain. A valuation allowance was established for the net deferred tax asset balance due to management s belief that the realization of these assets is not likely to occur in the foreseeable future. The Company recorded an increase to the valuation allowance of $36.1 million and $29.8 million during the years ended December 31, 2012 and 2011, respectively, due primarily to an increase in net operating loss carryforwards and tax credit carryforwards.

At December 31, 2012, the Company had approximately $136.1 million, $211.7 million and $0.5 million of U.S. federal, state and foreign net operating loss carryforwards, respectively. The U.S. net operating losses will expire from 2029 to 2032 if not utilized. Included in the U.S. net operating loss is approximately $0.7 million of stock compensation expense, the benefit of which, if realized, will be an increase to additional paid in capital and a reduction to taxes payable. In addition, the Company has research and development and orphan drug tax credit carryforwards of $32.0 million that will expire from 2029 through 2032 if not utilized.

We believe that a change in ownership as defined under Section 382 of the U.S. Internal Revenue Code occurred as a result of the Company s public offering of common stock completed in April 2012. Future utilization of the federal net operating losses and tax credit carryforwards accumulated from inception to the change in ownership date will be subject to annual limitations to offset future taxable income. We do not, however, believe this limitation prevents utilization prior to expiration. The Company s federal and state income taxes for the period from inception to December 31, 2012 remain open to an audit.

Tax positions must initially be recognized in the financial statements when it is more likely than not that the position will be sustained upon examination by the tax authorities. Such tax positions must initially and subsequently be measured as the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the tax authority assuming full knowledge of the position and relevant facts. The Company has not identified any significant uncertain tax positions that require recognition in our financial statements. Our

evaluation was performed from inception through December 31, 2012.

The Company may be assessed interest and penalties related to the settlement of tax positions. We will recognize interest and penalties within income tax expense, when assessed. To date, no interest and penalties have been recognized by the Company.

During 2010, the Company was awarded $489,000 under the Qualifying Therapeutic Discovery Project Program (section 48D of the internal revenue code), which the Company elected to receive in the form of a grant. This award has been reflected as other income in the consolidated statement of operations for the year ended December 31, 2010.

13. Employee Benefit Plan

In 2010, the Company established a retirement plan, which is qualified under section 401(k) of the Internal Revenue Code for its U.S. employees. The plan allows eligible employees to defer, at the employee s discretion, pretax compensation up to the IRS annual limits. The Company matches contributions up to 4% of the eligible employee s compensation or the maximum amount permitted by law. Total expense for contributions made to U.S. employees was $295,000, $181,000 and $104,000 for the years ended December 31, 2012, 2011 and 2010, respectively, and $580,000 from April 20, 2009 (inception) to December 31, 2012. The Company s international employees participate in retirement plans governed by the local laws in effect for the country in which they reside. The Company made matching contributions to international employees of $76,000, $64,000 and $41,000 for the year ended December 31, 2012, 2011 and 2010, respectively, and $181,000 from April 20, 2009 (inception) to December 31, 2012.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. Subsequent Events

The Company has evaluated subsequent events after the balance sheet date of December 31, 2012 and up to the date the Company filed this Annual Report.

15. Quarterly Information (Unaudited)

The results of operations on a quarterly basis for the years ended December 31, 2012 and 2011 were as follows:

	(In thousands, except per share data)							
	March 31, 2012	**June 30, 2012(2)**	**Sept. 30, 2012**	**Dec. 31, 2012**	**March 31, 2011**	**June 30, 2011**	**Sept. 30, 2011**	**Dec. 31, 2011(1)**
Revenues	$	$	$	$	$	$	$	$
Expenses:								
Research and development	12,562	12,590	15,458	18,284	7,041	9,679	11,566	12,440
General and administrative	2,425	2,680	2,762	2,771	1,405	1,705	1,714	2,036
Acquired in-process research and development	4,000	250				7,000		
Operating loss	(18,987)	(15,520)	(18,220)	(21,055)	(8,446)	(18,384)	(13,280)	(14,476)
Other income (expense), net	(4)	(172)	(48)	(4)	118	(115)	(555)	(405)
Loss before income taxes	(18,991)	(15,692)	(18,268)	(21,059)	(8,328)	(18,499)	(13,835)	(14,881)
Income taxes	(8)	35						(27)
Net loss	$ (18,999)	$ (15,657)	$ (18,268)	$ (21,059)	$ (8,328)	$ (18,499)	$ (13,835)	$ (14,908)
Net loss per share: basic and diluted	$ (0.86)	$ (0.61)	$ (0.71)	$ (0.81)	$ (6.64)	$ (14.32)	$ (10.73)	$ (1.30)
Weighted average shares: basic and diluted	22,041	25,744	25,906	25,948	1,254	1,292	1,289	11,498

(1) In November 2011, the Company completed its initial public offering, which resulted in net proceeds of $129.4 million from the issuance of 10,700,000 shares of common stock. In connection with the initial public offering, all of the outstanding shares of the Company s convertible preferred stock and convertible promissory notes payable and related accrued interest were converted into 10,002,311 shares of common stock.

(2) In April 2012, the Company sold 3,750,000 shares of its common stock in a public offering at $20.00 per share. The net offering proceeds realized after deducting offering expenses and underwriters discounts and commissions was $70.0 million.

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INDEX TO EXHIBITS

Exhibit Number	Exhibit Description
3.1(5)	Amended and Restated Certificate of Incorporation of Clovis Oncology, Inc.
3.2(5)	Amended and Restated Bylaws of Clovis Oncology, Inc.
4.1(3)	Form of Common Stock Certificate of Clovis Oncology, Inc.
4.2(1)	Clovis Oncology Inc. Investor Rights Agreement, dated as of May 15, 2009, between Clovis Oncology, Inc. and certain investors named therein.
10.1*(1)	Amended and Restated License Agreement, dated as of November 10, 2010, by and between Clovis Oncology, Inc. and Clavis Pharma ASA.
10.2*(4)	Amended and Restated Strategic License Agreement, dated as of June 16, 2011, by and between Clovis Oncology, Inc. and Avila Therapeutics, Inc.
10.3*(4)	License Agreement, dated as of June 2, 2011, by and between Clovis Oncology, Inc. and Pfizer Inc.
10.4+(1)	Clovis Oncology, Inc. 2009 Equity Incentive Plan.
10.5+(4)	Clovis Oncology, Inc. 2011 Equity Incentive Plan.
10.6+(1)	Form of Clovis Oncology, Inc. 2009 Equity Incentive Plan Stock Option Agreement.
10.7+(4)	Form of Clovis Oncology, Inc. 2011 Equity Incentive Plan Stock Option Agreement.
10.8+(3)	Employment Agreement, dated as of August 24, 2011, between Clovis Oncology, Inc. and Patrick J. Mahaffy.
10.9+(3)	Employment Agreement, dated as of August 24, 2011, between Clovis Oncology, Inc. and Erle T. Mast.
10.10+(3)	Employment Agreement, dated as of August 24, 2011, between Clovis Oncology, Inc. and Gillian C. Ivers-Read.
10.11+(3)	Employment Agreement, dated as of August 24, 2011, between Clovis Oncology, Inc. and Andrew R. Allen.
10.12+(1)	Indemnification Agreement, dated as of May 15, 2009, between Clovis Oncology, Inc. and John C. Reed.
10.13+(1)	Indemnification Agreement, dated as of May 15, 2009, between Clovis Oncology, Inc. and Paul Klingenstein.
10.14+(1)	Indemnification Agreement, dated as of May 15, 2009, between Clovis Oncology, Inc. and James C. Blair.
10.15+(1)	Indemnification Agreement, dated as of May 15, 2009, between Clovis Oncology, Inc. and Edward J. McKinley.
10.16+(1)	Indemnification Agreement, dated as of May 15, 2009, between Clovis Oncology, Inc. and Thorlef Spickschen.
10.17+(1)	Indemnification Agreement, dated as of May 15, 2009, between Clovis Oncology, Inc. and M. James Barrett.
10.18+(1)	Indemnification Agreement, dated as of May 15, 2009, between Clovis Oncology, Inc. and Brian G. Atwood.
10.19+(1)	Indemnification Agreement, dated as of May 12, 2009, between Clovis Oncology, Inc. and Patrick J. Mahaffy.
10.20+(1)	Indemnification Agreement, dated as of May 12, 2009, between Clovis Oncology, Inc. and Erle T. Mast.
10.21+(1)	Indemnification Agreement, dated as of May 12, 2009, between Clovis Oncology, Inc. and Gillian C. Ivers-Read.
10.22+(1)	Indemnification Agreement, dated as of May 13, 2009, between Clovis Oncology, Inc. and Andrew R. Allen.
10.23+(1)	Restricted Stock Purchase Agreement, dated as of May 12, 2009, between Clovis Oncology, Inc. and Patrick J. Mahaffy.
10.24+(1)	Restricted Stock Purchase Agreement, dated as of May 12, 2009, between Clovis Oncology, Inc. and Erle T. Mast.
10.25+(1)	Restricted Stock Purchase Agreement, dated as of May 12, 2009, between Clovis Oncology, Inc. and Gillian C. Ivers-Read.
10.26+(1)	Restricted Stock Purchase Agreement, dated as of May 12, 2009, between Clovis Oncology, Inc. and Andrew R. Allen.
10.27*(4)	Companion Diagnostics Agreement, dated as of April 19, 2011, by and between Clovis Oncology, Inc. and Roche Molecular Systems, Inc.

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Exhibit Number	Exhibit Description
10.28*(4)	Master Service Agreement, dated as of March 23, 2010, by and between Clovis Oncology, Inc. and Ventana Medical Systems, Inc., together with the related Individual Project Agreement, dated as of March 25, 2010.
10.29+(4)	Clovis Oncology, Inc. 2011 Employee Stock Purchase Plan.
10.30+(4)	Clovis Oncology, Inc. 2011 Cash Bonus Plan.
10.31+(6)	Employment Agreement, dated as of March 22, 2012, by and between Clovis Oncology, Inc. and Steven L. Hoerter.
10.32+(6)	Indemnification Agreement, dated as of March 22, 2012, by and between Clovis Oncology, Inc. and Steven L. Hoerter.
21.1(1)	List of Subsidiaries of Clovis Oncology, Inc.
23.1	Consent of Independent Registered Public Accounting Firm
31.1	Certification of principal executive officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended.
31.2	Certification of principal financial officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended.
32.1	Certification of principal executive officer pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of principal financial officer pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

(1) Filed as an exhibit with the Registrant s Registration Statement on Form S-1 (File No. 333-175080) on June 23, 2011.
(2) Filed as an exhibit with Amendment No. 1 to the Registrant s Registration Statement on Form S-1 (File No. 333-175080) on August 5, 2011.
(3) Filed as an exhibit with Amendment No. 2 to the Registrant s Registration Statement on Form S-1 (File No. 333-175080) on August 31, 2011.
(4) Filed as an exhibit with Amendment No. 3 to the Registrant s Registration Statement on Form S-1 (File No. 333-175080) on October 31, 2011.
(5) Filed as an exhibit with the Registrant s Annual Report on Form 10-K on March 15, 2012.
(6) Filed as an exhibit with the Registrant s Registration Statement on Form S-1 (File No. 333-180293) on March 23, 2012.
\+ Indicates management contract or compensatory plan.
* Confidential treatment has been granted with respect to portions of this exhibit, which portions have been omitted and filed separately with the Securities and Exchange Commission.