AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON SEPTEMBER 24, 1996

REGISTRATION NO. 333-11105

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

AMENDMENT NO. 1

TO

FORM S-1
REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

ARQULE, INC.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE	2834	04-3221586
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(PRIMARY STANDARD INDUSTRIAL CLASSIFICATION CODE NUMBER)	(I.R.S. EMPLOYER IDENTIFICATION NUMBER)

200 BOSTON AVENUE
MEDFORD, MASSACHUSETTS 02155
(617) 395-4100
(ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE, OF REGISTRANT'S PRINCIPAL EXECUTIVE OFFICES)

ERIC B. GORDON
PRESIDENT AND CHIEF EXECUTIVE OFFICER
ARQULE, INC.
200 BOSTON AVENUE
MEDFORD, MASSACHUSETTS 02155
(617) 395-4100
(NAME, ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE, OF AGENT FOR SERVICE)

COPIES TO:

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LAWRENCE S. WITTENBERG, ESQ.
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TESTA, HURWITZ & THIBEAULT, LLP
HIGH STREET TOWER
125 HIGH STREET
BOSTON, MASSACHUSETTS 02110
(617) 248-7000

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC:
As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this Form are to be offered on

a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. / /

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SECTION 8(A), MAY DETERMINE.

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Information contained herein is subject to completion or amendment. A registration statement relating to these securities has been filed with the Securities and Exchange Commission. These securities may not be sold nor may offers to buy be accepted prior to the time the registration statement becomes effective. This Prospectus shall not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any State in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such State.

SUBJECT TO COMPLETION, DATED SEPTEMBER 24, 1996

PROSPECTUS
- ---

2,000,000 SHARES

ARQULE, INC.

ARQULE LOGO
COMMON STOCK

All of the 2,000,000 shares of Common Stock offered hereby are being sold by ArQule, Inc. Prior to this offering, there has been no public market for the Common Stock of the Company. It is currently anticipated that the initial public offering price will be between $11.00 and $13.00 per share. See "Underwriting" for a discussion of the factors to be considered in determining the initial public offering price. The Common Stock has been approved for quotation on the Nasdaq National Market under the symbol ARQL.

THE SHARES OFFERED HEREBY INVOLVE A HIGH DEGREE OF RISK.
SEE "RISK FACTORS" BEGINNING ON PAGE 5.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	PRICE TO PUBLIC	UNDERWRITING DISCOUNT(1)	PROCEEDS TO COMPANY(2)
Per Share.....	$	$	$

Total(3).....	$	$	$

(1) See "Underwriting" for indemnification arrangements with the several Underwriters.

(2) Before deducting expenses payable by the Company estimated at $775,000.

(3) The Company has granted to the Underwriters a 30-day option to purchase up to 300,000 additional shares of Common Stock solely to cover over-allotments, if any. If all such shares are purchased, the total Price to Public, Underwriting Discount and Proceeds to Company will be $, $ and $, respectively. See "Underwriting."

The shares of Common Stock are offered by the several Underwriters subject to prior sale, receipt and acceptance by them and subject to the right of the Underwriters to reject any order in whole or in part and certain other conditions. It is expected that certificates for such shares will be available for delivery on or about , 1996, at the offices of the agent of Hambrecht & Quist LLC in New York, New York.

HAMBRECHT & QUIST

OPPENHEIMER & CO., INC.

VECTOR SECURITIES INTERNATIONAL, INC.

September , 1996

[FOUR COLOR WORK]

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE COMMON STOCK OF THE COMPANY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH TRANSACTIONS MAY BE EFFECTED ON THE NASDAQ NATIONAL MARKET OR OTHERWISE. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

AMAP(TM), Directed Array(TM) and Mapping Array(TM) are trademarks of the Company for which there are pending applications for registration in the U.S. Patent and Trademark Office.

PROSPECTUS SUMMARY

The following summary is qualified in its entirety by the more detailed information and financial statements, including notes thereto, appearing elsewhere in this Prospectus.

ArQule, Inc. (the "Company" or "ArQule") has created a new technology platform for the discovery and production of novel chemical compounds with commercial potential and is a leading provider of novel compounds to the pharmaceutical and biotechnology industries. The Company has developed a proprietary modular building block technology that it has integrated with structure-guided drug design, high speed parallel chemical synthesis and information technology to identify and optimize drug development candidates. To date, the Company has entered into collaborative arrangements with Roche Bioscience, Pharmacia Biotech AB, Abbott Laboratories and Solvay Duphar B.V., and has formed joint discovery programs with several biotechnology companies. ArQule believes that its technology will allow its collaborative partners to accelerate the drug discovery process by several years, permitting them to realize significant cost reductions and the earlier recovery of research and development expenditures for successful drugs.

Using its proprietary "automated molecular assembly plant" (AMAP(TM)) system and structure-activity relationship ("SAR") data regarding biological targets and modular molecular components, ArQule produces significant quantities of pure small organic compounds in logically structured spatially addressable arrays. Unlike traditional synthetic chemistry and current combinatorial chemistry approaches to drug discovery, ArQule's arrays are created by using structure-guided and rational drug design tools to systematically select and assemble molecular building blocks with properties the Company's scientists believe are likely to exhibit biological activity. ArQule's compound arrays are designed around certain core structures or themes. Each compound in the array is different from the adjacent compounds as a result of a single structural modification. Each ArQule array omits compounds that are closely analogous to other compounds in the array, using representative diversity to create a logical representation of a virtual library of hundreds of times as many compounds as are in the array. Drug developers are able to realize significant savings by screening the thousands of compounds in each ArQule array rather than the millions of compounds they represent.

ArQule manufactures and delivers two types of arrays of synthesized compounds to its pharmaceutical and biotechnology partners: (i) Mapping Array(TM) compound sets, which are arrays of novel, diverse small molecule compounds used for screening and (ii) Directed Array(TM) compound sets, which are arrays of analogs of a particular lead compound (identified through a Mapping Array program or otherwise), synthesized for the purpose of optimizing such lead compounds. Both Mapping Array and Directed Array sets are shipped in industry-standard 96-well microtiter plates that are compatible with most drug developers' screening protocols. Under its Mapping Array program, ArQule ships a minimum of 100,000 compounds per year in 15 to 20 separate Mapping Array sets, each consisting of 3,000 to 10,000 individual compounds based on a different theme or core structure chosen by ArQule.

ArQule conducts drug discovery programs primarily with partners in the pharmaceutical and biotechnology industries. To date, ArQule has entered into collaborative arrangements with Roche Bioscience, Pharmacia Biotech AB, Abbott Laboratories and Solvay Duphar B.V., and has formed joint discovery programs with several biotechnology companies. In exchange for non-exclusive access to ArQule's Mapping Array program, the Company's pharmaceutical partners pay ArQule a combination of up-front and annual subscription fees. In addition, these companies agree to pay a fixed amount for Directed Array sets, as well as to make payments upon the achievement of certain milestones and to pay royalties upon the commercialization of drugs developed by the collaborator from ArQule compounds. In exchange for providing the arrays to the Company's biotechnology partners, the Company receives joint ownership of any potential drugs identified through the joint discovery program.

ArQule's integrated technologies also present the Company with opportunities in a number of biological and non-biological fields outside of drug discovery. These opportunities include the production of separations media for the purification of therapeutic proteins, novel agricultural chemicals, industrial catalysts and the development of nano-scale polymeric structures for specialized mechanical applications.

THE OFFERING

Common Stock offered by the Company.....	2,000,000 shares
Common Stock to be outstanding after the offering.....	8,976,487 shares(1)
Use of proceeds.....	To fund research and product development programs and for general corporate and working capital purposes.

Proposed Nasdaq National Market symbol..... ARQL

SUMMARY FINANCIAL INFORMATION
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	PERIOD FROM INCEPTION (MAY 6, 1993) THROUGH DECEMBER 31,	YEAR ENDED DECEMBER 31,		SIX MONTHS ENDED JUNE 30,	
	1993	1994	1995	1995	1996
				(UNAUDITED)	
STATEMENT OF OPERATIONS DATA:					
Revenue	$ --	$ 85	$ 3,330	$ 1,521	$2,975
Loss from operations	(1,456)	(4,067)	(1,966)	(890)	(907)
Net loss	$(1,465)	$(4,206)	$(2,252)	$(1,069)	$ (754)
Unaudited pro forma net loss per share(2)			$ (0.33)		$(0.10)
Shares used in computing unaudited pro forma net loss per share(2)			6,851		7,441

	JUNE 30, 1996		
	ACTUAL	PRO FORMA(3)	AS ADJUSTED(3)(4)
		(UNAUDITED)	
BALANCE SHEET DATA:			
Cash, cash equivalents and marketable securities	$ 6,367	$ 6,367	$27,912
Working capital	1,394	1,394	22,939
Total assets	11,848	11,848	33,393
Capital lease obligations, less current portion	1,426	1,426	1,426
Series B mandatorily redeemable convertible preferred stock	6,898	--	--
Total stockholders' equity (deficit)	(1,622)	5,276	26,821

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(1) Excludes 1,135,920 shares issuable upon the exercise of options outstanding as of June 30, 1996 with a weighted average exercise price of $2.21 per share.

(2) Unaudited pro forma net loss per share is determined by dividing Net loss by Shares used in computing unaudited pro forma net loss per share. For information regarding Shares used in computing unaudited pro forma net loss per share, see Notes 2 and 10 of Notes to Financial Statements.

(3) Reflects the conversion of all outstanding shares of preferred stock into 6,219,948 shares of Common Stock upon the closing of this offering. See Note 10 of Notes to Financial Statements.

(4) As adjusted to give effect to the sale of 2,000,000 shares of Common Stock offered hereby, after deducting the underwriting discount and offering expenses, at an assumed initial public offering price of $12.00 per share and the application of the estimated net proceeds therefrom as set forth in "Use of Proceeds" and the issuance of 234,992 shares of Common Stock upon the cashless exercise of outstanding warrants immediately prior to the effectiveness of the registration statement of which this Prospectus is a part.

Except as otherwise noted, all information in this Prospectus assumes (i) a one-for-two reverse stock split of the Common Stock to be effected concurrently with the effectiveness of the registration statement of which this Prospectus is a part, (ii) the conversion of all outstanding shares of Series A Convertible Preferred Stock and Series B Convertible Preferred Stock into an aggregate of

6,219,948 shares of Common Stock immediately prior to the closing of this offering (after giving effect to the reverse stock split), (iii) the issuance of 234,992 shares of Common Stock upon the cashless exercise of outstanding warrants immediately prior to the effectiveness of the registration statement of which this Prospectus is a part and (iv) no exercise of the Underwriters' over-allotment option. The shares of Common Stock offered hereby involve a high degree of risk. Investors should carefully consider the information set forth under "Risk Factors."

RISK FACTORS

An investment in the shares of Common Stock being offered hereby involves a high degree of risk. Prospective investors should carefully consider the following risk factors, in addition to the other information contained in this Prospectus, before purchasing the shares of Common Stock offered hereby.

Limited Operating History; History of Operating Losses; Uncertainty of Future Profitability. The Company has had a limited operating history. For the year ended December 31, 1994, the year ended December 31, 1995 and the six months ended June 30, 1996, the Company had net losses of approximately $4.2 million, $2.3 million and $0.8 million, respectively. As of June 30, 1996, the Company had an accumulated deficit of approximately $8.7 million. The Company's expansion of its operations and enhancements to its technology will result in significant expenses over the next several years that may not be offset by significant revenues. The Company expects that revenues for the foreseeable future and the Company's ability to achieve profitability will be dependent upon the ability of the Company to enter into additional collaborative arrangements with customers. To date, all revenue received by the Company has been from up-front fees and research and development funding paid pursuant to collaborative agreements with the Company's collaborative partners. The Company has not realized any revenues from the achievement of milestones or royalties from the discovery, development or sale of a commercial product by one of the Company's collaborative partners, and there can be no assurance that any such revenues will be realized. The Company is unable to predict when, or if, it will become profitable. See "Selected Financial Data" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Unproven Business Strategy. The Company's modular building block approach to chemistry has not yet resulted in the commercialization of a product. The Company uses chemical building blocks for the purpose of rapidly identifying, optimizing and obtaining proprietary rights to as many compounds with commercial potential as possible. The pricing and nature of the Company's compound sets are such that there may only be a limited number of companies that are potential customers for such sets. The Company's ability to succeed is dependent upon the acceptance by potential customers of the Company's approach to chemistry and compound analysis as an effective tool in the discovery and development of compounds with commercial potential. Due to the highly proprietary nature of the activities being conducted, the central importance of these activities to their drug discovery and development efforts, and the desire to obtain maximum patent and other proprietary protection on the results of their internal programs, pharmaceutical and biotechnology companies have historically conducted lead compound identification and optimization within their own research departments. There can be no assurance that the Company's present or future collaborators will not pursue existing or alternative technology, either independently or in collaboration with others, in preference to that of the Company or that the Company will be able to attract future collaborators on acceptable terms or develop a sustainable, profitable business. See "Business."

Competition and the Risk of Obsolescence of Technology. Competition among the many organizations actively attempting to identify and optimize compounds for development in the pharmaceutical industry and in other areas is intense. In the pharmaceutical industry, ArQule competes with the research departments of pharmaceutical companies, biotechnology companies, combinatorial chemistry companies and research and academic institutions. Many of these competitors have greater financial and human resources, and more experience in research and

development, than the Company. Historically, pharmaceutical companies have maintained close control over their research activities, including the synthesis, screening and optimization of chemical compounds. Many of these pharmaceutical companies, which represent the greatest potential market for ArQule's products and services, have developed or are developing internal combinatorial chemistry and other methodologies to improve productivity, including major investments in robotics technology to permit the automated parallel synthesis of compounds. In addition, ArQule competes with biotechnology and combinatorial chemistry companies that offer a range of products and services. Academic institutions, governmental agencies and other research organizations are also conducting research in areas in which the Company

is working, either on their own or in collaboration with others. The Company anticipates that it will face increased competition in the future as new companies enter the market and advanced technologies, including more sophisticated information technologies, become available. The Company's technological approaches may be rendered obsolete or uneconomical by advances in existing technological approaches or the development of different approaches by one or more of the Company's competitors. See "Business--Competition."

Dependence on Third Parties. The Company's strategy for the development and commercialization of its products and services involves the formation of collaborative arrangements with third parties, initially pharmaceutical and biotechnology companies. To date, the Company has entered into numerous such arrangements. There can be no assurance that the Company's existing collaborations will not be terminated under certain circumstances by its collaborators and any such terminations could have a material adverse effect on the Company. There can be no assurance that the Company will be able to establish additional collaborative arrangements, that any such arrangements will be on terms favorable to the Company, or that current or future collaborative arrangements will ultimately be successful. Further, ArQule's receipt of revenues from collaborative arrangements is affected by the timing of efforts expended by third parties. The Company's products and services will only result in commercialized pharmaceutical products generating milestone payments and royalties after significant preclinical and clinical development efforts, the receipt of the requisite regulatory approvals, and the integration of manufacturing capabilities and successful marketing efforts. With the exception of certain aspects of preclinical development, the Company does not currently intend to perform any of these activities. Therefore, the Company will be dependent upon the expertise of, and dedication of sufficient resources by, third parties to develop and commercialize products. Should a collaborative partner fail to develop or commercialize a compound or product to which it has obtained rights from the Company, the Company may not receive any future milestone payments or royalties associated with such compound or product. Furthermore, there can be no assurance that any such development or commercialization would be successful or that disputes will not arise over the application of payment provisions to such drugs. There can be no assurance that current or future collaborative partners will not pursue alternative technologies or develop alternative products, either on their own or in collaboration with others, including the Company's competitors, as a means for developing treatments for the diseases targeted by collaborative arrangements with the Company. See "Business--ArQule's Drug Discovery Programs."

Dependence on Key Employees. The Company is highly dependent on the principal members of its scientific and management staff, in particular, Dr. Joseph C. Hogan, Jr. and Dr. David L. Coffen. The loss of one or more members of its staff could have a material adverse effect on the Company's business, financial condition and results of operations. The Company does not maintain key person life insurance on the life of any employee. The Company's future success also will depend in part on its ability to identify, hire and retain additional qualified personnel, including individuals with doctorates in basic sciences. There is intense competition for such personnel in the areas of the Company's activities, and there can be no assurance that the Company will be able to continue to attract and retain personnel with the advanced technical qualifications necessary for the development of the Company's business. Failure to attract and retain key personnel could have a material adverse effect on the Company's business, financial condition and results of operations. See "Business--Employees" and "Management."

Future Capital Needs; Uncertainty of Additional Funding. There can be no assurance that the net proceeds from this offering, together with the Company's existing capital resources and revenue from operations, will be adequate to fund the Company's operations through December 1998. The Company may be required to raise additional capital over a period of several years in order to conduct its operations. Such capital may be raised through additional public or private equity financings, as well as collaborative arrangements, borrowings and other available sources. The Company's capital requirements depend on numerous factors, including entering into additional collaborative arrangements, competing technological and market developments, changes in the Company's existing collaborative

relationships, the cost of filing, prosecuting, defending and enforcing patent claims and other intellectual property rights, the purchase of additional capital equipment, the progress of the Company's drug discovery programs and the progress of the Company's collaborators' milestone and royalty-producing activities. The Company does not currently plan to independently develop, manufacture or market any drugs it discovers. Should the Company, however, choose to develop any such drugs, the Company will require substantial funds to conduct research and development, preclinical studies and clinical trials and to market any pharmaceutical products that may be developed from such drugs. There can be no assurance that additional funding, if necessary, will be available on favorable terms, if at all. If adequate funds are not available, the Company may be required to curtail operations significantly or to obtain funds by entering into arrangements with collaborative partners or others that may require the Company to relinquish rights to certain of its technologies, product candidates, products or potential markets. To the extent that additional capital is raised through the sale of equity or securities convertible into equity, the issuance of such securities could result in dilution to the Company's existing stockholders. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Dependence on Scale Up and Management of Growth. The Company's success will depend on the expansion of its operations and the management of these expanded operations. To be cost-effective in its delivery of services and products, the Company must enhance productivity through further automation of its processes and improvements to its technology. The Company also must successfully structure and manage multiple additional collaborative relationships. There can be no assurance that the Company will be successful in its engineering efforts to further automate its processes or that the Company will be successful in managing and meeting the staffing requirements of additional collaborative relationships. Failure to achieve any of these goals could have a material adverse effect on the Company's business, financial condition or results of operations. See "Business--ArQule's Drug Discovery Programs" and "--Employees."

Control By Management and Existing Stockholders. Upon completion of this offering, the Company's significant stockholders, executive officers, directors and affiliated entities together will beneficially own approximately 71.9% of the outstanding shares of Common Stock (69.6% if the Underwriters' over-allotment option is exercised in full). As a result, these stockholders, acting together, will be able to control most matters requiring approval by the stockholders of the Company, including the election of directors. Such a concentration of ownership may have the effect of delaying or preventing a change in control of the Company, including transactions in which stockholders might otherwise receive a premium for their shares over then current market prices. See "Principal Stockholders."

Dependence on Patents and Proprietary Rights. The Company's success will depend in large part on its ability, and the ability of its licensees and its licensors, to obtain patents for its technologies and the compounds and other products, if any, resulting from the application of such technologies, to defend such patents once obtained and to maintain trade secrets, both in the United States and in foreign countries. The commercial success of the Company will also depend upon avoiding the infringement of patents issued to others and maintaining the technology licenses upon which certain of the Company's current

products are, or any future products under development might be, based.

Some of the Company's competitors have, or are affiliated with companies having, substantially greater resources than the Company, and such competitors may be able to sustain the costs of complex patent litigation to a greater degree and for longer periods of time than the Company. Uncertainties resulting from the initiation and continuation of any patent or related litigation could have a material adverse effect on the Company's ability to compete in the marketplace pending resolution of the disputed matters. To date, one patent has been issued to the Company. There can be no assurance that other patents will issue to the Company or its licensors as a result of their pending applications or that, if issued, such patents will contain claims sufficiently broad to afford protection against competitors with similar technology. Moreover, there can be no assurance that the Company or its customers will be able to obtain significant patent protection for lead compounds or pharmaceutical products based upon the Company's technology. There can be no assurance that any patents issued to the Company or

its collaborative partners, or for which the Company has license rights, will not be challenged, narrowed, invalidated or circumvented, or that the rights granted thereunder will provide competitive advantages to the Company. Litigation, which could result in substantial cost to the Company, may be necessary to enforce the Company's patent and license rights, to enforce or defend an infringement claim, or to determine the scope and validity of others' proprietary rights. If competitors of the Company prepare and file patent applications in the United States or abroad that claim technology also claimed by the Company, the Company may have to participate in interference proceedings declared by the U.S. Patent and Trademark Office to determine the priority of invention, or opposition proceedings in a foreign patent office, both of which could result in substantial cost to the Company, even if the outcome is favorable to the Company. An adverse outcome could subject the Company to significant liabilities to third parties, and require the Company to cease using the technology or to license disputed rights from third parties, which licenses may not be available at reasonable cost.

A number of pharmaceutical and biotechnology companies, and research and academic institutions have developed technologies, filed patent applications or received patents on various technologies that may be related to the Company's business. Some of these technologies, applications or patents may conflict with the Company's technologies or patent applications. Such conflicts could also limit the scope of the claim of any patents that the Company may be able to obtain, or result in the rejection of the Company's patent applications. The Company currently has certain licenses to patents and patent applications from third parties, and in the future may require additional licenses from other parties. There can be no assurance that: (i) such licenses will be obtainable on commercially reasonable terms, if at all; (ii) the patents underlying such licenses will be valid and enforceable; (iii) patents having commercially valuable claims will issue from any licensed patent applications; or (iv) the proprietary nature of the patented technology underlying such licenses will remain proprietary.

The Company relies substantially on certain technologies that are not patentable or proprietary and are therefore available to the Company's competitors. The Company also relies on certain proprietary trade secrets and know-how that are not patentable. Although the Company has taken steps to protect its unpatented trade secrets and know-how, in part through the use of confidentiality agreements with its employees, consultants and certain of its collaborators, there can be no assurance that (i) the agreements will not be breached; (ii) the Company would have adequate remedies for any breach; or (iii) the Company's trade secrets will not otherwise become known or be independently developed or discovered by competitors. See "Business--Patents and Proprietary Rights."

No Prior Public Market for Common Stock; Possible Volatility of Stock Price. Prior to this offering, there has been no public market for the Common

Stock and there can be no assurance that an active public market for the Common Stock will develop or be sustained after the offering. The initial public offering price will be determined by negotiations between the Company and the Underwriters and is not necessarily indicative of the market price at which the Common Stock of the Company will trade after this offering. The market prices for securities of comparable companies have been highly volatile and the market has experienced significant price and volume fluctuations that are unrelated to the operating performance of particular companies. Announcements of technological innovations or new commercial products by the Company or its competitors, developments concerning proprietary rights, including patents and litigation matters, publicity regarding actual or potential results with respect to products or compounds under development by the Company or its collaborative partners, regulatory developments in both the United States and foreign countries, public concern as to the efficacy of new technologies, general market conditions, as well as quarterly fluctuations in the Company's revenues and financial results and other factors, may have a significant impact on the market price of the Common Stock. In particular, the realization of any of the risks described in these "Risk Factors" could have a dramatic and adverse impact on such market price. See "Underwriting."

Anti-Takeover Effect of Certain Charter and By-Law Provisions and Delaware Law. The Company's Certificate of Incorporation as it is proposed to be amended and restated concurrently with the closing of this offering (the "Restated Certificate") authorizes the Board of Directors to issue, without

stockholder approval, up to 1,000,000 shares of preferred stock ("Preferred Stock") with voting, conversion and other rights and preferences that could adversely affect the voting power or other rights of the holders of Common Stock. The issuance of Preferred Stock or of rights to purchase Preferred Stock could be used to discourage an unsolicited acquisition proposal. In addition, the possible issuance of Preferred Stock could discourage a proxy contest, make more difficult the acquisition of a substantial block of the Company's Common Stock or limit the price that investors might be willing to pay for shares of the Company's Common Stock. The Restated Certificate provides for staggered terms for the members of the Board of Directors. A staggered Board of Directors and certain provisions of the Company's By-laws (the "By-laws") and of Delaware law applicable to the Company could delay or make more difficult a merger, tender offer or proxy contest involving the Company. The Company, for example, will be subject to Section 203 of the General Corporate Law of Delaware which, subject to certain exceptions, restricts certain transactions and business combinations between a corporation and a stockholder owning 15% or more of the corporation's outstanding voting stock (an "interested stockholder") for a period of three years from the date the stockholder becomes an interested stockholder. These provisions may have the effect of delaying or preventing a change of control of the Company without action by the stockholders and, therefore, could adversely affect the price of the Company's Common Stock. See "Management," "Description of Capital Stock--Preferred Stock" and "--Anti-Takeover Measures."

Potential Liability Regarding Hazardous Materials. The research and development processes of the Company involve the controlled use of hazardous materials. The Company is subject to federal, state and local laws and regulations governing the use, manufacture, storage, handling and disposal of such materials and certain waste products. The risk of accidental contamination or injury from these materials cannot be completely eliminated. In the event of such an accident, the Company could be held liable for any damages that result and any such liability could exceed the resources of the Company. In addition, there can be no assurance that the Company will not be required to incur significant costs to comply with environmental laws and regulations in the future.

Government Regulation. Regulation by governmental entities in the United States and other countries will be a significant factor in the production and marketing of any pharmaceutical products that may be developed by a customer or collaborative partner of the Company. The nature and the extent to which such regulation may apply to the Company's customers or its collaborative partners will vary depending on the nature of any such pharmaceutical products. Virtually all pharmaceutical products developed by the Company's customers or its collaborative partners will require regulatory approval by governmental agencies prior to commercialization. In particular, human pharmaceutical products are

subject to rigorous preclinical and clinical testing and other approval procedures by the U.S. Food and Drug Administration (the "FDA") and by foreign regulatory authorities. Various federal and, in some cases, state statutes and regulations also govern or influence the manufacturing, safety, labeling, storage, record keeping and marketing of such pharmaceutical products. The process of obtaining these approvals and the subsequent compliance with appropriate federal and foreign statutes and regulations are time consuming and require the expenditure of substantial resources. Generally, in order to gain FDA approval, a company first must conduct preclinical studies in the laboratory and in animal models to gain preliminary information on a compound's efficacy and to identify any safety problems. The results of these studies are submitted as a part of an Investigational New Drug application ("IND") that the FDA must review before human clinical trials of an investigational drug can start. In order to commercialize any products, the Company or its customers or its collaborative partners will be required to sponsor and file an IND and will be responsible for initiating and overseeing the clinical studies to demonstrate the safety and efficacy that are necessary to obtain FDA approval of any such products. Clinical trials are normally done in three phases and generally take two to five years, but may take longer, to complete. After completion of clinical trials of a new product, FDA and foreign regulatory authority marketing approval must be obtained. If the product is classified as a new drug, a New Drug Application ("NDA") must be filed and approved before commercial marketing of the drug. The testing and approval processes require substantial time and effort and there can be no assurance that any approval will be granted on a timely basis, if at all. NDAs submitted to the

FDA can take several years to obtain approval. Even if FDA regulatory clearances are obtained, a marketed product is subject to continual review, and later discovery of previously unknown problems or failure to comply with the applicable regulatory requirements may result in restrictions on the marketing of a product or withdrawal of the product from the market as well as possible civil or criminal sanctions. For marketing outside the United States, the Company will also be subject to foreign regulatory requirements governing human clinical trials and marketing approval for pharmaceutical products. The requirements governing the conduct of clinical trials, product licensing, pricing and reimbursement vary widely from country to country. See "Business--Government Regulation."

Shares Eligible for Future Sale and Potential Adverse Effect on Market Price. Future sales of Common Stock in the public market following this offering could adversely affect the market price of the Common Stock. Upon completion of this offering, the Company will have 8,976,487 shares of Common Stock outstanding, assuming no exercise of currently outstanding options. Of these shares, the 2,000,000 shares sold in this offering (plus any additional shares sold upon exercise of the Underwriters' over-allotment option) will be freely transferable without restriction under the Securities Act of 1933, as amended (the "Securities Act"), unless they are held by "affiliates" of the Company as that term is used under the Securities Act and the regulations promulgated thereunder. Of the 6,976,487 remaining shares, approximately 157,972 shares of Common Stock will be eligible for sale under Rules 144 and 701 on the ninety-first day after the effectiveness of this offering. Stockholders of the Company, holding in the aggregate 6,818,515 shares of Common Stock, have agreed, subject to certain limited exceptions, not to sell or otherwise dispose of any of the shares held by them as of the date of this Prospectus for a period of 180 days after the date of this Prospectus (the "lock-up period") without the prior written consent of the representatives of the Underwriters of this offering. At the end of such lock-up period, an additional 5,910,781 shares of Common Stock (plus approximately 223,726 shares issuable upon exercise of vested options) will be eligible for immediate resale, subject to compliance with Rule 144 and Rule 701. The remainder of the approximately 907,734 shares of Common Stock held by existing stockholders will become eligible for sale at various times over a period of less than two years and could be sold earlier if the holders exercise any available registration rights. The holders of 6,219,948 shares of Common Stock have the right in certain circumstances to require the Company to register their shares under the Securities Act for resale to the public beginning at the end of the lock-up period. If such holders, by exercising their demand registration rights, cause a large number of shares to be registered and sold in the public market, such sales could have an adverse effect on the market price for the Company's Common Stock. If the Company were required to include in a

Company-initiated registration shares held by such holders pursuant to the exercise of their piggyback registration rights, such sales may have an adverse effect on the Company's ability to raise needed capital. In addition, approximately 180 days after the date of this Prospectus, the Company expects to file a registration statement on Form S-8 registering a total of approximately 2,845,000 shares of Common Stock subject to outstanding stock options or reserved for issuance under the Company's stock option plans. See "Management--Stock Plans," "Shares Eligible for Future Sale" and "Underwriting."

Immediate and Substantial Dilution. Purchasers of the shares of Common Stock offered hereby will experience immediate and substantial dilution in the net tangible book value of their investment from the initial public offering price. Additional dilution will occur upon exercise of outstanding options. See "Dilution" and "Shares Eligible for Future Sale."

Absence of Dividends. The Company has never paid dividends on its Common Stock and does not anticipate paying any cash dividends in the foreseeable future. The Company currently intends to retain its earnings, if any, for the development of its business.

THE COMPANY

ArQule was incorporated in Delaware in December 1993 and is the successor to a partnership formed on May 6, 1993. The Company's principal executive offices are located at 200 Boston Avenue, Medford, Massachusetts 02155, and its telephone number is (617) 395-4100.

USE OF PROCEEDS

The net proceeds to the Company from the sale of the Common Stock offered hereby, after deducting the underwriting discount and offering expenses, are estimated to be $21.5 million ($24.9 million if the Underwriters' over-allotment option is exercised in full), assuming an initial public offering price of $12.00 per share.

The principal purposes of this offering are to increase the Company's equity capital and to create a public market for the Company's Common Stock in order to facilitate future access by the Company to public equity markets as well as to create liquidity for its existing stockholders. The Company intends to use the net proceeds of the offering, together with the Company's existing cash, cash equivalents, short-term investments and cash generated from operations, for research and development, working capital and general corporate purposes. Such general corporate purposes may include acquisitions of other businesses, technologies or products. The amount and timing of the Company's actual expenditures for the purposes described above will depend upon a number of factors, including the Company's ability to enter into additional collaborative or licensing arrangements, as well as the timing and terms of such arrangements. In addition, the Company's research and development expenditures will vary as programs are expanded or abandoned and as a result of variability in funding from its collaborative partners. The Company's management will have broad discretion to allocate the net proceeds of this offering to uses that it believes are appropriate. There can be no assurance that the proceeds of this offering can or will be invested to yield a positive return.

The Company currently believes the net proceeds of the offering, together with the Company's existing cash, cash equivalents, short-term investments, cash generated from operations and research funding from corporate collaborators, will enable the Company to maintain its current and planned operations at least through December 1998. However, there can be no assurance that this will be the case. See "Risk Factors--Future Capital Needs; Uncertainty of Additional Funding" and "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources."

Pending use as set forth above, the net proceeds of the offering will be invested primarily in interest-bearing, investment-grade securities.

DIVIDEND POLICY

The Company has never paid cash dividends on its Common Stock and does not anticipate paying any cash dividends in the foreseeable future. The Company currently intends to retain future earnings, if any, to fund the development of its business.

CAPITALIZATION

The following table sets forth, as of June 30, 1996, (i) the actual capitalization of the Company, (ii) the pro forma capitalization of the Company after giving effect to the conversion of all issued and outstanding preferred stock into 6,219,948 shares of Common Stock and (iii) the pro forma capitalization of the Company as adjusted to reflect (a) the sale of the 2,000,000 shares of Common Stock offered hereby, after deducting the underwriting discount and offering expenses, at an assumed initial public offering price of $12.00 per share and the application of the estimated net proceeds therefrom as set forth in "Use of Proceeds," (b) the issuance of 234,992 shares of Common Stock upon the cashless exercise of outstanding warrants, and (c) the filing of the Restated Certificate to increase the number of authorized shares of Common Stock and to authorize 1,000,000 shares of undesignated preferred stock. This table should be read in conjunction with the financial statements, related notes and other financial information included herein.

	JUNE 30, 1996		
	ACTUAL	PRO FORMA	AS ADJUSTED
	(IN THOUSANDS)		
Capital lease obligations, less current portion.....	$ 1,426	$ 1,426	$ 1,426
Series B mandatorily redeemable convertible preferred stock.....	6,898	--	--
Stockholders' equity (deficit):			
Preferred stock, $0.01 par value, 15,000,000 shares authorized actual and pro forma, 1,000,000 shares authorized as adjusted:			
Series A convertible preferred stock, 10,624,429 shares issued and outstanding actual, none issued and outstanding pro forma and as adjusted.....	2,628	--	--
Common stock, $0.01 par value, 20,000,000 shares authorized actual and pro forma, 30,000,000 authorized as adjusted; 523,047 shares issued and outstanding actual, 6,742,995 shares issued and outstanding pro forma, 8,977,987 shares issued and outstanding as adjusted(1).....	5	67	90
Additional paid-in capital.....	4,435	13,899	35,421
Accumulated deficit.....	(8,690)	(8,690)	(8,690)
Total stockholders' equity (deficit).....	(1,622)	5,276	26,821
Total capitalization.....	$ 6,702	$ 6,702	$28,247

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(1) Excludes 1,135,920 shares issuable upon the exercise of options outstanding as of June 30, 1996 with a weighted average exercise price of $2.21 per share.
</FN>

DILUTION

The pro forma net tangible book value of the Company as of June 30, 1996 was $5,276,000 or approximately $0.76 per share. Pro forma net tangible book value per share represents the total tangible assets of the Company, less total liabilities, divided by 6,977,987 shares of Common Stock outstanding after giving effect to the conversion of all outstanding shares of convertible preferred stock into 6,219,948 shares of Common Stock upon the completion of this offering and the issuance of 234,992 shares of Common Stock upon the cashless exercise of outstanding warrants immediately prior to the effectiveness of the registration statement of which this Prospectus is a part. Assuming the receipt by the Company of the net proceeds from the sale of the 2,000,000 shares of Common Stock offered hereby at an assumed initial public offering price of $12.00 per share, the pro forma net tangible book value of the Company as of June 30, 1996 would have been $26,821,000, or $2.99 per share. This represents an immediate increase in the pro forma net tangible book value of $2.23 per share to existing stockholders of the Company and an immediate dilution of $9.01 per share to new investors purchasing Common Stock in this offering. The following table illustrates the per share dilution to be incurred by new investors as of June 30, 1996:

Assumed initial public offering price		$12.00
Pro forma net tangible book value per share at June 30, 1996	$0.76	
Increase per share attributable to new investors	2.23	
Pro forma net tangible book value per share after the offering		2.99
Dilution per share to new investors		$ 9.01

The following table sets forth, on a pro forma basis as of June 30, 1996 (after giving effect to the conversion of all outstanding preferred stock into 6,219,948 shares of Common Stock upon the completion of this offering and for the issuance of 234,992 shares of Common Stock upon the cashless exercise of outstanding warrants immediately prior to the effectiveness of the registration statement of which this Prospectus is a part), the differences between the existing stockholders and the new investors with respect to the number of shares of Common Stock acquired from the Company, the total consideration paid and the average price per share (assuming an initial public offering price of $12.00 per share):

	SHARES PURCHASED		TOTAL CONSIDERATION		AVERAGE PRICE
	NUMBER	PERCENT	AMOUNT	PERCENT	PER SHARE
Existing stockholders	6,977,987	77.7%	$13,737,000	36.4%	$ 1.97
New investors	2,000,000	22.3	24,000,000	63.6	12.00
Total	8,977,987	100.0%	$37,737,000	100.0%	

The above information excludes an aggregate of 1,135,920 shares of Common Stock issuable upon the exercise of options outstanding as of June 30, 1996 with a weighted average exercise price of $2.21 per share. To the extent that such options are exercised, there will be further dilution to new investors.

SELECTED FINANCIAL DATA

(IN THOUSANDS, EXCEPT PER SHARE DATA)

The following data, insofar as it relates to the period from inception (May 6, 1993) through December 31, 1993 and for the years 1994 and 1995, have been derived from the Company's audited financial statements, including the balance sheet as of December 31, 1994 and 1995 and the related statements of operations and of cash flows for the two years ended December 31, 1995 and for the period from inception (May 6, 1993) through December 31, 1993 and notes thereto appearing elsewhere herein. The selected data presented below at June 30, 1996 and for the six months ended June 30, 1995 and 1996 have been derived from, and are qualified by reference to, the Company's unaudited financial statements also appearing herein. Such unaudited financial statements, in the opinion of management, include all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the results for the unaudited interim period. Operating results for the six months ended June 30, 1996 are not necessarily indicative of the results that may be expected for the entire year ending December 31, 1996. The data should be read in conjunction with the Financial Statements and the Notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing elsewhere in this Prospectus. The historical results are not necessarily indicative of the results of operations to be expected in the future.

	PERIOD FROM INCEPTION (MAY 6, 1993) THROUGH DECEMBER 31,	YEAR ENDED DECEMBER 31,		SIX MONTHS ENDED JUNE 30,	
	1993	1994	1995	1995	1996
				(UNAUDITED)	
STATEMENT OF OPERATIONS DATA:					
Revenue:					
Compound development revenue	$ --	$ 85	$ 2,330	$ 521	$2,975
License option fees	--	--	1,000	1,000	--
Total revenue	--	85	3,330	1,521	2,975
Costs and expenses:					
Cost of revenue	--	--	1,644	392	1,935
Research and development	769	2,806	2,095	1,213	1,119
General and administrative	687	1,346	1,557	806	828
Total costs and expenses	1,456	4,152	5,296	2,411	3,882
Loss from operations	(1,456)	(4,067)	(1,966)	(890)	(907)
Interest income (expense)	(9)	(139)	(286)	(179)	153
Net loss	$(1,465)	$(4,206)	$(2,252)	$(1,069)	$ (754)
Unaudited pro forma net loss per share(1)			$ (0.33)		$(0.10)
Shares used in computing unaudited pro forma net loss per share(1)			6,851		7,441

	DECEMBER 31,			JUNE 30, 1996	
	1993	1994	1995	ACTUAL	AS ADJUSTED(2)
				(UNAUDITED)	
BALANCE SHEET DATA:					
Cash, cash equivalents and marketable securities	$ 595	$ 425	$ 7,791	$ 6,367	$ 27,912
Working capital	275	(2,108)	5,074	1,394	22,939
Total assets	1,538	2,321	10,190	11,848	33,393
Capital lease obligations, less current portion	376	962	911	1,426	1,426
Series B mandatorily redeemable convertible preferred stock	--	--	6,888	6,898	--
Total stockholders' equity (deficit)	771	(1,203)	(1,000)	(1,622)	26,821

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(1) Unaudited pro forma net loss per share is determined by dividing the Net loss by Shares used in computing unaudited pro forma net loss per share. For information regarding Shares used in computing unaudited pro forma net loss per share, see Notes 2 and 10 of Notes to Financial Statements.

(2) Reflects the conversion of all outstanding shares of preferred stock into 6,219,948 shares of Common Stock upon the closing of this offering. See Note 10 of Notes to Financial Statements. Also gives effect to the sale of 2,000,000 shares of Common Stock offered by the Company hereby, after deducting the underwriting discount and offering expenses, at an assumed initial public offering price of $12.00 per share and the application of the estimated net proceeds therefrom as set forth in "Use of Proceeds" and the issuance of 234,992 shares of Common Stock upon the cashless exercise of outstanding warrants immediately prior to the effectiveness of the registration statement of which this Prospectus is a part.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

ArQule is engaged in the discovery and development of novel chemical compounds with commercial potential and is a leading provider of novel compounds to the pharmaceutical and biotechnology industries. ArQule manufacturers and delivers two types of arrays of synthesized compounds to its pharmaceutical and biotechnology partners: (i) Mapping Array compound sets, which are arrays of novel, diverse small molecule compounds used for screening and (ii) Directed Array compounds sets, which are arrays of analogs of a particular lead compound (identified from a Mapping Array set or otherwise), synthesized for the purpose of optimizing such lead compounds.

The Company currently generates revenue through compound development and through license option fees. Compound development revenue relates to revenue from collaborative agreements, which provide for the development and delivery of Mapping Array and Directed Array sets. License option fee revenue represents payments made to the Company for the option to license certain ArQule compounds. The Company's revenue to date is primarily attributable to three major corporate collaborations: Pharmacia Biotech AB, which was entered into in March 1995; Abbott Laboratories, which was entered into in June 1995; and Solvay Duphar B.V., which was entered into in November 1995. Under these collaborations, the Company has received payments of $9.3 million through June 30, 1996, of which $6.2 million has been recognized as revenue. The Company recognizes revenue under its corporate collaborations as related work is performed and arrays are delivered. Payments received from corporate partners prior to the completion of the related work are recorded as deferred revenue. License option fees are recognized as the options are granted because such fees are nonrefundable and the Company has no further obligations to fulfill. Cost of revenue represents the actual costs incurred in connection with the development, production and delivery of compounds. The Company is entitled to receive milestone and royalty payments if products generated under the collaborations are developed. The Company has entered into joint discovery agreements with a number of biotechnology companies to which it has provided Mapping Array and Directed Array sets in exchange for joint ownership of resulting drug candidates. These agreements have not yet yielded any significant revenue for the Company.

The Company has not been profitable since inception and has incurred a cumulative net loss of $8.7 million through June 30, 1996. Losses have resulted principally from costs incurred in research and development activities related to the Company's efforts to develop its technologies and from the associated administrative costs required to support these efforts. The Company's ability to achieve profitability is dependent on its ability to market its Mapping Array and Directed Array sets to pharmaceutical and biotechnology companies and the joint development and commercialization of products in which it has an economic interest.

RESULTS OF OPERATIONS

SIX MONTHS ENDED JUNE 30, 1996 AND 1995

Revenue. The Company's revenue for the six month period ended June 30, 1996 increased $1.5 million to $3.0 million from $1.5 million for the same period in 1995. This was attributable to a $2.5 million increase in compound development revenue related to the performance of work and the delivery of Mapping Array and Directed Array sets under the Company's collaborative agreements. The Company began recognizing revenue from the Pharmacia, Abbott and Solvay collaborations in March, June and November 1995, respectively. This increase in compound development revenue was partially offset by a $1.0 million license option fee related to the Pharmacia collaborative agreement recognized during the six month period ended June 30, 1995. No similar option payment was received during the six month period ended June 30, 1996.

Cost of revenue. The Company's cost of revenue for the six month period ended June 30, 1996 increased $1.5 million to $1.9 million from $0.4 million for the six month period ended June 30, 1995. This increase was primarily attributable to the costs of additional scientific personnel and the

necessary supplies and overhead expenses related to the performance of the work and the delivery of the Mapping Array and Directed Array sets pursuant to its collaborative agreements. The Company anticipates that cost of revenue, in connection with increasing compound development revenue, will increase over the next several years.

Research and development expenses. The Company's research and development expenses for the six month period ended June 30, 1996 decreased $0.1 million to $1.1 million from $1.2 million for the same period in 1995. This decrease was the result of the Company's increased use of its scientific personnel to produce compounds delivered pursuant to its collaborative agreements. The Company has the ability to direct its scientific personnel to work either on its collaborative agreements or on its internal research and development projects as the needs arise. The Company expects research and development spending to increase over the next several years as the Company further expands its chemistry discovery and development programs.

General and administrative expenses. The Company's general and administrative expenses for the six month period ended June 30, 1996, $0.8 million, were relatively unchanged from the same period in 1995. These expenses will likely increase in future periods to support the projected growth of the Company.

Net interest income (expense). The Company's net interest income for the six month period ended June 30, 1996 was $0.2 million, which compared to a net expense of $0.2 million for the same period in 1995. Higher interest income in 1996 resulted primarily from the Company holding higher cash balances following an equity investment by Solvay. See "Business--ArQule's Drug Discovery Programs."

Net loss. The Company's net loss for the six month period ended June 30, 1996 decreased $0.3 million to $0.8 million from $1.1 million for the same period in 1995. The decrease is primarily attributable to additional revenue generated from corporate collaborations during 1996.

YEARS ENDED DECEMBER 31, 1995 AND 1994

Revenue. The Company's revenue for the year ended December 31, 1995 increased to $3.3 million from $0.1 million for the same period in 1994. This increase was attributable to compound development revenue related to the performance of work and the delivery of Mapping Array and Directed Array sets under the Company's collaborative agreements which were entered into during 1995. The Company also recognized a $1.0 million license option fee related to the Pharmacia collaborative agreement entered into in 1995.

Cost of revenue. The Company's cost of revenue for the year ended December 31, 1995 was $1.6 million, reflecting costs associated with the development, production and delivery of compounds pursuant to the corporate collaborations entered into in 1995. There was no cost of revenue in 1994 as there were no collaborative agreements during this year and as the Company's efforts were directed towards the research and development of its technology.

Research and development expenses. The Company's research and development expenses for the year ended December 31, 1995 decreased $0.7 million to $2.1 million from $2.8 million for the same period in 1994. This decrease was the result of the Company focusing, in 1995, on producing compounds delivered pursuant to its collaborative agreements.

General and administrative expenses. The Company's general and administrative expenses for the year ended December 31, 1995 increased $0.3 million to $1.6 million from $1.3 million for the same period in 1994. This increase was primarily due to costs associated with increased business development activities and administrative support, which accompanied the Company's expansion during 1995.

Net interest expense. The Company's net interest expense for the year ended December 31, 1995 was $0.3 million, which compared to $0.1 million for the same period in 1994. This increase was primarily attributable to increased use of capital equipment lease financing.

Net loss. The Company's net loss for the year ended December 31, 1995 decreased $1.9 million to $2.3 million from $4.2 million for the same period in 1994. The decrease was primarily attributable to the increase in revenue generated from the three corporate collaborations.

YEAR ENDED DECEMBER 31, 1994 AND EIGHT MONTH PERIOD ENDED DECEMBER 31, 1993

Revenue. The Company's revenue for the year ended December 31, 1994 was $0.1 million. The Company was founded in May 1993, and it did not generate revenue until 1994.

Research and development expenses. The Company's research and development expenses for the year ended December 31, 1994 increased $2.0 million to $2.8 million from $0.8 million for the eight month period ended December 31, 1993. This increase primarily reflects the expansion and development of the Company's combinatorial chemistry technologies and a full year of operations in 1994.

General and administrative expenses. The Company's general and administrative expenses for the year ended December 31, 1994 increased $0.6 million to $1.3 million from $0.7 million for the eight month period ended December 31, 1993, primarily reflecting a full year of operations in 1994.

Net interest expense. The Company's net interest expense for the year ended December 31, 1994 was $0.1 million which compared to $9,000 for the eight month period ended December 31, 1993. This increase was primarily attributable to the Company's use of capital equipment lease financing.

Net loss. The Company's net loss for the year ended December 31, 1994 increased $2.7 million to $4.2 million from $1.5 million for the eight month period ended December 31, 1993. This increase was primarily attributable to the Company's scale-up of research and development activities.

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 1996, the Company held cash and cash equivalents and marketable securities with a value of $6.4 million. The Company's working capital at June 30, 1996 was $1.4 million. The Company has funded operations to date with sales of preferred stock and common stock totaling $13.6 million, payments from corporate collaborators totaling $9.3 million, and the utilization of capital equipment lease financing totaling $3.1 million. The Company has maintained a master lease agreement since February 1994. Under the terms of this agreement, the Company has funded certain capital expenditures with lease terms ranging from 40 to 42 months in duration. As of June 30, 1996, the Company had utilized $2.6 million of the available $5.0 million financing facility.

Net cash used in financing activities for the six months ended June 30, 1996 was $0.3 million, primarily reflecting financing of capital equipment. Net cash provided by financing activities for the year ended December 31, 1995 was $7.2 million, largely due to a $7.0 million equity investment by Solvay. Net cash provided by financing activities for the year ended December 31, 1994 was $3.8 million, resulting mainly from capital contributions and proceeds from bridge financing.

Net cash provided by operating activities for the six month period ended June 30, 1996 and for the year ended December 31, 1995 was $1.3 million and $0.5 million, respectively. The positive cash flow from operating activities primarily reflects additional payments received from the three corporate collaborators. Net cash used in operating activities for the year ended December 31, 1994 was $3.6 million, largely due to the Company's scale-up of research and development activities prior to generating significant revenue.

Net cash used in investing activities during the six month period ended June 30, 1996 was $1.4 million, resulting primarily from additional capital equipment purchases. Net cash used in investing activities for the year ended December 31, 1995 was $5.1 million as compared to $0.4 million for the year ended December 31, 1994. This increase primarily reflects purchases of marketable securities.

Management estimates that the proceeds from this offering, together with

the Company's existing cash equivalents, short-term investments, cash generated from operations and research funding from corporate collaborators, will enable the Company to maintain its current and planned operations at

least through December 1998. The Company's cash requirements may vary materially from those now planned depending upon the results of its drug discovery and development strategies, the ability of the Company to enter into any corporate collaborations in the future and the terms of such collaborations, the results of research and development, the need for currently unanticipated capital expenditures, competitive and technological advances, and other factors. There can be no assurance that the Company will be able to obtain additional customers for the Company's products and services, or that such products and services will produce revenues adequate to fund the Company's operating expenses. If the Company experiences increased losses, the Company may have to seek additional financing from public or private sale of its securities, including equity securities. There can be no assurance that additional funding will be available when needed or on acceptable terms.

NEW ACCOUNTING PRONOUNCEMENTS

See Note 2 of Notes to Financial Statements.

BUSINESS

OVERVIEW

ArQule has created a new technology platform for the discovery and production of novel chemical compounds with commercial potential and is a leading provider of novel compounds to the pharmaceutical and biotechnology industries. The Company has developed a proprietary modular building block technology that it has integrated with structure-guided drug design, high speed parallel chemical synthesis and information technology to identify and optimize drug development candidates. To date, the Company has entered into collaborative arrangements with Roche Bioscience, Pharmacia Biotech AB, Abbott Laboratories and Solvay Duphar B.V., and has formed joint discovery programs with several biotechnology companies. ArQule believes that its technology will allow its collaborative partners to accelerate the drug discovery process by several years, permitting them to realize significant cost reductions and the earlier recovery of research and development expenditures for successful drugs.

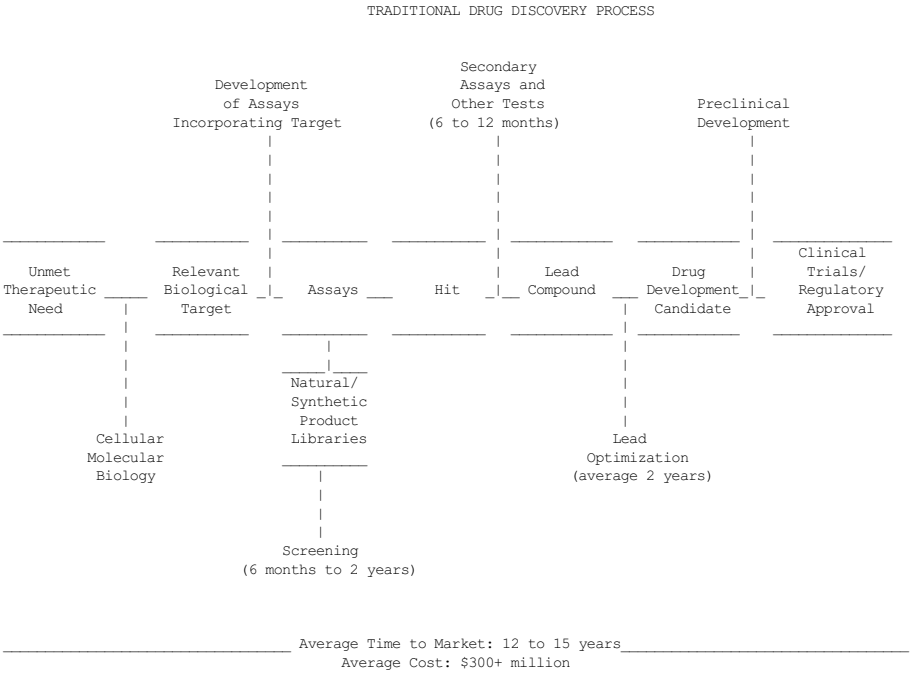
INDUSTRY BACKGROUND

The potential market for ArQule's proprietary modular building block technology is comprised of all consumers of novel chemical compounds, including developers of drugs, separations media, agricultural products, industrial catalysts, specialty materials and other industrial products. The Company's initial business focus has been on the pharmaceutical and biotechnology industries.

Traditional Drug Discovery and Its Limitations. Drugs are chemical compounds that modulate the activity of biological targets associated with particular disease states to achieve a desired therapeutic effect. The discovery and development of drugs has traditionally been a lengthy, expensive and often unsuccessful process. Typically, it takes 12 to 15 years from the original concept of modulating the activity of a particular biological target to the market introduction of a drug that performs such a function. The average cost of bringing a new drug to market has been estimated to be in excess of $300 million.

The first major step in the drug discovery process is the identification of one or more compounds that interact with a biological target, such as an enzyme, receptor or other protein, that is associated with a disease state. To identify such a compound, collections of compounds are tested or screened for activity

with respect to the biological target. A compound that interacts with a target is referred to as a hit, and a hit with characteristics making it suitable as a potential drug is referred to as a lead compound.



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Historically, drug developers have obtained collections of chemical compounds for screening from natural product sources and by synthesis. These collections are often neither sufficiently diverse to be likely to result in a hit nor preselected to include compounds with promising structures or desirable drug characteristics. This random screening approach has yielded a relatively small percentage of hits and only a relatively small portion of those hits have resulted in lead compounds.

The second major step in the drug discovery process is the optimization of a lead compound by the sequential synthesis and testing of variations, or analogs, of a lead compound to identify promising drug development candidates. A drug development candidate is a lead compound that in preclinical studies demonstrates pharmacological efficacy, lack of toxicity, potency, selectivity and other desirable characteristics such as oral availability, cell penetration and stability. Using traditional medicinal chemistry, lead optimization has required an average of two years of synthesizing hundreds of analogs of a lead compound and has been the most expensive and time consuming part of the drug development process prior to clinical testing. The synthesis of a single compound analog takes approximately 7 to 10 days and costs approximately $7,500. As a result, a chemist is usually able to synthesize only 100 to 200 analogs per year. On average, as many as 6,000 chemical compounds may be synthesized per successful drug at a cost of approximately $45 million in chemistry costs.

Drug Development in Transition. Lower profit margins, shorter product lives, the proliferation of generic drugs, managed care and cost containment initiatives, combined with scientific and technological advances, have created powerful incentives for drug developers to explore new technologies to discover novel drugs more quickly and cost effectively. The growing biotechnology and gene discovery (genomics) industries are rapidly identifying numerous new biological targets and developing highly sensitive assays incorporating these targets. Advances in robotics have led to automated high throughput screening systems, allowing biologists to assay large numbers of chemical compounds against novel targets. These developments have resulted in increased demand for large and diverse collections of novel compounds.

In addition, in recent years, structure-guided and rational drug design approaches have allowed scientists, using structure activity-relationship ("SAR") data about biological targets, to design compounds that are likely to show activity with respect to a biological target. These developments, together with the developments referred to in the preceding paragraph, have resulted in a proliferation of hits, generating demand for tools to rapidly create analogs of hits and optimize lead compounds.

Current Combinatorial Chemistry Technology and Its Limitations. Combinatorial chemistry is the rapid creation of hundreds of thousands of chemical compounds, most of which do not exist in nature, for the purpose of rapidly identifying hits through random screening. Current combinatorial chemistry has been successful in producing large numbers of compounds and correspondingly large numbers of hits. However, current combinatorial chemistry techniques have been less successful in generating lead compounds and, ultimately, drug development candidates for some or all of the following reasons:

- Time-Consuming Isolation of Hits. In certain combinatorial chemistry applications, large numbers of chemical compounds are synthesized and screened in mixtures. Hits must therefore be isolated from the mixtures, which is a costly, slow, labor-intensive process.

- Lack of Structural and SAR Information. Once a hit is isolated, many current combinatorial techniques fail to facilitate the identification of the structure of the hit or to provide SAR data to guide the lead optimization process.

- Incompatibility with Drug Developers' Screening Protocols. Many combinatorial compounds are produced in a format that is incompatible with standard screening protocols of drug developers. In addition, once a hit is found and the compound is isolated, significant additional work must often be performed by the combinatorial chemistry company to determine the structure of the compound. Drug developers relying on this format may therefore be required to transfer hits to the combinatorial chemistry company.

- Limitations of Solid Phase Chemistry. Several combinatorial chemistry techniques involve the production of compounds using solid phase chemistry in which compounds are attached to small beads. Because many compounds with desirable chemistries cannot be synthesized using solid phase chemistry, collections of compounds based exclusively on solid phase chemistry may have limited diversity.

- Limited Compound Quantities. Certain current combinatorial chemistry techniques produce very small quantities of each compound, which limits further testing once a lead compound is found and precludes archiving of compounds for future testing against additional targets.

- Scale-Up Limitations. Many current combinatorial chemistry techniques involve laboratory methods that cannot be easily translated into large scale manufacturing processes. This creates the possibility that active compounds will be identified that are difficult or impractical to produce in quantities necessary for clinical trials or commercial production.

- Unproductive Screening. Because certain combinatorial chemistry techniques involve the screening of random compounds without preselection for desirable drug characteristics, suitable lead compounds often can be identified only after many unproductive screenings. In addition, testing of mixtures frequently produces equivocal or false positive screening results because the observed activity with a biological target is caused by several compounds within the mixture rather than the interaction of an individual compound with a target, leading to further unproductive screening.

Although recent developments in combinatorial chemistry have shortened the time between identifying a biological target and obtaining a hit in the target assay, the proliferation of hits has not led to a commensurate increase in lead compounds. In addition, current combinatorial chemistry techniques have not significantly improved the lead optimization process and, therefore, have not

significantly shortened the time it takes to produce a drug development candidate from a lead compound.

THE ARQULE REVOLUTION

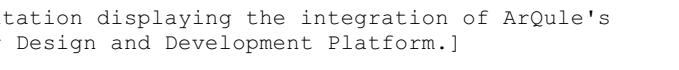
ArQule believes its modular building block technology overcomes many of the limitations of current combinatorial chemistry approaches by accelerating the identification and optimization of lead compounds.

Many organic molecules, including amino acids, peptides, nucleosides, carbohydrates, steroids and alkaloids, may be viewed as comprised of structural components, consisting of a scaffold, or core structure, around which a set of substituent groups and connectors (bonds) is varied. ArQule's scientists have developed proprietary methods for selecting and combining molecular components, or building blocks, to produce arrays of compounds that possess properties they believe will exhibit activity in biological systems.

Using SAR data regarding biologically active compounds and modular molecular components, ArQule's synthetic and computational chemists work together to rapidly design compound arrays that include all combinations of a set of selected building blocks around a common core structure or theme. ArQule's arrays are created by using structure-guided and rational drug design tools to systematically select and assemble molecular building blocks with properties the Company's scientists believe are likely to exhibit biological activity. Each compound in the array is different from the adjacent compound as a result of a single structural modification. Each ArQule array omits compounds that are closely analogous to other compounds in the array, using representative diversity to create a logical representation of a virtual library of hundreds of times as many compounds as are in the array. Drug developers are able to realize significant savings by screening the thousands of compounds in each ArQule array rather than the millions of compounds they represent. In addition, the SAR data of compounds within the array provides a navigational tool for lead optimization by indicating the most promising investigational direction for analoging.

In order to enhance the effectiveness of this modular building block technology, ArQule integrates the following tools:

- structure-guided drug design;
- a proprietary "automated molecular assembly plant" (AMAP) system for high speed parallel synthesis, purification and structural verification of chemical compounds; and
- proprietary computer applications that facilitate the integration of all of the Company's proprietary technologies.


[Graphical representation displaying the integration of ArQule's Combinational Drug Design and Development Platform.]

Structure-Guided Drug Design. ArQule's scientists believe that the likelihood of generating a drug development candidate can be substantially increased if the collection of compounds used for screening is created using three-dimensional structural and SAR data. The Company designs its arrays based on chemical structures that are believed to be biologically active and also on SAR data regarding a particular target and a particular lead compound. Using this data, as well as knowledge of the chemical reactions that are feasible using high speed parallel synthesis, ArQule's scientists design logically arranged arrays of diverse compounds that can easily be synthesized. The Company believes that this approach will accelerate the lead discovery and optimization process by increasing the probability of identifying a lead compound that will result in a drug development candidate.

The AMAP High Speed Parallel Synthesis System. Using its "automated

molecular assembly plant" (AMAP) system, ArQule synthesizes, purifies and verifies structural information for individual compounds through automated high speed parallel synthesis. The AMAP system is capable of synthesizing thousands of compounds per day, each in milligram quantities adequate for multiple screens, analyzing such compounds for structural integrity and purity, registering the structural data in a relational database, and delivering the compounds in a 96-well microtiter plate format for high throughput screening.

Integrated Proprietary Computer Applications ("Informatics"). ArQule has developed a proprietary information system which incorporates (i) databases of the molecular structures of building blocks and the compounds in its arrays, (ii) multi-dimensional matrix geometry which provides guidance for the creation of the Company's spatially addressable arrays of compounds containing systematic variations of modular building blocks, (iii) instructions for the robotics involved in the AMAP parallel synthesis production process, (iv) resulting databases of structural information regarding the compounds produced in any particular array which can be supplied in a format compatible with customers' own data registration systems and (v) databases of SAR data regarding particular compounds and their molecular components contained in an array generated when these compounds are screened against biological targets. This integrated information system enables ArQule to gather and apply data on an ongoing basis to enhance the efficiency of the production process and to design compounds based on a growing knowledge of the structure and activity of its molecular components.

ADVANTAGES OF ARQULE'S COMBINATORIAL DRUG DISCOVERY AND DEVELOPMENT PLATFORM

The Company believes the integration of its technological capabilities offers a unique combinatorial drug discovery and development platform. This platform offers the following significant advantages over current combinatorial chemistry approaches:

- Elimination of Isolation Issues. Unlike combinatorial chemistry processes involving the production of synthesized compounds in mixtures, ArQule's AMAP system produces one compound per well, with each well containing a known compound with a high level of purity.

- Enhanced Structural and SAR Data. ArQule produces arrays using preselected modular building blocks that its scientists believe are likely to produce lead compounds with desirable characteristics, and, in the case of Directed Array sets, based upon the SAR data of the target and/or lead compound. As a result, the Company believes the success rate for drugs developed using its arrays will be improved and the risk of downstream clinical failure will be reduced. The wealth of SAR data available with respect to compounds in its arrays will also facilitate the development of analogs for the further optimization of active compounds.

- Compatibility with Drug Developers' Screening Protocols. ArQule's compounds are delivered to its collaborators in 96-well microtiter plates containing one known compound per well. This delivery format is compatible with most existing screening protocols and permits the owner of the assay to screen compounds in its own laboratories, thereby having complete control over the screening process.

- Solution and Solid Phase Chemistry. ArQule's compounds may be produced using either solution or solid phase chemistry, permitting the creation of a broad range of novel chemical compounds.

- Significant Compound Quantities. ArQule's compounds are delivered to its collaborators in milligram quantities, permitting the collaborator to engage in extensive testing of a lead compound or to screen compounds against multiple biological targets without having to obtain additional samples from the Company.

- Ease of Scale-Up. ArQule's compounds are produced using fully reproducible and scalable manufacturing processes.

- Reduction in Unproductive Screening. By creating logical arrays of compounds based on known structural and SAR data and eliminating compounds that are closely analogous to others in the array, ArQule believes that fewer compounds will need to be screened prior to identifying compounds with activity. In addition, because ArQule delivers single compounds for screening, such compounds do not generate the false positives and false negatives associated with screening mixtures of compounds.

ArQule believes these significant advantages will allow its collaborative partners to accelerate the drug discovery process by several years by shortening the time required to identify a lead compound and to optimize that compound into a drug development candidate. This acceleration should permit drug developers to realize significant cost reductions and the earlier recovery of research and development expenditures for successful drugs.

ARQULE'S PRODUCTS

ArQule's integrated technologies result in the production of significant quantities of pure small molecule compounds contained in a logically structured spatially-addressable array. ArQule provides its pharmaceutical and biotechnology collaborative partners with two types of arrays of synthesized compounds: (i) Mapping Array compound sets, which are arrays of novel, diverse, small molecule compounds used for screening against biological targets and (ii) Directed Array compound sets, which are arrays of analogs of a particular lead compound synthesized for the purpose of optimizing that lead compound.

Mapping Array Sets. ArQule's Mapping Array sets are designed around certain core structures or themes selected by ArQule. ArQule provides its collaborative partners with a subscription to an annual Mapping Array program comprised of a minimum of 100,000 compounds in 15 to 20 Mapping Array sets each containing between 3,000 and 10,000 individual compounds. The Mapping Array program is provided to subscribers without limitation as to the targets against which the compounds may be screened. ArQule believes this approach will maximize the number of targets against which its Mapping Array sets are tested, thereby maximizing the potential for identifying activity for each compound in the array. Initially, the Company provides its Mapping Array sets on a non-exclusive, subscription fee basis for screening purposes only. If a compound shows activity in a subscriber's assay, the subscriber may license that compound from the Company for development purposes on an exclusive basis, unless such compound has already been licensed to another collaborative partner. The Company does not provide any structural information regarding the compounds in the Mapping Array sets until a particular compound is licensed.

Directed Array Sets. Upon request, the Company provides Directed Array sets in order to optimize lead compounds. In a Directed Array set, the Company uses its modular building block technology to create analogs of a lead compound identified by the collaborator, either independently or as a result of screening a Mapping Array set. Directed Array sets are logical representations of a virtual library of compounds closely analogous to a lead compound. Successive Directed Array sets are generated in order to identify the compound or compounds within a virtual library having the greatest biological activity and most desirable drug development characteristics. When delivering a Directed Array set, the Company provides the collaborator with structural information for each compound in the array, and each compound is owned by the collaborator either individually or jointly with ArQule, subject to the payment of fixed fees, milestones and royalties to the Company.

BUSINESS STRATEGY

ArQule's goal is to become the leader in the development of novel chemical compounds with commercial potential, with an initial focus on the pharmaceutical and biotechnology industries. Key elements of the Company's strategy include:

- Collaborations with Pharmaceutical Companies. ArQule has sought collaborations with large pharmaceutical companies who have established manufacturing, marketing and sales resources and a strong commitment to the development of pharmaceutical products. ArQule offers to each of its collaborative partners access to its Mapping Array program for an annual subscription fee and, if requested, customized Directed Array sets for a fixed fee. In addition, the Company is entitled to payments upon the achievement of certain milestones and royalties upon the commercialization of drugs developed by the collaborator from ArQule compounds. The Company plans to pursue additional collaborations aggressively to gain access to additional targets and development expertise, and to generate additional revenue.

- Joint Discovery Programs with Biotechnology Companies. Biotechnology companies represent important potential collaborators for joint discovery and development efforts using ArQule's Mapping Array and Directed Array sets and the biotechnology company's proprietary biological targets and assays. ArQule provides Mapping Array and Directed Array sets to biotechnology companies in exchange for joint ownership of any lead compounds that exhibit activity in the proprietary assays developed by the biotechnology company collaborators. ArQule seeks collaborators with promising drug development programs in a broad range of therapeutic areas.

- Extension of Chemistry Tools to Areas Other than Drug Discovery. The Company intends to extend its integrated technologies to a wide variety of applications outside the field of drug discovery, including bioseparations and protein purification, industrial catalysts and novel agricultural chemicals, as well as to the development of polymeric structures for non-biological applications.

- Continued Investment in Proprietary Chemistry Technology. ArQule intends to continue its aggressive investment in proprietary chemistry technologies through internal development and licensing of third party technologies. ArQule will also continue to invest in improving the cost-effectiveness of its products through automation and information technologies.

ARQULE'S DRUG DISCOVERY PROGRAMS

Pharmaceutical Company Collaborations. To date, the Company has entered into the following major collaborations with pharmaceutical companies:

Roche Bioscience. In September 1996, the Company entered into a collaborative agreement with Roche Bioscience ("Roche Bioscience"), a division of Syntex (U.S.A.) Inc. and indirect subsidiary of Roche Holding Ltd., pursuant to which the Company will synthesize Directed Array sets from compounds provided to the Company by Roche Bioscience, developed by the Company internally and/or developed by the Company as a part of the collaboration (the "Roche Bioscience Agreement"). Absent early termination, Roche Bioscience will pay the Company approximately $12.0 million over three years. The parties may jointly agree to increase the number of Directed Array sets to be provided by the Company under the Roche Bioscience Agreement, which may result in increased payments to the Company. Roche Bioscience is also obligated to make additional payments upon the achievement of certain milestones and to pay royalties on sales of drugs that may result from the relationship. The Roche Bioscience Agreement expires in September 1999 and is terminable by Roche Bioscience on 6 months' advance notice at any time after March 1998. To date, Roche Bioscience has paid the Company an aggregate of $2.0 million under the Roche Bioscience Agreement.

Solvay Duphar B.V. In November 1995, the Company entered into a collaborative agreement with Solvay Duphar B.V. ("Solvay") pursuant to which Solvay has subscribed to the Company's Mapping Array program and has the right to request customized Directed Array sets (the "Solvay Agreement"). To date, the Company has provided Solvay with several Mapping Array and Directed Array sets. Absent early termination, Solvay agreed to pay the Company a minimum of $17.5

million over five years. Solvay is also obligated to make additional payments upon the achievement of certain milestones and to pay royalties on sales of drugs that may result from the relationship. The Solvay Agreement expires in November 2000 and is terminable on twelve months' advance notice. To date, Solvay has paid the Company an aggregate of $3.5 million under the Solvay Agreement. In connection with this collaboration, an affiliate of Solvay, Physica B.V., made a $7.0 million equity investment in the Company. See "Certain Transactions." Under the Solvay Agreement, Solvay has the right to license, on an exclusive basis, lead compounds identified from a Mapping Array set that are active against specified biological targets and that have not previously been committed to another of ArQule's collaborative partners or to an internal program of the Company. Solvay also has the right to use certain of ArQule's technologies internally.

Abbott Laboratories. In June 1995, the Company entered into a collaborative agreement with Abbott Laboratories ("Abbott") pursuant to which Abbott has subscribed to the Company's Mapping Array program and has the right to request customized Directed Array sets (the "Abbott Agreement"). To date, the Company has provided several Mapping Array and Directed Array sets. In August 1996, the Abbott Agreement was amended to provide for the Company to supply Abbott with additional Mapping Array sets and to eliminate restrictions on the period during which Abbott may screen the Mapping Array sets. The Abbott Agreement, as amended, expires in June 1997, subject to Abbott's right to extend the term of the Abbott Agreement for three additional one year terms. If Abbott exercises its right to extend the Abbott Agreement for its full term, Abbott will pay the Company a minimum of $11.0 million over a five year period. Abbott is also obligated to make additional payments upon the achievement of certain milestones and to pay royalties on the sale of drugs that may result from the relationship. To date, Abbott has paid the Company an aggregate of $3.8 million under the Abbott Agreement.

Pharmacia Biotech AB. In March 1995, the Company entered into a collaborative agreement with Pharmacia Biotech AB ("Pharmacia"), a wholly-owned subsidiary of Pharmacia & Upjohn, Inc., to

allow Pharmacia to evaluate the utility of the Company's technology for the development of products in the fields of bioseparations, synthesis of biomolecules and cell culture (the "Pharmacia Agreement"). On the same date, the Company and Pharmacia also signed an agreement under which Pharmacia has an option to acquire an exclusive, worldwide license to develop and commercialize specified compounds generated by the Company in additional fields covered under the Pharmacia Agreement, subject to the payment by Pharmacia of additional fees and the negotiation and execution by the parties of a license agreement containing commercially reasonable terms (the "Option Agreement"). To date, Pharmacia has paid the Company an aggregate of $2.0 million under the Pharmacia Agreement and the Option Agreement.

Joint Discovery Programs with Biotechnology Companies. ArQule has initiated joint programs for lead generation and optimization with a number of biotechnology companies. Some of ArQule's biotechnology collaborators and their areas of focus are listed below:

COMPANY	AREA OF FOCUS
Aurora Biosciences, Inc.	Mammalian Cell-Based Assays
Cadus Pharmaceuticals Corporation	Signal Transduction
Cubist Pharmaceuticals, Inc.	Infectious Diseases
ICAgen, Inc.	Ion Channel Receptors
Scriptgen Pharmaceuticals, Inc.	RNA/Protein Interaction
SUGEN, Inc.	Signal Transduction
T Cell Sciences, Inc.	T Cell Activation/Inhibition

In the United States, small biotechnology companies have been highly

successful in the discovery of biological targets associated with disease states. Many of these companies, however, lack both (i) large libraries of chemical compounds to screen against identified targets and (ii) the sophisticated chemistry expertise required to optimize compounds once a lead compound has been identified. Under the Company's typical arrangement with a biotechnology company, ArQule provides Mapping Array sets for screening without collecting upfront fees, and the biotechnology company executes a preliminary material transfer agreement. If the collaborator detects an active compound within a Mapping Array set, and that compound has not been previously committed to a third party or to an internal ArQule program, the Company and the collaborator establish a joint discovery program and execute the research collaboration agreement that is attached to the material transfer agreement. If the parties are unable to negotiate the scope of a joint discovery program within a certain period, ArQule has the right to license such compound to any third party.

Although ArQule's formal research collaboration agreement varies from transaction to transaction, it typically establishes a joint drug development program for the lead compound and a particular target, and gives ArQule shared control over the program.

APPLICATIONS OF THE COMPANY'S TECHNOLOGY TO OTHER INDUSTRIES

ArQule's integrated technology platform permits the rapid design and optimization of chemical compounds having specific properties. This presents the Company with opportunities to address a wide variety of non-drug discovery applications, including both biological and non-biological applications. An example of a biological application is the Company's collaboration with Pharmacia to produce highly selective separations media for the commercial scale purification of therapeutic proteins. Another potential biological application for the Company's technologies is the synthesis of novel agricultural chemicals.

Potential non-biological applications include the development of industrial catalysts and nano-scale polymeric structures for specialized mechanical applications. In general, non-biological applications cannot be evaluated using mixtures produced by current combinatorial chemistry techniques because such applications are not characterized by the sensitivity and selectivity exhibited by

biological ligand-target interactions. In addition, non-biological targets require substantial quantities of individual compounds to use in rapid iterative experimental cycles. ArQule believes its technologies can satisfy the needs of non-biological applications by producing large quantities of pure compounds of known structures that may be directly translated to large scale manufacturing procedures.

MARKETING AND SALES

The Company markets its products directly to customers through participation in trade conferences and seminars and publications in scientific and trade journals. The Company intends to increase its marketing efforts through the creation of a direct sales force.

RESEARCH AND DEVELOPMENT

ArQule intends to continue its aggressive investment in its proprietary technologies through internal development and licensing of third party technologies in order to increase the diversity and improve other characteristics of compounds offered. The Company will also continue to invest in improving the cost-effectiveness of its products through automation and information technologies. The Company is actively pursuing research projects aimed at identifying and developing new chemistries to improve and expand on its Mapping Array and Directed Array programs. These projects involve research

conducted by the Company, collaborations with other researchers and the acquisition of chemistries and other technologies developed by universities and other academic institutions.

PATENTS AND PROPRIETARY RIGHTS

ArQule has one issued patent and has filed a number of patent applications. There can be no assurance that patent applications filed by ArQule will result in patents being issued, that the claims of such patents will offer significant protection of the Company's technology, or that any patents issued to or licensed by ArQule will not be challenged, narrowed, invalidated or circumvented. The Company may also be subject to proceedings that result in the revocation of patent rights previously owned by or licensed to ArQule, as a result of which the Company may be required to obtain licenses from others to continue to develop, test or commercialize its products. There can be no assurance that ArQule will be able to obtain such licenses on acceptable terms, if at all. In addition, there may be pending or issued patents held by parties not affiliated with ArQule that relate to the technology utilized by ArQule. As a result, ArQule may need to acquire licenses, to assert infringement, or contest the validity, of such patents or other similar patents which may be issued. ArQule could incur substantial costs in defending itself against patent infringement claims, interference proceedings, opposition proceedings or other challenges to its patent rights made by third parties, or in bringing such proceedings or enforcing any patent rights of its own.

The Company also relies upon trade secrets, know how and continuing technological advances to develop and maintain its competitive position. In an effort to maintain the confidentiality and ownership of trade secrets and proprietary information, the Company requires employees, consultants and certain collaborators to execute confidentiality and invention assignment agreements upon commencement of a relationship with the Company. These agreements are intended to enable the Company to protect its proprietary information by controlling the disclosure and use of technology to which it has rights and provide for ownership by the Company of proprietary technology developed at the Company or with the Company's resources. There can be no assurance, however, that these agreements will provide meaningful protection for the Company's trade secrets or other confidential information in the event of unauthorized use or disclosure of such information or that adequate remedies would exist in the event of such unauthorized use or disclosure. The loss or exposure of trade secrets possessed by ArQule could have a material adverse effect on its business.

COMPETITION

Many organizations are actively attempting to identify and optimize compounds for potential pharmaceutical development. The Company's services and products face competition based on a number of factors, including size, diversity and ease of use of libraries of compounds, speed and costs of identifying and optimizing potential lead compounds and patent position. ArQule competes with the research departments of pharmaceutical companies, biotechnology companies, combinatorial chemistry companies and research and academic institutions. Many of these competitors have greater financial and human resources and more experience in research and development than the Company. Smaller companies may also prove to be significant competitors, particularly through collaborative arrangements with large pharmaceutical and established biotechnology companies. In addition to competition for customers, these companies and institutions also compete with the Company in recruiting and retaining highly qualified scientific and management personnel.

Historically, pharmaceutical companies have maintained close control over their research activities, including the synthesis, screening and optimization of chemical compounds. Many of these companies, which represent a significant potential market for ArQule's products and services, are developing in-house combinatorial chemistry and other methodologies to improve productivity,

including major investments in robotics technology to permit the automated parallel synthesis of compounds. In addition, these companies may already have large collections of compounds previously synthesized or ordered from chemical supply catalogs or other sources against which they may screen new targets. Other sources of compounds include extracts from natural products such as plants and microorganisms and compounds created using rational drug design. Academic institutions, governmental agencies and other research organizations are also conducting research in areas in which the Company is working either on their own or through collaborative efforts.

The Company anticipates that it will face increased competition in the future as new companies enter the market and advanced technologies become available. The Company's processes may be rendered obsolete or uneconomical by technological advances or entirely different approaches developed by one or more of the Company's competitors. The existing approaches of the Company's competitors or new approaches or technology developed by the Company's competitors may be more effective than those developed by the Company.

There can be no assurance that the Company's competitors will not develop more effective or more affordable technology or products, or achieve earlier product development and commercialization than the Company, thus rendering the Company's technologies and/or products obsolete, uncompetitive or uneconomical. See "Risk Factors -- Competition and the Risk of Obsolescence of Technology."

GOVERNMENT REGULATION

Regulation by governmental entities in the United States and other countries will be a significant factor in the production and marketing of any pharmaceutical products that may be developed by a customer of the Company, or in the event the Company decides to develop a drug beyond the preclinical phase. The nature and the extent to which such regulation may apply to the Company's customers will vary depending on the nature of any such pharmaceutical products. Virtually all pharmaceutical products developed by the Company's customers will require regulatory approval by governmental agencies prior to commercialization. In particular, human pharmaceutical products are subject to rigorous preclinical and clinical testing and other approval procedures by the FDA and by foreign regulatory authorities. Various federal and, in some cases, state statutes and regulations also govern or influence the manufacturing, safety, labeling, storage, record keeping and marketing of such pharmaceutical products. The process of obtaining these approvals and the subsequent compliance with appropriate federal and foreign statutes and regulations are time consuming and require the expenditure of substantial resources.

Generally, in order to gain FDA approval, a company first must conduct preclinical studies in the laboratory and in animal models to gain preliminary information on a compound's efficacy and to identify any safety problems. The results of these studies are submitted as a part of an IND that the FDA must review before human clinical trials of an investigational drug can start. In order to commercialize any products, the Company or its customer will be required to sponsor and file an IND and will be responsible for initiating and overseeing the clinical studies to demonstrate the safety and efficacy that are necessary to obtain FDA approval of any such products. Clinical trials are normally done in three phases and generally take two to five years, but may take longer, to complete. After completion of clinical trials of a new product, FDA and foreign regulatory authority marketing approval must be obtained. If the product is classified as a new drug, the Company or its customer will be required to file an NDA and receive approval before commercial marketing of the drug. The testing and approval processes require substantial time and effort and there can be no assurance that any approval will be granted on a timely basis, if at all. NDAs submitted to the FDA can take several years to obtain approval. Even if FDA regulatory clearances are obtained, a marketed product is subject to continual review, and later discovery of previously unknown problems or failure to comply with the applicable regulatory requirements may result in restrictions on the marketing of a product or withdrawal of the product from the market as well as possible civil or criminal sanctions. For marketing outside the United States, the Company will also be subject to foreign regulatory requirements governing human clinical trials and marketing approval for pharmaceutical products. The requirements governing the conduct of clinical trials, product

licensing, pricing and reimbursement vary widely from country to country.

The research and development processes of the Company involve the controlled use of hazardous materials. The Company is subject to federal state and local laws and regulations governing the use, manufacture, storage, handling and disposal of such materials and certain waste products. Although the Company believes that its activities currently comply with the standards prescribed by such laws and regulations, the risk of accidental contamination or injury from these materials cannot be eliminated. In the event of such an accident, the Company could be held liable for any damages that result and any liability could exceed the resources of the Company. In addition, there can be no assurance that the Company will not be required to incur significant costs to comply with environmental laws and regulations in the future.

EMPLOYEES

As of July 31, 1996, ArQule employed 51 people of whom 23 have Ph.D. degrees. Of these, 31 were engaged in operations, 12 were engaged in research and development and 6 were engaged in marketing and general administration. None of ArQule's employees are covered by collective bargaining agreements. ArQule believes its employee relations are good.

FACILITIES

ArQule's research facilities include approximately 34,800 square feet of laboratory and office space in Medford, Massachusetts pursuant to two lease agreements. These leases extend through July 30, 2000, at which time the Company has an option to renew the leases for an additional five year period.

ArQule believes its current facilities are adequate for its current operations. The Company believes that suitable additional space will be available to it, when needed, on commercially reasonable terms.

LEGAL PROCEEDINGS

ArQule is not a party to any material legal proceedings.

MANAGEMENT

EXECUTIVE OFFICERS, KEY EMPLOYEES AND DIRECTORS

The following table sets forth certain information regarding the executive officers, key employees and directors of the Company as of August 15, 1996:

NAME	AGE	POSITION
Eric B. Gordon.....	49	President, Chief Executive Officer and Director
Joseph C. Hogan, Jr., Ph.D.	54	Chairman of the Board, Senior Vice President of Research and Development, Chief Scientific Officer and Director
David L. Coffen, Ph.D.	58	Vice President of Chemistry
James R. Fitzgerald, Jr.	51	Vice President, Chief Financial Officer and Treasurer
John M. Sorvillo, Ph.D.	42	Vice President of Business Development
Steven L. Gallion, Ph.D.	39	Director of Computational Chemistry
Adrian de Jonge, Ph.D.(1).....	41	Director
Stephen M. Dow(2).....	41	Director
Allan R. Ferguson(1)(2).....	54	Director

(1) Member of the Audit Committee.

(2) Member of the Compensation Committee.

Eric B. Gordon has been the President and Chief Executive Officer of the

Company since January 1996. From 1987 until he joined the Company, Mr. Gordon served in various capacities with Pasteur Merieux Connaught, a pharmaceutical company, most recently as Vice President, Treasurer and CFO and since 1993 as Chief Executive Officer of Virogenetics Corporation, its wholly-owned subsidiary. Mr. Gordon received his A.M.P. from the Wharton School of Business of the University of Pennsylvania and his B.S. in Accounting and Finance from Syracuse University.

Joseph C. Hogan, Jr., Ph.D. is a founder of the Company and has served as the Chief Scientific Officer and Senior Vice President of Research and Development since its inception. Dr. Hogan has served as the Chairman of the Board since January 1996. From 1990 until he founded the Company, Dr. Hogan was the founder and president of Applied Modular Chemistries, Inc., a chemistry company. Dr. Hogan received his M.S. and B.S. in Chemistry from Boston College and his Ph.D. from Boston College and the Max Planck Institut fuer Kohlenforschung, Muelheim/Ruhr, Germany.

David L. Coffen, Ph.D. has been the Vice President of Chemistry since July 1995. From 1971 until he joined the Company, Dr. Coffen was employed by Hoffman-LaRoche Inc., a pharmaceutical company, in a variety of positions, most recently as Vice President of Molecular Sciences. Dr. Coffen received his Ph.D. in Synthetic Organic Chemistry from the Massachusetts Institute of Technology and his B.S. in Chemistry from the University of Toronto.

James R. Fitzgerald, Jr. joined the Company in July 1996 as the Chief Financial Officer. From 1988 until he joined the Company, Mr. Fitzgerald was the Chief Financial Officer of Hoyts Cinemas Corporation, an owner and operator of cinemas. Mr. Fitzgerald received his M.B.A. and his B.A. in Economics from Northeastern University.

John M. Sorvillo, Ph.D. joined the Company in December 1995 as Vice President of Business Development. Prior to joining the Company, Dr. Sorvillo had provided consulting services to the Company since August 1995. From 1985 until he joined the Company, Dr. Sorvillo was employed by Oncogene Science, Inc., a biotechnology company, in a variety of positions, most recently as Vice President and General Manager. Dr. Sorvillo attended the Massachusetts Institute of Technology

Program for Senior Executives. He received his Ph.D. in Immunology from the New York University Medical Center and his B.A. in Biology from the City University of New York, Hunter College.

Steven L. Gallion, Ph.D. joined the Company in 1994 as Research Fellow in Computational Chemistry. In 1995, he become the Company's Director of Computational Chemistry. Prior to joining the Company, he was employed by Marion Merrell Dow, Inc., a pharmaceutical company, as Senior Associate Scientist of Theoretical Chemistry from 1993 to 1994 and Associate Scientist of Theoretical Chemistry from 1992 to 1993. From 1989 to 1992, he was Director of Product Development of Amber Systems, Inc., a molecular modeling software company. He received his Ph.D. in Physical Chemistry from the University of Georgia and his B.S. in Chemistry from Southhampton College of Long Island University.

Adrian de Jonge, Ph.D. has been a director of the Company since November 1995. Dr. de Jonge is the Vice President of Research of Solvay's Pharmaceuticals Division and has held such position since 1994. From 1987 through 1993, Dr. de Jonge was employed by Solvay in a variety of positions, most recently as Sector Manager of Drug Discovery.

Stephen M. Dow has been a director of the Company since its inception. Since 1983, he has been a general partner of Sevin Rosen Funds, a venture capital investment firm. Mr. Dow serves as a director of Citrix Systems, Inc. and several privately held companies.

Allan R. Ferguson has been a director of the Company since its inception. He has been a general partner of Atlas Venture since 1993 and managing partner of Aspen Ventures since 1991, both venture capital firms. From 1986 through 1991, Mr. Ferguson was the President of 3i Ventures, a venture capital firm. Prior to his venture capital experience, Mr. Ferguson held senior level positions in operations at Johnson & Johnson and Damon Biotech. Mr. Ferguson serves as a director of AutoImmune Inc. and several privately held companies.

The Company's Restated Certificate, to be filed concurrently with the closing of this offering, provides for a classified board of directors consisting of three classes, with each class being as nearly equal in number as possible. The term of one class expires and their successors are elected for a term of three years at each annual meeting of the Company's stockholders. The Company has designated two class I directors (Messrs. Dow and Gordon), two class II directors (Mr. Ferguson and Dr. Hogan) and one class III director (Dr. de Jonge). These class I, class II and class III directors will serve until the annual meetings of stockholders to be held in 1997, 1998 and 1999, respectively, and until their respective successors are duly elected and qualified, or until their earlier resignation or removal. The Restated Certificate provides that directors may be removed only for cause by a majority of stockholders. See "Description of Capital Stock--Anti-Takeover Measures." There are no family relationships among any of the directors or executive officers.

BOARD COMMITTEES

The Company has standing Audit and Compensation Committees of the Board of Directors. The Audit Committee consists of Mr. Ferguson and Dr. de Jonge. The primary function of the Audit Committee is to assist the Board of Directors in the discharge of its duties and responsibilities by providing the Board with an independent review of the financial health of the Company and of the reliability of the Company's financial controls and financial reporting systems. The Audit Committee reviews the general scope of the Company's annual audit, the fee charged by the Company's independent accountants and other matters relating to internal control systems.

The Compensation Committee of the Board of Directors determines the compensation to be paid to all executive officers of the Company, including the Chief Executive Officer. The Compensation Committee's duties include the administration of the Company's Amended and Restated 1994 Equity Incentive Plan (the "Equity Plan") and the 1996 Employee Stock Purchase Plan. The Compensation Committee is currently composed of Messrs. Dow and Ferguson.

SCIENTIFIC ADVISORY BOARD

The Company's Scientific Advisory Board consists of individuals with demonstrated expertise in various fields who advise the Company concerning long-term scientific planning, research and development. Members also evaluate the Company's research program, recommend personnel to the Company and advise the Company on technology matters. While the Scientific Advisory Board has not met collectively, its members have been available individually to advise the Company on specific scientific and technical issues. Scientific Advisory Board members are compensated on a time and expenses basis and have received shares of Common Stock of the Company. In the future, Scientific Advisory Board members also may receive options to purchase shares of Common Stock of the Company. The Company has entered into consulting agreements with a number of the Scientific Advisory Board members.

No member of the Scientific Advisory Board is employed by the Company, and members may have other commitments to or consulting or advisory contracts with their employers or other entities that may conflict or compete with their obligations to the Company. Accordingly, such persons are expected to devote only a small portion of their time to the Company. The members of the Company's Scientific Advisory Board are:

William D. Carlson, M.D., Ph.D. is the Director of Cardiovascular Research for Harvard Community Health Plan, Associate Physician at Brigham and Women's Hospital and Assistant Professor of Medicine at Harvard University Medical School. He is widely known for his work in drug development and structural biology including the renin-angiotensin and osteogenic growth factor systems. He

received his Ph.D. in Molecular Biophysics and Biochemistry from Yale University and his M.D. from Yale Medical School.

George L. Kenyon, Ph.D. is the Dean of the School of Pharmacy and Professor of Chemistry and Pharmaceutical Chemistry at the University of California, San Francisco. He is widely known for his work in the mechanisms of enzymatic action, and synthetic and mechanistic chemistry and the development of structure-based approaches to the rational design of enzymatic inhibitions. He received his Ph.D. in Organic Chemistry from Harvard University.

Irwin D. Kuntz, Ph.D. is the Acting Director of the Molecular Design Institute, Chairman of the Graduate Group in Biophysics, and Professor in the Department of Pharmaceutical Chemistry at the University of California, San Francisco. He is widely known for his pioneering work in computational chemistry. He received his Ph.D. in Physical Chemistry from the University of California, Berkley.

Gregory Petsko, Ph.D. is the Lucille P. Markey Professor of Biochemistry and Chemistry, and Director of the Rosenteil Basic Medical Sciences Research Center at Brandeis University. He is widely known for his work in the development of protein crystallography and its application to exploring fundamental aspects of protein folding. He received his Ph.D. in Molecular Biology from Oxford University.

Dagmar Ringe, Ph.D. is the Lucille P. Markey Associate Professor and Chair of the Graduate Program in Biophysics at Brandeis University. She is internationally recognized for her contributions to the use of x-ray crystallography to explore fundamental aspects of drug binding behavior. She received her Ph.D. in Organic Chemistry from Boston University.

William R. Roush, Ph.D. is a Professor of Chemistry at Indiana University. He is widely known for his basic studies and applications for a wide variety of synthetic chemical reactions. He received his Ph.D. in Chemistry from Harvard University.

K. Barry Sharpless, Ph.D. is the William M. Keck Professor of Chemistry at The Scripps Research Institute. He is widely known for his pioneering work in asymmetric chemical synthesis. He received his Ph.D. in Organic Chemistry from Stanford University.

1996 DIRECTOR STOCK OPTION PLAN

All of the directors who are not employees of the Company (the "Eligible Directors") are currently eligible to participate in the Company's 1996 Director Stock Option Plan (the "Director Plan"). Upon the adoption of the Director Plan and upon the election of an Eligible Director, such director or directors, as applicable, are automatically granted an option to purchase 7,500 shares of Common Stock (the "Initial Options"). The Initial Options become exercisable with respect to 2,500 shares on the date of the Company's next annual meeting of stockholders following the date of grant and on the date of each annual meeting of stockholders thereafter. In addition, options under the Director Plan are automatically granted once a year, at the annual meeting of stockholders of the Company, to Eligible Directors elected or reelected at the meeting. Each such Eligible Director receives an option to purchase 3,500 shares of Common Stock (the "Annual Options") for each year of the term of office to which the director is elected (normally, 10,500 shares for election to a three-year term of office). The Annual Options become exercisable with respect to 3,500 shares on the date on which the Annual Option was granted and on the date of each annual meeting of stockholders thereafter, so long as the optionee is then a director of the Company. The Initial Options and Annual Options have a term of ten years, and an exercise price payable in cash or shares of Common Stock. The Director Plan was adopted by the Board of Directors in August 1996 and, therefore, Initial Options for 7,500 shares were issued to each of Mr. Dow, Mr. Ferguson and Dr. de Jonge. The exercise price for the Initial Options granted on the date

of the adoption of the Plan was $11.00, the fair market value on such date as determined by the Board of Directors. The exercise price for the Initial Options and the Annual Options granted after the Company's Common Stock is quoted on the Nasdaq National Market will equal the last sale price for the Common Stock on the business day immediately preceding the date of grant, as reported on the Nasdaq National Market.

EXECUTIVE COMPENSATION

The following table sets forth certain information with respect to the annual and long-term compensation paid or accrued by the Company for services rendered to the Company in all capacities for the fiscal year ended December 31, 1995 by its Chief Executive Officer (both current and former), the current Chief Financial Officer and another executive officer of the Company whose total salary exceeded $100,000 (the "Named Executive Officer").

SUMMARY COMPENSATION TABLE

NAME AND PRINCIPAL POSITION	ANNUAL COMPENSATION		LONG-TERM COMPENSATION	
	SALARY	BONUS	NUMBER OF SECURITIES UNDERLYING OPTIONS	
Eric B. Gordon(1)..... President and Chief Executive Officer	--	--	--	
Joseph C. Hogan, Jr., Ph.D. ..... Chairman of the Board, Senior Vice President of Research and Development and Chief Scientific Officer	$150,000	--	--	
James R. Fitzgerald, Jr.(2) ..... Vice President, Chief Financial Officer and Treasurer	--	--	--	
Seth L. Harrison, M.D.(3)..... Former Chief Executive Officer	56,000(4)	--	--	

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(1) Mr. Gordon commenced employment with the Company in January 1996. Terms of his employment are described under "--Executive Employment Agreements."
(2) Mr. Fitzgerald commenced employment with the Company in July 1996. Terms of his employment are described under "-- Executive Employment Agreements."
(3) Dr. Harrison has not been employed by the Company since July 1995.
(4) This amount was paid to Dr. Harrison by Sevin Rosen Bayless Management Company and the Company then reimbursed Sevin Rosen Bayless Management Company for this payment. In addition, pursuant to the terms of a severance agreement with Dr. Harrison, the Company accelerated the vesting of 8,334 shares of Common Stock.

Options. Neither Dr. Seth L. Harrison nor Dr. Joseph C. Hogan, Jr. have ever been issued options to purchase shares of Common Stock of the Company.

STOCK PLANS

Amended and Restated 1994 Stock Option Equity Plan. The Company's Equity Plan authorizes the grant of incentive stock options within the meaning of

Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"), and nonqualified stock options for the purchase of an aggregate of 2,600,000 shares (subject to adjustment for stock splits and similar capital changes) of Common Stock to employees of the Company and, in the case of non-qualified stock options, to consultants of the Company or any Affiliate (as defined in the Equity Plan) capable of contributing to the Company's performance. The Board of Directors has appointed the Compensation Committee to administer the Equity Plan. As of June 30, 1996, 1,135,920 shares of Common Stock were subject to outstanding options granted under the Equity Plan, leaving 1,464,080 shares available for issuance upon future grants under the Equity Plan.

1996 Employee Stock Purchase Plan. The Company has also adopted an employee stock purchase plan (the "Purchase Plan") under which employees may purchase shares of Common Stock at a discount from fair market value. There are 120,000 shares of Common Stock reserved for issuance under the Purchase Plan. To date, no shares of Common Stock have been issued under the Purchase Plan. The Purchase Plan is intended to qualify as an employee stock purchase plan within the meaning of Section 423 of the Code. Rights to purchase Common Stock under the Purchase Plan are granted at the discretion of the Compensation Committee, which determines the frequency and duration of individual offerings under the Plan and the dates when stock may be purchased. Eligible employees participate voluntarily and may withdraw from any offering at any time before stock is purchased. Participation terminates automatically upon termination of employment. The purchase price per share of Common Stock in an offering is 85% of the lesser of its fair market value at the beginning of the offering period or on the applicable exercise date and may be paid through payroll deductions, periodic lump sum payments or a combination of both. The Purchase Plan terminates on August 14, 2006.

401(k) PLAN

The Company has a 401(k) savings and retirement plan (the "401(k) Plan") which covers substantially all employees of the Company. The 401(k) Plan allows participants to agree to certain salary deferrals which the Company allocates to the participants' plan account. These amounts may not exceed statutorily mandated annual limits set forth in the Code. The Company currently does not match employee contributions to the 401(k) Plan but may do so in the future.

EXECUTIVE EMPLOYMENT AGREEMENTS

The Company has entered into employment agreements with Mr. Gordon and Mr. Fitzgerald. The Company agreed to employ Mr. Gordon as President and Chief Executive Officer of the Company, effective January 2, 1996, at an annual salary of $225,000. In connection with this agreement, Mr. Gordon was granted options to acquire 387,433 shares of Common Stock at $0.80 per share, which vest over four years, and options to acquire 77,486 shares of Common Stock at $0.80 per share, which vest on the earlier of the achievement of certain milestones or five years. Mr. Gordon has also been provided with moving and relocation allowances. The agreement provides for continued employment until termination by either party. If Mr. Gordon is terminated by the Company without cause, the agreement provides that he will be entitled to receive his base salary, plus any benefits to which he is entitled and any options granted to Mr. Gordon which would have otherwise vested, for a period of up to six months following such termination of employment. In July 1996, the Company also made a loan in the principal amount of $250,000 to Mr. Gordon. The principal amount of the loan will be repaid in three annual installments beginning three years from the date of this offering and bears interest at the

lowest applicable federal rate of interest as published by the Internal Revenue Service. See "Certain Transactions."

Under Mr. Fitzgerald's Agreement, the Company has agreed to employ Mr. Fitzgerald as Vice President and Chief Financial Officer of the Company, effective July 9, 1996, at an annual salary of $150,000. In connection with the agreement, Mr. Fitzgerald was granted options, which vest over four years, to acquire 50,000 shares of Common Stock at $6.00 per share. The agreement provides for continued employment until termination by either party. If Mr. Fitzgerald is terminated without cause by the Company during the first year of the agreement,

he will be entitled to receive his base salary, plus any benefits to which he is entitled and any options granted to Mr. Fitzgerald which would have otherwise vested, for a period of up to six months.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The Compensation Committee is responsible for determining salaries, incentives and other forms of compensation for directors, officers and other employees of the Company. The Compensation Committee also administers various incentive compensation and benefit plans. See "Management--Stock Plans." The Compensation Committee currently consists of Stephen M. Dow and Allan R. Ferguson. Mr. Dow is a general partner of Sevin Rosen Funds, a venture capital firm and a principal stockholder of the Company. Mr. Ferguson is a general manager of Atlas Venture, a venture capital firm and a principal stockholder of the Company. See "Principal Stockholders" and "Certain Transactions."

CERTAIN TRANSACTIONS

In December 1993, in exchange for the transfer to the Company of substantially all of the assets and liabilities of ArQule Partners, L.P., a Delaware limited partnership (the "Partnership"), the Company issued 1,500 shares of its Common Stock to the Partnership, at which time the Partnership became the sole stockholder of the Company. In November 1994, the Company declared a stock dividend of 3,332.33 shares of its Common Stock on each outstanding share of Common Stock held by the Partnership as of October 17, 1994. After certain transfers of Common Stock by the Partnership, all the remaining outstanding shares of Common Stock then held by the Partnership were surrendered to the Company in exchange for shares of Series A Convertible Preferred Stock, $0.01 par value per share (the "Series A Preferred Stock"), which will convert into 4,295,500 shares of Common Stock concurrently with the closing of this offering.

The partners of the Partnership have agreed to dissolve the Partnership and distribute the shares held by it 180 days after the effective date of this offering. Sevin Rosen Fund IV L.P., Atlas Venture Fund II, L.P. and Atlas Venture Europe B.V., which are direct significant stockholders of the Company (collectively, the "Venture Fund Investors"), Legomer Investors, Inc. ("LII"), Legomer Technologies, Inc. ("LTI"), Dr. Joseph C. Hogan, Jr., Chairman of the Board, Senior Vice President of Research and Development and Chief Scientific Officer of the Company, and certain other individuals are partners of the Partnership and will receive shares of Common Stock of the Company upon such Partnership distribution. The Venture Fund Investors hold all of the outstanding shares of LII. Dr. Hogan holds 50% of the outstanding stock of LTI. See "Principal Stockholders."

In November 1993, the Company made a loan in the amount of $63,000 to Joseph C. Hogan, Jr., Ph.D., Chairman and Chief Scientific Officer of the Company, which loan is represented by a promissory note due and payable in November 1996, and which bears interest at the lowest applicable federal rate of interest as published by the Internal Revenue Service. The entire principal and accrued interest is currently outstanding.

During the period from August 1994 through February 1995, Sevin Rosen Fund IV L.P., Atlas Venture Fund, II, L.P. and Atlas Venture Europe Fund B.V. made a series of bridge loans to the Company in the aggregate amount of $2,400,000 (the "Bridge Loans") in exchange for promissory notes and warrants to purchase an aggregate of 155,300, 58,229 and 26,471 shares of Common Stock, respectively, exercisable at $0.25 per share until the earlier of the effective date of an initial public offering or various dates through December 31, 1999 (the "Bridge Warrants"). In November 1995, the principal amount of the promissory notes representing the Bridge Loans was converted into shares of Series A Preferred Stock, which will convert into an aggregate of 960,000 shares of Common Stock concurrently with the closing of this offering. It is anticipated that the Bridge Warrants will be exercised on a cashless basis prior to the closing of

this offering.

In November 1995, the Company issued 1,800,000 shares of Series B Convertible Preferred Stock, $.01 par value per share (the "Series B Preferred Stock"), to Physica B.V. for cash at a purchase price of $3.89 per share. Such shares of Series B Preferred Stock will convert into 900,000 shares of Common Stock concurrently with the closing of this offering. Physica B.V. is an affiliate of Solvay Duphar B.V., with whom the Company has a major corporate collaboration. See "Business--ArQule's Drug Discovery Programs."

Also in November 1995, the Company made a loan in the amount of $120,000 to Dr. Hogan. The loan is represented by a promissory note and is secured by shares of Common Stock issuable to Dr. Hogan upon dissolution of the Partnership. The loan bears interest at the lowest applicable federal rate of interest as published by the Internal Revenue Service. The original principal amount of the loan is forgiven at a rate of 25% per year on each anniversary date of the note as long as Dr. Hogan is employed by the Company. The entire principal and accrued interest is currently outstanding.

In April 1996, all accrued interest outstanding on the Bridge Loans through November 1995 in the aggregate amount of $141,787 was converted into shares of Series A Preferred Stock, which will

convert into an aggregate of 56,714 shares of Common Stock concurrently with the closing of this offering. In addition, in consideration of the waiver by Physica B.V. of its anti-dilution rights under the Company's Amended and Restated Certificate of Incorporation and its right of first refusal with respect to such shares of Series A Preferred Stock, the Company issued to Physica B.V. additional shares of Series B Preferred Stock, which will convert into 7,734 shares of Common Stock concurrently with the closing of this offering.

In July 1996, the Company made a loan in the amount of $250,000 to Eric B. Gordon, the President, Chief Executive Officer and a director of the Company, which loan is secured by shares of Common Stock issuable to Mr. Gordon upon the exercise of options. The loan is represented by a promissory note which is due and payable in three equal annual installments beginning three years from the date of this offering and which bears interest at the lowest applicable federal rate of interest as published by the Internal Revenue Service. The entire principal and accrued interest is currently outstanding.

PRINCIPAL STOCKHOLDERS

The following table and footnotes set forth certain information regarding the beneficial ownership of the Company's Common Stock as of August 15, 1996, by (i) persons known by the Company to be beneficial owners of more than 5% of the Common Stock, (ii) the Chief Executive Officer (both current and former) and the Named Executive Officer, (iii) each director of the Company and (iv) all current executive officers and directors as a group:

		PERCENTAGE OF SHARES BENEFICIALLY OWNED(1)	
BENEFICIAL OWNERS(2)(3)	NUMBER OF SHARES BENEFICIALLY OWNED(1)	BEFORE OFFERING	AFTER OFFERING
Atlas Venture(4).....	1,355,738	19.43%	15.10%

222 Berkeley Street Boston, MA 02116			
Physica B.V.	907,734	13.01%	10.11%
C.J. van Houtenlaan, 36 1381 CD Weiss The Netherlands			
Sevin Rosen Fund IV L.P.(5)	2,362,833	33.87%	26.32%
550 Lytton Avenue, Suite 200 Palo Alto, CA 94301			
Adrian de Jonge, Ph.D.(6)	907,734	13.01%	10.11%
Stephen M. Dow(7)	2,362,833	33.87%	26.32%
Allan R. Ferguson(8)	1,355,738	19.43%	15.10%
Eric B. Gordon(9)	38,743	*	*
Seth L. Harrison, M.D.(10)	128,689	1.84%	1.43%
Joseph C. Hogan, Jr., Ph.D.(11)	1,208,194	17.32%	13.46%
All current executive officers and directors as a group (6 persons)(12)	5,873,242	83.72%	65.15%

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* Indicates less than 1%.

(1) Reflects the conversion, prior to or contemporaneously with the closing of this offering, of all outstanding shares of preferred stock of the Company into an aggregate of 6,219,948 shares of Common Stock of the Company and the issuance of 234,992 shares of Common Stock upon the cashless exercise of outstanding warrants. The number of shares of Common Stock deemed outstanding after this offering includes the 2,000,000 shares of Common Stock of the Company being offered for sale by the Company in this offering. The persons and entities named in the table have sole voting and investment power with respect to the shares beneficially owned by them, except as noted below. Share numbers include shares of Common Stock issuable pursuant to the outstanding options and warrants that may be exercised within 60 days after August 15, 1996.

(2) Except as otherwise indicated above, the address of each stockholder identified above is c/o the Company, 200 Boston Avenue, Medford, MA 02155.

(3) ArQule Partners, L.P., which holds 4,295,500 shares of Common Stock, representing 61.57% before the offering and 47.85% after the offering, has not been included in this table. The partners of the Partnership have agreed to dissolve the Partnership. See "Certain Transactions" and footnotes (4), (5) and (11).

(4) Consists of (i) 303,258 shares owned by Atlas Venture Fund II, L.P., (ii) 138,274 shares owned by Atlas Venture Europe Fund B. V. (collectively, "Atlas Venture"), (iii) 628,300 shares estimated to be distributed by the Partnership to Atlas Venture Fund II, L.P., and (iv) 285,906 shares

estimated to be distributed by the Partnership to Atlas Venture Europe Fund B.V. The respective general partners of Atlas Venture share voting and investment power with respect to the shares owned by Atlas Venture. The numbers of shares of Common Stock attributed to Atlas Venture in clauses (iii) and (iv) are estimates of the number of shares that will be distributed to Atlas Venture upon the dissolution of the Partnership assuming (a) the fair market value per share at the time of dissolution is equal to the assumed initial public offering price of $12.00 and (b) the further pro rata distribution by LII, a general partner of the Partnership, to its stockholders (which include Atlas Venture) of the ArQule shares distributed to it by the Partnership. See "Certain Transactions." The actual number of shares received by each partner in the Partnership will depend on the per share valuation at the time of the distribution.

(5) Consists of (i) 810,174 shares owned by Sevin Rosen Fund IV L.P. ("Sevin Rosen") and (ii) 1,552,659 shares estimated to be distributed by the Partnership to Sevin Rosen. The respective general partners of Sevin Rosen exercise sole voting and investment power with respect to the shares owned by Sevin Rosen. The number of shares of Common Stock attributed to Sevin Rosen is an estimate of the number of shares that will be distributed to Sevin Rosen upon the dissolution of the Partnership assuming (a) the fair market value per share at the time of dissolution is equal to the assumed initial public offering price of $12.00 and (b) the further pro rata distribution by LII, to its stockholders (which include Sevin Rosen) of the ArQule shares distributed to it by the Partnership. See "Certain Transactions." The actual number of shares received by each partner in the Partnership will depend on the per share valuation at the time of the distribution.

(6) Consists of 907,734 shares of Common Stock owned by Physica B.V. Dr. de Jonge is Vice President of Research of Solvay's Pharmaceuticals Division, an affiliate of Physica B.V. Dr. de Jonge disclaims beneficial ownership of the shares held by Physica B.V.

(7) Consists of 2,362,833 shares owned by or attributed to Sevin Rosen. Mr. Dow is a general partner of SRB Associates IV L.P. which is a general partner of Sevin Rosen. Mr. Dow disclaims beneficial ownership of the shares owned by or attributed to Sevin Rosen, except to the extent of his pecuniary interest therein. See footnote (5).

(8) Consists of 1,355,738 shares owned by or attributed to Atlas Venture. Mr. Ferguson is a general partner of Atlas Venture Associates II, L.P., which is a general partner of Atlas Venture Fund II, L.P. Mr. Ferguson disclaims beneficial ownership of the shares owned by or attributed to Atlas Venture, except to the extent of his pecuniary interest therein. See footnote (4).

(9) Represents shares of Common Stock subject to options that become exercisable upon the closing of this offering.

(10) Includes 41,189 shares estimated to be distributed by the Partnership to Dr. Harrison. The number of shares attributed to Dr. Harrison is an estimate of the number of shares that will be distributed to him upon the dissolution of the Partnership assuming the fair market value per share at the time of dissolution is equal to the assumed initial public offering price of $12.00. See "Certain Transactions." The actual number of shares received by each partner in the Partnership will depend on the per share valuation at the time of the distribution.

(11) Consists of 1,208,194 shares estimated to be distributed by the Partnership to Dr. Hogan. The number of shares attributed to Dr. Hogan is an estimate of the number of shares that will be distributed to Dr. Hogan (187,500 shares) and to a limited partnership of which certain of Dr. Hogan's family members are beneficiaries (1,020,835 shares) upon the dissolution of the Partnership assuming (a) the fair market value per share at the time of dissolution is equal to the assumed initial public offering price of $12.00 and (ii) the further pro rata distribution by LTI, a general partner of the Partnership, to its stockholders (which include Mr. Hogan) of the ArQule shares distributed to it by the Partnership. See "Certain Transactions." The actual number of shares received by each partner in the Partnership will depend on the per share valuation at the time of the distribution.

(12) Includes 38,743 shares of Common Stock subject to options that are either presently exercisable or will become exercisable within 60 days after August 15, 1996. See footnotes (6), (7), (8), (9) and (11).

DESCRIPTION OF CAPITAL STOCK

Upon the closing of this offering, the authorized capital stock of the Company will consist of 30,000,000 shares of Common Stock, $0.01 par value per share, and 1,000,000 shares of Preferred Stock, $0.01 par value per share, after giving effect to the filing of the Company's Restated Certificate. As of the date of this Prospectus, the Company had 32 shareholders. Upon the closing of this offering, the Company will have 8,976,487 shares of Common Stock outstanding.

The following summary of certain provisions of the Common Stock and Preferred Stock does not purport to be complete and is subject to, and qualified in its entirety by, the provisions of the Company's Restated Certificate, the form of which is included as an exhibit to the Registration Statement, and by the provisions of applicable law.

COMMON STOCK

Holders of Common Stock are entitled to one vote per share on matters to be voted upon by the stockholders. There are no cumulative voting rights. Holders of Common Stock are entitled to receive dividends when, as and if declared by the Board of Directors out of funds legally available therefor. Upon the liquidation, dissolution or winding up of the Company, holders of Common Stock share ratably in the assets of the Company available for distribution to its stockholders, subject to the preferential rights of any then outstanding shares of Preferred Stock. The Common Stock outstanding upon the effective date of the Registration Statement, and the shares offered by the Company hereby, upon issuance and sale, will be fully paid and nonassessable.

PREFERRED STOCK

The Company's Board of Directors has the authority to issue up to 1,000,000 shares of Preferred Stock in one or more series and to fix the relative rights, preferences, privileges, qualifications, limitations and restrictions thereof, including dividend rights, dividend rates, conversion rights, voting rights, terms of redemption, redemption prices, liquidation preferences and the number of shares constituting any series or the designation of such series, without further vote or action by the stockholders. The Board of Directors could, without the approval of the stockholders, issue Preferred Stock having voting or conversion rights that could adversely affect the voting power of the holders of Common Stock and the issuance of Preferred Stock could be used, under certain circumstances, to render more difficult or discourage a hostile takeover of the Company. No shares of Preferred Stock will be outstanding immediately following the closing of the offering and the Company has no present plans to issue any shares of Preferred Stock.

ANTI-TAKEOVER MEASURES

In addition to the Board of Directors' ability to issue shares of Preferred Stock, the Restated Certificate and the By-laws of the Company contain several other provisions that are commonly considered to discourage unsolicited takeover bids. The Restated Certificate includes provisions classifying the Board of Directors into three classes with staggered three-year terms and prohibiting stockholder action by written consent. Under the Restated Certificate and By-laws, the Board of Directors may enlarge the size of the Board and fill any vacancies on the Board. The By-laws provide that nominations for directors may not be made by stockholders at any annual or special meeting unless the stockholder intending to make a nomination notifies the Company of its intention a specified period in advance and furnishes certain information. The By-laws also provide that special meetings of the Company's stockholders may be called only by the President or the Board of Directors and require advance notice of business to be brought by a stockholder before the annual meeting.

In February 1988, a law regulating corporate takeovers (the "Anti-Takeover Law") took effect in Delaware. In certain circumstances, the Anti-Takeover Law prevents certain Delaware corporations, including those whose securities are listed on the Nasdaq National Market, from engaging in a "business combination" (which includes a merger or sale of more than 10% of the corporation's assets)

with an "interested stockholder" (a stockholder who owns 15% or more of the corporation's outstanding voting stock) for three years following the date on which such stockholder became an "interested stockholder" subject to certain exceptions, unless the transaction is approved by the board of directors and the holders of at least 66 2/3% of the outstanding voting stock of the corporation (excluding shares held by the interested stockholder). The statutory ban does not apply if, upon consummation of the transaction in which any person becomes an interested stockholder, the interested stockholder owns at least 85% of the outstanding voting stock of the corporation (excluding shares held by persons who are both directors and officers or by certain employee stock plans). A Delaware corporation subject to the Anti-Takeover Law may "opt out" of the Anti-Takeover Law with an express provision either in its certificate of incorporation or by-laws resulting from a stockholders' amendment approved by at least a majority of the outstanding voting shares; such an amendment is effective following expiration of twelve months from adoption. The Company is a Delaware corporation that is subject to the Anti-Takeover Law and has not "opted out" of its provisions.

The foregoing provisions of Delaware law and the Restated Certificate and By-laws could have the effect of discouraging others from attempting a hostile takeover of the Company and, as a consequence, they may also inhibit temporary fluctuations in the market price of the Common Stock that might result from actual or rumored hostile takeover attempts. Such provisions may also have the effect of preventing changes in the management of the Company. It is possible that such provisions could make it more difficult to accomplish transactions which stockholders may otherwise deem to be in their best interests.

TRANSFER AGENT

The transfer agent and registrar for the Common Stock is American Stock Transfer & Trust Company.

SHARES ELIGIBLE FOR FUTURE SALE

Upon completion of this offering, the Company will have 8,976,487 shares of Common Stock outstanding, assuming no exercise of the Underwriters' over-allotment option or of any other outstanding options. Of these shares, the 2,000,000 shares sold in this offering will be freely tradable, without restriction or further registration under the Securities Act, except for shares purchased by "affiliates" of the Company as that term is defined in Rule 144 under the Securities Act.

The remaining 6,976,487 outstanding shares of Common Stock are owned by existing stockholders and are deemed "Restricted Shares" under Rule 144. These may not be resold, except pursuant to an effective registration statement or an applicable exemption from registration. Of these remaining shares, approximately 157,972 shares of Common Stock will be eligible for sale under Rules 144 and 701 on the ninety-first day after the effectiveness of this offering. Stockholders of the Company, holding in the aggregate 6,818,515 shares of Common Stock, have agreed to enter into the 180-day lock-up agreements described below. At the end of such 180-day period, an additional 5,910,781 shares of Common Stock will be eligible for sale under Rules 144 and 701. The remaining Restricted Shares will become eligible from time to time thereafter upon the expiration of the minimum two-year holding period prescribed by Rule 144.

In general, under Rule 144, as currently in effect, a person (or persons whose shares are aggregated), including an affiliate, who has beneficially owned Restricted Shares for at least two years from the later of the date such Restricted Shares were acquired from the Company and (if applicable) the date they were acquired from an affiliate, is entitled to sell, within any three-month period, a number of shares that does not exceed the greater of 1% of the then outstanding shares of Common Stock or the average weekly trading volume in the public market during the four calendar weeks preceding such sale. Sales under Rule 144 are also subject to certain requirements as to the manner and notice of sale and the availability of public information concerning the Company. All sales of shares of the Company's Common Stock, including Restricted Shares, held by affiliates of the Company must be sold under Rule 144, subject

to the foregoing volume limitations and other restrictions.

The Commission has proposed an amendment to Rule 144 which would reduce the holding period required for shares subject to Rule 144 from two years to one year. If this proposal is adopted as of the expected closing of this offering, an additional 907,734 shares of Common Stock would become eligible for sale by existing stockholders to the public after the expiration of the 180-day lock-up period.

The Company's directors and executive officers and certain of its stockholders have agreed that they will not, without the prior consent of the representatives of the Underwriters, offer to sell, sell, contract to sell, grant any option to sell or otherwise dispose of or require the Company to file with the Commission a registration statement under the Act to register any shares of Common Stock or securities convertible or exchangeable for shares of Common Stock or warrants or other rights to acquire shares of Common Stock during the 180-day period following the effective date of the Registration Statement.

The Company plans to file registration statements under the Securities Act to register 2,600,000, 125,000 and 120,000 shares of Common Stock issuable under the Equity Plan, the Director Plan and the Stock Purchase Plan, respectively, 180 days after the date of this Prospectus. Upon registration, such shares will be eligible for immediate resale upon exercise, subject, in the case of affiliates, to the volume, manner of sale and notice requirements of Rule 144.

No prediction can be made as to the effect, if any, that market sales of additional shares or the availability of such additional shares for sale will have on the market price of the Common Stock. Nevertheless, sales of substantial amounts of Common Stock in the public market may have an adverse impact on the market price for the Common Stock. See "Risk Factors-Dilution."

REGISTRATION RIGHTS

The holders of the 6,219,948 shares of Common Stock to be issued on conversion of the Series A Preferred Stock and Series B Preferred Stock (the "Registrable Shares") are entitled to certain rights with respect to registration under the Securities Act of the Registrable Shares. If the Company proposes to register any of its securities under the Securities Act, either for its own account or for the account of other security holders, such holders are entitled to notice of such registration and are entitled to include such Registrable Shares in the registration. The rights are subject to certain conditions and limitations, among them, the right of the underwriters of a registered offering to limit the number of shares included in such registration. Holders of Registrable Shares benefiting from these rights may also require the Company to file at its expense a registration statement under the Securities Act with respect to their shares of Common Stock and, subject to certain conditions and limitations, the Company is required to use its best efforts to effect such registration. Furthermore, such holders may, subject to certain conditions and limitations, require the Company to file additional registration statements on Form S-3 with respect to such Registrable Shares. In connection with this offering, such holders waived their right to have shares of Common Stock registered under the Securities Act as part of this offering.

UNDERWRITING

Subject to the terms and conditions of the Underwriting Agreement, the Underwriters named below, through their Representatives, Hambrecht & Quist LLC, Oppenheimer & Co., Inc. and Vector Securities International, Inc., have severally agreed to purchase from the Company the following respective numbers of shares of Common Stock:

NAME	NUMBER OF SHARES
Hambrecht & Quist LLC.....	
Oppenheimer & Co., Inc.	
Vector Securities International, Inc.	
Total.....	2,000,000

The Underwriting Agreement provides that the obligations of the Underwriters are subject to certain conditions precedent, including the absence of any material adverse change in the Company's business and the receipt of certain certificates, opinions and letters from the Company, its counsel and its independent auditors. The nature of the Underwriters' obligation is such that they are committed to purchase all shares of Common Stock offered hereby if any such shares are purchased.

The Underwriters propose to offer the shares of Common Stock directly to the public at the initial public offering price set forth on the cover page of this Prospectus and to certain dealers at such price less a concession not in excess of $ per share. The Underwriters may allow, and such dealers may reallow, a concession not in excess of $ per share to certain other dealers. The Representatives of the Underwriters have advised the Company that the Underwriters do not intend to confirm any shares to any accounts over which they exercise discretionary authority. After the initial public offering of the shares, the offering price and other selling terms may be changed by the Representatives of the Underwriters.

The Company has granted to the Underwriters an option, exercisable no later than 30 days after the date of this Prospectus, to purchase up to 300,000 additional shares of Common Stock at the initial public offering price, less the underwriting discount, set forth on the cover page of this Prospectus. To the extent that the Underwriters exercise this option, each of the Underwriters will have a firm commitment to purchase approximately the same proportion thereof which the number of shares of Common Stock to be purchased by it shown in the above table bears to the total number of shares of Common Stock offered hereby. The Company will be obligated, pursuant to the option, to sell shares to the Underwriters to the extent the option is exercised. The Underwriters may exercise such option only to cover over-allotments made in connection with the sale of shares of Common Stock offered hereby.

The offering of the shares is made for delivery when, as and if accepted by the Underwriters and subject to prior sale and to withdrawal, cancellation or modification of the offering without notice. The Underwriters reserve the right to reject an order for the purchase of shares in whole or in part.

The Company has agreed to indemnify the Underwriters against certain liabilities, including liabilities under the Securities Act, and to contribute to payments the Underwriters may be required to make in respect thereof.

Certain existing stockholders of the Company, including the Company's executive officers and directors, who will own in the aggregate 6,818,515 shares of Common Stock after the offering, have agreed that they will not, without the prior written consent of Hambrecht & Quist LLC, offer, sell or otherwise dispose of any shares of Common Stock, options or warrants to acquire shares of Common Stock or securities exchangeable for or convertible into shares of Common Stock owned by them during the 180-day period following the date of this Prospectus. The Company has agreed that, subject to limited exceptions, it will not, without the prior written consent of Hambrecht & Quist LLC, offer, sell or otherwise dispose of any shares of Common Stock, options or warrants to acquire shares of

Common Stock or securities exchangeable for or convertible into shares of Common

Stock during the 180-day period following the date of this Prospectus.

Prior to this offering, there has been no public market for the Common Stock. The initial public offering price for the Common Stock will be determined by negotiation among the Company and the Representatives. Among the factors to be considered in determining the initial public offering price are prevailing market and economic conditions, revenues and earnings of the Company, market valuations of other companies engaged in activities similar to those of the Company, estimates of the business potential and prospects of the Company, the present state of the Company's business operations, the Company's management and other factors deemed relevant. The estimated initial public offering price range set forth on the cover of this preliminary prospectus is subject to change as a result of market conditions and other factors.

LEGAL MATTERS

The validity of the shares of Common Stock offered hereby will be passed upon for the Company by Palmer & Dodge LLP, Boston, Massachusetts. Michael Lytton, a partner of Palmer & Dodge LLP, is the Secretary of the Company and Lynnette C. Fallon, also a partner of Palmer & Dodge LLP, is the Assistant Secretary of the Company. Certain legal matters in connection with this offering will be passed upon for the Underwriters by Testa, Hurwitz & Thibeault, LLP, Boston, Massachusetts.

EXPERTS

The financial statements as of December 31, 1994 and 1995 and for each of the two years in the period ended December 31, 1995 and for the period from inception (May 6, 1993) through December 31, 1993 included in this Prospectus have been so included in reliance on the report of Price Waterhouse LLP, independent accountants, given on the authority of said firm as experts in auditing and accounting.

ADDITIONAL INFORMATION

The Company has filed with the Securities and Exchange Commission (the "Commission") a Registration Statement on Form S-1 (the "Registration Statement") under the Securities Act, with respect to the shares of Common Stock offered hereby. This Prospectus does not contain all of the information set forth in the Registration Statement and the exhibits and schedules thereto. For further information with respect to the Company and the Common Stock offered hereby, reference is made to the Registration Statement and the exhibits and schedules thereto. All statements made in this Prospectus regarding the contents of any contract, agreement or other document filed as an exhibit to the Registration Statement are qualified by reference to the copy of such document filed as an exhibit to the Registration Statement. A copy of the Registration Statement may be inspected without charge at the offices of the Commission, 450 Fifth Street, N.W., Washington, D.C. 20549, and copies of all or any part thereof may be obtained from the Commission upon the payment of certain fees prescribed by the Commission. Such reports and other information can also be reviewed through the Commission's Web site (http://www.sec.gov).

ARQULE, INC.

INDEX TO FINANCIAL STATEMENTS

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and
Stockholders of ArQule, Inc.

The stock split described in Note 11 to the financial statements has not been consummated at September 17, 1996. When it has been consummated, we will be in a position to furnish the following report:

> "In our opinion, the accompanying balance sheet and the related statements of operations, of redeemable preferred stock and stockholders' equity (deficit) and of cash flows present fairly, in all material respects, the financial position of ArQule, Inc. at December 31, 1995 and 1994, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 1995 and for the period from inception (May 6, 1993) through December 31, 1993 in conformity with generally accepted accounting principles. 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 of these statements in accordance with generally accepted auditing standards which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above."
>
> PRICE WATERHOUSE LLP
>
> Boston, Massachusetts
>
> September 17, 1996

ARQULE, INC.

BALANCE SHEET

	DECEMBER 31,		JUNE 30,	PRO FORMA JUNE 30,
	1994	1995	1996	1996 (NOTE 10)
			(UNAUDITED)	
ASSETS				
Current assets:				
Cash and cash equivalents	$ 425,000	$ 2,989,000	$ 2,567,000	$ 2,567,000
Marketable securities	--	4,802,000	3,800,000	3,800,000
Restricted cash	--	50,000	50,000	50,000
Prepaid expenses and other current assets	29,000	73,000	30,000	30,000
Notes receivable from related party	--	93,000	93,000	93,000

Total current assets	454,000	8,007,000	6,540,000	6,540,000
Restricted cash	288,000	50,000	50,000	50,000
Property and equipment, net	1,502,000	1,994,000	5,134,000	5,134,000
Other assets	14,000	49,000	49,000	49,000
Notes receivable from related party	63,000	90,000	75,000	75,000
	$ 2,321,000	$10,190,000	$11,848,000	$11,848,000
LIABILITIES, REDEEMABLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY (DEFICIT)				
Current liabilities:				
Current portion of capital lease obligations	$ 341,000	$ 514,000	$ 836,000	$ 836,000
Bridge financing -- related party	1,594,000	--	--	--
Accounts payable and accrued expenses	627,000	769,000	1,177,000	1,177,000
Deferred revenue	--	1,650,000	3,133,000	3,133,000
Total current liabilities	2,562,000	2,933,000	5,146,000	5,146,000
Capital lease obligations	962,000	911,000	1,426,000	1,426,000
Deferred revenue	--	458,000	--	--
Series B mandatorily redeemable convertible preferred stock, 1,800,000 and 1,815,468 shares issued and outstanding at December 31, 1995 and June 30, 1996, respectively, stated at net issuance price plus accretion; no shares outstanding pro forma	--	6,888,000	6,898,000	--
Stockholders' equity (deficit):				
Convertible preferred stock, $0.01 par value; 15,000,000 shares authorized Series A convertible preferred stock, 8,591,000, 10,511,000 and 10,624,429 shares issued and outstanding at December 31, 1994 and 1995 and June 30, 1996, respectively, stated at issuance price (liquidation preference $9,354,790); no shares outstanding pro forma	86,000	2,486,000	2,628,000	--
Common stock, $0.01 par value; 20,000,000 shares authorized; 554,597, 522,797 and 523,047 shares issued and outstanding at December 31, 1994 and 1995 and June 30, 1995, respectively; 6,742,995 shares outstanding pro forma	6,000	5,000	5,000	67,000
Additional paid-in capital	4,376,000	4,435,000	4,435,000	13,899,000
Accumulated deficit	(5,671,000)	(7,926,000)	(8,690,000)	(8,690,000)
Total stockholders' equity (deficit)	(1,203,000)	(1,000,000)	(1,622,000)	5,276,000
Commitments (Note 13)	--	--	--	--
	$ 2,321,000	$10,190,000	$11,848,000	$11,848,000

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

ARQULE, INC.

STATEMENT OF OPERATIONS

	PERIOD FROM INCEPTION (MAY 6, 1993) THROUGH DECEMBER 31,	YEAR ENDED DECEMBER 31,		SIX MONTHS ENDED JUNE 30,	

	1993	1994	1995	1995	1996
				(UNAUDITED)	
Revenue:					
Compound development revenue	$ --	$ 85,000	$ 1,830,000	$ 521,000	$1,475,000
Compound development revenue--related party	--	--	500,000	--	1,500,000
License option fees	--	--	1,000,000	1,000,000	--
	--	85,000	3,330,000	1,521,000	2,975,000
Costs and expenses:					
Cost of revenue	--	--	1,367,000	392,000	962,000
Cost of revenue--related party	--	--	277,000	--	973,000
Research and development	769,000	2,806,000	2,095,000	1,213,000	1,119,000
General and administrative	687,000	1,346,000	1,557,000	806,000	828,000
	1,456,000	4,152,000	5,296,000	2,411,000	3,882,000
Loss from operations	(1,456,000)	(4,067,000)	(1,966,000)	(890,000)	(907,000)
Interest income	--	--	133,000	11,000	172,000
Interest expense	(9,000)	(139,000)	(419,000)	(190,000)	(19,000)
Net loss	$(1,465,000)	$(4,206,000)	$(2,252,000)	$(1,069,000)	$ (754,000)
Unaudited pro forma net loss per share assuming conversion of convertible preferred stock (Note 10):					
Net loss per share			$ (0.33)		$ (0.10)
Shares used in computing net loss per share			6,851,000		7,441,000

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

ARQULE, INC.

STATEMENT OF REDEEMABLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY (DEFICIT)

	SERIES B MANDATORILY REDEEMABLE CONVERTIBLE PREFERRED STOCK		STOCKHOLDERS' EQUITY (DEFICIT)		
			SERIES A CONVERTIBLE PREFERRED STOCK		COMMON STOCK
	SHARES	AMOUNT	SHARES	AMOUNT	SHARES
Capital contributions from ArQule Partners, L.P. (Note 1)					
Net loss					
Issuance of common stock on December 30, 1993 in exchange for partnership assets and liabilities					1,500
BALANCE AT DECEMBER 31, 1993					1,500
Capital contribution from ArQule Partners, L.P. (Note 1)					
3,333.33 for 1 stock split effected in the form of a stock dividend					4,998,500
Cancellation of common stock					(140,528)
Issuance of Series A convertible preferred stock in exchange for common stock			8,591,000	$ 86,000	(4,295,500)
Cancellation of unvested portion of restricted stock upon employee termination					(9,375)
Issuance of common stock purchase warrants under bridge financing					
Net loss					
BALANCE AT DECEMBER 31, 1994			8,591,000	86,000	554,597
Employee restricted stock purchases					68,200
Issuance of common stock purchase warrants under bridge financing					
Cancellation of unvested portion of restricted stock upon employee termination					(100,000)
Conversion of bridge notes into Series A convertible preferred stock			1,920,000	2,400,000	

Issuance of Series B mandatorily redeemable convertible preferred stock, net of issuance costs of $115,000	1,800,000	$6,885,000			
Accretion of Series B mandatorily redeemable preferred stock to redemption value		3,000			
Net loss					
BALANCE AT DECEMBER 31, 1995	1,800,000	6,888,000	10,511,000	2,486,000	522,797
Conversion of interest on bridge notes to Series A convertible preferred stock (unaudited)			113,429	142,000	
Issuance of Series B mandatorily redeemable preferred stock to maintain ownership percentage (Note 10) (unaudited)	15,468				
Cancellation of unvested portion of restricted stock upon employee termination (unaudited)					(375)
Employee option exercise (unaudited)					625
Accretion of Series B mandatorily redeemable preferred stock to redemption value (unaudited)		10,000			
Net loss (unaudited)					
BALANCE AT JUNE 30, 1996 (UNAUDITED)	1,815,468	$6,898,000	10,624,429	$2,628,000	523,047

	STOCKHOLDERS' EQUITY (DEFICIT)			
	COMMON STOCK PAR VALUE	ADDITIONAL PAID-IN CAPITAL	ACCUMULATED DEFICIT	TOTAL STOCKHOLDERS' EQUITY (DEFICIT)
Capital contributions from ArQule Partners, L.P. (Note 1)		$2,236,000		$ 2,236,000
Net loss			$(1,465,000)	(1,465,000)
Issuance of common stock on December 30, 1993 in exchange for partnership assets and liabilities	$ --			--
BALANCE AT DECEMBER 31, 1993	--	2,236,000	(1,465,000)	771,000
Capital contribution from ArQule Partners, L.P. (Note 1)		2,100,000		2,100,000
3,333.33 for 1 stock split effected in the form of a stock dividend	50,000	(50,000)		--
Cancellation of common stock	(1,000)	1,000		--
Issuance of Series A convertible preferred stock in exchange for common stock	(43,000)	(43,000)		--
Cancellation of unvested portion of restricted stock upon employee termination	--			--
Issuance of common stock purchase warrants under bridge financing		132,000		132,000
Net loss			(4,206,000)	(4,206,000)
BALANCE AT DECEMBER 31, 1994	6,000	4,376,000	(5,671,000)	(1,203,000)
Employee restricted stock purchases	--	1,000		1,000
Issuance of common stock purchase warrants under bridge financing		57,000		57,000
Cancellation of unvested portion of restricted stock upon employee termination	(1,000)	1,000		--
Conversion of bridge notes into Series A convertible preferred stock				2,400,000
Issuance of Series B mandatorily redeemable convertible preferred stock, net of issuance costs of $115,000				
Accretion of Series B mandatorily redeemable preferred stock to redemption value			(3,000)	(3,000)
Net loss			(2,252,000)	(2,252,000)
BALANCE AT DECEMBER 31, 1995	5,000	4,435,000	(7,926,000)	(1,000,000)
Conversion of interest on bridge notes to Series A convertible preferred stock (unaudited)				142,000
Issuance of Series B mandatorily redeemable preferred stock to maintain ownership percentage (Note 10) (unaudited)				
Cancellation of unvested portion of restricted stock upon employee termination (unaudited)	--			--
Employee option exercise (unaudited)	--			--
Accretion of Series B mandatorily redeemable preferred stock to redemption value (unaudited)			(10,000)	(10,000)
Net loss (unaudited)			(754,000)	(754,000)
BALANCE AT JUNE 30, 1996 (UNAUDITED)	$ 5,000	$4,435,000	$(8,690,000)	$(1,622,000)

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

ARQULE, INC.

STATEMENT OF CASH FLOWS

Increase (Decrease) in Cash and Cash Equivalents

PERIOD FROM INCEPTION (MAY 6, 1993) THROUGH DECEMBER 31, 1993	YEAR ENDED DECEMBER 31, 1994	1995	SIX MONTHS ENDED JUNE 30, 1995	1996
				(UNAUDITED)

Cash flows from operating activities:					
Net loss	$(1,465,000)	$(4,206,000)	$(2,252,000)	$(1,069,000)	$ (754,000)
Adjustment to reconcile net loss to net cash (used in) provided by operating activities:					
Depreciation and amortization	19,000	189,000	506,000	224,000	434,000
Amortization of debt discount	--	25,000	164,000	137,000	--
(Increase) decrease in prepaid expenses and other current assets	(70,000)	41,000	(44,000)	6,000	43,000
Increase in other assets	(14,000)	--	(35,000)	--	--
Increase in notes receivable from related party	(63,000)	--	(120,000)	--	--
Increase in accounts payable and accrued expenses	287,000	340,000	141,000	49,000	550,000
Increase in deferred revenue	--	--	2,108,000	2,716,000	1,025,000
Net cash (used in) provided by operating activities	(1,306,000)	(3,611,000)	468,000	2,063,000	1,298,000
Cash flows from investing activities:					
Purchases of marketable securities	--	--	(9,052,000)	--	--
Proceeds from sale or maturity of marketable securities	--	--	4,250,000	--	1,002,000
Decrease (increase) in restricted cash	(100,000)	(188,000)	188,000	(14,000)	--
Additions to property and equipment	(201,000)	(168,000)	(495,000)	(228,000)	(2,437,000)
Net cash used in investing activities	(301,000)	(356,000)	(5,109,000)	(242,000)	(1,435,000)
Cash flows from financing activities:					
Proceeds from bridge financing -- related party	--	1,700,000	700,000	700,000	--
Principal payments of capital lease obligations	(34,000)	(110,000)	(381,000)	(161,000)	(285,000)
Proceeds from issuance of mandatorily redeemable convertible preferred stock, net	--	--	6,885,000	--	--
Proceeds from issuance of common stock	--	--	1,000	--	--
Capital contribution from ArQule Partners, L.P.	2,236,000	2,100,000	--	--	--
Proceeds from sale-leaseback transactions	--	107,000	--	--	--
Net cash provided by (used in) financing activities	2,202,000	3,797,000	7,205,000	539,000	(285,000)
Net increase (decrease) in cash and cash equivalents	595,000	(170,000)	2,564,000	2,360,000	(422,000)
Cash and cash equivalents, beginning of period	--	595,000	425,000	425,000	2,989,000
Cash and cash equivalents, end of period	$ 595,000	$ 425,000	$ 2,989,000	$ 2,785,000	$ 2,567,000

SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:

Capital lease obligations of $1,122,000 and $503,000, $935,000 and $512,000 were incurred in six months ended June 30, 1996 and in the years ended December 31, 1995, 1994 and 1993, respectively, when the Company entered into leases for various machinery and equipment, furniture and fixtures, and leasehold improvements.

During 1995, the Company converted $2,400,000 of bridge loans into 1,920,000 shares of Series A convertible preferred stock (Note 8). In addition, during 1996, the Company converted $142,000 of interest relating to the bridge loans into 113,429 shares of Series A convertible preferred stock.

In addition to cash of $595,000, the Company received certain assets, liabilities and patented technology upon the issuance of its common stock in connection with the formation of the Company (Note 1).

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

During 1995 and 1994, the Company paid approximately $254,000 and $98,000, respectively, for interest.

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

ARQULE, INC.

NOTES TO FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS AND ORGANIZATION

ArQule, Inc. (the "Company") is engaged in the discovery, development and

production of novel chemical compounds for the pharmaceutical and biotechnology industries. Its operations are focused on the integration of combinatorial chemistry and structure-guided rational drug design technologies and their application for producing such compounds.

In May 1993 and in connection with the formation of ArQule Partners, L.P. (the "Partnership"), Legomer Technologies, Inc. ("LTI"), formerly Molecular Recognition Technologies, Inc., a company owned by the two founding limited partners in the Partnership, contributed to the Partnership all rights and interests in certain LTI patented technology (the "Technology") in exchange for a 0.5% general partner ownership position. The Company was legally incorporated on December 30, 1993 to carry on the operations of the Partnership. Immediately following the incorporation of the Company, the Partnership transferred substantially all of its assets, liabilities and patented technology (the "Operating Assets"), having an aggregate net book value of $771,000, to the Company in exchange for 1,500 shares of the Company's $0.01 par value common stock, representing all of the Company's then outstanding common stock. Because of the related party nature of these transactions, the Operating Assets and the Technology transfers have been accounted for as transfers of assets between entities under common control. Accordingly, the accompanying financial statements include the assets, liabilities and results of operations of the Company at historical amounts as if the transfers occurred at the inception of the Partnership. The Company is currently a majority-owned subsidiary of the Partnership.

Amounts which reflect the funding of the Partnership's operations prior to the conversion of certain shares of the Company's common stock into Series A preferred stock (Note 10) are reflected as paid-in capital in the accompanying balance sheet and as capital contributed by ArQule Partners L.P. in the statements of changes in redeemable preferred stock and stockholders' equity (deficit) and of cash flows.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies followed in the preparation of these financial statements are as follows:

Cash Equivalents, Marketable Securities and Restricted Cash

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. The Company invests its available cash primarily in money market mutual funds and U.S. government debt securities which have strong credit ratings. These investments are subject to minimal credit and market risks. The Company specifically identifies securities for purposes of determining gains and losses on the sale of cash equivalents and short-term investments. At December 31, 1995 and 1994, the Company has classified its investments as available-for-sale as defined in Statement of Financial Accounting Standards ("SFAS") No. 115.

Restricted cash represents cash equivalents and time deposits held at financial institutions as collateral on certain lease agreements (Note 13).

Fair Value of Financial Instruments

In 1995, the Company adopted SFAS No. 107, "Disclosures about the Fair Value of Financial Instruments," which requires the disclosure of the fair value of financial instruments. At December 31, 1995 the Company's financial instruments consist of cash, cash equivalents, marketable securities, restricted cash, notes receivable from related party, accounts payable and accrued expenses and

mandatorily redeemable convertible preferred stock. The carrying amount of these instruments approximate their fair values.

Property and Equipment

Property and equipment are recorded at cost and depreciated using the straight-line method over their estimated useful lives. Assets under capital leases and leasehold improvements are amortized over the shorter of their estimated useful lives or the term of the respective leases by use of the straight-line method. Maintenance and repair costs are expensed as incurred.

Revenue Recognition

Compound development revenue relates to revenue from significant collaborative agreements (Note 3) and from licensing of compound arrays. Revenue from collaborative agreements is recognized as work is performed using the percentage of completion method. Payments received under these arrangements prior to the completion of the related work are recorded as deferred revenue. Revenue from licensing of compound arrays with no additional obligations is recognized upon delivery of the compound array. License option fees represent payments made to the Company for a right to evaluate and negotiate the terms of potential licensing arrangement. Payments received for license option fees are recognized as the options are granted as such fees are nonrefundable and the Company has no further obligations.

Cost of Revenue

Cost of revenue represents the actual costs incurred in connection with performance pursuant to collaborative agreements and the costs incurred to produce compound arrays. These costs consist primarily of payroll and payroll-related costs, supplies and overhead expenses.

Unaudited Pro Forma Net Loss Per Share

Pro forma net loss per share is determined by dividing the net loss by the weighted average number of shares of common stock and common stock equivalents outstanding during the period, assuming the conversion of all convertible preferred stock which will occur upon the closing of a qualified public offering of the Company's common stock as described in Note 10.

Common stock equivalents, although anti-dilutive, issued at prices below the offering price per share during the twelve month period preceding the initial filing of the Registration Statement have been included in the calculation of unaudited pro forma net loss per share using the treasury stock method and an assumed initial public offering price of $12.00 per share as if outstanding since the beginning of each period presented.

Historical net loss per share has not been presented as the Series A convertible preferred stock would have been omitted from the weighted average shares outstanding as it is anti-dilutive and was issued more than twelve months prior to the anticipated public offering.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Interim Financial Data (Unaudited)

The interim financial data as of June 30, 1996 and for the six months ended June 30, 1995 and 1996, included in the accompanying financial statements are unaudited; however, in the opinion of the Company, the interim financial data include all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the results for the interim periods. The interim financial data are not necessarily indicative of the results of

operations for a full year.

New Accounting Pronouncements

In March 1995, the Financial Accounting Standards Board ("FASB") issued SFAS No. 121, "Accounting for the Impairment of Long-lived Assets and for Long-lived Assets to be Disposed Of". In October 1995, the FASB issued SFAS No. 123, "Accounting for Stock-Based Compensation." Both SFAS No. 121 and No. 123 are effective for the Company for the year ending December 31, 1996. The Company has adopted these standards as required, and has adopted SFAS No. 123 through disclosure only. The adoption of these statements is not expected to have a material effect on the Company's financial position, results of operations or cash flows.

3. SIGNIFICANT AGREEMENTS

In 1995, the Company entered into a Research, Development and License Agreement (the "Agreement") and a Stock Purchase Agreement (Note 10) with Solvay Duphar B.V. ("Solvay"). Under the terms of the Agreement, the Company will provide a certain number of compounds per year, and Solvay has been granted the right to screen these compounds to identify compounds which exhibit biological activity against targets (an "Active Compound"). Solvay has the right to enter into an exclusive, worldwide license for any Active Compound identified. In exchange, the Company receives milestone payments during drug development and royalty payments based on sales of the product. Solvay has a right which expires on December 31, 1997 to license certain of the Company's technologies on a nonexclusive basis for internal use only. The initial term of the Agreement is five years, and Solvay will make payments totaling $3.5 million per contract year for access to the compounds and for the Company's research work of which $600,000 was paid by December 31, 1995. At December 31, 1995, deferred revenue related to this agreement totaled $100,000, and $500,000 was included in compound development revenue--related party for the year ended December 31, 1995.

In 1995, the Company entered into a Research & Development and License Agreement with Abbott Laboratories ("Abbott"). Under this agreement, the Company will conduct research and development activities for Abbott for two years (the "Research Term") with an option to extend the agreement for up to an additional three years for additional payments. The Company will also provide a certain number of compounds per year, and Abbott has been granted the right to screen these compounds or to use them in research activities pursuant to the agreement. Abbott has the right to enter into an exclusive, worldwide license for a number of compounds or derivatives developed under the agreement. In exchange, the Company receives milestone payments during drug development and royalty payments based on sales of the product. Pursuant to the agreement, Abbott has made payments totaling $3.2 million for access to the compounds and for the Company's research work of which $1,192,000 was included in compound development revenue in 1995 and $2,008,000 was included in deferred revenue at December 31, 1995.

In 1995, the Company entered into an Option Agreement and a Research and Development Agreement with Pharmacia Biotech AB ("Pharmacia"), a subsidiary of Pharmacia & Upjohn, Inc. Under the Option Agreement, a nonrefundable fee of $1,000,000 was paid by Pharmacia in exchange for a six month option to license certain technology rights. This amount was included in license option fee revenue. Upon exercise of an option by Pharmacia, the two parties will enter into a license agreement which would include initial licensing fees based on the technology licensed and royalty and milestone payments based on Pharmacia's related net product sales. Under the Research and

Development Agreement, Pharmacia paid $500,000 for certain research and development activities, which was included in compound development revenue. Subsequent to December 31, 1995 and pursuant to the terms of the Option Agreement, Pharmacia elected to extend the option for certain technologies by funding an additional research project under the Research and Development Agreement.

On September 13, 1996, the Company entered into a Research and License Agreement with Roche Bioscience, a division of Syntex (U.S.A.) Inc. and an indirect subsidiary of Roche Holding Ltd., pursuant to which the Company will synthesize a certain number of Directed Array sets from compounds provided to the Company by Roche Bioscience or developed by the Company. Roche Bioscience has the right to enter into an exclusive, worldwide license for any Active Compounds identified. Pursuant to the agreement, the Company will receive research payments, milestone payments during drug development, and royalty payments based on sales of the product. The initial term of the agreement is three years. Roche Bioscience will make payments of approximately $12 million over the initial term for development of and access to Directed Array sets, as determined jointly by the Company and Roche Bioscience. However, the agreement is subject to an early termination provision such that it may be terminated at the end of the second year, in which case the Company will receive payments of approximately $8 million. Roche Bioscience is also obligated to make additional payments upon the achievement of certain milestones and to pay royalties on sales of drugs that may result from the relationship.

Under the terms of material transfer agreements with biotechnology companies (the "collaborators"), the Company has granted the collaborator the nonexclusive, royalty-free license to test certain compound arrays supplied by the Company. Upon identification of an active compound, the Company will negotiate a joint drug development program with the collaborator to develop the compound, provided the Company has not previously licensed the compound. Under the collaboration agreements executed in 1996 in connection with these joint drug development programs, the Company and the collaborator will each bear the costs and expenses of their respective activities. Proceeds received on sales or a third party license of the jointly developed compound will first reimburse development costs incurred by each party on a pro rata basis. After all such reimbursements have been made, the remaining proceeds will be split evenly between the parties.

4. CASH EQUIVALENTS AND MARKETABLE SECURITIES

Following is a summary of the fair market value of available-for-sale securities, by balance sheet classification, as of December 31, 1994 and 1995:

	DECEMBER 31,	
	1994	1995
Cash equivalents		
Money market funds	$9,000	$2,688,000
Marketable securities		
U.S. government obligations	--	4,802,000
	$9,000	$7,490,000

At December 31, 1994 and 1995, marketable securities are carried at fair market value, which approximates amortized cost. Available-for-sale securities classified as marketable securities with fair market values of $1,016,000 and $3,786,000 have contractual maturities of between one and five years and between five and ten years, respectively. All of the Company's marketable securities are classified as current at December 31, 1995 as these funds are highly liquid and are available to meet working capital needs and to fund current operations. Gross unrealized gains and losses at December 31, 1994 and 1995 and realized gains and losses on sales of securities for the year ended December 31, 1994 and 1995 were not significant.

5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	ESTIMATED USEFUL LIFE (YEARS)	DECEMBER 31, 1994	DECEMBER 31, 1995
Machinery and equipment	3-7	$1,056,000	$1,839,000
Leasehold improvements	5	585,000	656,000
Furniture and fixtures	7	52,000	72,000
Construction-in-progress	--	--	124,000
		1,693,000	2,691,000
Less -- Accumulated depreciation and amortization		191,000	697,000
		$1,502,000	$1,994,000

Assets held under capital leases consisted of $935,000 and $1,438,000 of machinery and equipment at December 31, 1994 and 1995, respectively, and $485,000 of leasehold improvements at December 31, 1994 and 1995. Accumulated amortization of these assets totaled $173,000 and $366,000 at December 31, 1994 and 1995, respectively. For the years ended December 31, 1993, 1994 and 1995, amortization expense related to assets held under capital lease obligations was $10,000, $163,000 and $193,000, respectively.

6. NOTES RECEIVABLE FROM RELATED PARTY

The Company has a note receivable in the amount of $63,000 from an officer of the Company at December 31, 1994 and 1995. Under the terms of the note, interest accrues on the unpaid principal and interest at the lowest applicable federal rate of interest as published by the Internal Revenue Service (5.9% at December 31, 1995). Principal and accrued interest are due in full on November 3, 1996. At December 31, 1994 and 1995, interest due on the note was $3,000 and $5,000, respectively, and is included in prepaid expenses and other current assets.

The Company also has outstanding at December 31, 1995 a note receivable in the amount of $120,000 from an officer of the Company which is secured by the officer's beneficial interest in 96,000 shares of Series A preferred stock of the Company. Under the terms of the note, interest accrues on the unpaid principal and interest at the lowest applicable federal rate of interest as published by the Internal Revenue Service (5.9% at December 31, 1995). Principal and accrued interest will be paid in four equal installments on November 2 of each year commencing on November 2, 1996. The amount of the principal due and payable on any installment date will be forgiven so long as the officer is employed by the Company on the installment date. At December 31, 1995 interest receivable relating to this note was $1,000 and is included in prepaid expenses and other current assets.

7. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses include the following:

	DECEMBER 31, 1994	DECEMBER 31, 1995
Accounts payable	$420,000	$369,000
Accrued professional fees	123,000	176,000
Accrued interest expense	16,000	142,000
Other accrued expenses	68,000	82,000
	$627,000	$769,000

8. BRIDGE FINANCING -- RELATED PARTY

During 1994 and 1995, the Company received $1,700,000 and $700,000, respectively under bridge financing arrangements with certain stockholders. In connection with this financing, the Company issued eighteen unsecured promissory notes at interest rates ranging from 5.86% to 7.43% per annum. On November 2, 1995, the Company and the stockholders agreed to convert the principal of the notes into 1,920,000 shares of Series A convertible preferred stock. At December 31, 1994 and 1995, interest payable relating to these bridge financings is $16,000 and $142,000, respectively. In April 1996, the Company and the stockholders converted the interest payable into an additional 113,429 shares of Series A convertible preferred stock.

As partial consideration for the promissory notes, the Company issued warrants to purchase 240,000 shares of the Company's $0.01 par value common stock. The warrants are exercisable at $0.25 per share (including by means of a cashless exercise) which was equal to or exceeded the estimated fair value of the Company's common stock, as determined by the Board of Directors, throughout the period the warrants were issued. The warrants are currently exercisable and expire on the earlier of various dates through December 31, 1999 or the effective date of an initial public offering under the Securities Act of 1933.

The proceeds from the bridge financings were allocated to the notes and to the warrants based on management's estimate of their relative fair values. This resulted in $132,000 and $57,000 being ascribed to the warrants in 1994 and 1995, respectively, which was recorded as additional paid-in-capital and as a discount to the face value of the notes. The discount was amortized over the period from issuance to conversion into Series A convertible preferred stock. The amortization of debt discount totaled $25,000 and $164,000 for the years ended December 31, 1994 and 1995, respectively, and is included in interest expense.

9. EQUITY INCENTIVE PLAN

During 1994, the Board of Directors approved the 1994 Amended and Restated Equity Incentive Plan (the "Equity Incentive Plan"). During 1995 and 1996, the Board of Directors approved amendments to increase the number of shares of common stock available for awards under the Equity Incentive Plan to 1,104,500 and 2,600,000, respectively. All shares will be awarded at the discretion of a Committee of the Board of Directors (the "Committee") in a variety of stock-based forms including stock options and restricted stock. Pursuant to the Equity Incentive Plan, incentive stock options may not be granted at less than the fair market value of the Company's common stock at the date of the grant, and the option term may not exceed ten years. For holders of 10% or more of the Company's voting stock, options may not be granted at less than 110% of the fair market value of the common stock at the date of the grant, and the option term may not exceed five years. Stock appreciation rights granted in tandem with an option shall have an exercise price not less than the exercise price of the related option.

Subject to the restrictions above, the Committee is authorized to designate the options, awards, and purchases under the Equity Incentive Plan, the number of shares covered by each option, award and purchase, and the related terms, exercise dates, prices and methods of payment. In addition, for purposes of determining the recipients' compensation relating to these grants, the fair value for the awards is determined by the Board of Directors at the date at which they are granted.

Activity for the period from inception of the Equity Incentive Plan through June 30, 1996 was as follows:

INCENTIVE STOCK OPTIONS	NUMBER OF SHARES	OPTION PRICE PER SHARE
Granted	2,500	$0.02
Outstanding at December 31, 1994	2,500	$0.02
Granted	298,500	$0.02 - $0.80
Outstanding at December 31, 1995	301,000	$0.02 - $0.80
Granted	837,420	$0.80 - $6.00
Exercised	(625)	$0.02
Cancelled	(1,875)	$0.02
Outstanding at June 30, 1996	1,135,920	$0.02 - $6.00
Exercisable at December 31, 1995	625	

At December 31, 1995, restricted common stock purchased pursuant to the Equity Incentive Plan totaled 522,797 shares (Note 11), and there were 280,703 shares available for future grant under the Equity Incentive Plan.

On August 14, 1996, the Board of Directors approved, subject to stockholder approval, the 1996 Director Stock Option Plan for non-employee directors. Under this plan, eligible directors are automatically granted once a year, at the annual meeting of stockholders of the Company, options to purchase 3,500 shares of common stock which are exercisable on the date of grant. Upon adoption of the plan and upon election of an eligible director, options to purchase 7,500 shares of common stock will be granted which will become exercisable in three equal annual installments commencing on the date of the Company's next annual stockholders' meeting held after the date of grant. The options have a term of ten years with an exercise price equal to fair market value on the date of grant. A maximum of 125,000 shares of common stock of the Company is reserved for issuance in accordance with the terms of this plan.

Stock Purchase Plan

On August 14, 1996, the Board of Directors approved, subject to stockholder approval, the 1996 Employee Stock Purchase Plan (the "Purchase Plan"). This plan enables eligible employees to exercise rights to purchase the Company's common stock at 85% of the fair market value of the stock on the date the right was granted or the date the right is exercised, whichever is lower. Rights to purchase shares under the Purchase Plan are granted by the Board of Directors. The rights are exercisable during a period determined by the Board of Directors; however, in no event will the period be longer than twenty-seven months. The Purchase Plan is available to substantially all employees, subject to certain limitations. The Company has reserved 120,000 shares of common stock for purchases under the Purchase Plan.

10. MANDATORILY REDEEMABLE CONVERTIBLE PREFERRED STOCK AND CONVERTIBLE PREFERRED STOCK

On November 18, 1994, the Partnership (the sole stockholder of the Company as of that date) exchanged 563,972 shares of common stock of the Company for Partnership interests held by certain employees and consultants. The Partnership also contributed 140,528 shares of common stock to the Company for future issuance pursuant to the Equity Incentive Plan (Note 9). The Company

immediately retired these contributed shares and reserved 140,528 shares of common stock for issuance pursuant to the Equity Incentive Plan. The

stockholders of the Company approved the issuance of 8,591,000 shares of Series A convertible preferred stock to the Partnership in exchange for the remaining 4,295,500 shares of common stock held by the Partnership. Upon the exchange of preferred stock, the Company retired the related shares of common stock.

On November 1, 1995, the stockholders approved an amendment to the Company's Certificate of Incorporation to increase the number of designated Series A preferred shares from 10,000,000 to 10,511,000 and to approve the designation of 1,800,000 shares of Series B preferred stock. In February 1996, the stockholders approved a further increase in the number of designated Series A and Series B preferred shares to 10,624,429 and 1,815,468, respectively.

On November 5, 1995, as part of a collaborative agreement (Note 3), the Company sold to Solvay 1,800,000 shares of Series B preferred stock which resulted in net proceeds to the Company of $6,885,000. In April 1996, the Company issued to Solvay an additional 15,468 shares of Series B preferred stock in connection with the conversion of the bridge financing interest into Series A preferred stock (Note 8) to maintain the original, agreed-upon ownership percentage.

Convertible preferred stock has the following characteristics:

Conversion Rights

The preferred stock is convertible, at the option of the holder, into common stock of the Company based upon a formula which currently would result in an exchange of one share of common stock for every two shares of preferred stock converted. The preferred stock will automatically convert into common stock upon the closing of an initial public offering, for which net proceeds equal or exceed $10,000,000 at a price per share equal to or greater than the original purchase price per share of the related preferred stock.

Dividend Rights

When and if declared by the Board of Directors, and prior to any payment of dividends to common stockholders, the Company shall pay noncumulative, annual cash dividends of $0.07 and $0.27 per share to the holders of Series A preferred stock and Series B preferred stock, respectively. In the event of a declaration and payment of dividends on common stock, dividends on the preferred stock (determined by the number of common shares into which the preferred shares are convertible) are payable in an amount equal to or greater than the per share amount of the dividend to common stockholders.

Voting Rights

Holders of the preferred stock are entitled to vote upon any matter submitted to the stockholders for a vote. Each share of preferred stock shall have one vote for each full share of common stock into which the respective share of preferred stock would be convertible on the record date for the vote.

Liquidation Rights

In the event of any liquidation, dissolution or winding up of the affairs of the Company, the holders of the Series A preferred shares are entitled to receive, prior to and in preference to the holders of Series B preferred stock and the holders of common stock, an amount equal to $0.89 per share, plus any declared but unpaid dividends. After all such payments have been made, the holders of the outstanding Series B preferred shares are entitled to receive, prior to and in preference to the holders of common stock, an amount equal to $3.89 per share, plus any declared but unpaid dividend.

Redemption Rights

Each holder of shares of Series B preferred stock shall have the right to cause the Company, at any time on or after November 2, 2001, to redeem the Series B preferred stock at a price equal to $3.89 per share. The difference between the net issuance price and the redemption price is being accreted by a

charge to accumulated deficit. The Series A preferred stock is not redeemable.

Protection of Series B Preferred Stock

The Company is not allowed to authorize the increase or decrease of the total number of authorized shares of Series B preferred stock or issue additional shares of Series B preferred stock without first obtaining the approval of the majority of the Series B preferred stockholders. In addition, the Company must first obtain approval of the majority of Series B preferred stockholders to amend the Articles of Incorporation of the Company if such amendment would adversely affect any of the rights, preferences or privileges of shares of Series B preferred stock, or to redeem, purchase or otherwise acquire shares of Series A preferred stock or common stock, excluding the repurchase of shares of common stock from employees, officers, directors or consultants.

Unaudited Pro Forma Balance Sheet

Upon the closing date of the Company's initial public offering, all of the outstanding shares of Series A and Series B preferred stock will automatically convert into 5,312,214 and 907,734 shares of common stock, respectively. Such conversion has been reflected in the unaudited pro forma balance sheet as of June 30, 1996.

11. COMMON STOCK

On August 14, 1996, the Board of Directors approved a 1 for 2 reverse stock split on the common stock of the Company. The reverse stock split is subject to stockholder approval and the filing of an amended Certificate of Incorporation which is expected to occur on or before the effective date of the registration statement related to the Company's contemplated initial public offering. Accordingly, all share and per share data have been restated to give retroactive effect to the stock split for all periods presented.

On October 17, 1994 and November 1, 1995, the stockholders approved amendments to the Company's Certificate of Incorporation to increase the number of authorized common shares to 15,000,000 and 20,000,000, respectively. On October 17, 1994, the Board of Directors also approved a 3,333.33 for 1 stock split of the Company's common stock.

At December 31, 1995, the Company has 6,977,203 shares of its common stock reserved for issuance upon conversion of the preferred stock and exercise of warrants and options.

Stock Restriction Agreements

At December 31, 1995, the Company had outstanding 522,797 shares of common stock issued pursuant to the Equity Incentive Plan (Note 9) which are subject to stock restriction agreements whereby the stockholder automatically forfeits to the Company the unvested portion of shares of common stock in the event of termination of their employment with the Company. All such forfeited shares shall immediately be retired by the Company. Shares subject to this agreement vest over a four year period, either monthly or annually. At December 31, 1995, the aggregate number of unvested common shares is 219,356.

Each stock restriction agreement terminates at the election of the Company on the earlier of (i) the date upon which an initial public offering of shares of common stock, with a price of at least $5.00 per share and net proceeds to the Company of at least $10,000,000, becomes effective or (ii) the closing of an acquisition, consolidation, or merger of the Company or a sale or transfer of all or substantially all of the Company's assets.

12. INCOME TAXES

The benefit (provision) for income taxes was as follows:

	YEAR ENDED DECEMBER 31,	
	1994	1995
Deferred tax benefit:		
Federal	$ 1,420,000	$ 794,000
State	338,000	246,000
	1,758,000	1,040,000
Deferred tax asset valuation allowance	(1,758,000)	(1,040,000)
	$ --	$ --

The Company's deferred tax assets consist of the following:

	DECEMBER 31,	
	1994	1995
Preoperating costs capitalized for tax purposes	$ 496,000	$ 416,000
Net operating loss carryforwards	1,667,000	2,590,000
Tax credit carryforwards	139,000	272,000
Book depreciation in excess of tax	42,000	106,000
Gross deferred tax assets	2,344,000	3,384,000
Deferred tax asset valuation allowance	(2,344,000)	(3,384,000)
	$ --	$ --

The Company has provided a full valuation allowance for the deferred tax assets as the realization of these future benefits is not sufficiently assured as of the end of each related year. If the Company achieves profitability, the deferred tax assets will be available to offset future income tax liabilities and expense.

At December 31, 1995, the Company has federal net operating loss carryforwards and tax credit carryforwards available to reduce future taxable income and tax liabilities, respectively, which expire as follows:

YEAR OF EXPIRATION	NET OPERATING LOSS CARRYFORWARDS	RESEARCH AND DEVELOPMENT TAX CREDIT CARRYFORWARDS
2009	$4,320,000	$ 84,000
2010	2,181,000	52,000
	$6,501,000	$136,000

Under the Internal Revenue Code, certain substantial changes in the Company's ownership could result in an annual limitation on the amount of net operating loss and tax credit carryforwards which can be utilized in future years.

A reconciliation between the amounts of reported income tax benefit and the amount determined by applying the U.S. federal statutory rate of 35% for 1994 and 1995 to pre-tax loss is as follows:

	YEAR ENDED DECEMBER 31,	
	1994	1995
Loss at statutory rate	$ 1,472,000	$ 788,000
State tax benefit, net of federal benefit	252,000	135,000
Research and investment tax credit	139,000	133,000
Other	(105,000)	(16,000)
	1,758,000	1,040,000
Increase in valuation allowance	(1,758,000)	(1,040,000)
	$ --	$ --

13. COMMITMENTS

LEASES

The Company leases office space and equipment under noncancelable operating and capital leases. The future minimum lease commitments under these leases are as follows:

YEAR ENDING DECEMBER 31,	OPERATING LEASES	CAPITAL LEASES
1996	$ 293,000	$ 631,000
1997	288,000	620,000
1998	289,000	334,000
1999	288,000	37,000
2000	144,000	--
Total minimum lease payments	$1,302,000	1,622,000
Less -- Amount representing interest		197,000
Present value of minimum lease payments		$1,425,000

The Company has a lease line agreement with an unaffiliated third party (the "Lessor") for $2,000,000 of which approximately $787,000 was available for future leases at December 31, 1995. Subsequent to December 31, 1995, the Lessor approved an increase in the lease line limit to $5,000,000. The term for each lease under the agreement is forty-two months, commencing on the purchase date of the asset, and the lease bears interest at a rate determined by the Lessor at each transaction date. The leasing arrangement was collateralized by cash equivalents totaling $188,000 at December 31, 1994. This collateral was released in 1995 by the Lessor. During 1994, the Company sold and leased back approximately $107,000 in machinery and equipment, furniture and fixtures and office equipment from the Lessor.

Rent expense under noncancelable operating leases was approximately $91,000 and $163,000 for the years ended December 31, 1994 and 1995, respectively.

LETTER OF CREDIT

In connection with a capital lease obligation for certain leasehold improvements, the Company is required to maintain a $100,000 letter of credit with a bank. Under the terms of the lease obligation, the $100,000 letter of credit is to be available until September 30, 1996, at which point the required amount will be reduced to $50,000 through September 30, 1998. The letter of credit is collateralized by a $100,000 certificate of deposit held by the bank (Note 2).

ARQULE, INC.

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

EMPLOYMENT AGREEMENTS

The Company entered into an employment agreement with an officer who is also a member of the board of directors. This agreement provides that if his employment is terminated without cause, the officer is entitled to receive up to six months' salary. The Company also entered into an employment agreement with an officer. This agreement provides that if his employment is terminated without cause during the first year of the agreement, the officer is entitled to receive up to six months' salary.

[GRAPH]

A three-dimensional structure of ArQule's HIV-1 Protease Inhibitor, bound in the enzyme active site, and developed utilizing ArQule's Combinatorial Drug Design and Development Platform.

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NO DEALER, SALESPERSON OR OTHER PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS OTHER THAN THOSE CONTAINED IN THIS PROSPECTUS AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE COMPANY OR THE UNDERWRITERS. THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY THE COMMON STOCK TO ANY PERSON IN ANY JURISDICTION IN WHICH SUCH OFFER OR SOLICITATION WOULD BE UNLAWFUL OR TO ANY PERSON TO WHOM IT IS UNLAWFUL. NEITHER THE DELIVERY OF THIS PROSPECTUS NOR ANY OFFER OR SALE MADE HEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE COMPANY OR THAT THE INFORMATION CONTAINED HEREIN IS CORRECT AS OF ANY TIME SUBSEQUENT TO THE DATE HEREOF.

TABLE OF CONTENTS

UNTIL , 1996 (25 DAYS AFTER THE DATE OF THIS PROSPECTUS), ALL DEALERS EFFECTING TRANSACTIONS IN THE COMMON STOCK, WHETHER OR NOT PARTICIPATING IN THIS DISTRIBUTION, MAY BE REQUIRED TO DELIVER A PROSPECTUS. THIS IS IN ADDITION TO THE OBLIGATIONS OF DEALERS TO DELIVER A PROSPECTUS WHEN ACTING AS UNDERWRITERS AND WITH RESPECT TO THEIR UNSOLD ALLOTMENTS OR SUBSCRIPTIONS.

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2,000,000 SHARES

LOGO

COMMON STOCK

PROSPECTUS

HAMBRECHT & QUIST

OPPENHEIMER & CO., INC.

VECTOR SECURITIES INTERNATIONAL, INC.

SEPTEMBER , 1996

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PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 13. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION

The expenses to be borne by the Company in connection with this offering are as follows:

SEC registration fee	$ 10,311
Nasdaq listing fee	39,942
NASD filing fee	3,490
Blue Sky fees and expenses	15,000
Printing and engraving expenses	100,000
Accounting fees and expenses	150,000
Legal fees and expenses	350,000
Transfer agent and registrar fees	100,000
Miscellaneous expenses	6,257
Total	$775,000

All of the above figures, except the SEC registration fee and NASD filing fee, are estimates.

ITEM 14. INDEMNIFICATION OF DIRECTORS AND OFFICERS

Section 145 of the Delaware General Corporation Law grants the Company the power to indemnify each person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding,

whether civil, criminal, administrative or investigative by reason of the fact that he is or was a director, officer, employee or agent of the Company, or is or was serving at the request of the Company as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgements, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Company, and with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful, provided, however, no indemnification shall be made in connection with any proceeding brought by or in the right of the Company where the person involved is adjudged to be liable to the Company except to the extent approved by a court. Article V of the Company's Amended and Restated By-laws provides that the Company shall, to extent legally permitted, indemnify each person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding by reason of the fact that he is or was, or has agreed to become, a director or officer of the Company, or is or was serving, or has agreed to serve, at the request of the Company, as a director, officer or trustee of, or in a similar capacity with, another corporation, partnership, joint venture, trust or other enterprise. The indemnification provided for in Article V is expressly not exclusive of any other rights to which those seeking indemnification may be entitled under any law, agreement or vote of stockholders or disinterested directors or otherwise, and shall inure to the benefit of the heirs, executors and administrators of such persons. Article V also provides that the Company shall have the power to purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the Company, or is or was serving at the request of the Company, as a director, officer or trustee of, or in a similar capacity with, another corporation, partnership, joint venture, trust or other enterprise, against any liability asserted against and incurred by such person in any such capacity.

Pursuant to Section 102(b)(7) of the Delaware General Corporation Laws, Section 7 of Article FIFTH of the Company's Restated Certificate eliminates a director's personal liability for monetary damages to the Company and its stockholders for breaches of fiduciary duty as a director, except in circumstances involving a breach of a director's duty of loyalty to the Company or its stockholders,

acts or omissions not in good faith, intentional misconduct, knowing violations of the law, self-dealing or the unlawful payment of dividends or repurchase of stock.

ITEM 15. RECENT SALES OF UNREGISTERED SECURITIES

Since June 1, 1993, the Company has issued and sold the following securities, in each case in reliance on an exemption from required registration pursuant to Section 4(2) of the Securities Act:

In December 1993, in exchange for the transfer to the Company of substantially all of the assets and liabilities of the Partnership, the Company issued 1,500 shares of its Common Stock to the Partnership.

Commencing in March 1995, the Company has granted employees and consultants options under its Amended and Restated 1994 Equity Incentive Plan, which options have a ten-year term and are exercisable at a price equal to fair market value on the date of grant, as determined in good faith by the Board of Directors. As of June 30, 1996, options for 1,135,920 shares of the Company's Common Stock were outstanding. As of such date, an option for 625 shares of Common Stock had been exercised at $0.02 per share.

In addition, from inception through June 1996, the Company made grants of an aggregate of 523,047 shares of Common Stock to certain employees and consultants of the Company. Such shares are subject to repurchase rights held by the Company and were sold at fair market value on the date of grant.

In November 1994, the Company declared and paid a stock dividend of 3,332.33 shares of its Common Stock on each outstanding share of Common Stock held as of October 17, 1994. Pursuant to a Plan of Recapitalization, the Partnership surrendered an aggregate of 4,295,500 outstanding shares of Common Stock (after giving effect to such stock dividend) for shares of Series A Convertible Preferred Stock of the Company which will convert into an equal number of shares of Common Stock concurrently with this offering.

During the period from August 1994 through February 1995, certain stockholders of the Company made a series of Bridge Loans to the Company for an aggregate of $2,400,000 in exchange for promissory notes and warrants to purchase an aggregate of 240,000 shares of Common Stock, exercisable at $0.25 per share until the earlier of the effective date of an initial public offering or various dates through December 31, 1999. In November 1995, the Bridge Loans were converted to shares of Series A Preferred Stock, which will convert into 960,000 shares of Common Stock concurrently with the closing of this offering.

In November 1995, the Company issued 1,800,000 shares of Series B Preferred Stock to Physica B.V., which will convert into 900,000 shares of Common Stock concurrently with the closing of this offering, for cash at the purchase price of $3.89 per share.

In April 1996, all accrued interest outstanding on the Bridge Loans through November 1995 was converted into shares of Series A Preferred Stock, which will convert into 56,714 shares of Common Stock concurrently with the closing of this offering. In April 1996, the Company also issued shares of Series B Preferred Stock to Physica B.V., which will convert into 7,734 shares of Common Stock concurrently with the closing of this offering, in consideration of Physica B.V.'s waiver of its anti-dilution rights under the Company's Amended and Restated Certificate of Incorporation and its right of first refusal with respect to such shares of Series A Preferred Stock.

ITEM 16.
(A) EXHIBITS

EXHIBIT NO.	DESCRIPTION
1.1++	Form of Underwriting Agreement.
3.1++	Amended and Restated Certificate of Incorporation of ArQule, as amended through the date hereof.
3.2++	Form of Certificate of Amendment to the Amended and Restated Certificate of Incorporation as proposed to be filed upon the effectiveness of this Registration Statement.
3.3++	Form of Amended and Restated Certificate of Incorporation as proposed to be filed concurrently with the closing of this offering.
3.4++	By-laws of ArQule, Inc.
3.5++	Form of Amended and Restated By-laws as proposed to be adopted concurrently with the closing of this offering.
4.1	Specimen Common Stock Certificate. Filed herewith.
4.2++	Specimen Common Stock Purchase Warrant.
5.1++	Opinion of Palmer & Dodge LLP as to the legality of the shares being registered.
10.1*++	Amended and Restated 1994 Equity Incentive Plan, as amended through October 17, 1994.
10.2*++	1996 Employee Stock Purchase Plan.
10.3*++	1996 Director Stock Option Plan.
10.4	Form of Indemnification Agreement between ArQule and its directors. Filed herewith. Such agreements are materially different only as to the signing directors and the dates of execution.
10.5++	Investors' Rights Agreement among ArQule and certain stockholders of the Company dated November 2, 1995.
10.6++	Lease Agreement dated September 29, 1993 between ArQule and Beautyrest Property, Inc. and WRB, Inc.
10.7++	Lease Agreement, dated July 27, 1995, between ArQule and Cummings Properties Management, Inc., as amended.
10.8*++	Employment Agreement effective as of January 2, 1996, between ArQule and Eric B. Gordon.

10.9*	Employment Agreement effective as of July 9, 1996, between ArQule and James R. Fitzgerald, Jr. To be filed by amendment.
10.10*++	Promissory Note dated November 2, 1995 between Dr. Joseph C. Hogan, Jr. and ArQule.
10.11*	Pledge Agreement dated November 2, 1995 between Dr. Joseph C. Hogan, Jr. and ArQule. To be filed by amendment.
10.12*++	Promissory Note and Pledge Agreement dated July 9, 1996 between Eric B. Gordon and ArQule.
10.13*++	Promissory Note dated November 4, 1993 between Dr. Joseph C. Hogan, Jr. and ArQule.
10.14 +++	Research, Development and License Agreement between ArQule and Solvay Duphar B.V. dated November 2, 1995.
10.15 +++	Research & Development and License Agreement between ArQule and Abbott Laboratories dated June 15, 1995, as amended.
10.16 +	Research & Development Agreement between ArQule and Pharmacia Biotech AB dated March 10, 1995, as amended. Filed herewith.
10.17 +	Option Agreement between ArQule and Pharmacia Biotech AB dated March 10, 1995, as amended. Filed herewith.
10.18*	Adoption Agreement for Fidelity Management and Research Company (ArQule's 401(k) plan). Filed herewith.

EXHIBIT NO.	DESCRIPTION
10.19+	Research and License Agreement between ArQule and Roche Bioscience dated September 13, 1996. Filed herewith.
11.1++	Statement re computation of unaudited pro forma net loss per share.
23.1	Consent of Price Waterhouse LLP. Filed herewith.
23.2++	Consent of Palmer & Dodge LLP. Included in the opinion filed as Exhibit 5.1.
24.1++	Power of attorney. Included on the signature page hereto.

* Indicates a management contract or compensatory plan.

+ Certain confidential material contained in the document has been omitted and filed separately, with the Securities and Exchange Commission pursuant to Rule 406 of the Securities Act of 1933, as amended.

++ Previously filed.

(B) FINANCIAL STATEMENT SCHEDULE

ITEM 17. UNDERTAKINGS

(a) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the Registrant pursuant to the provisions described under "Item 14--Indemnification of Directors and Officers" above, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such

director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

(b) The undersigned Registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this Registration Statement in reliance upon Rule 430A and contained in a form of prospectus filed by the Registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this Registration Statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(c) The undersigned Registrant hereby undertakes to provide to the Underwriters at the closing specified in the underwriting agreement, certificates in such denominations and registered in such names as required by the Underwriters to permit prompt delivery to each purchaser.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant certifies that it has duly caused this Amendment to be signed on its behalf by the undersigned, thereunto duly authorized, in the Town of Medford, Commonwealth of Massachusetts, on September 23, 1996.

ARQULE, INC.

By: *

Eric B. Gordon
President and Chief Executive Officer

POWER OF ATTORNEY

Pursuant to the requirements of the Securities Act of 1933, this Amendment has been signed below by the following persons in the capacities and on the dates indicated.

SIGNATURE	TITLE	DATE
*	President, Chief Executive Officer and Director (Principal Executive Officer, Principal Financial Officer and Principal Accounting Officer)	September 23, 1996
Eric B. Gordon		
*	Director	September 23, 1996
Stephen M. Dow		
*	Director	September 23, 1996

Joseph C. Hogan, Jr.			
	*	Director	September 23, 1996
Adrian de Jonge			
	*	Director	September 23, 1996
Allan R. Ferguson			

*By: /s/ MICHAEL LYTTON
Michael Lytton
Attorney-in-Fact

SCHEDULE II

ARQULE, INC.

VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

DESCRIPTION	BALANCE AT BEGINNING OF PERIOD	CHARGED TO COSTS AND EXPENSES	CHARGED TO OTHER ACCOUNTS	DEDUCTIONS AND WRITE-OFFS	BALANCE AT END OF PERIOD
Deferred tax asset valuation allowance					
Year ended December 31, 1994.....	$ 586,000(1)	1,758,000	--	--	2,344,000
Year ended December 31, 1995.....	2,344,000	1,040,000	--	--	3,384,000

<FN>

(1) Represents deferred tax asset valuation allowance recorded as of December 30, 1993 upon incorporation of the Company.

EXHIBIT 4.1

ARQULE

[NUMBER] [SHARES]

[LOGO]

ARQULE, INC.

SEE REVERSE SIDE FOR CERTAIN DEFINITIONS

CUSIP 042693 10 7

INCORPORATED UNDER THE LAWS OF THE STATE OF DELAWARE

COMMON STOCK

This Certifies that

is the owner of

FULLY PAID AND NON-ASSESSABLE SHARES OF COMMON STOCK, PAR VALUE $.01 PER SHARES, OF ARQULE, INC.

(herein called the "Corporation"), transferable on the books of the Corporation by the holder hereof in person or by duly authorized attorney upon surrender of this certificate properly endorsed. This Certificate and the shares represented hereby are issued under and subject to the laws of the State of Delaware and to the Amended and Restated Certificate of Incorporation and the Amended and Restated By-laws of the Corporation, all as amended from time to time.

This Certificate is not valid until countersigned and registered by the Transfer Agent and Registrar.

WITNESS the facsimile seal of the Corporation and the facsimile signatures of its duly authorized officers.

Dated:

/s/ /s/

VICE PRESIDENT CHIEF FINANCIAL OFFICER AND TREASURER

ARQULE, INC. INCORPORATED 1993 DELAWARE

[SEAL]

PRESIDENT AND CHIEF EXECUTIVE OFFICER

[SET VERTICAL ON PAGE]

COUNTERSIGNED AND REGISTERED:
AMERICAN STOCK TRANSFER & TRUST COMPANY
TRANSFER AGENT AND REGISTRAR

BY

AUTHORIZED SIGNATURE

ARQULE, INC.

The following abbreviations, when used in the inscription on the face of this Certificate, shall be construed as through they were written out in full according to applicable laws or regulations:

TEN COM -- as tenants in common	UNIF GIFT MIN ACT -- Custodian ------- ------- (Cust) (Minor)
TEN ENT -- as tenants by the entireties	under Uniform Gifts to Minors Act
JT TEN -- as joint tenants with right of survivorship and not as tenants in common	---------- (State)

Additional abbreviations may also be used through not in the above list.

ASSIGNMENT

FOR VALUE RECEIVED, _____ hereby, sell, assign, and transfer unto

PLEASE INSERT SOCIAL SECURITY OR OTHER IDENTIFYING NUMBER OF ASSIGNEE

- _____

- _____

- _____

(PLEASE PRINT OR TYPEWRITE NAME AND ADDRESS INCLUDING POSTAL ZIP CODE OF ASSIGNEE)

- _____

Shares

- _____

of the capital stock represented by the within Certificate, and do hereby irrevocably constitute and appoint

Attorney

- _____

to transfer the said stock on the books of the within-named Corporation with full power of substitution in the premises.

Dated, _____ _____

NOTICE: The signatures to this assignment must correspond with the name as written upon the face of the Certificate in every particular, without alteration or enlargement, or any change whatever.

SIGNATURE(S) GUARANTEED: _____

THE SIGNATURES(S) SHOULD BE GUARANTEED BY AN ELIGIBLE GUARANTOR INSTITUTION (BANKS, STOCKBROKERS, SAVINGS AND LOAN ASSOCIATIONS AND CREDIT UNIONS WITH MEMBERSHIP IN

AN APPROVED SIGNATURE GUARANTEE MEDALLION PROGRAM),
PURSUANT TO S.E.C. RULE 17Ad-15.

Exhibit 10.4

INDEMNIFICATION AGREEMENT

[Director]

This Agreement dated _____ __, 199_ is between ArQule, Inc. (the "Company"), a Delaware corporation, and _____ (the "Director"), who is a director of the Company. Its purpose is to provide the maximum protection for the Indemnitee (as defined below) against personal liability arising out of Director's service to the Company so as to encourage the continuation of such service and the effective exercise of his business judgment in connection herewith.

The parties hereto agree as follows:

1. Definitions. For purposes of this Agreement, the following terms shall have the meanings hereafter assigned to them:

(a) "Change in Control" shall mean that the following has occurred: (i) there has been a change in control of the Company, not approved by a resolution of the Company's Board of Directors, of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act") or any successor provision thereof, including in any event the acquisition by any "person" (as such term is used in Sections 13(d) and 14(d)(2) of the Exchange Act) of beneficial ownership, directly or indirectly, of securities of the Company representing 25% or more of the combined voting power of the Company's then outstanding securities, (ii) followed within a period of not more than two years by a change in the identity of a majority of the members of the Company's Board of Directors otherwise than through death, disability or retirement in accordance with the Company's normal retirement policies.

(b) "Claim" shall mean any threatened, pending or completed action, suit or proceeding, or any inquiry or investigation, whether conducted by the Company or any other party, that the Indemnitee in good faith believes might lead to the institution of any such action, suit or proceeding, whether civil, criminal, administrative, investigative or other.

(c) "Expenses" shall include attorneys' fees and all other costs, expenses and obligations paid or incurred in connection with investigating, defending, being a witness in or participating in (including on appeal), or preparing to defend, be a witness in or participate in, any Claim relating to any Indemnifiable Event.

(d) "Indemnifiable Event" shall mean any event or occurrence related to the fact that the Director is or was a director, officer, employee, agent or fiduciary of the Company, or is or was serving at the request of the Company as a director, officer, employee, trustee, agent or fiduciary of another corporation, partnership, joint venture, employee benefit plan, trust or other enterprise, or by reason of anything done or not done by the Director in any such capacity.

(e) "Indemnitee" shall mean Director and any partnership, corporation, trust or other entity of which Director is or was a partner, a partner of the general partner of, shareholder, trustee, director, officer, member, employee or agent and any other entity or person that may be subject to a Claim by reason of (or arising in part out of) an Indemnifiable Event, and the references to Indemnitee in this Indemnification Agreement shall be understood to refer severally to each

Indemnitee.

(f) "Potential Change in Control" shall mean that any of the following have occurred: (i) any person publicly announces an intention to take or to consider taking actions which if consummated might result in a Change in Control, (ii) any "person" (as such term is used in Section 13(d) and 14(d)(2) of the Exchange Act) acquires beneficial ownership, directly or indirectly, of securities of the Company representing 25% or more of the combined voting power of the Company's then outstanding securities, or (iii) the Company's Board of Directors adopts a resolution to the effect that, for purposes of this Agreement, a Potential Change in Control has occurred.

(g) "Reviewing Party" shall mean the person or body appointed by the Company's Board of Directors pursuant to Section 2(b) hereof, which shall not be or include a person who is a party to the particular Claim for which the Indemnitee is seeking indemnification.

2. Basic Indemnification Arrangement.

(a) In the event that the Indemnitee was or is a party to or witness or other participant in, or is threatened to be made a party to or witness or other participant in, a Claim by reason of (or arising in part out of) an Indemnifiable Event, the Company shall indemnify the Indemnitee to the fullest extent permitted by law as soon as practicable but in any event no later than thirty days after written demand is presented to the Company, against all Expenses, judgments, fines, penalties and amounts paid in settlement (including all interest, assessments and other charges paid or payable in respect of such Expenses, judgments, fines, penalties or amounts paid in settlement) of such Claim. If so requested by the Indemnitee, the Company shall advance (within two business days of such request) all Expenses to the Indemnitee (an "Expense Advance"). Notwithstanding anything in this Agreement to the contrary, prior to a Change in Control, the Indemnitee shall not be entitled to indemnification pursuant to this Agreement in connection with any Claim initiated by the Indemnitee against the Company or any director or officer of the Company (otherwise than to enforce his rights under this Agreement) unless the Company has consented to the initiation of such Claim.

(b) In the event of any demand by the Indemnitee for indemnification hereunder or under the Company's Amended and Restated Certificate of Incorporation or By-laws, the Board of Directors of the Company shall designate a Reviewing Party, who shall, if there has been a Change of Control of the Company, be the special independent counsel referred to in Section 3 hereof. The obligations of the Company under Section 2(a) shall be subject to the condition that the Reviewing Party

shall not have determined (in a written opinion, in any case in which the special independent counsel referred to in Section 3 hereof is involved) that the Indemnitee is not permitted to be indemnified under applicable law, and the obligation of the Company to make an Expense Advance pursuant to Section 2(a) shall be subject to the condition that, if, when and to the extent that the Reviewing Party determines that the Indemnitee is not permitted to be so indemnified under applicable law, the Company shall be entitled to be reimbursed by the Indemnitee (who hereby agrees to reimburse the Company) for all such amounts theretofore paid. If the Indemnitee has commenced legal proceedings in a court of competent jurisdiction to secure a determination that the Indemnitee may be indemnified under applicable law, any determination made by the Reviewing Party that the Indemnitee is not permitted to be indemnified under applicable law shall not be binding, and the Indemnitee shall not be required to reimburse the Company for any Expense Advance until a final judicial determination is made with respect hereto (as to which all rights of appeal therefrom have been exhausted or lapsed). If there has been no determination by the Reviewing Party or if the Reviewing Party determines

that the Indemnitee is not permitted to be indemnified in whole or in part under applicable law, the Indemnitee shall have the right to commence litigation in any court in the State of Delaware having subject matter jurisdiction thereof and in which venue is proper seeking an initial determination by the court or challenging any such determination by the Reviewing Party or any aspect thereof, and the Company hereby consents to service of process and to appear in any such proceeding. Any determination by the Reviewing Party otherwise shall be conclusive and binding on the Company and the Indemnitee.

3. Change in Control. The Company agrees that if there is a Change in Control of the Company, then with respect to all matters thereafter arising concerning the rights of the Indemnitee to indemnity payments and Expense Advances under this Agreement or any other agreement or under the Company's Amended and Restated Certificate of Incorporation or By-laws now or hereafter in effect relating to Claims for Indemnifiable Events, the Company shall seek legal advice only from special independent counsel selected by the Indemnitee and approved by the Company (which approval shall not be unreasonably withheld) who has not otherwise performed services for the Company within the last ten years (other than in connection with such matters) or for the Indemnitee. Such counsel among other things, shall render its written opinion to the Company and the Indemnitee as to whether and to what extent the Indemnitee is permitted to be indemnified under applicable law. The Company agrees to pay the reasonable fees of the special independent counsel and to indemnify such counsel against any and all expenses (including attorneys' fees), claims, liabilities and damages relating to this Agreement or its engagement pursuant hereto.

4. Establishment of Trust. In the event of a Potential Change in Control, the Company may create a Trust for the benefit of the Indemnitee (either alone or together with one or more other indemnitees) and from time to time fund such Trust in such amounts as the Company's Board of Directors may determine to satisfy Expenses reasonably anticipated to be incurred in connection with investigating, preparing for and defending any Claim relating to an Indemnifiable Event, and all judgments, fines, penalties and settlement amounts of all Claims relating to an Indemnifiable Event from time to time paid or claimed, reasonably anticipated or proposed to be paid. The terms of any Trust established pursuant

hereto shall provide that upon a Change in Control (i) the Trust shall not be revoked or the principal thereof invaded, without the written consent of the Indemnitee, (ii) the Trustee shall advance, within two business days of a request by the Indemnitee, all Expenses to the Indemnitee (and the Indemnitee hereby agrees to reimburse the Trust under the circumstances under which the Indemnitee would be required to reimburse the Company under Section 2(b) of this Agreement), (iii) the Trustee shall promptly pay to the Indemnitee all amounts for which the Indemnitee shall be entitled to indemnification pursuant to this Agreement or otherwise, and (iv) all unexpended funds in such Trust shall revert to the Company upon a final determination by the Reviewing Party or a court of competent jurisdiction, as the case may be, that the Indemnitee has been fully indemnified under the terms of this Agreement. The Trustee shall be a person or entity satisfactory to the Indemnitee. Nothing in this Section 4 shall relieve the Company of any of its obligations under this Agreement.

5. Indemnification for Additional Expenses. The Company shall indemnify the Indemnitee against all expenses (including attorneys' fees) and, if requested by the Indemnitee, shall (within two business days of such request) advance such expenses to the Indemnitee, which are incurred by the Indemnitee in connection with any claim asserted against or action brought by the Indemnitee for (i) indemnification or advance payment of Expenses by the Company under this Agreement or any other agreement or Company By-law or provision of the Company's Amended and Restated Certificate of Incorporation now or hereafter in effect relating to Claims for Indemnifiable Events or (ii) recovery under any directors' and officers' liability insurance policies maintained by the Company, regardless of whether the Indemnitee ultimately is determined to be entitled to such indemnification, advance expense payment or insurance recovery, as the case

may be.

6. Partial Indemnity, Etc. If the Indemnitee is entitled under any provision of this Agreement to indemnification by the Company for a portion of the Expenses, judgments, fines, penalties and amounts paid in settlement of a Claim but not for the total amount thereof, the Company shall indemnify the Indemnitee for the portion thereof to which the Indemnitee is entitled. Notwithstanding any other provision of this Agreement, to the extent that the Indemnitee has been successful on the merits or otherwise in defense of Claims relating to an Indemnifiable Event or in defense of any issue or matter therein, including dismissal without prejudice, the Indemnitee shall be indemnified against all Expenses incurred in connection therewith. In connection with any determination by the Reviewing Party or otherwise as to whether the Indemnitee is entitled to be indemnified hereunder, the burden of proof shall be on the Company to establish that the Indemnitee is not so entitled.

7. No Presumption. For purposes of this Agreement, the termination of any claim, action, suit or proceeding by judgment, order, settlement (whether with or without court approval) or conviction, or upon a plea of nolo contendere, or its equivalent, shall not create a presumption that the Indemnitee did not meet any particular standard of conduct or have any particular belief or that a court has determined that indemnification is not permitted by applicable law.

8. Non-exclusivity, Etc. The rights of the Indemnitee hereunder shall be in addition to any other rights the Indemnitee may have under the Company's Amended and Restated Certificate of Incorporation and By-laws or the Delaware General Corporation Law

or otherwise. To the extent that a change in the Delaware General Corporation Law (whether by statute or judicial decision) permits greater indemnification by agreement than would be afforded currently under the Company's Amended and Restated Certificate of Incorporation and By-laws and this Agreement, it is the intent of the parties hereto that the Indemnitee shall enjoy by this Agreement the greater benefits afforded by such change.

9. Liability Insurance. To the extent the Company maintains an insurance policy or policies providing directors' and officers' liability insurance, the Director shall be covered by such policy or policies, in accordance with its or their terms, to the maximum extent to the coverage available for any Company director or officer.

10. Amendments, Etc. No supplement, modification or amendment of this Agreement shall be binding unless executed in writing by both of the parties hereto. No waiver of any of the provisions of this Agreement shall constitute a waiver of any other provisions hereof (whether or not similar) nor shall such waiver constitute a continuing waiver.

11. Subrogation. In the event of payment under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of the Indemnitee, who shall execute all such papers and do all such things as may be necessary or desirable to secure such rights.

12. No Duplication of Payments. The Company shall not be liable under this Agreement to make any payment in connection with any claim made against the Indemnitee to the extent the Indemnitee has otherwise received payment (under any insurance policy, the Company's Amended and Restated Certificate of Incorporation, or the Company's By-laws or otherwise) of the amounts otherwise indemnifiable hereunder.

13. Binding Effect, Etc. This Agreement shall be binding upon and inure to the benefit of and be enforceable by the parties hereto and their respective successors, assigns, including any direct or indirect successor by purchase, merger, consolidation or otherwise to all or substantially all of the business or assets of the Company, spouses, heirs, and personal and legal

representatives. This Agreement shall continue in effect regardless of whether the Director continues to serve as an officer or director of the Company or of any other enterprise at the Company's request.

14. Severability. The provisions of this Agreement shall be severable in the event that any of the provisions hereof (including any provision within a single section, paragraph or sentence) are held by a court of competent jurisdiction to be invalid, void or otherwise unenforceable, and the remaining provisions shall remain enforceable to the fullest extent permitted by law.

15. Governing Law. This Agreement shall be governed by and construed and enforced in accordance with the laws of The Commonwealth of Massachusetts applicable to contracts made and to be performed in such state without giving effect to the principles of conflicts of law.

IN WITNESS WHEREOF, the undersigned have executed this Indemnification Agreement as of the date first above written.

ARQULE, INC.

By: _____

Title:

_____

[Director]

Exhibit 10.16

RESEARCH & DEVELOPMENT AGREEMENT

This Agreement is entered into effective as of March 10, 1995 (the "Effective Date") between PHARMACIA BIOTECH AB ("Pharmacia"), a Swedish corporation having its principal offices at Bjorkgatan 30, S-751 82 Uppsala, Sweden and ARQULE, INC. ("ArQule"), a Delaware corporation having its principal offices at 200 Boston Avenue, Suite 3600, Medford, MA 02155, USA.

BACKGROUND

A. ArQule has developed certain technologies that Pharmacia believes may be useful in the development of products in the areas of * .

B. Pharmacia and ArQule have entered into an Option Agreement, dated as of the Effective Date, which grants to Pharmacia the right to acquire certain exclusive rights to use the ArQule technologies and improvements to make, use, and sell products in these business areas.

C. Pharmacia desires to evaluate whether the ArQule technology would contribute to the development of products in these business areas, and ArQule desires to give Pharmacia the opportunity to conduct such an evaluation.

D. ArQule is willing to perform this technology evaluation, with the assistance and funding of Pharmacia, subject to the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the foregoing and the covenants and promises contained herein, Pharmacia and ArQule agree as follows:

SECTION 1. DEFINITIONS

The following definitions shall control the construction of this Agreement wherever they appear:

1.1 "AFFILIATE" shall mean any company or other legal entity which controls, is controlled by, or is under common control with either party. A company or other legal entity shall be presumed to control another if it owns fifty percent (50%) or more of the outstanding voting equity or assets of the other company or entity.

1.2 "ARQULE TECHNOLOGY" shall mean all of the patents and patent applications listed in Enclosure 1 hereto and all corresponding foreign patents and patent applications and all

* confidential treatment has been requested for marked portions

continuations, continuations-in-part, and divisions thereof, as well as all of the Proprietary Materials and unpatented know-how and trade secrets relating thereto.

1.3 "BIOMOLECULES" shall mean amino acids, peptides, proteins, nucleic acids (nucleotides, oligonucleotides, polynucleotides), carbohydrates (monosaccharides, oligosaccarides, polysaccharides), lipids, phospholipids, or any combination of such molecules, whether produced by natural means or by organic synthesis in solution or using solid phase technologies.

1.4 "COMMENCEMENT DATE" shall mean April 1, 1995.

1.5 "CONFIDENTIAL INFORMATION" shall have the meaning set forth in Section 7.1.

1.6 "CONTRIBUTED TECHNOLOGY" shall mean all patents, patent applications, Proprietary Materials, know-how, and trade secrets that Pharmacia may legally provide to ArQule and which relate to or are useful for the development of the ArQule Technology for applications in the Field of Applications.

1.7 "DERIVATIVES" shall mean any molecules that are chemical derivatives or analogues of Biomolecules or Natural Products.

1.8 "FIELD OF APPLICATIONS" shall mean

*

1.9 "IMPROVEMENT" shall mean any improvement, change, addition, upgrade, or modification to the ArQule Technology or Contributed Technology that either party discovers or develops in the course of any Research Project.

1.10 "NATURAL PRODUCTS" shall mean all molecules (other than Biomolecules) that are the naturally occurring products of biosynthesis in living cells or are produced by isolated cellular components outside of living cells, whether by natural means or by organic synthesis in solution or using solid phase technologies. This definition is intended to include subcellular components and viral particles. Examples of Natural Products are vitamins, steroid hormones, and various cofactors.

1.11 "OPTION AGREEMENT" shall mean a certain Option Agreement between the parties, dated as of the Effective Date, which is attached to this Agreement as Enclosure 2.

1.12 "PROJECT LEADER" shall have the meaning set forth in Section 2.3.

1.13 "PROJECT PLAN" shall mean a comprehensive plan of research that the parties intend to conduct under this Agreement, as amended from time to time by the Research Committee. The Project Plan will contain a description of current Research Projects, payments for each

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Research Project, and personnel for each Research Project. The initial Project Plan is attached as Enclosure 3 to this Agreement.

1.14 "PROPRIETARY MATERIALS" shall have the meaning set forth in Section 7.2.

1.15 "RESEARCH COMMITTEE" shall have the meaning set forth in Section 4.1.

1.16 "RESEARCH PERIOD" shall mean the six-month period during which the parties conduct each Research Project.

1.17 "RESEARCH PROJECT" shall mean the research planned for a particular Subfield during a Research Period. The initial Research Project, for Subfield I, is described in the initial Project Plan. Subsequent Research Projects for Subfield I or any other Subfield will be established by the Research Committee in accordance with the procedures set forth below.

1.18 "SUBFIELD I" shall mean

*

1.19 "SUBFIELD II" shall mean

*

1.20 "SUBFIELD III" shall mean

*

1.21 "SUBFIELD IV" shall mean

*

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*

SECTION 2. RESEARCH ACTIVITIES

2.1 Initial Research Project. The initial Research Project relating to Subfield I shall be described in the Project Plan attached to this Agreement on the Effective Date. As further described below, the initial Project Plan shall also provide for a description of the resources that each party will commit to the initial Research Project, specifically including personnel.

2.2 Establishment of Subsequent Research Projects. After the completion of the initial Research Project, Pharmacia may elect to fund subsequent Research Projects in one or more Subfields during subsequent Research Periods in accordance with the procedures set forth in the Option Agreement. If Pharmacia elects to fund one or more additional Research Projects, the Research Committee shall amend the Research Plan to provide for (i) a description of each Research Project, including without limitation overall goals, specific goals, priorities, and time schedules, (ii) payments to ArQule for each Research Project, and (iii) a description of the resources that each party will commit to each Research Project. Each amended Research Plan shall be adopted by the Research Committee during the time periods specified in the Option Agreement, and then attached to this Agreement as an addition to Enclosure 3.

2.3 Conduct of Research Projects. During the term of this Agreement, ArQule agrees to use commercially reasonable efforts to conduct all Research Projects in accordance with the Project Plan and as directed by the Research Committee.

Pharmacia agrees to provide reasonable assistance to ArQule in the conduct of the Research Projects in accordance with the Project Plan and as directed by the Research Committee. ArQule and Pharmacia each agree that the ArQule Technology and the Contributed Technology may be used as reasonably required to perform any Research Project, and each party further agrees to effect the transfer of such required technology upon request. ArQule agrees to use the Contributed Technology only for the purposes set forth in this Agreement. Each party shall designate a project leader (the "Project Leaders") who shall have primary responsibility over (i) the performance of the Research Project by such party and (ii) coordination of efforts with the other party. The Project Leaders shall report directly to the Research Committee. The Project Leaders for each Research Project shall be identified in the Project Plan; provided, however, that each party shall have the right to change its Project Leaders upon thirty (30) days written notice to the other party. All Project Leaders designated by a party must be approved by the other party, provided that such approval may not be unreasonably withheld.

2.4 Personnel. In addition to the Project Leaders, each party agrees to assign to each Research Project such qualified and competent members of its staff as may be required to achieve the aims and goals set forth for such Research Project. All such commitments of personnel shall be listed in the Project Plan, as amended from time to time. ArQule agrees to commit a total of * full-time equivalents to the initial Research Project and

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Pharmacia agrees to commit a total of * full-time equivalents to such Research Project, as further described in the Project Plan. Upon the completion of each Research Project, ArQule agrees to provide Pharmacia with a written summary of time committed by ArQule personnel to such Research Project.

2.5 Compliance. In conducting each Research Project, each party shall use reasonable efforts (i) to ensure that each Research Project will comply with all technical and other requirements set out in the Project Plan, as adjusted by the Research Committee, (ii) to generate and maintain adequate documentation describing in sufficient detail the results of each Research Project, and (iii) to conduct each Research Project in accordance with all applicable laws and regulations.

SECTION 3. PAYMENTS

Pharmacia agrees to pay ArQule a total of * Dollars * on the Effective Date in accordance with the Project Plan for performance of the initial Research Project. Thereafter, in consideration of the performance of each Research Project, Pharmacia agrees to pay ArQule the amount set forth in the Project Plan prior to the commencement of the Research Period for that Research Project. All such payments shall be nonrefundable.

SECTION 4. MANAGEMENT AND REPORTING

4.1 Composition and Duties of Research Committee. Prior to the Commencement Date, each party shall designate two (2) of its employees or consultants to serve as members of a committee that will supervise and direct all Research Projects, report on results of all Research Projects, and adopt amendments to the Project Plan (the "Research Committee"). If any Project Leader is not a member of the Research Committee, such Project Leader shall attend all meetings of the Research Committee as an observer. Other personnel of either party may attend meetings of the Research Committee as observers with the consent or invitation of the Research Committee. The initial members of the Research Committee from both Pharmacia and ArQule are named in Enclosure 4 hereto. Either party may change the individuals so named upon thirty (30) days written notice to the other party.

4.2 Meetings of Research Committee. The Research Committee will meet at least once each calendar month. Members of the Research Committee may participate either in person or by telephone. If a designated representative of a party cannot attend any meeting of the Research Committee, such party may designate a different representative for that meeting without notice to the other party, and the substitute member will have full power to vote on behalf of the permanent

member. All decisions of the Research Committee will require the vote of a majority of its members. If the Research Committee cannot reach agreement on any matter, the matter will be resolved in accordance with the procedures set forth in Section 9.9 below.

4.3 Reports. The Research Committee and/or the applicable Project Leaders shall prepare and submit the following reports to the management of each of the parties:

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(a) within ten (10) days of the end of every calendar month, a management report that describes the progress of each of the current Research Projects, the significant results obtained for such Research Projects, deviations of the Research Project from the description provided in the Project Plan, and recommended modifications to the Research Project for the subsequent one-month period; and

(b) within ten (10) days of the completion, cessation, or termination of any Research Project, a final report that describes in full detail (i) the work completed in the course of the Research Project and (ii) the significant results obtained for the Research Project.

4.4 Meetings. The Research Committee shall organize bi-monthly meetings for the purpose of reporting on the progress of each Research Project and planning for the future conduct of each Research Project. Such meetings shall be held at alternating locations suitable to both parties or by teleconferences, and shall be attended by appropriate management individuals from both Pharmacia and ArQule.

SECTION 5. TERM AND TERMINATION

5.1 Term. This Agreement shall commence on the Effective Date and shall terminate upon the expiration or termination of the Option Agreement, unless earlier terminated in accordance with this Section 5.

5.2 Termination for Breach. If either Pharmacia or ArQule breaches any representation made herein or fails to abide by any of the material terms of this Agreement, the other party shall have the right to terminate this Agreement upon sixty (60) days' prior written notice to the defaulting party specifying the default; provided, however, that if said defaulting party cures the default within the said sixty (60) day period, this Agreement shall continue in full force and effect as if no default had occurred.

5.3 Personal Services. In addition to, and independent of, the right of Pharmacia to terminate this Agreement under Section 5.2, if (i) proceedings in bankruptcy or insolvency are instituted by or against ArQule, or a receiver is appointed for ArQule, or if any substantial part of the assets of ArQule is the object of attachment, sequestration, or other type of comparable proceeding, and such proceeding is not vacated or terminated within sixty (60) days after its commencement or institution, and (ii) ArQule defaults under any of the material terms of this Agreement and fails to cure such default within sixty (60) days after receiving written of such default from Pharmacia, then Pharmacia shall also have the right to negotiate with Dr. Joseph C. Hogan, Jr. (the "Consultant"), an employee and officer of ArQule, for the purpose of entering into a consulting agreement between the Consultant and Pharmacia (the "Consulting Agreement"), in order to enable Pharmacia to continue to receive the services that are provided by the Consultant under this Agreement. ArQule acknowledges and agrees that the rights provided to Pharmacia under this Section 5.3 (i.e., the right to conduct negotiations with the Consultant and the right to enter into the Consulting Agreement) do not (a) violate any state laws or the common law, including without limitation any notions of public policy, or (b) violate any federal laws, including without limitation the protections afforded to a debtor in bankruptcy pursuant to the

provisions of section 362 of title 11 of the United States Code, and are in the nature of security for and/or guaranty of the performance of ArQule under the terms of this Agreement. By this acknowledgement and agreement, ArQule further agrees that it shall be estopped to make any argument, pursuant to any of the laws described in the foregoing sentence, to prevent the exercise by Pharmacia of any of the rights provided to Pharmacia under this Section 5.3.

5.4 Survival. The termination of this Agreement shall not release either party from fulfilling any obligations which it may have incurred prior to any such termination. The following provisions shall survive termination of this Agreement: Sections 1, 4.3(b), 5.3, 5.4, 6, 7, 9.8, and 9.9.

SECTION 6. INTELLECTUAL PROPERTY

6.1 Ownership. ArQule shall have sole ownership of all Improvements to the ArQule Technology that are made, developed, or discovered in the course of the Research Project by employees or consultants of either party. Pharmacia shall have sole ownership of all Improvements to the Contributed Technology that are made, developed, or discovered in the course of the Research Project by employees or consultants of either party. Ownership of all other intellectual property that is made, developed, or discovered in the course of the Research Project shall be determined in accordance with (i) the rules of inventorship under the applicable patent law (in the case of patentable inventions), (ii) the rules of authorship under the applicable copyright law (in the case of copyrightable works), or (iii) the mutual agreement of the parties (in all other cases).

6.2 Legal Protection. Each party shall have sole control, at its expense, over obtaining any form of legal protection for the intellectual property owed solely by such party. In the case of intellectual property for which the parties have joint ownership, the parties shall mutually agree on the division of responsibility for, and expense of, obtaining appropriate legal protection for such intellectual property, and any disputes shall be resolved in accordance with the procedures set forth in Section 9.9.

6.3 Full Cooperation. ArQule and Pharmacia agree to cooperate fully in the preparation, filing, and prosecution of any patent applications covering Improvements. Such cooperation includes, but is not limited to,

(a) executing any documents of assignment, or requiring employees or consultants of each party to execute such documents of assignment, so as to effect the appropriate ownership of Improvements as set forth above;

(b) executing all papers and instruments, or requiring employees or consultants of each party to execute such papers and instruments, so as to enable the other party to apply for and to prosecute patent applications in any country; and

(c) undertaking no actions that are potentially deleterious to the preparation, filing, or prosecution of such patent applications.

6.4 License Agreement. The parties intend that in the event of any conflict between the provisions of this Article 6 and the terms and conditions of any License Agreement entered into by the parties as contemplated by the Option Agreement, the terms of the License Agreement shall prevail.

SECTION 7. CONFIDENTIAL INFORMATION AND PROPRIETARY MATERIALS

7.1 Confidential Information.

7.1.1 Definition of Confidential Information. Confidential Information shall mean any technical or business information furnished by one party (the "Disclosing Party") to the other party (the "Receiving Party") in connection with this Agreement and specifically designated as confidential. Such Confidential Information may include, without limitation, the ArQule Technology and the Contributed Technology, as well as trade secrets, know-how, inventions, technical data or specifications, testing methods, business or financial

information, research and development activities, product and marketing plans, and customer and supplier information.

7.1.2 Designation of Confidential Information. Confidential Information that is disclosed in writing shall be marked with a legend indicating its confidential status. Confidential Information that is disclosed orally or visually shall be documented in a written notice prepared by the Disclosing Party and delivered to the Receiving Party within thirty (30) days of the date of disclosure; such notice shall summarize the Confidential Information disclosed to the Receiving Party and reference the time and place of disclosure.

7.1.3 Obligations. The Receiving Party agrees that it shall:

(a) maintain all Confidential Information in strict confidence, except that the Receiving Party may disclose or permit the disclosure of any Confidential Information to its directors, officers, employees, consultants, and advisors who are obligated to maintain the confidential nature of such Confidential Information and who need to know such Confidential Information for the purposes set forth in this Agreement;

(b) use all Confidential Information solely for the purposes set forth in this Agreement; and

(c) allow its directors, officers, employees, consultants, and advisors to reproduce the Confidential Information only to the extent necessary to effect the purposes set forth in this Agreement, with all such reproductions being considered Confidential Information.

7.1.4 Exceptions. The obligations of the Receiving Party under Section 7.1.3 above shall not apply to the extent that the Receiving Party can demonstrate that certain Confidential Information:

(a) was in the public domain prior to the time of its disclosure under this Agreement;

(b) entered the public domain after the time of its disclosure under this Agreement through means other than an unauthorized disclosure resulting from an act or omission by the Receiving Party;

(c) was independently developed or discovered by the Receiving Party without use of the Confidential Information;

(d) is or was disclosed to the Receiving Party at any time, whether prior to or after the time of its disclosure under this Agreement, by a third party having no fiduciary relationship with the Disclosing Party and having no obligation of confidentiality with respect to such Confidential Information; or

(e) is required to be disclosed to comply with applicable laws or regulations, or with a court or administrative order, provided that the Disclosing Party receives prior written notice of such disclosure and that the Receiving Party takes all reasonable and lawful actions to obtain confidential treatment for such disclosure and, if possible, to minimize the extent of such disclosure.

7.2 Proprietary Materials.

7.2.1 Definition of Proprietary Materials. "Proprietary Materials" shall mean any tangible chemical, biological, or physical research materials that are furnished by one party (the "Transferring Party") to the other party (the "Receiving Party") in connection with this Agreement regardless of whether such materials are specifically designated as proprietary to the Transferring Party. The Transferring Party shall furnish such Proprietary Materials to the Receiving Party in a mutually acceptable form, including appropriate labelling and packaging.

7.2.2 Limited Use. The Receiving Party shall use Proprietary Materials solely for the purposes set forth in this Agreement. The Receiving Party shall use the Proprietary Materials only in compliance with all applicable

governmental laws and regulations, and not for any in vivo experiments on human subjects. The Receiving Party assumes all liability for damages that may arise from the use, storage, or disposal of any Proprietary Materials. The Transferring Party will not be liable to the Receiving Party for any loss, claim, or demand made by Receiving Party, or made against the Receiving Party by any other party, due to or arising from the use, storage, or disposal of any Proprietary Materials by the Receiving Party, and the Receiving Party agrees, to the extent allowed under applicable law, to defend, indemnify, and hold the Transferring Party harmless from and against any such losses, claims, or demands, except to the extent caused by the gross negligence or willful misconduct of the Transferring Party.

7.2.3 Limited Disposition. The Receiving Party shall not transfer or distribute any Proprietary Materials to any third party without the prior written consent of the Transferring Party.

7.3 Return of Confidential Information and Proprietary Materials. Upon the termination of this Agreement, at the request of the Disclosing Party, the Receiving Party shall return to

the Disclosing Party all originals, copies, and summaries of documents, materials, and other tangible manifestations of Confidential Information in the possession or control of the Receiving Party, except that the Receiving Party may retain one copy of the Confidential Information in the possession of its legal counsel solely for the purpose of monitoring its obligations under this Agreement. Upon the termination of this Agreement, the Receiving Party shall at the instruction of the Transferring Party either destroy or return any unused Proprietary Materials.

7.4 Survival of Obligations. The obligations set forth in this Section 7 shall remain in effect for a period of five (5) years after termination of this Agreement, except that the obligations of the Receiving Party to return Confidential Information to the Disclosing Party and to return or destroy Proprietary Materials received from the Transferring Party shall survive until fulfilled.

SECTION 8. REPRESENTATIONS, WARRANTIES, AND DISCLAIMERS

8.1 Entire Agreement. The parties hereto each acknowledge and agree:

(a) that no representation or promise not expressly contained in this Agreement or the Option Agreement has been made by the other party hereto or by any of its agents, employees, representatives or attorney; and

(b) that this Agreement is not being entered into on the basis of, or in reliance on, any promise or representation, expressed or implied, covering the subject matter hereof, other than those which are set forth expressly in this Agreement and the Option Agreement.

8.2 Authority; No Conflict. The parties hereto each represent and warrant that they have the authority and legal right to enter into this Agreement, and that the terms of this Agreement are not inconsistent with any other contractual arrangements they may have, express or implied.

8.3 Ownership of Technology. ArQule warrants and represents that it is the owner by assignment of the entire right, title, and interest in and to all the ArQule Technology. Pharmacia warrants and represents that it owns or is free to license or sublicense all of the Contributed Technology.

8.4 Disclaimer. NEITHER PARTY MAKES ANY WARRANTIES, EXPRESS OR IMPLIED, REGARDING THE QUALITY OF ANY RESULTS OR THE ACHIEVEMENT OF ANY GOALS FOR ANY RESEARCH PROJECT. THERE ARE NO EXPRESS OR IMPLIED WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE FOR ANY PROPRIETARY MATERIALS OF EITHER PARTY. EXCEPT AS EXPRESSLY PROVIDED IN THIS AGREEMENT, NEITHER PARTY MAKES ANY WARRANTIES THAT THE USE OF ARQULE TECHNOLOGY, CONTRIBUTED TECHNOLOGY, OR ANY PROPRIETARY MATERIALS WILL NOT INFRINGE ANY PATENT OR OTHER INTELLECTUAL PROPERTY RIGHTS OF A THIRD PARTY.

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SECTION 9. MISCELLANEOUS

9.1 Publicity. Neither party shall use the name of the other party or reveal the terms of this Agreement in any publicity or advertising without the prior written approval of the other party, except that (i) either party may use the text of a written statement approved in advance by both parties without further approval, (ii) either party shall have the right to identify the other party and to disclose the terms of this Agreement as required by applicable securities laws or other applicable law or regulation, and (iii) either party may use the name of the other party and reveal the existence of this Agreement and the Option Agreement.

9.2 Assignment. Neither party hereto shall have the right to assign their rights or obligations under this Agreement without the prior written consent of the other party, which consent shall not be unreasonably withheld; provided, however, that either party hereto may assign, upon prior written notice to the other, its rights and obligations to an Affiliate or to a legal entity acquiring all or substantially all of such party's assets or business to which this Agreement relates. Subject to the preceding sentence, this Agreement shall be binding upon and inure to the benefit of the permitted successors and assigns of each party.

9.3 Relationship. The status of the parties hereto is that of independent contractors, and as such the parties shall not be deemed to be partners, joint venturers, or each other's agents, and neither shall have the right to act for or on behalf of the other except as expressly provided hereunder or otherwise expressly agreed to in writing.

9.4 Force Majeure. The parties hereto shall not be liable for failure to perform as required by any provision of this Agreement where such failure results from a force majeure beyond such party's control. In the event of any delay attributable to a force majeure, the time for performance affected thereby shall be extended for a period equal to the time lost by reason of the delay; provided, however, that if the delay extends for a period exceeding one hundred and eighty (180) days, the party capable of performance shall have the right to terminate this Agreement immediately upon written notice to the affected party.

9.5 Entire Agreement. Except for the Option Agreement, this Agreement constitutes the entire understanding of the parties with respect to the subject matter contained herein and may be modified only by a written agreement signed by both parties.

9.6 Notices. Service of all notices hereunder shall be in writing and shall be deemed duly given if sent by courier, certified or registered mail, postage prepaid, or confirmed telecopier transmission to the addresses or telecopier numbers below.

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If to Pharmacia:	If to ArQule:
Pharmacia Biotech AB S-751 82 Uppsala Sweden Attention: Johan von Heijne	ArQule, Inc. 200 Boston Avenue Suite 3600 Medford, Massachusetts 02155 Attention: President
Tel: 46 1816 5700 Fax: 46 1816 6409	Tel: (617) 395-4100 Fax: (617) 395-1225
With a copy to:	With a copy to:
Ulf Lundberg	Palmer & Dodge

General Counsel	One Beacon Street
Pharmacia Biotech AB	Boston, Massachusetts 02108
S-751 82 Uppsala	USA
Sweden	Attention: Michael Lytton, Esq.
Tel: 46 1816 3000	Tel: (617) 573-0327
Fax: 46 1816 6301	Fax: (617) 227-4420

Either party may change its designated address and facsimile number by notice to the other party in the manner provided in this Section.

9.7 Severability. In the event that any provision of this Agreement shall, for any reason, be held to be invalid or unenforceable in any respect, such invalidity or unenforceability shall not affect any other provision hereof, and the parties shall negotiate in good faith to modify the Agreement to preserve (to the extent possible) their original intent.

9.8 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of New York irrespective of any conflicts of law principles.

9.9 Dispute Resolution. Any disputes between the parties that arise under or relate to this Agreement shall be resolved in accordance with the following procedures. The parties shall first attempt in good faith to resolve the matter among themselves. If the matter remains unresolved after a period of thirty (30) days, the dispute shall be referred to a member of senior management from each party. If the matter remains unresolved after an additional thirty-day period, the dispute shall be finally settled by binding arbitration in London, England under the Rules of Conciliation and Arbitration of the International Chamber of Commerce. In case of a dispute which cannot be resolved by good faith negotiations, ArQule shall also have the right to apply with a court of competent jurisdiction to enjoin Pharmacia from further use of the ArQule Technology and Improvements. Notwithstanding any of the foregoing, Pharmacia does not waive any right to contest such application and to argue that the requisite criteria that would allow the court to issue an injunction do not exist.

IN WITNESS HEREOF, the parties have caused this instrument to be executed by their duly authorized officers effective as of the day and year first set forth above.

PHARMACIA BIOTECH AB

By: /s/

Arne Forsell
President

By: /s/

Bengt Belfrage
Executive Vice President

ARQULE, INC.

By: /s/

Seth L. Harrison
President and Chief Executive Officer

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ENCLOSURE 1

ARQULE TECHNOLOGY*

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ENCLOSURE 2

OPTION AGREEMENT

See Exhibit 10.17 to the Registrant's Registration Statement.

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ENCLOSURE 3

PROJECT PLAN

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ENCLOSURE 3 (Project Plan) TO PHARMACIA RESEARCH

RESEARCH PLAN FOR "LIGAND DESIGN" PROJECT
AN ARQULE/PHARMACIA BIOTECH COOPERATION

CONTENTS

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1 DESCRIPTION OF THE CURRENT PROJECT

1.1 Objective of the project

The objective of the project is *

1. *

2. *

3. *

These objective were decided upon at the meeting at Pharmacia in January, 1995

1.2 Organisation

1.2.1 Project Leaders and Reference Groups

At ArQule Joe Hogan (JH) is assigned as Project Leader and contact person. At Pharmacia Ake Pilotti (AP) is assigned as Project Leader and contact person.

1.2.2 Project Resources

The following persons from ArQule are assigned to the project:

Joe Hogan, Steve Gallion, David Boulton, Alan Kaplan, Milan Pluhar, and a PhD with ten years experience from the field who is presently being employed.

From Pharmacia two person will work at ArQule during the project phase. One of these will stay for the whole 6 month period, and two others will spend 3 months each at ArQule. Two PhD's are presently being employed for this purpose, and the third, Geir Fonnum, who presently works at Pharmacia Norway is one of the resources that will stay for 3 months.

In addition, AP or someone else from the Swedish Reference Group will be spending at least one week/month at ArQule during the project phase.

1.3 Project Presentation

The project will be divided into pre-initiation and a project phase.

1.3.1 Pre-Initiation Phase

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The purpose of the pre-initiation phase is to generate sufficient amount of structure lead information and to develop the appropriate screening methods.

During the pre-initiation phase two important activities are planned:

A. Literature search

All possible structural leads are being collected from the literature to make the initial choice of chemical structures to be synthesized as easy as possible. The results from the literature searches will be exchanged between the two sites and the extracted publications scrutinized for lead structures. All progress will be shared via fax or tele-conference.

At the end of the pre-initiation phase a meeting will be held to decide which molecules we will start to synthesize libraries around.

Chemical syntheses of these structures will be performed mainly at ArQule.

B. Screening methods

Rolf Hjort and Lars Fagerstam will initiate the design of screening methods. The basic idea is to develop systems that mimick * conditions.

The development of the screening methods will be performed primarily at Pharmacia.

1.3.2 Project Phase

The Project Phase is described in Sections 3-5 below.

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3 Project Work Plan:

1. At the end of * one of the selected targets will be prioritized. The decision will be based on the results achieved during the first third of the project phase. All resources will then be used to focus on the synthesis and screening for ligands suitable for the prioritized target molecule.

2. After *

3. After * we need to know which ligands should be synthesized in large scale. The large scale sythesis will then be performed.

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4. After *

5. Report writing will start after *

4 PRIORITIES

The targets chosen are *

All decisions will be taken by the Research Committee. If everything works perfect we will of course continue with the next target molecule in the following order of priority:

1. *
2. *
3. *

5 TIME PLAN

5.1 Pre-Initiation Phase (See Appendix 1)

5.2 Project Phase (See Appendix 1)

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ENCLOSURE 4

MEMBERS OF RESEARCH COMMITTEE

ArQule

Joseph Hogan, Jr.
David Boulton

Pharmacia

Ingvar Viberger

Ake Pilotti

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February 13, 1996

BY FACSIMILE - 011-46 18 166301
- ------------------------------

Mr. Ulf Lundberg
General Counsel
Pharmacia Biotech AB
Bjorkgatan 30

D-751 82 Uppsala, Sweden

Re: Amendment to Option Agreement and Research Agreement

Dear Mr. Lundberg:

Reference is hereby made to the Option Agreement (the "Option Agreement") and the Research and Development Agreement (the "Research Agreement"), both effective as of March 10, 1995, by and between ArQule, Inc. ("ArQule") and Pharmacia Biotech AB ("Pharmacia"). In consideration of the mutual covenants and agreements hereinafter set forth and other valuable consideration, the receipt and adequacy of which are hereby acknowledged, the undersigned hereby acknowledge and agree as follows:

I. In accordance with Section 2.2.1 of the Option Agreement, Pharmacia hereby confirms to ArQule (i) that it has elected not to extend the Option Period for its Option Right for Subfields II, III and IV (as such capitalized terms are defined in the Option Agreement) in accordance with Section 2.2.1(b) of the Option Agreement and (ii) that it has elected to extend the Option Period for its Option Rights for Subfield I through August 15, 1996 in accordance with Section 2.2.1(a) of the Option Agreement.

1. The Project Plan is hereby amended by replacing the initial Research Project (as such capitalized terms are defined in the Research Agreement) entitled "Research Plan for Ligand Design Project" attached as Enclosure 3 to the Research Agreement with the Research Project entitled "Research Plan for the Second Ligand Design Project", a copy of which is attached hereto (as so amended, the "Amended Research Project"), for the period commencing on February 15, 1996 and continuing until August 15, 1996. The parties agree that the Amended Research Project has been approved by the Research Committee, as required under Section 2.2 of the Research Agreement.

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2. In consideration of the research to be conducted by ArQule as provided in the Amended Research Project, Pharmacia hereby agrees to pay ArQule
* payable on or before March 12, 1996.

Except as otherwise expressly amended by this letter agreement, each of the terms, conditions and provisions of the Option Agreement and the Research Agreement shall remain in full force and effect. This letter agreement may be signed in one or more counterparts, each of which when taken together shall constitute one and the same instrument.

Very truly yours,

ARQULE, INC.

By:/s/

Eric B. Gordon
President and
Chief Executive Officer

Agreed to and Accepted
this 19th day of February, 1996

PHARMACIA BIOTECH AB

By: /s/ Ulf Lundberg
---

* Confidential treatment has been
requested for marked portions

Dr. Joseph C. Hogan, PhD
CEO, Senior VP Research and Development
ArQule Inc.
200 Boston Avenue
Suite 3600
Medford, MA 02155
USA

August 15, 1996

Dear Dr. Hogan,

This letter confirms that Pharmacia Biotech AB elects to extend its option Period for Subfield I by entering into a Subsequent Research Period for 6 months, in accordance with the Option Agreement and the Research & Development Agreement between ArQule Inc. and Pharmacia Biotech AB, dated March 10, 1995, respectively.

With reference to our discussion in Boston, August 26 in Uppsala, we suggest that we amend the Research Plan, to provide for a description of the new research project including overall goals, priorities, time schedules, a description of the necessary resources that each party will commit to the new project. Furthermore, we feel that the initial Research Plan could serve as a good frame work for the new plan.

Best Regards.

PHARMACIA BIOTECH AB
Research & Development

Ingvar Wiberger
Executive Vice President

Copy to: Arne Forsell
Pharmacia Biotech AB

Johan von Heijne
Pharmacia Biotech AB

Michael Lytton
Palmer & Dodge
One Beacon Street
Boston Massachusetts
USA
Fax: (617) 227-4420

EXHIBIT 10.17

OPTION AGREEMENT

This Agreement, effective as of March 10, 1995 (the "Effective Date"), is between ArQule, Inc. ("ArQule"), a Delaware corporation, and Pharmacia Biotech AB ("Pharmacia"), a Swedish corporation.

RECITALS

WHEREAS, ArQule has developed certain technology that has applications in the areas of *

WHEREAS, Pharmacia has established itself as a leading manufacturer of products in the areas of *

WHEREAS, Pharmacia desires to evaluate whether the ArQule technology would contribute to the development of products in these business areas and, if so, to license the ArQule technology;

WHEREAS, ArQule desires to give Pharmacia the opportunity to evaluate the ArQule technology and to license such technology;

NOW, THEREFORE, in consideration of the mutual covenants set forth in this Agreement, the parties hereby agree as follows:

1. Definitions.

1.1. "ARQULE TECHNOLOGY" shall mean certain technology that is owned or controlled by ArQule as of the Effective Date, as set forth on EXHIBIT A.

1.2. "BIOMOLECULES" shall mean amino acids, peptides, proteins, nucleic acids, (nucleotides, oligonucleotides, polynucleotides), carbohydrates (monosaccharides, oligosaccarides, polysaccharides), lipids, phospholipids, or any combination of such molecules, whether produced by natural means or by organic synthesis in solution or using solid phase technologies.

1.3. "CHIRAL APPLICATIONS" shall mean

*

1.4. "CONFIDENTIAL INFORMATION" shall have the meaning set forth in Section 5.1.1.

1.5. "DERIVATIVES" shall mean any molecules that are chemical derivatives or analogues of Biomolecules or Natural Products.

* Confidential treatment has been requested for marked portions

1.6. "FIELD OF APPLICATIONS" shall mean

*

1.7. "FIRST DECISION PERIOD" shall have the meaning set forth in Section

2.2.1.(a).

1.8. "IMPROVEMENT" shall mean any improvement, change, addition, upgrade, or modification to the ArQule Technology that ArQule discovers or develops in the course of research funded by Pharmacia.

1.9. "LIBRARY APPLICATIONS" shall mean

*

1.10. "NATURAL PRODUCTS" shall mean all molecules (other than Biomolecules) that are the naturally occurring products of biosynthesis in living cells or are produced by isolated cellular components outside of living cells, whether by natural means or by organic synthesis in solution or using solid phase technologies. This definition is intended to include sub-cellular components and viral particles. Examples of Natural Products are vitamins, steroid hormones, and various cofactors.

1.11. "NEGOTIATION PERIOD" shall mean each thirty-day period in which Pharmacia may (i) negotiate revisions to the Research and Development Agreement, (ii) pay the appropriate option maintenance fee to retain the right to acquire a license for a Subfield, or (iii) negotiate and execute a license agreement for a Subfield.

1.12. "OPTION PERIOD" shall have the meaning set forth in Section 2.1.

1.13. "OPTION RIGHT" shall have the meaning set forth in Section 2.1.

* Confidential treatment has been requested for marked portions

1.14. "PRODUCTS" shall mean products that incorporate or are made through the use of any ArQule Technology or Improvements.

1.15. "PROPRIETARY MATERIALS" shall have the meaning set forth in Section 5.2.1.

1.16. "RESEARCH AND DEVELOPMENT AGREEMENT" shall mean a certain Research and Development Agreement between the parties, dated as of the Effective Date, which is attached to this Agreement as EXHIBIT C.

1.17. "RESERVED FIELD" shall mean certain applications in each Subfield for which ArQule has reserved rights. The following applications are within the Reserved Field: Chiral Applications, Library Applications, and Synthesis Applications. The Reserved Field also includes all applications within the Field of Applications for internal research at ArQule for the development of products outside the Field of Applications.

1.18. "SECOND DECISION PERIOD" shall have the meaning set forth in Section 2.2.1(b).

1.19. "SUBFIELD I" shall mean

*

1.20. "SUBFIELD II" shall mean

*

1.21. "SUBFIELD III" shall mean

*

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1.22. "SUBFIELD IV" shall mean

*

1.23. "SYNTHESIS APPLICATIONS" shall mean

*

2. Grant of Option Rights.

2.1. OPTION RIGHTS. Subject to payment of the option fee set forth in

Section 3.1., ArQule hereby grants Pharmacia a first option to acquire the following rights in respect of each Subfield (the "Option Rights"):

(i) an exclusive, worldwide, royalty-bearing license (with the right to sublicense) under the ArQule Technology and Improvements to make, have made, use, and sell Products in each of Subfields 1 through 4 (as applicable), excluding the Reserved Field; and

(ii) a worldwide license (without the right to sublicense) to use the ArQule Technology in the Reserved Field for its own internal research for the development of Products in each of Subfields 1 through 4 (as applicable).

At the time Pharmacia exercises its Option Right for Subfield 1, Pharmacia shall have the right to include under such license for Subfield 1 the right to make, have made, use, and sell Products not in the Reserved Field that are

*

At the time Pharmacia exercises its Option Right for Subfield 3, Pharmacia shall have the right to include under such license for Subfield 3 the right to make, have made, use, and sell Products not in the Reserved Field that are

*

These Option Rights shall become effective on April 1, 1995 and shall remain in effect for a period of six (6) months (the "Option Period"), subject to extension in accordance with Section 2.2 below.

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2.2. Extension of Option Period.

2.2.1. PHARMACIA ELECTION TO EXTEND. Subject to payment or waiver of the relevant option maintenance fee in accordance with Section 3.2, Pharmacia shall have the right to extend the Option Period for the Option Right applicable to a Subfield for up to three (3) successive six-month periods, as follows:

(a) Upon the expiration of the initial six-month Option Period, Pharmacia shall have a thirty-day period ("First Decision Period") to determine whether to extend the Option Period for Subfield I. Prior to the expiration of the First Decision Period, Pharmacia may elect to extend the Option Period for Subfield I upon written notice to ArQule. If Pharmacia elects to extend the Option Period for Subfield I, ArQule and Pharmacia may negotiate and implement appropriate revisions to the Research and Development Agreement during the thirty-day period immediately following the First Decision Period (a "Negotiation Period"), and the first six-month extension to the Option Period shall commence immediately upon the expiration of this Negotiation Period.

(b) Upon the expiration of the First Decision Period, Pharmacia shall have a thirty-day period ("Second Decision Period") to determine whether to extend the Option Period for each of Subfields 2 through 4. Prior to the expiration of the Second Decision Period, Pharmacia may elect to extend the Option Period for each of Subfields 2 through 4 upon written notice to ArQule. If Pharmacia elects to extend the Option Period for any of Subfields 2 through 4, then Pharmacia shall have a period of thirty (30) days immediately following the Second Decision Period (a "Negotiation Period") in which to pay the appropriate option maintenance fee or to negotiate and implement appropriate revisions to the Research and Development Agreement, and the first six-month extension to the Option Period for those Subfields shall commence immediately upon the expiration of this Negotiation Period.

(c) Prior to the expiration of any six-month extension for each of Subfields 1 through 4, Pharmacia may extend the Option Period for the relevant Subfield upon written notice to ArQule. If Pharmacia elects to extend

the Option Period for any such Subfield, then Pharmacia shall have a period of thirty (30) days immediately following the expiration of such six-month extension (a "Negotiation Period") in which to pay the appropriate option maintenance fee or to negotiate and implement appropriate revisions to the Research and Development Agreement, and the next six-month extension to the Option Period for that Subfield or Subfields shall commence immediately upon the expiration of this Negotiation Period.

(d) If Pharmacia has not exercised its Option Right for a Subfield (as described in Section 2.3), and if Pharmacia (i) fails to notify ArQule within the prescribed time periods that Pharmacia intends to extend the Option Period for that Subfield or (ii) fails to make any required payments within the prescribed time period, then the Option Right for such Subfield shall lapse upon the expiration of the applicable Option Period and the provisions of Section 2.4 shall apply.

2.2.2. AUTOMATIC EXTENSION. The Option Period for every Subfield shall be automatically extended during the First Decision Period. The Option Period for Subfields 2

through 4 shall be automatically extended during the Second Decision Period. In addition, the Option Period for each Subfield shall be automatically extended during any Negotiation Period applicable to that Subfield.

2.3. EXERCISE OF OPTION. Pharmacia may exercise its Option Rights upon written notice to ArQule received at any time during the First Decision Period (for Subfield 1), Second Decision Period (for any of Subfields 2 through 4), or any six-month extension to an Option Period (for the relevant Subfield). If Pharmacia elects to exercise its Option Right with respect to a Subfield, the parties agree to negotiate in good faith a license agreement during the thirty-day period immediately following the date of notification (a "Negotiation Period"). The license agreement shall contain commercially reasonable terms, including the terms set forth on EXHIBIT B. If the parties fail to negotiate and execute the license agreement within the Negotiation Period, then after a period of sixty (60) days ArQule shall be free to license the ArQule Technology in the relevant Subfield to any third party on any terms.

2.4. EFFECT OF LAPSE.

2.4.1. LOSS OF RIGHTS. Upon the lapse of an Option Right for any Subfield (as set forth in Section 2.2.1.(d)), Pharmacia shall have no further right to acquire or maintain any license rights under the ArQule Technology or Improvements to make, have made, use, or sell Products in such Subfield.

2.4.2. NON-COMPETITION. If the Option Right for a particular Subfield lapses for any reason, then ArQule shall be bound by a covenant not to manufacture, sell, or license a competitive product in such Subfield for a period of six (6) months from the date upon which such Option Right lapsed.

2.4.3. OWNERSHIP OF INTELLECTUAL PROPERTY. Pharmacia acknowledges and agrees that ArQule retains ownership of the ArQule Technology and that ArQule shall own all rights in any Improvements. Pharmacia further acknowledges and agrees that no license or conveyance of the ArQule Technology or Improvements is granted or implied under this Agreement. Any license of ArQule Technology or Improvements shall be expressly granted in a written agreement in accordance with the procedures set forth in Section 2.3.

2.5. FLOW CHART. Set forth on EXHIBIT D is a graphical presentation of the time periods and events described in this Article 2. In the event of any conflict or ambiguity between EXHIBIT D and the text of this Article 2, the textual provisions shall govern.

3. PAYMENTS FOR OPTION RIGHTS.

3.1. OPTION FEE. In consideration of the Option Rights granted under Section 2.1, Pharmacia shall pay to ArQule an option fee in the amount of * in immediately available funds within thirty (30) days after the Effective Date.

3.2. MAINTENANCE FEES. In consideration of each six-month extension to the Option Period for a particular Option Right, Pharmacia shall pay to ArQule option maintenance fees in the

* Confidential treatment has been requested for marked portions

following amounts in immediately available funds on or before the expiration date of the relevant Negotiation Period: Subfield 1 - * ; Subfield 2 - * ; Subfield 3 - * ; Subfield 4 - * . ArQule agrees to waive such maintenance fee for a particular Subfield if Pharmacia agrees to pay ArQule at least * to conduct research for that Subfield under the Research and Development Agreement.

4. RESEARCH AND DEVELOPMENT.

ArQule and Pharmacia have entered into a separate Research and Development Agreement, attached on EXHIBIT C, under which ArQule agrees to conduct certain research into applications of the ArQule Technology and Improvements in Subfield I in exchange for payment of research and development fees by Pharmacia. The parties intend to amend the Project Plan attached to the Research and Development Agreement from time to time in order to add other Subfields to the research program or to revise an ongoing research program.

5. CONFIDENTIAL INFORMATION AND PROPRIETARY MATERIALS.

5.1. CONFIDENTIAL INFORMATION.

5.1.1. DEFINITION OF CONFIDENTIAL INFORMATION. Confidential Information shall mean any technical or business information furnished by one party (the "Disclosing Party") to the other party (the "Receiving Party") in connection with this Agreement or the Research and Development Agreement and specifically designated as confidential. Such Confidential Information may include, without limitation, trade secrets, know-how, inventions, technical data or specifications, testing methods, business or financial information, research and development activities, product and marketing plans, and customer and supplier information.

5.1.2. DESIGNATION OF CONFIDENTIAL INFORMATION. Confidential Information that is disclosed in writing shall be marked with a legend indicating its confidential status. Confidential Information that is disclosed orally or visually shall be documented in a written notice prepared by the Disclosing Party and delivered to the Receiving Party within thirty (30) days of the date of disclosure; such notice shall summarize the Confidential Information disclosed to the Receiving Party and reference the time and place of disclosure.

5.1.3. OBLIGATIONS. The Receiving Party agrees that it shall:

(a) maintain all Confidential Information in strict confidence, except that the Receiving Party may disclose or permit the disclosure of any Confidential Information to its directors, officers, employees, consultants, and advisors who are obligated to maintain the confidential nature of such Confidential Information and who need to know such Confidential Information for the purposes set forth in this Agreement;

(b) use all Confidential Information solely for the purposes set forth in this Agreement; and

* Confidential treatment has been requested for marked portions

(c) allow its directors, officers, employees, consultants, and advisors to reproduce the Confidential Information only to the extent

necessary to effect the purposes set forth in this Agreement, with all such reproductions being considered Confidential Information.

5.1.4. EXCEPTIONS. The obligations of the Receiving Party under Section 5.1.2. above shall not apply to the extent that the Receiving Party can demonstrate that certain Confidential Information:

(a) was in the public domain prior to the time of its disclosure under this Agreement;

(b) entered the public domain after the time of its disclosure under this Agreement through means other than an unauthorized disclosure resulting from an act or omission by the Receiving Party;

(c) was independently developed or discovered by the Receiving Party without use of the Confidential Information;

(d) is or was disclosed to the Receiving Party at any time, whether prior to or after the time of its disclosure under this Agreement, by a third party having no fiduciary relationship with the Disclosing Party and having no obligation of confidentiality with respect to such Confidential Information; or

(e) is required to be disclosed to comply with applicable laws or regulations, or with a court or administrative order, provided that the Disclosing Party receives prior written notice of such disclosure and that the Receiving Party takes all reasonable and lawful actions to obtain confidential treatment for such disclosure and, if possible, to minimize the extent of such disclosure.

5.2. PROPRIETARY MATERIALS.

5.2.1. DEFINITION OF PROPRIETARY MATERIALS. "Proprietary Materials" shall mean any tangible chemical, biological, or physical research materials that are furnished by one party (the "Transferring Party") to the other party (the "Receiving Party") in connection with this Agreement or the Research and Development Agreement regardless of whether such materials are specifically designated as proprietary to the Transferring Party. The Transferring Party shall furnish such Proprietary Materials to the Receiving Party in a mutually acceptable form, including appropriate labelling and packaging.

5.2.2. LIMITED USE. The Receiving Party shall use Proprietary Materials solely for the purposes set forth in this Agreement and the Research and Development Agreement. The Receiving Party shall use the Proprietary Materials only in compliance with all applicable governmental laws and regulations, and not for any IN VIVO experiments on human subjects.

5.2.3. LIMITED DISPOSITION. The Receiving Party shall not transfer or distribute any Proprietary Materials to any third party without the prior written consent of the Transferring Party.

5.3. RETURN OF CONFIDENTIAL INFORMATION AND PROPRIETARY MATERIALS. Upon the termination of this Agreement, at the request of the Disclosing Party the Receiving Party shall return to the Disclosing Party all originals, copies, and summaries of documents, materials, and other tangible manifestations of Confidential Information in the possession or control of the Receiving Party, except that the Receiving Party may retain one copy of the Confidential Information in the possession of its legal counsel solely for the purpose of monitoring its obligations under this Agreement. Upon the termination of this Agreement, the Receiving Party shall at the instruction of the Transferring Party either destroy or return any unused Proprietary Materials.

5.4. SURVIVAL OF OBLIGATIONS. The obligations set forth in this Article 5 shall remain in effect for a period of five (5) years after termination of this Agreement, except that the obligations of the Receiving Party to return Confidential Information to the Disclosing Party and to return or destroy Proprietary Materials received from the Transferring Party shall survive until fulfilled.

6. TERMINATION.

This Agreement shall commence on the Effective Date and shall terminate on the date upon which the all Option Rights have either lapsed or been exercised as provided in this Agreement. The following provisions shall survive termination of this Agreement: Articles 1 and 5; Sections 2.3, 7.1, and 7.2.

7. MISCELLANEOUS.

7.1. GOVERNING LAW. The License Agreement shall be governed by and construed in accordance with the laws of the State of New York irrespective of any conflicts of law principles.

7.2. DISPUTE RESOLUTION. Any disputes between the parties that arise under or relate to this Agreement shall be resolved in accordance with the following procedures. The parties shall first attempt in good faith to resolve the matter among themselves. If the matter remains unresolved after a period of thirty (30) days, the dispute shall be referred to a member of senior management from each party. If the matter remains unresolved after an additional thirty-day period, the dispute shall be finally settled by binding arbitration in London, England under the Rules of Conciliation and Arbitration of the International Chamber of Commerce. In case of a dispute which cannot be resolved by good faith negotiations, ArQule shall also have the right to apply with a court of competent jurisdiction to enjoin Pharmacia from further use of the ArQule Technology and Improvements. Notwithstanding any of the foregoing, Pharmacia does not waive any right to contest such application and to argue that the requisite criteria that would allow the court to issue an injunction do not exist.

7.3. COUNTERPARTS. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, and all of which together shall be deemed to be one and the same instrument.

7.4. HEADINGS. All headings in this Agreement are for convenience only and shall not affect the meaning of any provision hereof.

7.5. BINDING EFFECT. This Agreement shall inure to the benefit of and be binding upon the parties and their respective lawful successors and assigns.

7.6. ASSIGNMENT. This Agreement may not be assigned by either party without the prior written consent of the other party, except that ArQule may assign this Agreement to a successor in connection with the merger, consolidation, or sale of all or substantially all of its assets or that portion of its business pertaining to the subject matter of this Agreement.

7.7. NOTICES. All notices, requests, demands and other communications required or permitted to be given pursuant to this Agreement shall be in writing and shall be deemed to have been duly given upon the date of receipt if delivered by hand, recognized international overnight courier, confirmed facsimile transmission, or registered or certified mail, return receipt requested, postage prepaid to the following addresses or facsimile numbers:

If to Pharmacia:	If to ArQule:
Pharmacia Biotech AB	ArQule, Inc.
S-751 82 Uppsala	200 Boston Avenue, Suite 3600
Sweden	Medford, Massachusetts 02155
Attention: Johan von Heijne	Attention: President
Tel: 46 1816 5700	Tel: (617) 395-4100
Fax: 46 1816 6409	Fax: (617) 395-1225

With a copy to:	With a copy to:
Ulf Lundberg General Counsel Pharmacia Biotech AB S-751 82 Uppsala Sweden	Palmer & Dodge One Beacon Street Boston, Massachusetts 02108 USA Attention: Michael Lytton, Esq.
Tel: 46 1816 3000 Fax: 46 1816 6301	Tel: (617) 573-0327 Fax: (617) 227-4420

Either party may change its designated address and facsimile number by notice to the other party in the manner provided in this Section.

7.8. AMENDMENT AND WAIVER. This Agreement may be amended, supplemented, or otherwise modified only by means of a written instrument signed by both parties. Any waiver of any rights or failure to act in a specific instance shall relate only to such instance and shall not be construed as an agreement to waive any rights or fail to act in any other instance, whether or not similar.

7.9. SEVERABILITY. In the event that any provision of this Agreement shall, for any reason, be held to be invalid or unenforceable in any respect, such invalidity or unenforceability shall not affect any other provision hereof, and the parties shall negotiate in good faith to modify the Agreement to preserve (to the extent possible) their original intent.

7.10. ENTIRE AGREEMENT. Except for the Research and Development Agreement, this Agreement constitutes the entire agreement between the parties with respect to the subject matter hereof and supersedes all prior agreements or understandings between the parties relating to the subject matter hereof.

IN WITNESS WHEREOF, the undersigned have duly executed and delivered this Agreement as a sealed instrument effective as of the date first above written.

ARQULE, INC.	PHARMACIA BIOTECH AB
By: /s/ --- Seth L. Harrison President and Chief Executive Officer	By: /s/ --- Arne Forsell President
	By: /s/ --- Bengt Belfrage

Executive Vice President

EXHIBIT A

ARQULE TECHNOLOGY*

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* Confidential treatment has been requested for marked portions

EXHIBIT B

CERTAIN TERMS OF LICENSE AGREEMENT

1. Payments.

Under the License Agreement, Pharmacia shall pay to ArQule,

(a) License fee payments for each Subfield in the following amounts: Subfield 1 - * Subfield 2 - * ; Subfield 3 - * and Subfield 4 - * with such payments due and payable within immediately available funds.

(b) Running royalties of * percent * payable on a quarterly basis and based on Pharmacia's net sales in arm's length transactions (to be defined in the License Agreement) of Products. If a Product is sold in combination with, or as a component of, other products not incorporating the ArQule Technology or Improvements, net sales for purposes of determining royalties shall be calculated by multiplying the net sales from the combined product by the fractions A/B, where A is the most recently available average sales price of the product incorporating such ArQule Technology or Improvements sold separately, and B is the most recently available average sales price of the combined product. If a Product is not sold separately, the net sales for purposes of calculating royalties shall be reasonably determined by agreement of ArQule and Pharmacia prior to the sale of such combined product. The parties further agree that the royalty on

*

Further, the parties agree that from time to time during the course of the collaboration, applications may be developed with a truly unusual level of benefit in the Field of Applications ("Innovative Result(s)"). A collaboration steering committee formed by the two parties must in good faith determine unanimously that the result is an Innovative Result. In these cases, both parties will enter into good faith negotiations to determine the appropriate royalty level prior to a Product launch incorporating the Innovative Result. During such negotiations, both parties shall take into account all factors associated with the development of the Innovative Result, provided that in no case shall the royalty negotiated for such Innovative Result be less than * percent * As a guideline, the following example is offered of a result of the collaboration which would not likely be an Innovative Result:

* Also, the following example is offered of a result of the collaboration which could be an Innovative Result:

*

* Confidential treatment has been requested for marked portions

(c) Minimum royalties payable in equal quarterly increments based upon the annual amounts set forth below for Subfields 1 through 4. For a Subfield, the first quarterly minimum royalty payment shall be due on or before March 31 of the third calendar year commencing after the end

of the calendar year in which the License Agreement applicable to such Subfield has been executed and the "R&D Fee" is no longer being paid by Pharmacia for such Subfield.

	Year			
	1	2	3	4+
Subfield 1		*		
Subfield 2		*		
Subfield 3		*		
Subfield 4		*		

(d) Milestone payments related to the level of Pharmacia's sales of Products shall be payable upon reaching a sales level of

(i) *

(ii) *

(iii) *

2. Accounting and Payment.

Pharmacia shall account for and pay all of the royalties having accrued within thirty (30) days of each calendar quarter during the term of the License Agreement; milestone payments shall be paid within thirty (30) days of the end of each calendar year.

3. Transfer of Know-How.

The License Agreement shall provide for a mechanism for the transfer of know-how between the parties.

* Confidential treatment has been requested for marked portions

4. Improvements.

ArQule shall own all improvements made by either party to the ArQule Technology and Pharmacia shall own all improvements made by either party to Pharmacia's background technology. Pharmacia shall have the exclusive right to exploit such improvements within the Subfields for which it has acquired a License. ArQule shall be permitted to exploit on a non-exclusive basis improvements to Pharmacia's background technology, including for the development of and incorporation into systems and other assets which ArQule may use for the development of internal programs and service businesses outside the Subfields for which Pharmacia has acquired a License. In the event that improvements to Pharmacia's background technology are physically incorporated into a product by ArQule, then ArQule and Pharmacia shall negotiate in good faith a royalty to be paid to Pharmacia on ArQule's net sales of such product. Further, Pharmacia shall, subject to reciprocity, grant to ArQule the right to grant non-exclusive rights to ArQule's other licensees to use improvements to Pharmacia's background technology.

5. Term and Termination.

The term of the License Agreement shall be until the later of (i) ten years after the first commercial sale of a product incorporating or produced through use of a patented ArQule Technology or Improvements or (ii) for the life of the patents on ArQule Technology or Improvements which may issue from the patent applications now filed or hereafter to be filed, subject to earlier termination in the event of breach and other customary events.

6. Law and Disputes

The License Agreement shall be governed and construed in accordance with the laws of the State of New York and disputes, if any, shall be first attempted to be settled by members of management of each party and in the event that such approach is not successful, shall be finally settled by arbitration in London, England under the Rules of Conciliation and Arbitration of the International Chamber of Commerce. In case of a dispute which cannot be resolved by good faith negotiations, ArQule shall also have the right to apply with a court of competent jurisdiction to enjoin Pharmacia from further use of the ArQule Technology and Improvements. Notwithstanding any of the foregoing, Pharmacia does not waive any right to contest such application and to argue that the requisite criteria that would allow the court to issue an injunction do not exist.

EXHIBIT C

RESEARCH AND DEVELOPMENT AGREEMENT

See Exhibit 10.16 of the Registrant's Registration Statement.

EXHIBIT D

FLOW CHART

* Confidential treatment has been requested for marked portions

February 13, 1996

BY FACSIMILE - 011-46 18 166301

Mr. Ulf Lundberg
General Counsel
Pharmacia Biotech AB
Bjorkgatan 30

D-751 82 Uppsala, Sweden

Re: Amendment to Option Agreement and Research Agreement

Dear Mr. Lundberg:

Reference is hereby made to the Option Agreement (the "Option Agreement") and the Research and Development Agreement (the "Research Agreement"), both effective as of March 10, 1995, by and between ArQule, Inc. ("ArQule") and Pharmacia Biotech AB ("Pharmacia"). In consideration of the mutual covenants and agreements hereinafter set forth and other valuable consideration, the receipt and adequacy of which are hereby acknowledged, the undersigned hereby acknowledge and agree as follows:

I. In accordance with Section 2.2.1 of the Option Agreement, Pharmacia

hereby confirms to ArQule (i) that it has elected not to extend the Option Period for its Option Right for Subfields II, III and IV (as such capitalized terms are defined in the Option Agreement) in accordance with Section 2.2.1(b) of the Option Agreement and (ii) that it has elected to extend the Option Period for its Option Rights for Subfield I through August 15, 1996 in accordance with Section 2.2.1(a) of the Option Agreement.

1. The Project Plan is hereby amended by replacing the initial Research Project (as such capitalized terms are defined in the Research Agreement) entitled "Research Plan for Ligand Design Project" attached as Enclosure 3 to the Research Agreement with the Research Project entitled "Research Plan for the Second Ligand Design Project", a copy of which is attached hereto (as so amended, the "Amended Research Project"), for the period commencing on February 15, 1996 and continuing until August 15, 1996. The parties agree that the Amended Research Project has been approved by the Research Committee, as required under Section 2.2 of the Research Agreement.

2. In consideration of the research to be conducted by ArQule as provided in the Amended Research Project, Pharmacia hereby agrees to pay ArQule * payable on or before March 12, 1996.

Except as otherwise expressly amended by this letter agreement, each of the terms, conditions and provisions of the Option Agreement and the Research Agreement shall remain in full force and effect. This letter agreement may be signed in one or more counterparts, each of which when taken together shall constitute one and the same instrument.

Very truly yours,

ARQULE, INC.

By:/s/

Eric B. Gordon
President and
Chief Executive Officer

Agreed to and Accepted
this 19th day of February, 1996

PHARMACIA BIOTECH AB

By: /s/ Ulf Lundberg
---

* Confidential treatment has been requested for marked portions

Dr. Joseph C. Hogan, PhD
CEO, Senior VP Research and Development
ArQule Inc.
200 Boston Avenue
Suite 3600
Medford, MA 02155
USA

August 15, 1996

Dear Dr. Hogan,

This letter confirms that Pharmacia Biotech AB elects to extend its option Period for Subfield I by entering into a Subsequent Research Period for 6 months, in accordance with the Option Agreement and the Research & Development Agreement between ArQule Inc. and Pharmacia Biotech AB, dated March 10, 1995, respectively.

With reference to our discussion in Boston, August 26 in Uppsala, we suggest that we amend the Research Plan, to provide for a description of the new research project including overall goals, priorities, time schedules, a description of the necessary resources that each party will commit to the new project. Furthermore, we feel that the initial Research Plan could serve as a good frame work for the new plan.

Best Regards.

PHARMACIA BIOTECH AB
Research & Development

Ingvar Wiberger
Executive Vice President

Copy to: Arne Forsell
Pharmacia Biotech AB

Johan von Heijne
Pharmacia Biotech AB

Michael Lytton
Palmer & Dodge
One Beacon Street
Boston Massachusetts
USA
Fax: (617) 227-4420

EXHIBIT 10.18

ADOPTION AGREEMENT
ARTICLE 1
STANDARDIZED PROFIT SHARING PLAN

1.01 PLAN INFORMATION

(a) NAME OF PLAN:

This is the ArQule, Inc. 401(k) Profit Sharing Plan (the "Plan").

(b) TYPE OF PLAN:

(1) /X/ 401(k) and Profit Sharing

(2) / / Profit Sharing Only

(3) / / 401(k) Only

(c) NAME OF PLAN ADMINISTRATOR, IF NOT THE EMPLOYER:

Address:

Phone Number:

The Plan Administrator is the agent for service of legal process for the Plan.

(d) LIMITATION YEAR (check one):

(1) /X/ Calendar Year

(2) / / Plan Year

(3) / / Other:

(e) THREE DIGIT PLAN NUMBER: 001

(f) PLAN YEAR END (month/day): 12/31

(g) PLAN STATUS (check one):

(1) / / Effective Date of new Plan:

(2) / / Amendment Effective Date: 11/1/96. This is (check one):

(A) / / an amendment of The CORPORATEplan for Retirement 100[Service Mark] Adoption Agreement previously executed by the Employer; or

(B) /X/ a conversion from another plan document into The CORPORATEplan for Retirement 100[Service Mark].

The original effective date of the Plan: 9/1/95

The substantive provisions of the Plan shall apply prior to the Effective Date to the extent required by the Tax Reform Act of 1986 or other applicable laws.

1.02 EMPLOYER

(a) THE EMPLOYER IS: ArQule, Inc.

Address: 200 Boston Avenue, Suite 3600

Medford, MA 02155

Contact's Name: Michelle Strauss

Telephone Number: 617-395-4100

(1) Employer's Tax Identification Number: 04-3221586

(2) Business form of Employer (check one):

(A) /X/ Corporation (D) / / Governmental

(B) / / Sole proprietor or partnership (E) / / Tax-exempt organization

(C) / / Subchapter S Corporation

NOTE: A tax-exempt employer, a state or local government or political subdivision thereof, or any agency or instrumentality thereof, may not maintain a 401(k) plan. However, a 401(k) plan of a tax-exempt employer adopted before July 2, 1986, or of a state or local government adopted before May 7, 1986, is grandfathered and not subject to the restriction.

(3) Employer's fiscal year end: 12/31

(4) Date business commenced: 5/6/93

(b) THE TERM "EMPLOYER" INCLUDES THE FOLLOWING RELATED EMPLOYER(S) (as defined in Section 2.01(a)(26)) THAT MUST BE INCLUDED IN THE PLAN AND ARE LISTED BELOW FOR PURPOSES OF REFERENCE:

1.03 COVERAGE

(a) ALL EMPLOYEES WHO MEET THE CONDITIONS SPECIFIED BELOW WILL BE ELIGIBLE TO PARTICIPATE IN THE PLAN:

(1) SERVICE REQUIREMENT (check one):

(A) /X/ no service requirement.

(B) / / six consecutive months of service (no minimum number Hours of Service can be required).

(C) / / one Year of Service (1,000 Hours of Service is required during the Eligibility Computation Period.)

(2) AGE REQUIREMENT (check one):

(A) / / no age requirement.

(B) /X/ must have attained age 21 (not to exceed 21).

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(3) THE CLASS OF EMPLOYEES ELIGIBLE TO PARTICIPATE IN THE PLAN (check one):

(A) /X/ includes all Employees of the Employer.

(B) / / includes all Employees of the Employer except for Employees covered by a collective bargaining agreement.

(b) THE ENTRY DATE(S) SHALL BE (check one):

(1) / / the first day of each Plan Year (not if Section 1.03(a)(1)(C) is elected).

(2) / / the first day of each Plan Year and the date six months later.

(3) /X/ the first day of each Plan Year and the first day of the fourth, seventh, and tenth months.

(c) DATE OF INITIAL PARTICIPATION - AN EMPLOYEE WILL BECOME A PARTICIPANT UNLESS EXCLUDED BY SECTION 1.03(a)(3) ABOVE ON THE ENTRY DATE IMMEDIATELY FOLLOWING THE DATE THE EMPLOYEE COMPLETES THE SERVICE AND AGE REQUIREMENT(S) IN SECTION 1.03(a), IF ANY, EXCEPT (check one):

(1) / / No exceptions.

(2) /X/ Employees employed on the Effective Date in Section 1.01(g) will become Participants on that date.

(3) / / Employees who meet the age and service requirement(s) of Section 1.03(a) on the Effective Date in Section 1.01(g) will become Participants on that date.

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1.04 COMPENSATION

(a) COMPENSATION WILL MEAN ALL OF EACH PARTICIPANT'S WAGES, TIPS, AND OTHER COMPENSATION AS REPORTED ON IRS FORM W-2. COMPENSATION FOR SELF-EMPLOYED INDIVIDUALS AND PARTNERS SHALL INCLUDE EARNED INCOME.

(b) COMPENSATION FOR THE FIRST YEAR OF PARTICIPATION

Contributions for the Plan Year in which an Employee first becomes a Participant shall be determined based on the Employee's Compensation (check one):

(1) / / For the entire Plan Year.

(2) /X/ For the portion of the Plan Year in which the Employee is eligible to participate in the Plan.

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1.05 CONTRIBUTIONS

(a) /X/ EMPLOYER CONTRIBUTIONS :

(1) /X/ DISCRETIONARY FORMULA

The Employer may decide each Plan Year whether to make a Discretionary Employer Contribution on behalf of eligible Participants in accordance with Section 4.06. Such contributions may only be FUNDED by the Employer AFTER the Plan Year ends and shall be allocated to eligible Participants based upon a nonintegrated allocation formula, in the ratio that each eligible Participant's Compensation bears to the total Compensation paid to all eligible Participants for the Plan Year.

(2) ELIGIBILITY REQUIREMENTS

For purposes of 1.05(a)(1), the Employer contribution shall be made for each Participant who is EITHER employed by the Employer on the last day of the Plan Year or earns more than 500 Hours of Service during the Plan Year.

(b) /X/ DEFERRAL CONTRIBUTIONS

(1) REGULAR CONTRIBUTIONS

The Employer shall make a Deferral Contribution in accordance with Section 4.01 on behalf of each Participant who has an executed salary reduction agreement in effect with the Employer for the payroll period in question, not to exceed 15% (NO MORE THAN 15%) of Compensation for that period.

(A) A Participant may increase or decrease, on a prospective basis, his salary reduction agreement percentage as of the next Entry Date.

(B) A Participant may revoke, on a prospective basis, a salary reduction agreement at any time upon proper notice to the Administrator but in such case may not file a new salary reduction agreement until any subsequent Entry Date.

(2) / / BONUS CONTRIBUTIONS

The Employer may allow Participants upon proper notice and approval to enter into a special salary reduction agreement to make Deferral Contributions in an amount up to 100% of any Employer paid cash bonuses made for such Participants during the Plan Year.

NOTE: A Participant's Contributions under (2) may not cause the Participant to exceed the percentage limit specified by the Employer in (1) after the Plan Year. The Employer has the right to restrict a Participant's right to make Deferral Contributions if they will adversely effect the Plan's ability to pass the Actual Deferral Percentage and/or the Actual Contribution Percentage test.

(3) /X/ QUALIFIED DISCRETIONARY CONTRIBUTIONS

The Employer may contribute an amount which it designates as a Qualified Discretionary Contribution to be included in the Actual Deferral Percentage or Actual Contribution Percentage test. Qualified Discretionary Contributions shall be allocated to Non-highly Compensated Employees (check one):

(A) /X/ in the ratio which each such Participant's Compensation for the Plan Year bears to the total of all such Participants' Compensation for the Plan Year.

(B) / / as a flat dollar amount for each such Participant for the Plan Year.

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(c) /X/MATCHING CONTRIBUTIONS (only if Section 1.05(b) is checked)

(1) THE EMPLOYER SHALL MAKE A MATCHING CONTRIBUTION ON BEHALF OF EACH PARTICIPANT IN AN AMOUNT EQUAL TO THE FOLLOWING PERCENTAGE OF A PARTICIPANT'S DEFERRAL CONTRIBUTIONS DURING THE PLAN YEAR (check one):

(A) / / 50%

(B) / / 100%

(C) / / %

(D) /X/ The percentage declared for the year, if any, by a Board of Directors' resolution.

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(2) / / MATCHING CONTRIBUTION LIMITS (check the appropriate box(es)):

(A) / / Deferral Contributions in excess of % of the Participant's Compensation for the period in question shall not be considered for Matching Contributions.

Note: If the Employer elects a percentage limit in (A) above and requests the Trustee to account separately for matched and unmatched Deferral Contributions, the Matching Contributions allocated to each Participant must be computed, and the percentage limit applied, based upon each payroll period.

(B) / / Matching Contributions for each Participant for each Plan Year shall be limited to $.

(3) ELIGIBILITY REQUIREMENT

A Participant who makes Deferral Contributions during the Plan Year under Section 1.05(b) shall be entitled to Matching Contributions for that Plan Year.

(d) / / EMPLOYEE AFTER-TAX CONTRIBUTIONS - FROZEN CONTRIBUTIONS

Participants may not make voluntary non-deductible Employee Contributions but the Employer does maintain frozen Participant voluntary non-deductible Employee Contribution accounts.

1.06 RETIREMENT AGE(S)

(a) THE NORMAL RETIREMENT AGE UNDER THE PLAN IS (check one):

(1) /X/ age 65.

(2) / / age (specify between 55 and 64).

(3) / / later of the age (can not exceed 65) or the fifth anniversary of the Participant's Commencement Date.

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(b) / / THE EARLY RETIREMENT AGE IS THE FIRST DAY OF THE MONTH AFTER THE PARTICIPANT ATTAINS AGE (SPECIFY 55 OR GREATER) AND COMPLETES YEARS OF SERVICE FOR VESTING.

(c) /X/ A PARTICIPANT IS ELIGIBLE FOR DISABILITY RETIREMENT IF HE/SHE (check the appropriate box(es)):

(1) / / satisfies the requirements for benefits under the Employer's Long-Term Disability Plan.

(2) / / satisfies the requirements for Social Security disability benefits.

(3) /X/ is determined to be disabled by a physician approved by the Employer.

1.07 VESTING SCHEDULE

(a) THE PARTICIPANT'S VESTED PERCENTAGE IN EMPLOYER CONTRIBUTIONS ELECTED IN SECTION 1.05(a) AND/OR MATCHING CONTRIBUTIONS ELECTED IN SECTION 1.05(c) SHALL BE BASED UPON THE SCHEDULE SELECTED BELOW.

(1) EMPLOYER AND/OR MATCHING CONTRIBUTIONS (check one):

(A) / / N/A - No Employer Contributions

(B) / / 100% Vesting immediately

(C) / / 3 year cliff (see C below)

(D) / / 6 year graduated (see D below)

(E) /X/ Other vesting (complete E below)

YEARS OF SERVICE FOR VESTING	VESTING SCHEDULE C	D	E
0	0%	0%	0.00
1	0%	0%	33%
2	0%	20%	67%
3	100%	40%	100%
4	100%	60%	100%
5	100%	80%	100%
6	100%	100%	100%

<FN>
NOTE: A schedule elected under E above must be at least as favorable as one of the schedules in C or D above.

1.08 PREDECESSOR EMPLOYER SERVICE

/ / SERVICE FOR PURPOSES OF ELIGIBILITY IN SECTION 1.03(a)(1) AND VESTING IN SECTION 1.07(a) OF THIS PLAN SHALL INCLUDE SERVICE WITH THE FOLLOWING EMPLOYER(S):

(a)

(b)

(c)

(d)

1.09 PARTICIPANT LOANS

PARTICIPANT LOANS (check (a) or (b)):

(a) /X/ WILL BE ALLOWED IN ACCORDANCE WITH SECTION 7.09, SUBJECT TO A $1,000 MINIMUM AMOUNT AND WILL BE GRANTED (check (1) or (2)):

(1) / / for any purpose.
(2) /X/ for hardship withdrawal (as defined in Section 7.10) purposes only.

(b) / / WILL NOT BE ALLOWED.

1.10 HARDSHIP WITHDRAWALS

PARTICIPANT WITHDRAWALS FOR HARDSHIP PRIOR TO TERMINATION OF EMPLOYMENT (check one):

(a) /X/ WILL BE ALLOWED IN ACCORDANCE WITH SECTION 7.10, SUBJECT TO A $1,000 MINIMUM AMOUNT.

(b) / / WILL NOT BE ALLOWED.

1.11 DISTRIBUTIONS

(a) SUBJECT TO ARTICLES 7 AND 8 AND (b) BELOW, DISTRIBUTIONS UNDER THE PLAN WILL BE PAID (check the appropriate box(es)):

(1) /X/ as a lump sum.

(2) / / under a systematic withdrawal plan (installments).

(b) /X/ CHECK IF A PARTICIPANT WILL BE ENTITLED TO RECEIVE A DISTRIBUTION OF ALL OR ANY PORTION OF THE FOLLOWING ACCOUNTS WITHOUT TERMINATING EMPLOYMENT UPON ATTAINMENT OF AGE 59 1/2 (CHECK ONE):

(1) / / Deferral Contribution Account

(2) /X/ All vested Accounts

(c) /X/ CHECK IF THE PLAN WAS CONVERTED (BY PLAN AMENDMENT) FROM ANOTHER DEFINED CONTRIBUTION PLAN, AND THE BENEFITS WERE PAYABLE AS (check the appropriate box(es)):

(1) /X/ a form of single or joint and survivor life annuity.

(2) / / an in-service withdrawal of vested Employer Contributions maintained in a Participant's Account (check (A) and/or (B)):

(A) / / for at least (24 or more) months.

(B) / / after the Participant has at least 60 months of participation.

(3) / / NOTE TO EMPLOYER: Check this box if you have another distribution option that is a "protected benefit" under

Section 411(d)(6) of the Internal Revenue Code.

These additional forms of benefit may be provided for such plans under Articles 7 or 8.

NOTE: Under Federal Law, distributions to Participants must generally begin no later than April 1 following the year in which the Participant attains age 70 1/2.

1.12 TOP HEAVY STATUS

(a) THE PLAN SHALL BE SUBJECT TO THE TOP-HEAVY PLAN REQUIREMENTS OF ARTICLE 9 (check one):

(1) / / for each Plan Year.

(2) /X/ for each Plan Year, if any, for which the Plan is Top-Heavy as defined in Section 9.02.

(3) / / Not applicable. (This option is available for plans covering only employees subject to a collective bargaining agreement and there are no Employer or Matching Contributions elected in Section 1.05.)

(b) IN DETERMINING TOP-HEAVY STATUS, IF NECESSARY, FOR AN EMPLOYER WITH AT LEAST ONE DEFINED BENEFIT PLAN, THE FOLLOWING ASSUMPTIONS SHALL APPLY:

(1) Interest rate: % per annum

(2) Mortality table:

(3) /X/ Not Applicable.

(c) IN THE EVENT THAT THE PLAN IS TREATED AS TOP-HEAVY FOR A PLAN YEAR, EACH NON-KEY EMPLOYEE SHALL RECEIVE AN EMPLOYER CONTRIBUTION OF AT LEAST 3% (3, 4, 5, OR 7 1/2) % OF COMPENSATION FOR THE PLAN YEAR IN ACCORDANCE WITH SECTION 9.03 (check one):

(1) / / under this Plan in any event.

(2) /X/ under this Plan only if the Participant is not entitled to such contribution under another qualified plan of the Employer.

(3) / / Not applicable. (This option is available for plans covering only employees subject to a collective bargaining agreement and there are no Employer or Matching Contributions elected in Section 1.05.)

NOTE: Such minimum Employer contribution may be less than the percentage indicated in (c) above to the extent provided in Section 9.03(a).

(d) IN THE EVENT THAT THE PLAN IS TREATED AS TOP-HEAVY FOR A PLAN YEAR AND SECTION 1.07(a)(1)(A) WAS ELECTED, THEN THE FOLLOWING VESTING SCHEDULE SHALL APPLY TO REQUIRED TOP-HEAVY EMPLOYER CONTRIBUTIONS FOR SUCH PLAN YEAR AND EACH PLAN YEAR THEREAFTER (CHECK ONE):

(1) / / 100% vested after (not in excess of 3) years of service for vesting.

(2) / /

YEARS OF SERVICE FOR VESTING	VESTING PERCENTAGE	MUST BE AT LEAST
0	0	0%
1	33	0%
2	67	20%
3	100	40%
4		60%
5		80%
6		100%

(3) / / Not Applicable

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1.13 TWO OR MORE PLANS - CODE SECTION 415 LIMITATION ON ANNUAL ADDITIONS

If the Employer maintains or ever maintained another qualified plan in which any Participant in this Plan is (or was) a participant or could become a participant, the Employer must complete this section. The Employer must also complete this section if it maintains a welfare benefit fund, as defined in Section 419(e) of the Code, or an individual medical account, as defined in Section 415(l)(2) of the Code, under which amounts are treated as annual additions with respect to any Participant in this Plan.

(a) IF THE EMPLOYER MAINTAINS, OR HAD MAINTAINED, ANY OTHER DEFINED CONTRIBUTION PLAN OR PLANS WHICH ARE NOT MASTER OR PROTOTYPE PLANS, ANNUAL ADDITIONS FOR ANY LIMITATION YEAR TO THIS PLAN WILL BE LIMITED (check one):

(1) / / in accordance with Section 5.03 of this Plan.
(2) / / in accordance with another method set forth on an attached separate sheet.
(3) /X/ Not Applicable.

(b) IF THE EMPLOYER MAINTAINS, OR HAD MAINTAINED, A DEFINED BENEFIT PLAN OR PLANS, THE SUM OF THE DEFINED CONTRIBUTION FRACTION AND DEFINED BENEFIT FRACTION FOR A LIMITATION YEAR MAY NOT EXCEED THE LIMITATION SPECIFIED IN CODE SECTION 415(e), MODIFIED BY SECTION 416(h)(1) OF THE CODE. THIS COMBINED PLAN LIMIT WILL BE MET AS FOLLOWS (check one):

(1) / / Annual Additions to this Plan are limited so that the sum of the Defined Contribution Fraction and the Defined Benefit Fraction does not exceed 1.0.
(2) / / another method of limiting Annual Additions or reducing projected annual benefits is set forth on an attached schedule.
(3) /X/ Not Applicable.

1.14 ESTABLISHMENT OF TRUST AND INVESTMENT DECISIONS

(a) INVESTMENT DIRECTIONS

Participant Accounts will be invested in accordance with investment directions provided to the Trustee by each PARTICIPANT for allocating his entire Account among the options listed in (b) below.

(b) PLAN INVESTMENT OPTIONS

The Employer hereby establishes a Trust under the plan in accordance with the provisions of Article 14, and the Trustee signifies acceptance of its duties under Article 14 by its signature below. Participant Accounts under the Trust will be invested among the Fidelity Funds listed below pursuant to Participant directions.

Fund Name	Fund Number
(1) Fidelity Retirement Money Market Fund 0630	
(2) Fidelity Investment Grade Bond Fund 0026	
(3) Fidelity Equity Income II Portfolio 0319	
(4) Fidelity Growth and Income Porfolio 0027	
(5) Fidelity Contrafund 0022	
(6) Fidelity Value Fund 0039	
(7) Fidelity Worldwide Fund 0318	

To the extent that the Employer selects as an investment option the Managed Income Portfolio of the Fidelity Group Trust for Employee Benefit Plans (the "Group Trust"), the Employer hereby (A) agrees to the terms of the Group Trust and adopts said terms as a part of this Agreement and (B) acknowledges that it has received from the Trustee a copy of the Group Trust, the Declaration of Separate Fund for the Managed Income Portfolio of the Group Trust, and the Circular for the Managed Income Portfolio.

NOTE: The method and frequency for change of investments will be determined under the rules applicable to the selected funds or, if applicable, the rules of the Employer adopted in accordance with Section 6.03. Information will be provided regarding expenses, if any, for changes in investment options.

1.15 RELIANCE ON OPINION LETTER

An adopting Employer who has ever maintained or who later adopts any plan (including a welfare benefit fund, as defined in Code Section 419(e)), which provides post-retirement medical benefits allocated to separate accounts for key employees, as defined in Code Section 419A(d)(3), or an individual medical account, as defined in Code Section 415(1)(2) in addition to this Plan may not rely on the opinion letter issued by the National Office of the Internal Revenue Service as evidence that this Plan is qualified under Section 401 of the Code. If the Employer who adopts or maintains multiple plans wishes to obtain reliance that his or her plan(s) qualified, application for a determination letter should be made to the appropriate Key District Director of the Internal Revenue Service. Failure to properly fill out the Adoption Agreement may result in disqualification of the Plan.

The employer may not rely on the opinion letter issued by the National Office of the Internal Revenue Service as evidence that this plan is qualified under section 401 of the Code unless the terms of the plan, as herein adopted or amended, that pertain to the requirements of sections

401(a)(4), 401(a)(17), 401(1), 401(a)(5), 410(b) and 414(s) of the Code, as amended by the Tax Reform Act of 1986, or later laws, (a) are made effective retroactively to the first day of the first plan year beginning after December 31, 1988 (or such later date on which these requirements first become effective with respect to this plan); or (b) are made effective no later than the first day on which the employer is no longer entitled, under regulations, to rely on a reasonable, good faith interpretation of these requirements, and the prior provisions of the plan constitute such an interpretation.

This Adoption Agreement may be used only in conjunction with Fidelity Prototype Plan Basic Plan Document No. 10. The Prototype Sponsor shall inform the adopting Employer of any amendments made to the Plan or of the discontinuance or abandonment of the prototype plan document.

1.16 PROTOTYPE INFORMATION:

Name of Prototype Sponsor: Fidelity Management & Research Co.
Address of Prototype Sponsor: 82 Devonshire Street
Boston, MA 02109

Questions regarding this prototype document may be directed to the following telephone number:
1-(800) 343-9184.

EXECUTION PAGE
(FIDELITY'S COPY)

IN WITNESS WHEREOF, the Employer has caused this Adoption Agreement to be executed this 21st day of August, 1996.

Employer ArQule, Inc.

By /s/ Eric B. Gordon

Title President & CEO

Employer

By

Title

Accepted by

Fidelity Management Trust Company, as Trustee

By

Date

Title

EXECUTION PAGE
(EMPLOYER'S COPY)

IN WITNESS WHEREOF, the Employer has caused this Adoption Agreement to be executed this 21st day of August, 1996.

Employer ArQule, Inc.

By /s/ Eric B. Gordon

Title President & CEO

Employer

By

Title

Accepted by

Fidelity Management Trust Company, as Trustee

By Date

Title

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Exhibit 10.19 -- ArQule

RESEARCH AND LICENSE AGREEMENT

BETWEEN

ARQULE, INC.

AND

ROCHE BIOSCIENCE

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RESEARCH AND LICENSE AGREEMENT

This Agreement, dated as of September 13, 1996, is between ArQule, Inc. ("ArQule"), a Delaware corporation, and Roche Bioscience, a division of Syntex (U.S.A.) Inc. ("Roche Bioscience"), a Delaware corporation.

R E C I T A L S

WHEREAS, ArQule has developed certain technology that has applications in the discovery and optimization of pharmaceutical compounds;

WHEREAS, Roche Bioscience desires that ArQule apply its technology to the research and optimization of pharmaceutical compounds for Roche Bioscience; and

WHEREAS, in exchange for payment by Roche Bioscience of research funds, milestone payments and royalties, ArQule is willing to perform certain research and compound optimization activities for Roche Bioscience, subject to the terms and conditions of this Agreement;

NOW, THEREFORE, in consideration of the mutual covenants set forth in this Agreement, the parties hereby agree as follows:

1. Definitions.

1.1 "AFFILIATE" shall mean a corporation or other legal entity that controls, is controlled by, or is under common control with such party. For purposes of this definition, "control" means the ownership, directly or indirectly, of more than fifty percent (50%) of the outstanding equity securities of a corporation which are entitled to vote in the election of directors or a more than fifty percent (50%) interest in the net assets or profits of an entity which is not a corporation; provided, however, Genentech, Inc., with offices located at 460 Point San Bruno Boulevard, South San Francisco, California, 94080, shall not be considered an Affiliate of Roche Bioscience.

1.2 "AGREEMENT" shall mean this Research and Development Agreement, together with EXHIBITS A AND B hereto.

1.3 "ARQULE COMPOUND" shall mean any organic chemical molecule that is initially synthesized by ArQule using its proprietary technology outside the Research Plan for

its own internal research programs and provided by ArQule to Roche Bioscience under the Directed Array Program; provided, however, that this definition shall not include any compound provided to Roche Bioscience or an Affiliate of Roche Bioscience as part of a general screening library pursuant to a separate agreement entered into by and between ArQule and each of Roche Bioscience and such Affiliate.

1.4 "ARQULE-ARQULE DERIVATIVE COMPOUNDS" shall mean a Derivative Compound synthesized by ArQule from an ArQule Compound under the Directed Array Program described in Section 3.1.

1.5 "ARQULE DERIVATIVE COMPOUNDS" shall mean ArQule-ArQule Derivative Compounds and/or ArQule-Roche Derivative Compounds.

1.6 "ARQULE-ROCHE DERIVATIVE COMPOUNDS" shall mean a Derivative Compound synthesized by ArQule from a Roche Bioscience Compound under the Directed Array Program described in Section 3.1.

1.7 "ARQULE PATENT RIGHTS" shall mean Patent Rights controlled or owned by ArQule as of the Effective Date or during the Research Period and Patent Rights controlled or owned by ArQule pursuant to Section 6.1.1.

1.8 "ARRAY" shall mean a set of samples of structurally related chemical compounds arranged in a format such as a microtiter screening plate.

1.9 "BASE RATE OF INTEREST" shall mean the base rate of interest declared from time to time by the Bank of Boston.

1.10 "CHEMICAL THEME" shall mean the chemical or structural characteristics shared by a group of compounds as determined by the Research Committee pursuant to Section 2.2.

1.11 "CONFIDENTIAL INFORMATION" shall have the meaning set forth in Section 8.1.

1.12 "CONTRACT YEAR" shall mean each twelve (12) month period of the Research Period, with the first Contract Year commencing on the Effective Date and concluding twelve (12) months thereafter, and each subsequent year shall commence on the anniversary of the Effective Date and concluding twelve (12) months thereafter.

1.13 "DERIVATIVE COMPOUND" shall mean a chemical compound structurally derived in one or more steps from another by a process of modification or partial

substitution of at least one component wherein at least one structural feature is retained at each process step. The number of intermediate steps or compounds is not relevant to the classification of a compound as a Derivative Compound.

1.14 "DIRECTED ARRAY" shall mean an Array comprised of ArQule Derivative Compounds synthesized by ArQule under the Directed Array Program described in Section 3.1.

1.15 "DIRECTED ARRAY PROGRAM" shall mean each Directed Array Program conducted by ArQule as set forth in Section 3.1.

1.16 "DISCLOSING PARTY" shall mean that party disclosing Confidential Information to the other party under Section 8.

1.17 "EFFECTIVE DATE" shall mean the first business day of the month immediately following the date of execution of this Agreement by the Parties hereto.

1.18 "EXTRAORDINARY EXPENSES" shall mean those capital expenses required solely to further the Directed Array Program in accordance with the Research Plan and as approved in advance by the Research Committee.

1.19 "FDA" shall mean the United States Food and Drug Administration.

1.20 "FIRST COMMERCIAL SALE" of a Royalty-Bearing Product shall mean the first sale for use or consumption of such Royalty-Bearing Product in a country after required marketing and pricing approval has been granted by the governing health regulatory authority of such country. Sale to an Affiliate or Sublicensee shall not constitute a First Commercial Sale unless the Affiliate or Sublicensee is the end user of such Royalty-Bearing Product.

1.21 "FTE PAYMENT" shall have the meaning set forth in Section 3.3.1.

1.22 "FULL-TIME EQUIVALENT" or "FTE" shall mean one (1) or more qualified scientist(s) of a party who, collectively, spend time and effort working on a specific project or task equivalent to the time and effort of one (1) full-time employee.

1.23 "IND" shall mean an Investigational New Drug application, as such term is defined by the FDA.

1.24 "JOINT PATENT RIGHTS" shall mean any Patent Rights that are jointly owned by the Parties, as set forth in Section 6.1.2.

1.25 "MAJOR EUROPEAN COUNTRY" shall mean any of the following countries: United Kingdom, France, Germany, Italy, and Spain.

1.26 "MOLECULAR TARGET" shall mean that specific biomolecule and any related biomolecules that (a) exhibit substantial structural homology with the identified biomolecule, as measured by the degree of similarity in the primary structure (i.e., amino acid sequence, nucleotide sequence,

monosaccharide linkages) and secondary structure (i.e., three dimensional structure) and (b) perform a similar function as the identified biomolecule.

1.27 "NDA" shall mean a New Drug Application, as such term is defined by the FDA.

1.28 "NET SALES" shall mean *** ***** ***** ******** ** ***** ********** ** *** ********** ** ************ *** *** *************** ******** ** ************** ***** ******* **** *** ********** ** ******* ********** ********** *** ********* ******* ****** ********** ********* ******** *** ******* ***** ** ******* **** ************** ****** ********** ********** ********* ******* ** *** **** ** ********** ***** ***** *** ***** ***** ****** **** ****** ****** ******** ****** ** *** ******** ** *** ***** ***** ****** ** ******** ** *** ******* ******* ***** ****** ***** ********** ** * *************** ******* ** *************** ******* ***** *** *** ********* ********** ******* *** ****** ** **** ***** ** ******* ********** ** ********* **** ***** ****** ** *** ******** ******* **** ** ******** ** *** **** **** ********* ***** ******** *** **** **** *** ******** ***** ***** ***** ***** ** * **** *** ********* ** **** ******* **** *** ***** ***** ******* ********** ***** *** *** ********* *** ** * ****************** ***** ***** ******* ********* ************** ********** ********* ********* *** ******** ** ****** ****** ******* ********* ******* ***** **** ** *** **** ** ********** **** ********* *** ***** ****** ***** **********

1.29 "PATENT RIGHTS" shall mean all Valid Claims of all issued patents and reissues, reexaminations, extensions and supplementary protection certificates thereof and all patent applications and any divisions, continuations, or continuations-in-part thereof or patents issuing thereon.

1.30 "PHASE II CLINICAL TRIALS" shall mean clinical trials in a small sample of the intended patient population to assess the efficacy for a specific indication of a compound proposed to be used as a prophylactic, therapeutic or diagnostic pharmaceutical product, to determine dose tolerance and the optimal dose range as well as to gather additional information relating to safety and potential adverse effects, and meeting the requirements established by the FDA for Phase II clinical trials.

1.31 "PHASE III CLINICAL TRIALS" shall mean clinical trials designed to demonstrate safety and efficacy of a compound proposed to be used as a prophylactic, therapeutic

* Confidential treatment has been requested for marked portion.

or diagnostic pharmaceutical product in an expanded patient population at geographically dispersed study sites, meeting the requirements established by the FDA for Phase III clinical trials.

1.32 "PRECLINICAL COMPOUND" shall mean any ArQule Compound, ArQule Derivative Compound, or Roche Bioscience Derivative Compound selected by Roche Bioscience to enter into Preclinical Development.

1.33 "PRECLINICAL DEVELOPMENT" shall mean, with respect to any Preclinical Compound, the initiation of IND-enabling toxicology studies.

1.34 "RECEIVING PARTY" shall mean that party receiving Confidential Information under Section 8.

1.35 "RESEARCH COMMITTEE" shall have the meaning set forth in Section 2.1.

1.36 "RESEARCH PERIOD" shall mean the period commencing on the Effective Date and ending on the third anniversary of the Effective Date, unless extended by mutual agreement of the parties or terminated early in accordance with Section 3.4 or Article 11.

1.37 "RESEARCH PLAN" shall mean a plan of research for the Directed Array Program covering a minimum of a six-month period, which shall be updated quarterly pursuant to Section 2.2 to reflect developments during the previous three (3) months and extended for the subsequent three (3) months. The initial Research Plan is attached as EXHIBIT A to this Agreement.

1.38 "ROCHE BIOSCIENCE PATENT RIGHTS" shall mean Patent Rights controlled or owned by Roche Bioscience as of the Effective Date or during the Research Period or Patent Rights owned by Roche Bioscience as set forth in Section 6.1.3.

1.39 "ROYALTY-BEARING PRODUCT" shall mean a product containing as one of its constituents (a) any ArQule Compound; (b) any ArQule Derivative Compound; or (c) any Roche Bioscience Derivative Compound.

1.40 "ROCHE BIOSCIENCE COMPOUND" shall mean any chemical compound provided by Roche Bioscience to ArQule under the Directed Array Program described in Section 3.1 and as set forth on Exhibit B as such Exhibit B may be updated from time to time.

1.41 "ROCHE BIOSCIENCE DERIVATIVE COMPOUND" shall mean a Derivative Compound synthesized by Roche Bioscience from an ArQule Derivative Compound or an ArQule

Compound.

1.42 "ROYALTY PERIOD" shall mean, with respect to each Royalty-Bearing Product, every calendar quarter, or partial calendar quarter, commencing with the First Commercial Sale of such Royalty-Bearing Product in any country. The last Royalty Period for any Royalty-Bearing Product shall be the quarter in which the Royalty Term ends in the applicable country.

1.43 "ROYALTY TERM" shall mean, in the case of any Royalty-Bearing Product, in any country, the period of time commencing on the First Commercial Sale and ending upon the later of (a) ten (10) years from the date of First Commercial Sale in such country; or (b) the expiration of the last to expire of the Patent Rights covering such Royalty-Bearing Product in such country.

1.44 "SUBLICENSEE" shall mean any third party licensed by Roche Bioscience to make, use (except where the right to use accompanies the sale of any Royalty-Bearing Product by Roche Bioscience or its Affiliates or Sublicensees) or sell any Royalty-Bearing Product under any Patent Rights.

1.45 "VALID CLAIM" shall mean either (a) a claim of an issued patent that has not been held unenforceable or invalid by an agency or a court of competent jurisdiction in any unappealable or unappealed decision or (b) a claim of a pending patent application that has not been abandoned or finally rejected without the possibility of appeal or refiling.

1.46 The above definitions are intended to encompass the defined terms in both the singular and plural tenses.

2. Management of Research Program.

2.1 COMPOSITION OF RESEARCH COMMITTEE. The parties hereby establish a Research Committee comprised of six (6) members, with three (3) representatives appointed by each party. The initial members of the Research Committee shall be as follows:

Arqule Representatives	Roche Bioscience Representatives
David Coffen, Ph.D (Team Leader)	Hans Maag, Ph.D.
David Casebier, Ph.D	Dan Severance, Ph.D.
Zhe Li, Ph.D	Robert Wilhelm, Ph.D.

A party may change one or more of its representatives to the Research Committee

at any time upon notice to the other party. Each party will designate one of its representatives as its team leader.

2.2 DUTIES OF THE RESEARCH COMMITTEE. The Research Committee shall direct and administer the Directed Array Program, including: (i) the appropriate number and type of Chemical Themes for submission to the Directed Array Program; (ii) the appropriate number of compounds that ArQule should generate in a Directed Array for a particular Chemical Theme; and (iii) the appropriate amount of each compound in a Directed Array that ArQule should deliver to Roche Bioscience for further research and development. The identity and scope of such Chemical Theme will be determined on the basis of the following criteria: (i) the specific reaction or reaction sequence used to combine members of two or more discrete chemical units in which each chemical unit bears the functional group(s) required for the specific reaction(s) that result in the combination of the chemical units; and (ii) the extent to which a class of compounds is related by a recurring structural motif associated with a particular biological activity. In addition, the Research Committee shall (i) determine the allocation of personnel resources to be contributed by the parties under this Agreement, (ii) revise and extend the Research Plan each calendar quarter for the subsequent six (6) months based on prior developments, and (iii) resolve matters involving scientific questions.

2.3 MEETINGS OF THE RESEARCH COMMITTEE. The Research Committee shall conduct monthly telephone conferences and shall prepare and deliver a brief written report describing the significant issues and discussions that take place during such telephone conferences. A representative of the Research Committee jointly appointed by its members shall provide each member with five (5) business days notice of the time of any such telephone conferences and the proposed agenda with respect thereto, unless waived by all members. ArQule will prepare and deliver to the members of the Research Committee a brief progress report at least one week in advance of the telephone conference, which report will list the ArQule employees then working on the Directed Array Program. The Research Committee shall meet at least once each quarter at alternating locations of the facilities of ArQule and Roche Bioscience, or at such other times and locations as the Research Committee determines, with each party to bear all travel and related expenses for its members. A representative of the Research Committee jointly appointed by its members shall provide each member with five (5) business days notice of the time and location of meetings, unless such notice is waived by all members. If a designated representative of a party cannot attend any meeting of the Research Committee, such party may designate a different representative for that meeting without notice to the other party. Except as otherwise provided in this Section 2, all actions and decisions of the Research Committee will require the unanimous consent of all of its members, with the ArQule members cumulatively having one vote and the Roche Bioscience members cumulatively having one vote. If the Research Committee fails to reach agreement upon any matter, the dispute will be resolved in accordance with the procedures set forth in Section 13.4 below; provided, however, that if such

dispute has not been resolved within thirty (30) days after the end of the 15 day negotiation period referred to in Section 13.4 (a), the dispute shall only be sent to non-binding mediation and thereafter by arbitration as described in Sections 13.4 (b) and (c) if and only if it does not relate to allocation of manpower among the various Directed Array Programs or approval of Extraordinary Expenses. If the dispute relates to allocation of manpower among the various Directed Array Programs or approval of Extraordinary Expenses, such decisions shall be made by Roche Bioscience in its sole discretion. Subsequent to each quarterly meeting, the Research Committee shall prepare and deliver, to both parties, a written report describing the decisions made, conclusions and actions agreed upon.

2.4 COOPERATION. Each party agrees to provide the Research Committee with information and documentation as reasonably required for the Research Committee to fulfill its duties under this Agreement. In addition, each party agrees to make available its employees and consultants as reasonably requested by the Research Committee. The parties anticipate that members of the Research Committee will communicate informally with each other and with employees and consultants of the parties on matters relating to the Directed Array Program.

2.5 VISITS TO FACILITIES. Members of the Research Committee shall have reasonable access to the facilities of each party where activities under this Agreement are in progress, but only during normal business hours and with reasonable prior notice. Each party shall bear its own expenses in connection with such site visits.

3. Directed Array Program.

3.1 DESCRIPTION OF DIRECTED ARRAY PROGRAM. Under the direction of the Research Committee and in accordance with the Research Plan, ArQule will synthesize multiple Directed Arrays of compounds derived from each Roche Bioscience Compound provided to ArQule by Roche Bioscience or each ArQule Compound provided by ArQule (hereinafter referred to as a "Directed Array Program"). The parties intend that, during the Research Period, ArQule will produce such Directed Arrays in ***** *** separate Directed Array Programs over *** *** Contract Years or ****** **** separate Directed Array Programs over ***** *** Contract Years; provided, however, that Roche Bioscience shall not be obligated to fund more than an aggregate of ** FTEs over the first *** *** Contract Years and ** FTEs over the first ***** *** Contract Years. Each Directed Array Program will result in the production of approximately ***** *** to ***** *** Directed Arrays comprised of an average of *** ******** ******* ArQule Derivative Compounds per Chemical Theme per year; provided, however, that the number of Chemical Themes actually submitted to the Directed Array Program and the number of ArQule Derivative Compounds actually produced per Chemical Theme will be determined by the Research Committee; and provided further that the intentions of the parties set forth herein and in the Research Plan shall be appropriately adjusted in the event of early termination of the Directed

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Array Program. The parties also intend that ArQule will produce approximately ****** **** milligrams of each ArQule Derivative Compound in the Directed Arrays, subject to the availability of the original Roche Bioscience Compounds and/or the ArQule Compounds; provided, however that the amount of each ArQule Derivative Compound that ArQule actually produces will ultimately be determined by the Research Committee.

3.2 CONDUCT OF DIRECTED ARRAY PROGRAM. The Directed Array Programs shall be conducted in a good scientific manner and in compliance with all applicable legal requirements. The conduct of the Directed Array Programs shall be the primary responsibility of ArQule with participation by Roche Bioscience. Roche Bioscience will support **** *** FTEs per Directed Array Program; provided, however, that Roche Bioscience shall only be obligated to fund up to an aggregate of ** FTEs over the first *** *** Contract Years and ** FTEs over the first ***** *** Contract Years. ArQule shall commit a minimum of *** *** *** **** ***** FTE synthetic chemist employees to each Directed Array Program; provided, however, that the number of FTE's for synthetic chemists may be adjusted by the Research Committee from time to time during the Research Period to achieve the goals set forth in the Research Plan. The FTEs for synthetic chemists will have the required skills for carrying out the Directed Array Programs. Roche Bioscience shall propose Chemical Themes to the Research Committee for inclusion in each Directed Array Program. If the Research Committee approves the inclusion of the proposed Chemical Theme, Roche Bioscience shall provide ArQule with the requisite amount and purity of Roche Bioscience Compounds for that Chemical Theme, as directed by the Research Committee. ArQule shall thereupon diligently synthesize Directed Arrays of ArQule Derivative Compounds in accordance with the Research Plan. Roche Bioscience shall, in its discretion, be responsible for conducting screening for binding affinity and/or functional activity of compounds in the Directed Arrays.

3.3 DIRECTED ARRAY PROGRAM PAYMENTS.

3.3.1 FTE PAYMENT. In consideration of the performance by ArQule of the Directed Array Program, Roche Bioscience shall pay ArQule a one-time research and development fee in the amount of ********** payable on the Effective Date. In addition, Roche Bioscience shall pay ArQule ******** per FTE per year for the first Contract Year (the "FTE Payment"), payable in advance in quarterly installments. The FTE Payment shall be adjusted for the second and third Contract Years to reflect an increase or decrease in

the CPI using the following formula:

Adjusted FTE Payment = ******** x (1 + CPI)

Where CPI = a fraction, the numerator of which shall be the difference between the Consumer Price Index (CPI-U; U.S. City Average for all items; 1982-84 = 100) as of the last month of the immediately preceding

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Contract Year and the Consumer Price Index as of the month immediately preceding the Effective Date and the denominator of which shall be the Consumer Price Index as of the month immediately preceding the Effective Date.

ArQule shall use all such FTE Payments to conduct the Direct Array Program in accordance with this Agreement.

3.3.2 EXTRAORDINARY EXPENSES. In addition to the FTE Payments, Roche Bioscience shall pay any and all Extraordinary Expenses of ArQule, provided, however, that any such Extraordinary Expense has been approved by the Research Committee prior to such Extraordinary Expense being incurred.

3.4 TERMINATION OF DIRECTED ARRAY PROGRAM. The Directed Array Program shall commence on the Effective Date and continue for a period of three (3) Contract Years, unless earlier terminated as provided in this Section 3.4 or in Article 11 below. Roche Bioscience may terminate the Directed Array Program at its discretion upon six (6) months written notice to ArQule at any time following the end of the eighteenth (18th) month of the Research Period, subject to the payment of all accrued and unpaid Extraordinary Expenses of ArQule that have been approved by the Research Committee as described in Section 3.3.2. Upon notice of termination, ArQule shall use reasonable efforts to complete the Directed Array Programs then underway in a reasonable and orderly fashion.

4. License Grants; Development Rights; Reversion of Rights.

4.1 DEVELOPMENT AND COMMERCIALIZATION LICENSES. ArQule shall grant to Roche Bioscience, under any intellectual property rights covering the composition, manufacture or use of any ArQule Compound selected by Roche Bioscience for Preclinical Development, an exclusive world-wide license, with the right to grant sublicences, to make, use, or sell such ArQule Compound; provided, however, that any such sublicense granted by Roche Bioscience shall contain provisions equivalent to those provisions contained in this Agreement that protect ArQule's rights in any ArQule Patent Rights and Joint Patent rights.

4.2 REVERSION OF RIGHTS; RETURN OF MATERIALS. In the event that (i) (a) Roche Bioscience determines to discontinue Preclinical Development of any ArQule Compound within a given Directed Array Program for any reason other than unacceptable safety or efficacy data or (b) Roche Bioscience fails to use commercially reasonable and diligent efforts (as defined below) to commercially develop any ArQule Compound within a given Directed Array Program and (ii) Roche Bioscience is not continuing to develop or sell any Royalty-Bearing Product provided from such Directed Array Program, then ArQule shall have the right to terminate the license granted to Roche Bioscience under Section 4.1 with respect to all ArQule Compounds

within such Directed Array Program. In such event, ArQule shall be free to grant licenses covering all such ArQule Compounds to third parties on the earlier of (a) the date of termination of such Directed Array Program and (b) the

termination of the Research Term. Upon termination of such license by ArQule, Roche Bioscience shall (i) grant to ArQule an exclusive, royalty-free license, with the right to grant sublicenses, to manufacture, use or sell such ArQule Compounds under any patent rights of Roche Bioscience covering the composition or use of such ArQule Compounds with such license being exclusive only as to such ArQule Compounds and (ii) return to ArQule all Proprietary Materials and Confidential Information supplied by ArQule which relate to such ArQule Compounds. As used herein, the term "commercially reasonable and diligent efforts" means those efforts consistent with the exercise of prudent scientific and business judgment, as applied to other products of similar scientific and commercial potential within the relevant product lines of Roche Bioscience and its Affiliates.

4.3 REVERSION OF CERTAIN RIGHTS. The parties agree that any ArQule Derivative Compound or Roche Bioscience Derivative Compound that has not demonstrated acceptable activity and/or has not been selected for Preclinical Development under a Directed Array Program can be added to Roche Bioscience's general screening library for use in screening against any targets other than those targets included within the Directed Array Program. If any compound is identified as active from such general screening activities (each, an "Identified Compound") and Roche Bioscience determines not to include such Identified Compound within a Directed Array Program, the parties will negotiate mutually acceptable terms with respect to Roche Bioscience's development of such Identified Compound. Such terms shall (i) provide for compensation to ArQule which is less than the compensation provided in Section 7 of this Agreement otherwise applicable to such Identified Compound but which preserves the concept of a difference in financial terms payable by Roche Bioscience for ArQule Compounds, ArQule-ArQule Derivative Compounds and certain Roche Bioscience Derivative Compounds, on the one hand, and ArQule-Roche Derivative Compounds and certain Roche Bioscience Derivative Compounds on the other hand, as provided in Section 7.2 of this Agreement and (ii) be otherwise no less favorable to Roche Bioscience than the terms, if any, included within any comparable mapping arrangements entered into by ArQule with any Affiliate of Roche Bioscience.

5. Ownership of Compounds.

5.1 ROCHE BIOSCIENCE COMPOUNDS; ARQULE DERIVATIVE COMPOUNDS; ROCHE BIOSCIENCE DERIVATIVE COMPOUNDS. All Roche Bioscience Compounds shall be owned by Roche Bioscience. All ArQule Derivative Compounds and Roche Bioscience Derivative Compounds shall be owned by Roche Bioscience, except, and only to the extent that, with respect to the Directed Array Program, ArQule can show that any such compound (i) was under development by ArQule (including programs with academic collaborators or corporate partners) before such compound was proposed to be included in the Directed Array Program or first synthesized, as the case may be; (ii) was independently developed by ArQule employees who had

no access to Roche Bioscience Confidential Information regarding the particular compound, or (iii) was already within a screening array before such compound was proposed to be included in the Directed Array Program or was first synthesized, as the case may be.

5.2 ARQULE COMPOUNDS. All ArQule Compounds shall be owned by ArQule except, and only to the extent that, Roche Bioscience can show that any such compound was in the possession of Roche Bioscience before it was provided by ArQule to Roche Bioscience.

6. Intellectual Property Rights.

6.1 OWNERSHIP OF PATENT RIGHTS.

6.1.1 ARQULE PATENT RIGHTS. Any Patent Rights filed by either party covering ArQule Compounds only will be owned solely by ArQule except as provided in Section 6.1.2(b)(ii).

6.1.2 JOINT PATENT RIGHTS. Any Patent Rights (i) filed by either Party covering both ArQule Compounds and any combination of (A) Roche Bioscience Compounds, (B) ArQule Derivative Compounds and/or (C) Roche Bioscience Derivative Compounds and/or (ii) claiming an ArQule Compound and uses thereof discovered by Roche Bioscience, shall be owned jointly by ArQule and Roche Bioscience.

6.1.3 ROCHE BIOSCIENCE PATENT RIGHTS. Any Patent Rights filed by either party covering solely Roche Bioscience Compounds, ArQule Derivative Compounds or Roche Bioscience Derivative Compounds will be owned solely by Roche Bioscience.

6.2 MANAGEMENT OF ARQULE PATENT RIGHTS. Upon selection of an ArQule Compound as a Preclinical Compound (the "Selection Date"), ArQule shall turn over to Roche Bioscience all files relating to the ArQule Patent Rights with respect to such ArQule Compound and Roche Bioscience shall have full responsibility for such filing, prosecution, and maintaining such ArQule Patent Rights with respect to such ArQule Compound. Roche Bioscience shall maintain all ArQule Patent Rights that issue on such applications. If Roche Bioscience elects not to handle the filing or prosecution of such ArQule Patent Rights, ArQule shall provide Roche Bioscience with drafts of any patent application covering ArQule Compounds prior to filing that application, allowing adequate time for review and comment by Roche Bioscience if possible; provided, however, that ArQule shall not be obligated to delay the filing of any patent application. Roche Bioscience shall maintain any such patent application in confidence, pursuant to Section 8. Each party shall bear its own costs in preparing, filing, prosecuting, and maintaining patents.

6.3 MANAGEMENT OF JOINT PATENT RIGHTS. In the case of Joint Patent Rights, the Parties shall agree on the allocation of responsibility for, and the expense of, the preparation, filing, prosecution, and maintenance of any Joint Patent Rights claiming such inventions. In the event of any disagreement concerning any Joint Patent Rights, the matter shall be resolved by the Research Committee or, in the absence thereof, by the President of ArQule and the Head, Neurobiology Unit, Roche Bioscience. The Party controlling a Joint Patent Right shall consult with the other Party as to the preparation, filing, prosecution, and maintenance of such Joint Patent Right reasonably prior to any deadline or action with the U.S. Patent & Trademark Office or any foreign patent office, and shall furnish to the other Party copies of all relevant documents reasonably in advance of such consultation. In the event that the Party controlling a Joint Patent Right desires to abandon such Joint Patent Right, or if the Party assuming control of a Joint Patent Right later declines responsibility for such Joint Patent Right, the controlling Party shall provide reasonable prior written notice to the other Party of such intention to abandon or decline responsibility, and such other Party shall have the right, at its expense, to prepare, file, prosecute, and maintain such Joint Patent Rights. Roche Bioscience shall have the right of first refusal to file, prosecute and maintain any Joint Patents Rights.

6.4 COOPERATION OF THE PARTIES. Each Party agrees to cooperate fully in the preparation, filing, and prosecution of any Patent Rights under this Agreement. Such cooperation includes, but is not limited to:

(a) executing all papers and instruments, or requiring its employees or agents, to execute such papers and instruments, so as to effectuate the ownership of Patent Rights set forth in Section 6.1 above and to enable the other Party to apply for and to prosecute patent applications in any country; and

(b) promptly informing the other Party of any matters coming to such Party's attention that may affect the preparation, filing, or prosecution of any such patent applications.

6.5 INFRINGEMENT BY THIRD PARTIES. ArQule and Roche Bioscience shall each promptly notify the other in writing of any alleged or threatened infringement by a third party of any ArQule Patent Right, Roche Bioscience Patent Right or Joint Patent Right of which they become aware. The parties shall consult concerning the action(s) to be taken.

7. Payments, Reports, and Records.

7.1 MILESTONE PAYMENTS. In partial consideration of the rights granted Roche Bioscience under this Agreement, Roche Bioscience shall pay ArQule the following amounts within thirty (30) days after each occurrence of the following milestones:

Payment for Royalty Bearing Product	Milestone
********	Commencement of ********** ********** *** *** *************** *******(1)
********	***** *** ****** *** ********** *** *** *************** *******(1)
**********	Commencement of ***** ** ******** ****** *** **** ************** *******(2)
**********	Commencement of ***** ** ******** ****** *** **** *************** *******(2)
**********	***** *** ****** *** *** *************** ******* *** ***********(2)
**********	***** *** ******** ** ****** ****** *** *** *************** *******(2)
**********	***** ************** ******** ** ****** ***** ** * ***** ******** ******* *** *** *************** *******(2)

Such milestone payments shall be non-refundable and shall not be credited against royalties payable to ArQule under this Agreement. Separate milestone payments shall not be paid with respect to any particular Royalty-Bearing Product if it represents a change in form or dosage of such Royalty-Bearing Product for which milestones have previously been paid. Roche Bioscience shall promptly notify ArQule of each occurrence of either of the foregoing milestones.

7.2 ROYALTIES.

7.2.1 ROYALTIES FOR ARQULE-ROCHE DERIVATIVE COMPOUNDS AND CERTAIN ROCHE BIOSCIENCE DERIVATIVE COMPOUNDS. Roche Bioscience shall pay

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(1) ** ** **** **** *** *** ***** *************** ******* ******** ** * ***** ********* *******

(2) ** ** **** **** *** *** ***** ********** *** * *************** *******

* Confidential treatment has been requested for marked portion.

to ArQule (a) a royalty of **** percent (**%) of Net Sales of Royalty Bearing Products incorporating ArQule-Roche Derivative Compounds or Roche Bioscience Derivative Compounds in countries where, and for as long as, the manufacture or sale of such Royalty-Bearing Products is covered by Patent Rights and (b) a royalty of *** *** *** **** percent ****** of Net Sales of Royalty-Bearing Products incorporating ArQule-Roche Derivative Compounds or Roche Bioscience Derivative Compounds in countries where the manufacture or sale of such Royalty-Bearing Products is not covered by Patent Rights. Notwithstanding the foregoing, for purposes of this Section 7.2.1, Roche Bioscience Derivative Compound shall mean a Derivative Compound synthesized by Roche Bioscience from an ArQule-Roche Derivative Compound or an ArQule Compound.

7.2.2 ROYALTIES FOR ARQULE COMPOUNDS, ARQULE-ARQULE DERIVATIVE COMPOUNDS AND CERTAIN ROCHE BIOSCIENCE DERIVATIVE COMPOUNDS. Roche Bioscience shall pay to ArQule (a) a royalty of **** percent (**%) of Net

Sales of Royalty-Bearing Products incorporating ArQule Compounds, ArQule-ArQule Derivative Compounds or Roche Bioscience Derivative Compounds in countries where, and for as long as, the manufacture or sale of such Royalty-Bearing Products is covered by Patent Rights and (b) a royalty of ***** *** *** **** percent ****** of Net Sales of Royalty-Bearing Products incorporating ArQule Compounds, ArQule-ArQule Derivative Compounds or Roche Bioscience Derivative Compounds in countries where the manufacture or sale of such Royalty-Bearing Products is not covered by Patent Rights. Notwithstanding the foregoing, for purposes of this Section 7.2.2, Roche Bioscience Derivative Compound shall mean a Derivative Compound synthesized by Roche Bioscience from an ArQule-ArQule Derivative Compound.

7.2.3 COMBINATION PRODUCT. If the Royalty-Bearing Product is being sold as a combination product containing an ArQule Derivative Compound or a Roche Bioscience Derivative Compound or an ArQule Compound and one or more other therapeutically active ingredients, the parties shall negotiate an appropriate royalty adjustment to reflect the relative significance of each such ingredient.

7.2.4 THIRD PARTY ROYALTIES. If Roche Bioscience is required to pay royalties to a non-Affiliate third party to make, use or sell Royalty-Bearing Product for which Roche Bioscience is then paying royalties to ArQule to avoid infringing such third party's patent rights, Roche Bioscience may deduct ***** percent (**%) of such payments from royalties thereafter payable to ArQule; provided, however, that (i) no such right of deduction shall apply to royalties paid to third parties for the manufacture, use or sale of any therapeutically active ingredient that (A) is not an ArQule Compound, ArQule Derivative Compound or Roche Bioscience Derivative Compound and (B) is included within a Royalty-Bearing Product that is a combination product and (ii) under no circumstances shall the royalties due ArQule be reduced to less than *** *** *** **** percent (****%) of Net Sales.

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7.3 REPORTS AND PAYMENTS. Roche Bioscience shall pay all royalty payments due to ArQule under this Agreement within sixty (60) days of the end of each Royalty Period, unless otherwise specifically provided herein. Each payment of royalties shall be accompanied by a report of Net Sales of Royalty-Bearing Products in sufficient detail to permit confirmation of the accuracy of the royalty payment made. All such reports shall be maintained in confidence by ArQule. If no royalties are due to ArQule for any reporting period, the report shall so state.

7.4 INVOICES; PAYMENTS IN U.S. DOLLARS. With the exception of royalty payments due under Section 7.2, ArQule shall submit invoices to Roche Bioscience for each payment due ArQule hereunder (including without limitation all payments due pursuant to Section 3.3), and Roche Bioscience shall pay such invoices within thirty (30) days of receipt thereof. All payments due under this Agreement shall, except as provided in Section 7.5 below, be payable in United States dollars.

7.5 EXCHANGE RATE; MANNER AND PLACE OF PAYMENT. Royalty payments and reports for the sale of Royalty-Bearing Products shall be calculated and reported for each Royalty Period. With respect to each Royalty Period, for countries other than the United States, whenever for the purpose of calculating royalties conversion from any foreign currency shall be required, such conversion shall be made as follow:

(i) when calculating the Adjusted Gross Sales, the amount of such sales in foreign currencies shall be converted into Swiss Francs as computed in the central Roche's Swiss Francs Sales Statistics for the countries concerned, using the average monthly rate of exchange at the time for such currencies as retrieved from the Reuters System;

(ii) when calculating the royalties on Net Sales, such conversion shall be at the average rate of the Swiss Franc to the United States dollar as retrieved from the Reuters System for the applicable Royalty Period.

All payments owed under this Agreement shall be made by wire transfer, unless otherwise specified by the receiving Party.

7.6 PAYMENTS IN OTHER CURRENCIES. If by law, regulation, or fiscal policy of a particular country, conversion into United States dollars or transfer of funds of a convertible currency to the United States is restricted or forbidden, Roche Bioscience shall give ArQule prompt written notice of such restriction, which notice shall satisfy the sixty-day payment deadline described in Section 7.3. Roche Bioscience shall pay any amounts due ArQule through whatever lawful methods ArQule reasonably designates; provided, however, that if ArQule fails to designate such payment method within thirty (30) days after ArQule is notified of the restriction, then Roche Bioscience may deposit such payment in local currency to the credit of

ArQule in a recognized banking institution selected by Roche Bioscience and identified by written notice to ArQule, and such deposit shall fulfill all obligations of Roche Bioscience to ArQule with respect to such payment.

7.7 RECORDS. Roche Bioscience and its Affiliates shall maintain complete and accurate records of Royalty-Bearing Products made, used or sold by them or their sublicensees under this Agreement, and any amounts payable to ArQule in relation to such Royalty-Bearing Products, which records shall contain sufficient information to permit ArQule to confirm the accuracy of any reports delivered to ArQule in accordance with Section 7.3. The relevant Party shall retain such records relating to a given Royalty Period for at least two (2) years after the conclusion of that Royalty Period. ArQule shall have the right, at its own expense, to cause an independent certified public accountant reasonably acceptable to Roche Bioscience to inspect such records during normal business hours at a date and time to be mutually agreed upon between the parties, giving Roche Bioscience at least thirty (30) days prior written notice, for the sole purpose of verifying any reports and payments delivered under this Agreement. Such accountant shall not disclose to ArQule any information other than information relating to accuracy of reports and payments delivered under this Agreement and shall provide the Roche Bioscience with a copy of any report given to ArQule. The Parties shall reconcile any underpayment or overpayment within thirty (30) days after the accountant delivers the results of the audit. In the event that any audit performed under this Section discloses a variance of more than five percent (5%) from the amount of the Net Sales reported by Roche Bioscience for such audited period, Roche Bioscience shall bear the full cost of such audit. ArQule will maintain complete and accurate records of the activities engaged in by the FTEs, which records shall contain sufficient information to permit Roche Bioscience to confirm the compliance of ArQule with Section 3.2. Roche Bioscience shall have the right to audit ArQule's records to confirm ArQule time records for the preceding year upon thirty (30) working days' prior written notice. Each Party may exercise its rights under this Section only once every year and only with reasonable prior notice to the other Party.

7.8 LATE PAYMENTS. Any payments by Roche Bioscience that are not paid on or before the date such payments are due under this Agreement shall bear interest, to the extent permitted by law, at two percentage points above the Base Rate of Interest calculated based on the number of days that payment is delinquent.

8. Confidential Information.

8.1 DEFINITION OF CONFIDENTIAL INFORMATION. Confidential Information shall mean any technical or business information furnished by the Disclosing Party to the Receiving Party in connection with this Agreement and specifically designated as confidential. Such Confidential Information may include, without limitation, the identity of a chemical compound, the use of a chemical compound, trade secrets, know-how, inventions, technical data

or specifications, testing methods, business or financial information, research and development activities, product and marketing plans, and customer and supplier information.

8.2 OBLIGATIONS. The Receiving Party agrees that it shall:

(a) maintain all Confidential Information in strict confidence, except that the Receiving Party may disclose or permit the disclosure of any Confidential Information to its, and its Affiliates, directors, officers, employees, consultants, and advisors who are obligated to maintain the confidential nature of such Confidential Information and who need to know such Confidential Information for the purposes set forth in this Agreement;

(b) use all Confidential Information solely for the purposes set forth in, or as permitted by, this Agreement; and

(c) allow its directors, officers, employees, consultants, and advisors to reproduce the Confidential Information only to the extent necessary to effect the purposes set forth in this Agreement, with all such reproductions being considered Confidential Information.

8.3 EXCEPTIONS. The obligations of the Receiving Party under Section 8.2 above shall not apply to the extent that the Receiving Party can demonstrate that certain Confidential Information:

(a) was in the public domain prior to the time of its disclosure under this Agreement;

(b) entered the public domain after the time of its disclosure under this Agreement through means other than an unauthorized disclosure resulting from an act or omission by the Receiving Party;

(c) was independently developed or discovered by the Receiving Party without use

of the Confidential Information;

(d) is or was disclosed to the Receiving Party at any time, whether prior to or after the time of its disclosure under this Agreement, by a third party having no fiduciary relationship with the Disclosing Party and having no obligation of confidentiality to the Disclosing Party with respect to such Confidential Information; or

(e) is required to be disclosed to comply with applicable laws or regulations (such as disclosure to the FDA or the United States Patent and Trademark Office or to their foreign equivalents), or to comply with a court or administrative order, provided that the Disclosing Party receives prior written notice of such disclosure and that the Receiving Party takes all reasonable and lawful actions to obtain confidential treatment for such disclosure and, if possible, to minimize the extent of such disclosure.

8.4 PUBLICATIONS. ArQule shall not publish any information with respect to ArQule Compounds, ArQule Derivative Compounds, Roche Compounds, or Roche Derivative Compounds without the prior written permission of Roche Bioscience, which may be withheld in its sole discretion.

8.5 SURVIVAL OF OBLIGATIONS. The obligations set forth in this Article shall remain in effect for a period of five (5) years after termination of this Agreement.

9. Representations and Warranties.

9.1 AUTHORIZATION. Each party represents and warrants to the other that it has the legal right and power to enter into this Agreement, to extend the rights and licenses granted to the other in this Agreement, and to fully perform its obligations hereunder, and that the performance of such obligations will not conflict with its charter documents or any agreements, contracts, or other arrangements to which it is a party.

10. Indemnification and Insurance.

10.1 ROCHE BIOSCIENCE INDEMNITY OBLIGATIONS. Roche Bioscience agrees to defend, indemnify and hold ArQule, its Affiliates and their respective directors, officers,

employees and agents harmless from all costs, judgments, liabilities and damages assessed by a court of competent jurisdiction arising from claims asserted by a third party against ArQule, its Affiliates or their respective directors, employees or agents as a result of: (a) actual or asserted violations of any applicable law or regulation by Roche Bioscience, its Affiliates, sublicensees or third party manufacturers by virtue of which the Royalty-Bearing Products manufactured, distributed or sold shall be alleged or determined to be adulterated, misbranded, mislabeled or otherwise not in compliance with such applicable law or regulation; (b) claims for bodily injury, death or property damage attributable to the manufacture, distribution, sale or use of the Royalty-Bearing Products by Roche Bioscience, its Affiliates, sublicensees or third party manufacturers; or (c) a recall ordered by a governmental agency, or required by a confirmed failure, of Royalty-Bearing Products manufactured, distributed, or sold by Roche Bioscience, its Affiliates, sublicensees or third party manufacturers as reasonably determined by the parties hereto.

10.2 PROCEDURE. In the event that ArQule or any of its Affiliates or their respective employees or agents (the "Indemnitee") intends to claim indemnification under this Article 10, such party shall promptly notify Roche Bioscience of any loss, claim, damage, liability or action in respect of which the Indemnitee intends to claim such indemnification, and Roche Bioscience shall assume the defense thereof with counsel mutually satisfactory to the parties; provided, however, that an Indemnitee shall have the right to retain its own counsel, with the fees and expenses to be paid by Roche Bioscience, if representation of such Indemnitee by the counsel retained by Roche Bioscience would be inappropriate due to actual or potential differing interests between such Indemnitee and any other party represented by such counsel in such proceedings. The indemnity agreement in this Article 10 shall not apply to amounts paid in settlement of any loss, claim, damage, liability or action if such settlement is effected without the consent of Roche Bioscience, which consent shall not be withheld unreasonably. The failure to deliver notice to Roche Bioscience within a reasonable time after the commencement of any such action, if prejudicial to its ability to defend such action, shall relieve Roche Bioscience of any liability to the Indemnitee under this Article 10, but the omission so to deliver notice to Roche Bioscience will not relieve it of any liability that it may have to any Indemnitee otherwise than under this Article 10. The Indemnitee under this Article 10, its employees and agents, shall cooperate fully with Roche Bioscience and its legal representatives in the investigation of any action, claim or liability covered by this indemnification.

11. Term and Termination.

11.1 TERM. This Agreement shall commence on the Effective Date and shall remain in effect until the expiration of the last to expire of the applicable Patent Rights covering any Royalty-Bearing Product, unless earlier terminated as provided in this Article 11.

11.2 BREACH OF PAYMENT OBLIGATIONS. In the event that Roche Bioscience fails to make timely payment of any amounts due to ArQule under this Agreement, ArQule may

terminate this Agreement upon thirty (30) days written notice to Roche Bioscience, unless Roche Bioscience pays all past-due amounts within such thirty-day notice period.

11.3 MATERIAL BREACH. In the event that either party commits a material breach of any of its obligations under this Agreement (other than as provided in Section 11.2) and such party fails (i) to remedy that breach within ninety (90) days after receiving written notice thereof from the other party or (ii) to commence dispute resolution pursuant to Section 13.4, within ninety (90) days after receiving written notice of that breach from the other party, the other party may immediately terminate this Agreement upon written notice to the breaching party.

11.4 EFFECT OF TERMINATION. Termination of this Agreement shall not relieve the parties of any obligation accruing prior to such termination. The provisions of Section 13.2, Article 5, Article 6 and Article 7 (with respect only to milestone payments and royalties accrued at the time of termination but not yet paid), Article 8, Article 10 and Article 12 shall survive the expiration or termination of this Agreement.

12. Publicity.

12.1 REVIEW. Roche Bioscience and ArQule will jointly discuss and agree, based on the principles of Section 12.2, on any statement to the public regarding the execution and the subject matter of this Agreement, the research to be conducted by the Parties under this Agreement, or any other aspect of this Agreement, except with respect to disclosures required by law or regulation. Within thirty (30) days following the Effective Date, the Parties shall issue a joint press release. Neither party shall use the name of the other party in any public statement, prospectus, annual report, or press release without the prior written approval of the other party, which may not be unreasonably withheld or delayed, provided, however, that both parties shall endeavor in good faith to give the other party a minimum of five business days to review such press release, prospectus, annual report, or other public statement; and provided, further, that either party may use the name of the other party in any public statement, prospectus, annual report, or press release without the prior written approval of the other party, if such party is advised by counsel that such disclosure is required to comply with applicable law.

12.2 STANDARDS. In the discussion and agreement referred to in Section 12.1, the principles observed by Roche Bioscience and ArQule will be accuracy, the requirements for confidentiality under Section 8, the advantage a competitor of Roche Bioscience or ArQule may gain from any public or third party statements under Section 12.1, the requirements of disclosure under any securities laws or regulations of the United States, including those associated with public offerings, and the standards and customs in the pharmaceutical industry for such disclosures by companies comparable to Roche Bioscience and ArQule.

13. Miscellaneous.

13.1 RELATIONSHIP OF PARTIES. Nothing in this Agreement is intended or shall be deemed to constitute a partnership, agency, employer-employee or joint venture relationship between the parties. No party shall incur any debts or make any commitments for the other, except to the extent, if at all, specifically provided therein.

13.2 NON-SOLICITATION. During the Research Period and thereafter for a period of two (2) years, each party agrees not to seek to persuade or induce any employee of the other party to discontinue his or her employment with that party in order to become employed by or associated with any business, enterprise, or effort that is associated with its own business; provided, however, that if ArQule is acquired, this provision shall apply only

to those employees of ArQule as of the date of the acquisition.

13.3 GOVERNING LAW. This Agreement shall be governed by and construed in accordance with the laws of the State of New York.

13.4 DISPUTE RESOLUTION PROCEDURES.

(a) The parties hereby agree that they will attempt in good faith to resolve any controversy, claim or dispute ("Dispute") arising out of or relating to this Agreement promptly by negotiations. Any such Dispute which is not settled by the parties within fifteen (15) days after notice of such Dispute is given by one party to the other in writing shall be referred to a senior executive of ArQule and the Head, Neurobiology Unit, Roche Bioscience who are authorized to settle such Disputes on behalf of their respective companies ("Senior Executives"). The Senior Executives will meet for negotiations within fifteen (15) days of the end of the 15 day negotiation period referred to above, at a time and place mutually acceptable to both Senior Executives. If the Dispute has not been resolved within thirty (30) days after the end of the 15 day negotiation period referred to above (which period may be extended by mutual agreement), subject to any rights to injunctive relief and unless otherwise specifically provided for herein, any Dispute will be settled first by non-binding mediation and thereafter by arbitration as described in subsections (b) and (c) below.

(b) Any Dispute which is not resolved by the parties within the time period described in subsection (a) shall be submitted to an alternative dispute resolution process ("ADR"). Within five (5) business days after the expiration of the thirty (30) day period set forth in subsection (a), each party shall select for itself a representative with the authority to bind such party and shall notify the other party in writing of the name and title of such representative. Within ten (10) business days after the date of delivery of

such notice, the representatives shall schedule a date for engaging in non-binding ADR with a neutral mediator or dispute resolution firm mutually acceptable to both representatives. Any such mediation shall be held in Boston, Massachusetts if brought by Roche Bioscience or in San Francisco, California, if brought by ArQule. Thereafter, the representatives of the parties shall engage in good faith in an ADR process under the auspices of such individual or firm. If the representatives of the parties have not been able to resolve the Dispute within thirty (30) business days after the conclusion of the ADR process, or if the representatives of the parties fail to schedule a date for engaging in non-binding ADR within the ten (10) day period set forth above, the Dispute shall be settled by binding arbitration as set forth in subsection (c) below. If the representatives of the parties resolve the dispute within the thirty (30) day period set forth above, then such resolution shall be binding upon the parties. If either party fails to abide by such resolution, the other party can immediately refer the matter to arbitration under Section 13.4 (c).

(c) If the parties have not been able to resolve the Dispute as provided in subsections (a) and (b) above, the Dispute shall be finally settled by binding arbitration. Any arbitration hereunder shall be conducted under rules of the American Arbitration Association. The arbitration shall be conducted before three arbitrators chosen according to the following procedure: each of the parties shall appoint one arbitrator and the two so nominated shall choose the third. If the arbitrators chosen by the parties cannot agree on the choice of the third arbitrator within a period of thirty (30) days after their appointment, then the third arbitrator shall be appointed by the Court of Arbitration of the American Arbitration Association. Any such arbitration shall be held in Boston, Massachusetts if brought by Roche Bioscience or in San Francisco, California, if brought by ArQule. The arbitrators shall have the authority to grant specific performance, and to allocate between the parties the costs of arbitration in such equitable manner as they determine. The arbitral award (i) shall be final and binding upon the parties; and (ii) may be entered in any court of competent jurisdiction.

(d) Nothing contained in this Section or any other provisions of this Agreement shall be construed to limit or preclude a party from bringing any action in any court of competent jurisdiction for injunctive or other provisional relief to compel the other party to comply with its obligations hereunder before or during the pendency of mediation or arbitration proceedings. The parties hereby irrevocably consent to submit to the jurisdiction of the courts of the Commonwealth of Massachusetts and the State of California and/or any other court having jurisdiction for this purpose.

13.5 COUNTERPARTS. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, and all of which together shall be deemed to be one and the same instrument.

13.6 HEADINGS. All headings in this Agreement are for convenience only and shall not affect the meaning of any provision hereof.

13.7 BINDING EFFECT. This Agreement shall inure to the benefit of and be binding upon the parties and their respective lawful successors and assigns.

13.8 ASSIGNMENT. This Agreement may not be assigned by either party without the prior written consent of the other party, except either party may assign this Agreement, in whole or in part, to an Affiliate or to a successor of a party in connection with the merger, consolidation, or sale of all or substantially all of such party's assets or that portion of its business pertaining to the subject matter of this Agreement. Roche Bioscience has the right to extend its rights and benefits under this Agreement to any Affiliate.

13.9 NOTICES. All notices, requests, demands and other communications required or permitted to be given pursuant to this Agreement shall be in writing and shall be deemed to have been duly given upon the date of receipt if delivered by hand, recognized international overnight courier, confirmed facsimile transmission, or registered or certified mail, return receipt requested, postage prepaid to the following addresses or facsimile numbers:

If to Roche Bioscience:	If to ArQule:
Roche Bioscience	ArQule, Inc.
3401 Hillview Avenue	200 Boston Avenue, Suite 3600
Palo Alto, CA 94304	Medford, MA 02155
Attention: President	Attention: President
Tel: (415) 855-5050	Tel: (617) 395-4100
Fax:	Fax: (617) 395-1225
with a copy to:	with a copy to:
Roche Bioscience	Palmer & Dodge
3401 Hillview Avenue	One Beacon Street
Palo Alto, CA 94304	Boston, MA 02108
Attention: Corporate Law	Attention: Michael Lytton, Esquire
Tel: (415) 855-6950	Tel: (617) 573-0327
Fax: (415) 852-1338	Fax: (617) 227-4420

Either party may change its designated address and facsimile number by notice to the other party in the manner provided in this Section.

13.10 AMENDMENT AND WAIVER. This Agreement may be amended, supplemented, or otherwise modified only by means of a written instrument signed by both parties. Any waiver of any rights or failure to act in a specific instance shall relate only to such instance and shall not be construed as an agreement to waive any rights or fail to act in any other instance, whether or not similar.

13.11 SEVERABILITY. In the event that any provision of this Agreement shall, for any reason, be held to be invalid or unenforceable in any respect, such invalidity or unenforceability shall not affect any other provision hereof, and the parties shall negotiate in good faith to modify the Agreement to preserve (to the extent possible) their original intent.

13.12 ENTIRE AGREEMENT. This Agreement constitutes the entire agreement between the parties with respect to the subject matter hereof and supersedes all prior agreements or understandings between the parties relating to the subject matter hereof.

13.13 FORCE MAJEURE. Neither party shall be held liable or responsible to the other party, nor be deemed to be in breach of this Agreement, for failure or delay in fulfilling or performing any provisions of this Agreement when such failure or delay is caused by or results from any cause whatsoever outside the reasonable control of the party concerned including, but not limited to, fire, explosion, breakdown of plant, strike, lock-out, labor disputes, casualty or accident, lack or failure of transportation facilities, flood, lack or failure of sources of supply or of labor, raw materials or energy, civil commotion, blockage or embargo, any law, regulation, decision, demand or requirement of any national or local government or authority. The party claiming relief shall, without delay, notify the other party by registered airmail or by telefax of the interruption and cessation thereof and shall use its best efforts to remedy the effects of such hindrance with all reasonable dispatch. The onus of proving that any such Force Majeure event exists shall rest upon the party so asserting. During the period that one party is prevented from performing its obligations under this Agreement due to a Force Majeure event, the other party may, in its sole discretion, suspend any obligations that relate thereto; provided, however, if ArQule is unable to conduct the Directed Array Program under Section 3, Roche Bioscience may suspend the FTE Payments until ArQule is able to resume the Directed Array Program. Upon cessation of such Force Majeure event the parties hereto shall use their best efforts to make up for any suspended obligations. If such Force Majeure event is anticipated to continue, or has existed for nine (9) consecutive months or more, this Agreement may be forthwith terminated by either party by registered airmail or by telefax. In case of such termination the terminating party will not be required to pay to the other party any indemnity whatsoever.

IN WITNESS WHEREOF, the undersigned have duly executed and delivered this Agreement as a sealed instrument effective as of the date first above written.

ROCHE BIOSCIENCE, a division of SYNTEX (U.S.A.) INC.	ARQULE, INC.
By: /s/ James N. Woody	By: /s/ Eric B. Gordon
Name:	Name:
Title: President, Roche Bioscience	Title: President & CEO

EXHIBIT A

Research Plan

I. Goal: The goal of the collaboration between Roche Bioscience and ArQule is the acceleration of Roche Bioscience's research programs through the utilization of ArQule's technologies and expertise in the synthesis of target specific molecular arrays through an automated paralled synthesis effort.

II. Research Committee:

The Research Committee is responsible for creating, updating and managing the research plan. The members of the committee are identified in paragraph 2 of the Research and License Agreement between ArQule Inc. and Roche Bioscience. In addition to the duties, schedule of meetings and conflict resolution rules identified in the basic agreement, the Research Committee will hold an initial meeting, within 30 days of the effective date of the Research Collaboration Agreement, to review the research plan and to finalize the specific goals for the first 6 months of the collaboration.

III. Term of the Research Plan:

The research plan will cover the prospective period of 6 months. It will be updated at least quarterly at the regular quarterly meetings of the Research Committee. The plan will detail the directed array programs to be initiated or continued, with the initial directed array programs summarized in the next paragraph.

IV. Directed Array Programs (Initial Set)

The detailed structural information for the targeted array are on pages A - Chem 1 through A-Chem X.

* * * *

Exhibit B*

* Confidential treatment has been requested for marked portion.

EXHIBIT 23.1

CONSENT TO INDEPENDENT ACCOUNTANTS

We hereby consent to the use in the Prospectus constituting part of this Registration Statement on Form S-1 of our report dated September 17, 1996 relating to the financial statements of ArQule, Inc., which appears in such Prospectus. We also consent to the application of such report to the Financial Statement Schedule for the two years ended December 31, 1995 listed under item 16(b) of this Registration Statement when such schedule is read in conjunction with the financial statements referred to in our report. The audits referred to in such report also included this schedule. We also consent to the reference to us under the heading "Experts" in such Prospectus.

PRICE WATERHOUSE LLP

Boston, Massachusetts

September 23, 1996