AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON OCTOBER 16, 1996

REGISTRATION NO. 333-11105

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

AMENDMENT NO. 4

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:

MICHAEL LYTTON, ESQ. LYNNETTE C. FALLON, ESQ. PALMER & DODGE LLP ONE BEACON STREET BOSTON, MASSACHUSETTS 02108 (617) 573-0100	LAWRENCE S. WITTENBERG, ESQ. GEORGE W. LLOYD, ESQ. 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. / /

CALCULATION OF REGISTRATION FEE

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	AMOUNT TO BE REGISTERED(1)	MAXIMUM OFFERING PRICE PER SHARE	MAXIMUM AGGREGATE OFFERING PRICE(1)	AMOUNT OF REGISTRATION FEE(2)
Common Stock, $.01 par value per share....	2,875,000	$12.00	$34,500,000	$12,402

(1) Includes shares which the Underwriters may purchase to cover over-allotments, if any.

(2) Calculated pursuant to Rule 457 under the Securities Act of 1933. Of this amount $10,311 was paid on August 29, 1996 with the initial filing.

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.

PROSPECTUS

2,500,000 Shares

ArQule, Inc.

[LOGO]

Common Stock

All of the 2,500,000 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. 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.....	$12.00	$0.84	$11.16
Total(3).....	$30,000,000	$2,100,000	$27,900,000

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

(2) Before deducting expenses payable by the Company estimated at $800,000.

(3) The Company has granted to the Underwriters a 30-day option to purchase up to 375,000 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 $34,500,000, $2,415,000 and $32,085,000, 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 October 21, 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.

October 16, 1996

[GRAPH]

The above graphical representation displays the integration of the major elements of ArQule's Combinatorial Drug Design and Development Platform.

[GRAPH]

A three-dimensional structure of ArQule's AQ148 HIV-1 Protease exhibitors, bound in the enzyme active site, and developed utilizing elements of ArQule's combinatorial Drug Design and Development Platform.

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[Trademark], Directed Array[Trademark] and Mapping Array[Trademark] 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. The Company's initial focus is on providing these novel compounds to the pharmaceutical and biotechnology industries. The Company has developed a proprietary technology for the identification and optimization of drug development candidates. This technology uses a modular building block approach to the development of compounds, together with structure-guided drug design, high speed parallel chemical synthesis and information technology, to rapidly develop large, diverse collections of compounds that have the potential to be biologically active. 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 molecular components, ArQule produces significant quantities of pure small organic compounds in logically structured spatially addressable arrays. Unlike most current approaches to compound development, ArQule's compound arrays are created by using structure-guided and rational drug design tools to systematically assemble molecular components 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 compounds that are closely related, often referred to as "analogs" of a particular lead compound. 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 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 by the biotechnology partner.

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	2,500,000 shares
Common Stock to be outstanding after the offering	9,476,487 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)			6,853		7,443

	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	$33,467
Working capital	1,394	1,394	28,494
Total assets	11,848	11,848	38,948
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	32,376

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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 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. See Notes 8 and 10 of Notes to Financial Statements.

(4) As adjusted to give effect to the sale of 2,500,000 shares of Common Stock offered hereby, after deducting the underwriting discount and offering

expenses, at the 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."

Except as otherwise noted, all information in this Prospectus assumes (i) a one-for-two reverse stock split of the Common Stock effected on October 4, 1996, (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."

Limited Sales and Marketing Experience; Expansion of Sales Activities. To date, the Company has sold its products to its collaborative partners primarily through the efforts of its senior management. The Company's senior management has limited experience in marketing products similar to those of the Company. In order to achieve significant long-term growth in revenues and its overall strategic goals, the Company intends to hire at least one or two dedicated sales and marketing personnel. There can be no assurance that the Company will be able to achieve anticipated expansion of its business, attract a significant number of new collaborative partners as customers or build an efficient and effective sales and marketing organization. In the event the Company is unable to achieve any one or more of the foregoing goals, the Company's business, financial condition and results of operations could be materially adversely affected. In addition to the risks inherent in the Company's efforts to market its own products, the Company's revenues from royalties and milestone payments from its collaborative partners is substantially dependent upon the marketing efforts of such collaborative partners as discussed below under "Risk Factors--Dependence on Third Parties."

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 68.1% of the outstanding shares of Common Stock (65.5% 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. 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 believes its 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. In the absence of such patents, the Company may be unable to prevent others from utilizing the Company's technology and may need to rely upon expertise developed during pre-commercial implementation of the technology, which may not provide the same level of competitive advantages. 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 any other 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. Although the manufacture, transportation and storage of the Company's products are subject to the laws and regulations regarding hazardous materials discussed in the preceding risk factor, the sale of the Company's products is not subject to significant government regulations. However, the Company's future profitability is dependent on the sales of pharmaceuticals and other products developed from the Company's compounds by its customers and collaborators. 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 9,476,487 shares of Common Stock outstanding, assuming no exercise of currently outstanding options. Of these shares, the 2,500,000 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 151,972 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 6,824,515 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 5,916,781 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."

Broad Management Discretion in Use of Proceeds. The Company's management will have broad discretion to allocate 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. See "Use of Proceeds."

Immediate and Substantial Dilution. Purchasers of the shares of Common Stock offered hereby will experience immediate and substantial dilution estimated at $8.58 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. The Company is a subsidiary of ArQule Partners, L.P. (the "Partnership"), which owns 61.57% of the shares of Common Stock of the Company before this offering and will own 45.33% of the shares of Common Stock after 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."

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 $27.1 million ($31.3 million if the Underwriters' over-allotment option is exercised in full), at 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 Company is not in any negotiations with respect to any such acquisitions. 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 (a) the conversion of all issued and outstanding preferred stock into 6,219,948 shares of Common Stock and (b) the issuance of 234,992 shares of Common Stock upon the cashless exercise of outstanding warrants, and (iii) the pro forma capitalization of the Company as adjusted to

reflect (a) the sale of the 2,500,000 shares of Common Stock offered hereby, after deducting the underwriting discount and offering expenses, at the 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 (b) 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, 6,977,987 shares issued and outstanding pro forma, 9,477,987 shares issued and outstanding as adjusted(1).....	5	70	95
Additional paid-in capital.....	4,435	13,896	40,971
Accumulated deficit.....	(8,690)	(8,690)	(8,690)
Total stockholders' equity (deficit).....	(1,622)	5,276	32,376
Total capitalization.....	$ 6,702	$ 6,702	$33,802

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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.

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 2,500,000 shares of Common Stock offered hereby at an 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 $32,376,000, or $3.42 per share. This represents an immediate increase in the pro forma net tangible book value of $2.66 per share to existing

stockholders of the Company and an immediate dilution of $8.58 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:

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	2.66	
Pro forma net tangible book value per share after the offering		3.42
Dilution per share to new investors		$ 8.58

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 (at the 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	73.6%	$13,737,000	31.4%	$ 1.97
New investors	2,500,000	26.4	30,000,000	68.6	12.00
Total	9,477,987	100.0%	$43,737,000	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	YEAR ENDED	SIX MONTHS ENDED

	DECEMBER 31,	DECEMBER 31,		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)			6,853		7,443

	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	$33,467
Working capital	275	(2,108)	5,074	1,394	28,494
Total assets	1,538	2,321	10,190	11,848	38,948
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)	32,376

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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 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. See Notes 8 and 10 of Notes to Financial Statements. Also gives effect to the sale of 2,500,000 shares of Common Stock offered by the Company hereby, after deducting the underwriting discount and offering expenses, at the 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."

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 with an initial focus on 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 ($1.0 million for license option fees; $8.3 million for compound development), of which $6.2 million has been recognized as revenue ($1.0 million for license option fees; $5.2 million for compound development). 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

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.

BUSINESS

OVERVIEW

ArQule has created a new technology platform for the discovery and production of novel chemical compounds with commercial potential. The Company's initial focus is on providing these novel compounds to the pharmaceutical and biotechnology industries. The Company has developed a proprietary technology for the identification and optimization of drug development candidates. This technology uses a modular building block approach to the development of compounds, together with structure-guided drug design, high speed parallel chemical synthesis and information technology, to rapidly develop large, diverse collections of compounds that have the potential to be biologically active. 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.

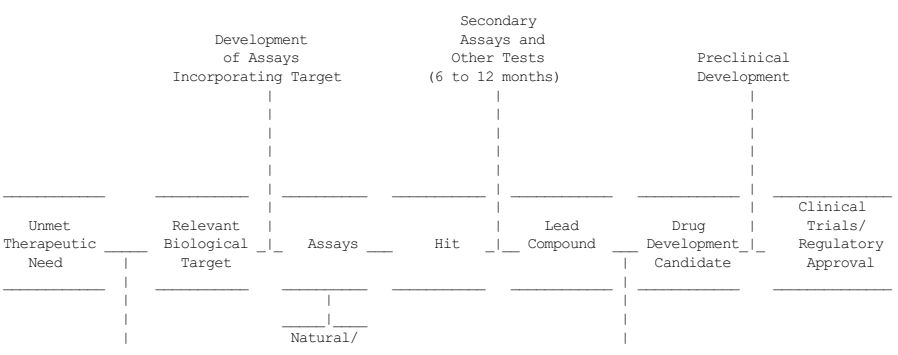
INDUSTRY BACKGROUND

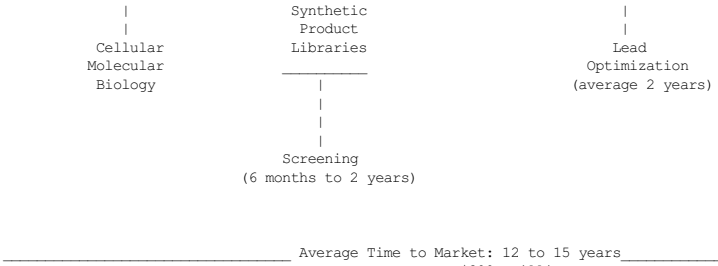
The potential market for ArQule's proprietary modular building block technology is comprised of all consumers of novel chemical compounds, including developers of drugs, separations media, agricultural products, industrial catalysts, specialty materials and other industrial products. The Company's initial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

TRADITIONAL DRUG DISCOVERY PROCESS





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 ArQules 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 $12.1 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 or after September 1998 on six months' advance notice. Assuming such termination occurs on September 30, 1998, the Company will have received payments of approximately $8.4 million from Roche Bioscience and no further payments, other than milestone payments and royalties, will be due to the Company. 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. Solvay has the right to terminate the Mapping Array program on twelve months' written notice at any time subject to its payment of a termination fee of approximately $1.0 million. Solvay may also terminate the delivery of Directed Array sets on six months' written notice at any time subject to its payment of a termination fee equal to a certain percentage of the aggregate research payments made by Solvay in the year in which notice is given. If Solvay gave notice to terminate both programs on the date of this Prospectus, as of the effective termination dates, Solvay would have paid the Company $3.5 million, not including the termination fees. No further payments would be due from Solvay other than milestone or royalty payments. 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. If Abbott fails to exercise its right to extend the Abbott Agreement beyond the initial term, Abbott would have paid the Company $4.4 million and no further payments would be due from

Abbott other than 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.

To date, the Company has sold its products to its collaborative partners primarily through the efforts of its senior management. The Company's senior management has limited experience in marketing products similar to those of the Company. In order to achieve significant long-term growth in revenues and its overall strategic goals, the Company intends to hire at least one or two dedicated sales and marketing personnel. There can be no assurance that the Company will be able to achieve anticipated expansion of its business, attract a significant number of new collaborative partners as customers or build an efficient and effective sales and marketing organization. In the event the Company is unable to achieve any one or more of the foregoing goals, the Company's business, financial condition and results of operations could be materially adversely affected. In addition to the risks inherent in the Company's efforts to market its own products, the Company's revenues from royalties and milestone payments from its collaborative partners is substantially dependent upon the marketing efforts of such collaborative partners.

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

Although the manufacture, transportation and storage of the Company's products are subject to certain laws and regulations discussed in the last paragraph of this Section, the sale of the Company's products is not subject to significant government regulations. However, the Company's future profitability is dependent on the sales of pharmaceuticals and other products developed from

the Company's compounds by its customers and collaborators. 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

Two individuals have asserted that they are entitled to compensation from certain of the Company's stockholders and/or the Company equal to approximately five percent of the equity interests in the Company for services in connection with the initial financing of the Partnership in 1993. The Company intends to vigorously defend any claim brought by such individuals and believes that it has meritorious defenses to such claims. However, no assurance can be given that such individuals will not be successful in any litigation relating to such claims.

Except as stated above, ArQule is not a party to any other 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.	55	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

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(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. The Scientific Advisory Board has met collectively and in smaller groups, and its members have also 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 Distinguished 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

			LONG-TERM COMPENSATION
	ANNUAL COMPENSATION		NUMBER OF SECURITIES UNDERLYING
NAME AND PRINCIPAL POSITION	SALARY	BONUS	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 387,434 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, in November 1994 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.

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 $142,000 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)..... 222 Berkeley Street Boston, MA 02116	1,355,738	19.43%	14.31%
Physica B.V.(5)..... C.J. van Houtenlaan, 36 1381 CD Weiss The Netherlands	907,734	13.01%	9.58%
Sevin Rosen Fund IV L.P.(6)..... 13455 Noel Road, Suite 1670 Dallas, TX 75240	2,362,833	33.87%	24.93%
Adrian de Jonge, Ph.D.(7).....	907,734	13.01%	9.58%
Stephen M. Dow(8).....	2,362,833	33.87%	24.93%
Allan R. Ferguson(9).....	1,355,738	19.43%	14.31%
Eric B. Gordon(10).....	38,743	*	*
Seth L. Harrison, M.D.(11).....	128,689	1.84%	1.36%
Joseph C. Hogan, Jr., Ph.D.(12).....	1,208,194	17.32%	12.75%
All current executive officers and directors as a group (6 persons)(13).....	5,873,242	83.72%	61.98%

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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 2,500,000 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 45.33% after the offering, has not been included in this table. The partners of the Partnership have agreed to dissolve the Partnership. The general partners have, pursuant and subject to the Second Amended and Restated Agreement of the Limited Partnership, as amended, delegated to an Investment Committee voting and investment discretion over the shares held by the Partnership. Messrs. Dow, Ferguson, Joseph C. Hogan, III and Dr. Hogan are members of the Investment Committee of the Partnership. Each of Messrs. Dow, Ferguson,

Elizabeth Hogan and Dr. Hogan disclaims beneficial ownership of the shares held by the Partnership, except to the extent of his proportionate pecuniary interest in the Partnership. See "The Company" and footnotes (4), (6) and (12).

(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 voting and investment discretion over the shares owned by Atlas Venture Fund II, L.P. is exercised by the general partners of Atlas Venture Associates II, L.P., its general partner. The general partners of Atlas Venture Associates II, L.P. are Allan R. Ferguson, Barry J. Fidelman, Jean-Francois Formela and Christopher J. Spray. Because of this relationship, Allan R. Ferguson, a director of the Company, shares voting and investment discretion over such shares. Atlas Venture Europe Fund B.V. is a corporation wholly-owned by Atlas InvesteringsGroep N.V. ("AIG"). The voting and investment discretion over the shares owned by Atlas Venture Europe Fund B.V. is exercised by the managing directors of AIG, Michiel A. de Haan and Evert H. Smid. Three officers of AIG, Gerard H. Montanus, Hans Bosman and Jaap van Hellemond, share voting and investment discretion with these two managing directors over the shares held by Atlas Venture Europe Fund B.V. 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 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 "The Company." 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) The voting and investment discretion over the shares owned by Physica B.V. is exercised by the sole director of Physica B.V., J.W.F. van Ingen.

(6) 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 voting and investment discretion over the shares owned by Sevin Rosen is exercised by the general partner of SRB Associates IV L.P., its general partner. The general partners of SRB Associates L.P. are Stephen M. Dow, Jon W. Bayless, Charles H. Phipps, Dennis J. Gorman, and John V. Jaggers. Because of this relationship, Stephen M. Dow, a director of the Company, shares voting and investment discretion over such shares. 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 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 "The Company." 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.

(7) 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.

(8) 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 the 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 (6).

(9) 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 the 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).

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

(11) 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 initial public offering price of $12.00. See "The Company." 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) 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 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 Dr. Hogan) of the ArQule shares distributed to it by the Partnership. See "The Company." 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.

(13) 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 (7), (8), (9), (10) and (12).

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 9,476,487 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 9,476,487 shares of Common Stock outstanding, assuming no exercise of the Underwriters'

over-allotment option or of any other outstanding options. Of these shares, the 2,500,000 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 151,972 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 6,824,515 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 5,916,781 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	553,334
Oppenheimer & Co., Inc.	553,333
Vector Securities International, Inc.	553,333
Alex. Brown & Sons Incorporated	80,000
Cowen & Company	80,000
Dillon, Read & Co. Inc.	80,000
Lehman Brothers Inc.	80,000
Montgomery Securities	80,000
UBS Securities LLC	80,000
Adams, Harkness & Hill, Inc.	40,000
Arnhold and S. Bleichroeder, Inc.	40,000
First Southwest Company	40,000
Genesis Merchant Group Securities	40,000
Gerard Klauer Mattison & Co., LLC	40,000
Needham & Company, Inc.	40,000
Pennsylvania Merchant Group, Ltd.	40,000
Punk, Ziegel & Knoell	40,000
Van Kasper & Company	40,000
Total	2,500,000

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 $0.48 per share. The Underwriters may allow, and such dealers may reallow, a concession not in excess of $0.10 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 375,000 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 6,824,515 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 was determined by negotiation among the Company and the Representatives. Among the factors 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.

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.

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
October 4, 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, 1996, respectively; 6,977,987 shares outstanding pro forma	6,000	5,000	5,000	70,000
Additional paid-in capital	4,376,000	4,435,000	4,435,000	13,896,000
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 and contingency (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, 1993	YEAR ENDED DECEMBER 31, 1994	YEAR ENDED DECEMBER 31, 1995	SIX MONTHS ENDED JUNE 30, 1995	SIX MONTHS ENDED JUNE 30, 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			6,853,000		7,443,000

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. Such funding totaled $2,236,000 and $2,100,000 of cash for the years ended December 31, 1993 and 1994, respectively, and was comprised of aggregate investments in general partnership interests of $43,000 and limited partnership interests of $4,293,000.

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 relates to the delivery of compounds and to compound development work and is recognized using the percentage of completion method. The application of this revenue recognition method is dependent on the contractual arrangement of either compound delivery or development. Accordingly, revenue is recognized on the proportional achievement of deliveries against a compound delivery schedule or as development labor is expended against a total research and development labor plan. 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 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 $12.1 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 $8.4 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	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 and of the then-current market interest rate of 12%. 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 (the "1996 Director 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. All options granted pursuant the 1996 Director Plan have terms of ten years with exercise prices 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. In addition, 234,992 shares of common stock will be issued upon the cashless exercise of the outstanding warrants (Note 8), based on an initial public offering price of $12.00 per share, which will occur immediately prior to the effectiveness of the initial public offering. Such conversion and exercise have been reflected in the unaudited pro forma balance sheet as of June 30, 1996.

11. COMMON STOCK

Pursuant to shareholder approval of a 1 for 2 reverse stock split on the common stock of the Company, an amendment to the Company's Certificate of Incorporation effecting such split was filed on October 4, 1996. 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 AND CONTINGENCY

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).

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.

CONTINGENCY

In October 1996, the Company received a letter from two individuals who have asserted that they are entitled to compensation from certain of the Company's stockholders and/or the Company equal to approximately five percent of the equity interest in the Company. The Company believes that there are meritorious defenses against such claims and intends to contest them vigorously; however, they are currently unable to estimate the outcome of this matter, including the range of potential loss, if any.

[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 NOVEMBER 10, 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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2,500,000 SHARES

ARQULE, INC.

[ARQULE LOGO]

COMMON STOCK

PROSPECTUS

HAMBRECHT & QUIST

OPPENHEIMER & CO., INC.

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	$ 12,402
Nasdaq listing fee	41,192
NASD filing fee	3,490
Blue Sky fees and expenses	20,000
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	22,916
Total	$800,000

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	Intentionally omitted.
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.
4.2++	Specimen Common Stock Purchase Warrant.
5.1	Opinion of Palmer & Dodge LLP as to the legality of the shares being registered. Filed herewith.
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. 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.
10.10*++	Promissory Note dated November 2, 1995 between Dr. Joseph C. Hogan, Jr. and ArQule.
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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. Filed herewith.
10.16+++	Research & Development Agreement between ArQule and Pharmacia Biotech AB dated March 10, 1995, as amended.
10.17+++	Option Agreement between ArQule and Pharmacia Biotech AB dated March 10, 1995, as

amended.

10.18*++ Adoption Agreement for Fidelity Management and Research Company (ArQule's 401(k) plan).

10.19+++ Research and License Agreement between ArQule and Roche Bioscience dated September 13, 1996.

EXHIBIT NO.	DESCRIPTION
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.
27.1++	Financial Data Schedule.

- ---

* 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 October 16, 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)	October 16, 1996
Eric B. Gordon		
*	Director	October 16, 1996
Stephen M. Dow		
*	Director	October 16, 1996
Joseph C. Hogan, Jr.		
*	Director	October 16, 1996
Adrian de Jonge		
*	Director	October 16, 1996
Allan R. Ferguson		

*By: /s/ LYNNETTE C. FALLON

Lynnette C. Fallon
Attorney-in-Fact

SCHEDULE II

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

EXHIBIT INDEX

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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.	
27.1++	Financial Data Schedule.	

- ---

* 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.

Exhibit 5.1

PALMER & DODGE LLP
One Beacon Street
Boston, MA 02108

Telephone: (617) 573-0100 Facsimile: (617) 227-4420

October 16, 1996

ArQule, Inc.
200 Boston Avenue
Medford, Massachusetts 02155

We are rendering this opinion in connection with the Registration Statement on Form S-1 (the "Registration Statement") filed by ArQule, Inc. (the "Company") with the Securities and Exchange Commission under the Securities Act of 1933, as amended, on or about the date hereof. The Registration Statement relates to up to 2,875,000 shares of the Company's Common Stock, $0.01 par value (the "Shares"). We understand that the Shares are to be offered and sold in the manner described in the Registration Statement.

We have acted as your counsel in connection with the preparation of the Registration Statement. We are familiar with the proceedings of the Board of Directors on August 14, 1996 and October 15, 1996 in connection with the authorization, issuance and sale of the Shares (the "Resolutions"). We have examined such other documents as we consider necessary to render this opinion.

Based upon the foregoing, we are of the opinion that the Shares have been duly authorized and, when issued and delivered by the Company against payment therefor at the price to be determined pursuant to the Resolutions, will be validly issued, fully paid and non-assessable.

We hereby consent to the filing of this opinion as a part of the Registration Statement and to the reference to our firm under the caption "Legal Matters" in the Prospectus filed as part thereof.

Very truly yours,

/S/ Palmer & Dodge LLP

EXHIBIT 10.15

RESEARCH & DEVELOPMENT AND LICENSE AGREEMENT

THIS AGREEMENT ("Agreement") is made and entered into effective as of the 16th day of June, 1995 ("Effective Date"), by and between ABBOTT LABORATORIES, an Illinois corporation having a principal place of business at 100 Abbott Park Road, Abbott Park, Illinois 60064 ("Abbott") and ARQULE, INC., a Delaware corporation having a principal place of business at 200 Boston Avenue, Suite 3600, Medford, Massachusetts 02155 ("ArQule").

RECITALS

WHEREAS, ArQule has expertise relating to the modification of pharmaceutical compounds by use of combinatorial chemistry methods utilizing rapid parallel synthesis;

WHEREAS, Abbott has expertise in the discovery, development, marketing and sale of pharmaceuticals and other health care products;

WHEREAS, Abbott desires to have ArQule generate large numbers of ArQule's own compounds as well as compounds derived from specifically targeted parallel synthesis of Abbott provided compounds;

WHEREAS, Abbott desires to perform screening of ArQule's compounds and compounds derived by ArQule from Abbott provided compounds for possible further research and development by Abbott;

WHEREAS, as part of such research and development effort and contingent upon ArQule performing research and development activities under a mutually agreed upon research and development plan, Abbott shall provide certain funding to ArQule for its research and development activities; and

WHEREAS, if Abbott commercially develops any such compounds, Abbott shall pay ArQule milestone payments on such compounds which achieve certain commercial milestones as well as royalties on commercial sales of pharmaceutical products containing such compounds, all on the terms and conditions stated below;

NOW, THEREFORE, in consideration of the foregoing premises and mutual covenants contained herein, Abbott and ArQule hereby agree as follows:

ARTICLE 1

DEFINITIONS

For the purposes of this Agreement, the terms defined in this Article 1 shall have the respective meanings set forth below:

1.1 "Abbott Compound" shall mean an Abbott Core Compound (as defined below) or an Abbott Derivative Compound (as defined below).

1.2 "Abbott Core Compound" shall mean a core chemical compound supplied to ArQule by Abbott pursuant to Section 2.1.

1.3 "Abbott Derivative Compound" shall mean a chemical compound generated by ArQule for Abbott by use of chemical modification methods from an Abbott Core Compound pursuant to Section 2.1.

1.4 "Abbott Field" shall mean *

1.5 "Active ArQule Array" shall mean an ArQule Array (as defined below)

that contains at least one (1) Active ArQule Compound (as defined below).

1.6 "Active ArQule Compound" shall mean *

or such higher concentration level demonstrating significant biological activity as the parties may mutually agree upon.

1.7 "Affiliate" shall mean, with respect to a party, any other business entity which directly or indirectly controls, is controlled by, or is under common control with, such party. A business entity or party shall be regarded as in control of another business entity if it owns, or directly or indirectly controls, more than fifty percent (50%) of the voting stock or other ownership interest of the other business entity. For purposes of this Agreement, Abbott Affiliates shall also include the following entities: Abbott Laboratories (India) Ltd. and Abbott Laboratories Nigeria Limited.

1.8 "ArQule Array" shall mean a set of at least * ArQule Core Compounds (as defined below) provided by ArQule to Abbott for screening pursuant to Section 5.1.

1.9 "ArQule Compound" shall mean an ArQule Core Compound or an ArQule Derivative Compound (as defined below).

1.10 "ArQule Core Compound" shall mean a core chemical compound from an ArQule Array supplied by ArQule to Abbott pursuant to Section 5.1.

* Confidential treatment has been requested for marked portions

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1.11 "ArQule Derivative Compound" shall mean a chemical compound generated by ArQule for Abbott or by Abbott, its Affiliates or contractors by use of chemical modification methods from an ArQule Core Compound.

1.12 "ArQule Field" shall mean *

1.13 "Array Screening Period" shall mean a period of three (3) Contract Years (as defined below) commencing on the Effective Date.

1.14 "Array Transfer Period" shall mean a period of two (2) Contract Years commencing on the Effective Date.

1.15 "Calendar Quarter" shall mean each of the three (3) month periods beginning on January 1, April 1, July 1 and October 1 of each year.

1.16 "Combination Product" shall mean a pharmaceutical product containing a Product (as defined below) and at least one (1) other therapeutically active ingredient.

1.17 "Composition of Matter Patent" shall mean any national or European Union patent(s) of either party or their Affiliates issued anywhere in the Territory (as defined below) which claims an Abbott Derivative Compound or an ArQule Compound, including any patent(s) issuing from any divisions, continuations, continuations-in-part, reexaminations, or reissues thereof, and any additions, renewals, and extensions of such patent(s).

1.18 "Contract Quarter" shall mean the three (3) month period beginning on the Effective Date and each subsequent three (3) month period during the Research Term.

1.19 "Contract Year" shall mean the twelve (12) month period beginning on the Effective Date and each subsequent twelve (12) month period during the term of this Agreement.

1.20 "FDA" shall mean the United States Food and Drug Administration or any successor entity thereto.

1.21 "FTE" shall mean one (1) or more employees of a party who, collectively, spend time and effort working on a specified project or task equivalent to the time and effort of one (1) full-time employee of a party

working on such project or task.

1.23 "Licensed Final Compound" shall mean a specific ArQule Compound from a Licensed Compound Set that Abbott commercially develops, markets and/or sells pursuant to Section 5.9.

1.24 "Licensed Compound Set" shall mean a list of specific ArQule Compounds licensed to Abbott by ArQule, in accordance with the procedures set forth in Section 5.6, as well as all prodrugs, esters and salt forms of such ArQule Compounds.

1.25 "Licensed Set Core" shall have the meaning set forth in Section 5.6(a).

* Confidential treatment has been requested for marked portions

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1.26 "License Option Period" shall mean a period of ten (10) Contract Years commencing on the Effective Date.

1.27 "NDA" shall mean a New Drug Application filed with the FDA with respect to a Product.

1.28 "Net Sales" shall mean:

(a) With respect to a Product sold alone, the gross invoiced sales of such Product by Abbott, its Affiliates and/or sublicensees to unrelated third parties, less the following deductions:

*

(b) With respect to a Combination Product, the gross invoiced sales of such Combination Product in a particular country by Abbott, its Affiliates and/or sublicensees to unrelated third parties less the deductions under (i) - (vi) above, multiplied by a fraction (i) the numerator of which shall be the per unit current wholesale selling price of the Product contained in the Combination Product, as sold alone in such country, and (ii) the denominator of which shall be the sum of the per unit current wholesale selling price in such country of each active

ingredient in such Combination Product (including the Product) as sold alone as a pharmaceutical product. If there is no established current wholesale selling price of the Product contained in such Combination Product or any other active ingredient of such Combination Product in a particular country, then the standard, fully-burdened manufacturing cost of the Product and other active

* Confidential treatment has been requested for marked portions

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ingredient(s) shall be used to determine the above fraction, with such costs being determined in accordance with United States generally accepted accounting principles.

(c) With respect to a Product that is sold in a Premium Delivery System (as defined below), an amount calculated by multiplying (i) the total number of milligrams of the ArQule Compound or Abbott Derivative Compound, as applicable, in such Product sold in Premium Delivery Systems in a particular country by Abbott, its Affiliates and/or sublicensees to unrelated third parties, by (ii) the average selling price of one (1) milligram of the ArQule Compound or Abbott Derivative Compound, as applicable, in such Product sold in such country by Abbott, its Affiliates and/or sublicensees to unrelated third parties in the same reporting period, which Product is not sold in Premium Delivery Systems. For purposes of the foregoing sentence, "average selling price" is the total Net Sales of such Product not sold in Premium Delivery Systems calculated pursuant to subparagraph (a) above divided by the aggregate number of milligrams of the ArQule Compound or Abbott Derivative Compound, as applicable, contained in all such Products to which such Net Sales apply. If such Product is only sold in Premium Delivery Systems during the applicable reporting period, then the "Net Sales" of the Product sold in Premium Delivery Systems shall be determined by multiplying the "Net Sales" of the Premium Delivery System containing such Product calculated pursuant to subparagraph (a) above by a fraction (A) the numerator of which shall be the standard, fully-burdened manufacturing cost of the Product and (B) the denominator of which shall be the standard, fully-burdened manufacturing cost of all of the ingredients and components of the Premium Delivery System (including such Product). As used herein, "Premium Delivery System" means any drug delivery system product which comprises a drug or drugs along with a device(s), equipment, instrumentation, or other components (but not solely containers or packaging) designed to accomplish or assist in the non-oral administration of such drug(s) and thereby enhance the value of such drug(s), including but not limited to the Abbott ADD-Vantage(R)System.

1.29 "Patent Rights" shall mean (a) all patent applications filed anywhere in the Territory by either party or their Affiliates having claims relating to a Product, Abbott Derivative Compound or ArQule Compound, or the process of manufacture or use thereof, together with any patents issuing therefrom (including but not limited to Composition of Matter Patents), and (b) all divisions, continuations, continuations-in-part, reexaminations, reissues, additions, renewals and extensions of such patent applications and patents. Patent Rights owned by Abbott shall be referred to as "Abbott Patent Rights", Patent Rights owned by ArQule shall be referred to as "ArQule Patent Rights", and Patent Rights owned by ArQule and Abbott jointly shall be referred to as

"Joint Patent Rights", with ownership of Patent Rights to be determined in accordance with United States patent laws and practice.

1.30 "Phase III Studies" shall mean a program of clinical studies approved by the FDA or other equivalent national or supranational regulatory agencies outside of the United States which, if successfully completed to the satisfaction of the FDA or equivalent agencies outside of the United States, is intended to enable the sponsor of the studies to file an NDA and/or other equivalent applications for Regulatory Approval (as defined below).

1.31 "Product" shall mean any product containing an Abbott Derivative Compound or an ArQule Compound.

1.32 "R & D Committee" shall mean the Research and Development Committee established by the parties pursuant to Article 3.

1.33 "R & D Plan" shall mean the twelve (12) month rolling plan of ArQule research and development activities to be developed by the R & D Committee pursuant to Article 3.

1.34 "R & D Program" shall mean the research and development program funded by Abbott at ArQule as described in Article 3.

1.35 "Regulatory Approval" shall mean all governmental approvals required to market and sell a Product in any given country or multinational region in the Territory (e.g., the European Union), including but not limited to, product registrations, medical approvals, and price/marketing approvals.

1.36 "Research Term" shall mean the two (2) year program of collaborative research by Abbott and ArQule hereunder, which may be extended by Abbott pursuant to Section 2.3 for up to three (3) additional successive one (1) year periods.

1.37 "Reserved Array(s)" shall mean one (1) or more Active ArQule Array(s) for which Abbott exercises a Target Reservation (as defined below) in accordance with the procedures set forth in Section 5.5.

1.38 "Royalty Term" shall mean, with respect to each Product in each country of the Territory where Abbott's obligation to pay royalties pursuant to Section 6.3 is in effect, the period of time commencing with the first commercial sale of such Product by Abbott, its Affiliates and/or sublicensees to an unrelated third party in such country and continuing until Abbott's obligation to pay royalties pursuant to Section 6.3 ceases in such country.

1.39 "Target" shall have the meaning set forth in Section 5.5.

1.40 "Target Reservation" shall mean an Abbott's designation of one (1) or more Active ArQule Arrays as Reserved Arrays for a specified Target pursuant to Section 5.5.

1.41 "Territory" shall mean the entire world.

1.42 "Valid Claim" shall mean a claim of an issued and unexpired Composition of Matter Patent which neither has been held unenforceable or invalid by a decision of a court or

governmental agency of competent jurisdiction, unappealable or unappeased within the time allowed for appeal, nor has been admitted by the holder of the Composition of Matter Patent to be invalid or unenforceable through reissue, reexamination, disclaimer, abandonment or otherwise.

Additional terms used in specific sections of this Agreement shall be defined in such sections.

ARTICLE 2

R & D PROGRAM

2.1 ArQule Research and Development Activities. Under the direction of the R & D Committee, during the Research Term ArQule shall synthesize Abbott Derivative Compounds from Abbott Core Compounds and/or other Abbott Derivative Compounds supplied to ArQule by Abbott. ArQule shall deliver such Abbott Derivative Compounds to Abbott in a format suitable for use by Abbott in accordance with the R & D Plan, together with structure and purity information and such other information and documentation as Abbott may reasonably request concerning the structural changes ArQule has made to (a) Abbott Core Compounds to synthesize Abbott Derivative Compounds and/or (b) Abbott Derivative Compounds to synthesize further Abbott Derivative Compounds. Except as otherwise agreed by the parties or the R & D Committee, ArQule shall supply Abbott with all quantities of Abbott Derivative Compounds synthesized by ArQule. ArQule shall supply Abbott with mutually agreed upon quantities of each Abbott Derivative Compound in accordance with the R & D Plan, as determined by the R & D Committee, provided that Abbott has supplied ArQule with the necessary quantities of Abbott Core Compounds in accordance with the R & D Plan. ArQule shall conduct the research and development activities described in this Section in a good scientific manner and in compliance with all applicable federal, state and local laws and regulations.

2.2 ArQule FTE Requirements. Unless otherwise agreed in writing by the R & D Committee or the parties, within thirty (30) days after the Effective Date and thereafter for the remainder of the Research Term, ArQule shall maintain a minimum of * FTE scientists to perform research and development activities for Abbott Derivative Compounds and such other activities as the R & D Committee may designate in accordance with the R & D Plan. ArQule employees performing such activities shall be competent, reasonably qualified and adequately trained for their respective duties, and ArQule shall provide Abbott with such information and documentation as Abbott may reasonably request concerning the qualifications and job performance of such ArQule employees, as well as the time they spend performing such activities. The number of FTEs may be increased or decreased by mutual written agreement of the parties upon such terms as may be mutually agreed upon.

2.3 Research Term. The Research Term shall commence on the Effective Date and continue for a period of two (2) Contract Years thereafter. In accordance with Section 2.4, Abbott may, at its option, extend the Research Term for up to three (3) additional Contract Years, exercisable one (1) Contract Year at a time, upon written notice to ArQule at least six (6) months prior to the then scheduled expiration of the Research Term.

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2.4 Research Term Payments. In consideration of the research and development activities to be performed by ArQule pursuant to Section 2.1, Abbott shall make the following payments to ArQule:

(a) A technology access fee of * Dollars * for the first two (2) Contract Years, payable within ten (10) business days of the Effective Date;

(b) Additional technology access fees of * Dollars * per Contract Year for each extension of the Research Term by Abbott pursuant to Section 2.3, payable on the second, third and fourth anniversaries of the Effective Date, as applicable; and

(c) Research and development funding of * Dollars * per Contract Year, payable in semi-annual installments of * Dollars * at the beginning

of the first and third Contract Quarters of each Contract Year, which funding is calculated at the rate of * Dollars * per ArQule FTE per Contract Year. ArQule shall use such funding to support its research and development activities hereunder.

ARTICLE 3

R & D COMMITTEE

3.1 Establishment. The parties hereby establish an R & D Committee to monitor the ArQule research and development activities conducted under this Agreement.

3.2 R & D Plan. The R & D Committee shall develop an initial R & D Plan covering the first twelve (12) months of the Research Term within thirty (30) days of the Effective Date and, thereafter for the remainder of the Research Term, shall update the R & D Plan to provide for a rolling twelve (12) month R & D Plan at least once per Contract Quarter. The R & D Plan shall contain performance goals for ArQule's research and development activities under Section 2.1, including but not limited to minimum numbers of Abbott Derivative Compounds to be developed from Abbott Core Compounds and supplied to Abbott, a timetable and budget for key research and development activities, and such other items as may be agreed upon by the R & D Committee. ArQule shall use commercially reasonable efforts to achieve the performance goals specified in the R & D Plan .

3.3 Additional Responsibilities. In addition to developing and updating the R & D Plan pursuant to Section 3.2, the R & D Committee shall also have the following responsibilities during the Research Term: (a) monitoring ArQule's research and development activities in accordance with the R & D Plan, (b) recommending changes in the number of FTEs and Abbott's level of research and development funding, if necessary or appropriate to accomplish the objectives of the R & D Plan, provided that any such changes shall require the prior written

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approval of both parties, and (c) reporting the status of ArQule's research and development activities hereunder to both parties at least once per Calendar Quarter.

3.4 Membership. The R & D Committee shall consist of six (6) members, with three (3) members being appointed by each party. The initial R & D Committee members are:

Abbott Members	ArQule Members
1. Alan Rosenthal	1. Joseph Hogan, Jr.
2. Jake Plattner	2. David Coffen
3. Thomas Sowin	3. Robert Zambias

Each party may remove and replace its R & D Committee members at any time, without cause, upon written notice to the other party. An alternate member designated by a party in writing shall be entitled to vote only in the absence of a permanent member designated by such party. All references to "members" in this Agreement refer to the permanent members of the R & D Committee and any alternate member when acting in the place of a permanent member, unless the context requires otherwise.

3.5 Actions. Any action or decision by the R & D Committee must be approved by a majority of the members present at a duly convened meeting of the R & D Committee, including at least one (1) member appointed by each party, or, pursuant to Section 3.8, approved by written consent of a majority of the members, including at least one (1) member appointed by each party. If the R & D

Committee cannot agree on a particular matter within the scope of its responsibilities, the matter shall be submitted for dispute resolution in accordance with Article 12.

3.6 Meetings. The R & D Committee shall meet within thirty (30) days after the Effective Date and, thereafter for the remainder of the Research Term, according to a schedule of regular meetings established by the members of the R & D Committee. In no event, however, shall the R & D Committee meet less frequently than once every Contract Quarter during the Research Term. Additional meetings of the R & D Committee may be called by any two (2) members, one (1) of which shall have been appointed by each party. Notice of the date, time and place of each regular or additional meeting and a proposed agenda for the meeting shall be provided to the members, when practicable, at least fifteen (15) days prior to the scheduled date of the meeting (unless notice is waived in writing by a member or party).

3.7 Locations of Meetings. Except as otherwise provided in Section 3.8 or as otherwise mutually agreed by the parties, the regular and additional meetings of the R & D Committee shall alternate between the principal business locations of each party.

3.8 Conduct of Meetings. Any regular or additional meeting of the R & D Committee may be conducted in person or by telephone conference. The R & D Committee may act without a meeting if prior to such action a written consent to the action is signed by a majority of the members, including at least one (1) member appointed by each party. Minutes reflecting actions taken at meetings shall be maintained at a mutually agreed upon location, together with any other

books and records of the R & D Committee, and such minutes shall be distributed to the parties upon request.

3.9 Cooperation of Parties. Each party shall furnish to the R & D Committee all information and documentation that are reasonably required for purposes of this Agreement, which disclosures shall be subject to the confidentiality obligations specified in Section 8.1. In addition, it is anticipated that the parties will engage in frequent informal communications regarding the research and development activities conducted under this Agreement.

3.10 Visits to ArQule Facilities. R & D Committee members shall have the right to visit the facilities where ArQule's research and development activities hereunder are being conducted at any time during ArQule regular business hours upon reasonable prior notice. Other Abbott representatives may also visit such facilities upon reasonable prior notice with ArQule's prior written consent, which consent shall not be unreasonably withheld. Abbott shall bear its own expenses relating to visits to such facilities by its representatives.

ARTICLE 4

ABBOTT COMPOUND OWNERSHIP AND FURTHER DEVELOPMENT

4.1 Ownership of Abbott Core Compounds. All Abbott Core Compounds supplied to ArQule hereunder shall be the sole and exclusive property of Abbott, except to the extent of any rights held by third parties who have licensed or supplied Abbott Core Compounds to Abbott. ArQule shall not acquire any licenses or intellectual property rights in or relating to Abbott Core Compounds hereunder, and ArQule, its Affiliates, employees and agents shall execute such documents and take such other actions as Abbott deems appropriate to establish or protect Abbott's proprietary rights in Abbott Core Compounds. With respect to any Abbott Core Compounds that are not proprietary to Abbott, ArQule's acceptance of such Abbott Core Compounds and synthesis of Abbott Derivative Compounds from such Abbott Core Compounds shall not preclude ArQule from: (a) entering into an agreement with a third party with respect to research, development and commercialization of such Abbott Core Compounds if they are lawfully in the possession of such third party or (b) having an internal ArQule program (including programs with academic collaborators) concerning the research, development and commercialization of such Abbott Core Compounds,

provided that ArQule does not use any Abbott Confidential Information (as defined in Section 8.1) in connection with such research, development and commercialization pursuant to (a) or (b) above.

4.2 Ownership of Abbott Derivative Compounds. All Abbott Derivative Compounds synthesized by ArQule, its Affiliates or contractors hereunder shall be the sole and exclusive property of Abbott, except to the extent of any rights held by third parties who have licensed or supplied Abbott Core Compounds to Abbott. Ownership of intellectual property rights in or relating to Abbott Derivative Compounds shall be determined in accordance with Article 10. ArQule hereby grants Abbott a worldwide, royalty-free, irrevocable, exclusive license (with the right to sublicense) under any ArQule Patent Rights and Joint Patent Rights in or relating to any Abbott Derivative Compounds to make, have made, use, import, offer to sell, and sell any product that contains an Abbott Derivative Compound.

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4.3 Further Research and Development Activities. Abbott may perform such further research and development activities on Abbott Compounds as Abbott deems appropriate in its sole discretion. Except for payments of royalties and milestone payments on Abbott Derivative Compounds pursuant to Article 6, Abbott shall have no obligations to ArQule with respect to Abbott Compounds hereunder.

ARTICLE 5

ARQULE COMPOUND RESEARCH AND DEVELOPMENT LICENSES

5.1 Delivery of ArQule Arrays. During the Array Transfer Period, ArQule shall deliver to Abbott * ArQule Arrays per Contract Year. ArQule may, at its option, also deliver to Abbott additional ArQule Arrays. ArQule shall select the ArQule Arrays to be delivered to Abbott hereunder and the ArQule Cole Compounds within each such ArQule Array, provided that each ArQule Core Compound shall appear only once in any ArQule Array delivered to Abbott hereunder. Except as otherwise agreed by Abbott, ArQule shall supply Abbott with a minimum quantity of * of each ArQule Compound in such ArQule Arrays or * percent (*) of the material synthesized by ArQule of each ArQule Compound in such ArQule Arrays, whichever is less. ArQule acknowledges that it is its intention to synthesize approximately * of each ArQule Core Compound, whenever ArQule determines that synthesis of such quantities of ArQule Core Compounds is chemically feasible and commercially reasonable. ArQule shall conduct the research and development activities described in this Section in a good scientific manner and in compliance with all applicable federal, state and local laws and regulations.

5.2 Screening of ArQule Compounds. During the Array Screening Period, Abbott shall have the right, either directly or through Abbott's Affiliates or third party contractors selected by Abbott, to perform such testing and analytical work as Abbott deems appropriate on ArQule Core Compounds received hereunder, provided that Abbott shall have the right to perform composition and structural analysis only after Abbott's receipt of confirmed chemical composition and structure and purity information pursuant to Section 5.3, and further provided that Abbott shall not perform significant derivitization work on ArQule Core Compounds until Abbott makes a Target Reservation for the ArQule Array containing such ArQule Core Compounds pursuant to Section 5.5. The parties agree that "significant derivitization work" shall mean any derivitization work beyond that which is reasonably necessary to allow Abbott to determine whether an ArQule Core Compound is sufficiently amenable to chemical modification to warrant the exercise of a Target Reservation by Abbott.

5.3 Identification of ArQule Compounds. Upon Abbott's written request at any time during the Array Screening Period, ArQule shall provide Abbott with the confirmed chemical composition and structure and purity information for any Active ArQule Compound in an ArQule Array upon presentation by Abbott of reasonably sufficient documentation of the biological activity for which Abbott is testing. Prior to revealing such documentation to ArQule, Abbott shall remove any reference to the type of biological activity detected and the assay used, and Abbott shall not identify in any other manner such biological activity or assay except in accordance with Section 5.4. Upon Abbott's written request, ArQule shall also provide Abbott with the confirmed chemical composition and structure and purity information for additional

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ArQule Compounds in the ArQule Array that contains the Active ArQule Compound, but only if such ArQule Compounds exhibit biological activity less than or equal to the Active ArQule Compound.

5.4 Additional Quantities of ArQule Compounds.

(a) ArQule Obligations. During the Array Transfer Period, ArQule shall provide Abbott with reasonable additional quantities of Active ArQule Compounds for which Abbott has received confirmed chemical composition and structure and purity information under Section 5.3. Such Active ArQule Compounds shall be synthesized by ArQule in the course of the R & D Program. Abbott may elect to obtain reasonable additional quantities of Active ArQule Compounds from ArQule for up to twelve (12) months after the expiration of the Array Transfer Period upon written notice to ArQule which is received at least ninety (90) days prior to such expiration. In this event, Abbott shall pay ArQule the amount of * Dollars * per ArQule FTE per year, up to a maximum of * FTEs in four (4) equal quarterly installments, with the first installment due upon the expiration of the Array Transfer Period and each subsequent installment due every three (3) months thereafter. ArQule shall provide the Abbott-funded FTE scientists to supply Abbott with reasonable quantities of Active ArQule Compounds, as requested by Abbott. Abbott may discontinue this resupply program upon ninety (90) days prior written notice to ArQule; provided, however, that any payments previously received by ArQule under this Section shall be nonrefundable.

(b) Suspension of ArQule Obligations. Notwithstanding anything to the contrary set forth herein, if ArQule believes Abbott has failed to pay ArQule all or any portion of research and development funding payments due under Section 2.4 or FTE funding payments due under Section 5.4(a), ArQule may, at its option, provide Abbott with ten (10) business days prior written notice stating the amount ArQule believes Abbott owes, which amount shall be calculated using the amounts and per FTE rates specified in Sections 2.4 or 5.4(a), as applicable ("Disputed Amount"), and (ii) ArQule's intention to suspend performance of its obligations pursuant to Section 5.4(a) pending receipt of the Disputed Amount. If Abbott pays ArQule the Disputed Amount within the ten (10) business day notice period, ArQule shall not suspend such performance, provided that such payment by Abbott shall not preclude Abbott from initiating dispute resolution proceedings pursuant to Article 12 to seek a refund of any portion of the Disputed Amount that Abbott believes was not owed to ArQule hereunder. If Abbott does not pay ArQule the Disputed Amount within the ten (10) business day notice period, ArQule may suspend such performance pending receipt of the Disputed Amount.

5.5 Target Reservations and Reserved Arrays.

(a) Determination of a Target. In the event that Abbott desires to make a Target Reservation for one (1) or more Active Arrays, Abbott shall provide written

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notice to ArQule of the Active Array(s) of interest, the identity of the Active ArQule Compound(s) therein, the type of biological activity detected, and the assay in which the activity was detected.

(i) Specific Target. If the type of activity and the detection assay reveal a probable interaction of the Active ArQule Compound(s) with a specific, identified biomolecule (such as a protein, polynucleotide, carbohydrate, lipid, or any combination thereof), then the term "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 substantially similar function as the identified biomolecule.

(ii) General Target. In all other cases, the term "Target" shall mean the narrowest definable element of an observed biological activity in a non-specific assay (i.e., an in vitro assay based on use of membranes, whole cells, or specific animal tissues), as customarily used for lead screening purposes by Abbott, subject to further reduction in scope based on the extent to which ArQule would be unreasonably precluded from (A) granting rights to third parties to use the Active Array(s) with specific, identified biomolecules and (B) using the Active Array(s) in an internal ArQule program (including programs with academic collaborators) with specific, identified biomolecules. Based on the criteria set forth in (i) and (ii) above, the parties shall determine in good faith the exact scope of the Target by mutual written agreement, subject to modification from time to time during the License Option Period in the same manner. With respect to Specific Targets, the parties shall make such modifications as may be reasonably necessary to provide Abbott with substantially equivalent biological Target coverage. During the Research Term, the R & D Committee shal; determine the scope of the Target. After the expiration or termination of the Research Term, the parties shall each designate one (1) or more authorized representatives to meet at least once per Contract Quarter to review and update the scope(s) of the Target(s) .

(b) Designation of Reserved Arrays. Subject to availability, as described below, Abbott may make Target Reservations by designating any Active Arrays as Reserved Arrays for specified Targets up to a maximum of six (6) Target Reservations at any time during the Array Screening Period. All such Target Reservations shall expire upon expiration of the License Option Period, unless earlier terminated as provided in this Agreement. An Active Array shall be available for designation as a Reserved Array for a Target unless ArQule can reasonably demonstrate to Abbott that ArQule has previously committed the Active Array to (i) a bona fide, documented external program on the same Target or (ii) a bona fide, documented internal ArQule program (including programs with academic collaborators) on the same Target. During the Array Screening Period, Abbott may, upon ten (10) days prior written notice to ArQule, relinquish its rights in Reserved Arrays for up to four (4) Target Reservations, in exchange

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for the right to designate Reserved Arrays with respect to one

(1) substituted Target Reservation for each relinquished Target Reservation. In such event, Abbott shall grant ArQule a royalty-free, world-wide, irrevocable, exclusive license (with the right to sublicense) under all then-existing and subsequently created Abbott Patent Rights claiming ArQule Compounds derived from ArQule Core Compounds in the relinquished Reserved Arrays to make, have made, use, import, sell and offer to sell such ArQule Compounds.

(c) Effect of Target Reservation. For as long as each Target Reservation is in effect, Abbott shall have the exclusive right to derivatize ArQule Derivative Compounds from Active ArQule Compounds in Reserved Arrays and to conduct such synthesis, testing and analytical work as Abbott deems appropriate relating to such ArQule Derivative Compounds for use with the Target, including but not limited to composition and structural analysis. Such exclusive right shall be in effect from the date Abbott exercises each Target Reservation until the end of the License Option Period, but only so long as the Target Reservation remains in effect. Abbott may elect to conduct synthesis, testing and analytical work relating to ArQule Derivative Compounds itself or to have such work conducted by Abbott Affiliates or contractors or, during the Array Transfer Period, by ArQule pursuant to the R & D Program.

(d) Maintenance of Target Reservations. For each Target Reservation, Abbott shall maintain an active development program for at least one (1) Active ArQule Compound in any Reserved Array for the relevant Target. Abbott shall have maintained such an active program if Abbott commits to the program at least Three Million Dollars ($3,000,000) FTE synthetic chemists at either Abbott or ArQule.

(e) Conflicting Target Reservations. If a third party or ArQule itself, under a bona fide, documented internal ArQule program (which may or may not involve an academic collaborator) originated without use of or reference to Abbott Confidential Information, desires to reserve a Reserved Array subject to an Abbott General Target Reservation for a third party or ArQule Specific Target Reservation or more narrowly defined General Target Reservation and the requested third party or ArQule Target Reservation, in ArQule's determination, actually or potentially conflicts with Abbott's General Target Reservation, then ArQule shall provide Abbott with written notice of such actual or potential conflict within thirty (30) days of ArQule's discovery thereof.

(i) ArQule shall include in such notice the proposed Specific Target or narrower General Target definition desired to be reserved by such third party (if ArQule is legally permitted to make such disclosure) or ArQule. Within ten (10) business days of Abbott's receipt of such notice containing the proposed Specific Target or narrower General Target definition, Abbott shall, at its option: (A) accept the proposed third party or ArQule Target Reservation as Abbott's new Target Reservation and release the remainder of Abbott's original General Target Reservation; (B) retain Abbott's original General Target Reservation excluding the proposed third party or ArQule Target Reservation; (C) retain Abbott's

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original General Target Reservation on a semi-exclusive basis with the third party or ArQule with respect to the portion of Abbott's original General Target Reservation that conflicts

with the proposed third party or ArQule Target Reservation and on an exclusive basis for the remainder of Abbott's original General Target Reservation; or (D) negotiate in good faith to redefine Abbott's General Target Reservation so as to resolve the area of conflict, provided that if the parties are unable to agree on a redefined Abbott General Target Reservation within thirty (30) days, the matter shall be resolved by Scientific Dispute Resolution ("SDR") proceedings as set forth in Exhibit B. In any SDR proceedings pursuant to this Section 5.5(e)(i), if the neutrals in such SDR proceedings determine that an actual conflict exists between Abbott's original General Target Reservation and the proposed third party or ArQule Target Reservation, then Abbott shall at a minimum be allowed to retain semi-exclusive rights to the portion of its original General Target Reservation that conflicts with the proposed third party or ArQule Target Reservation .

(ii) If ArQule is not legally permitted to disclose the proposed Target Reservation definition desired to be reserved by a third party, ArQule shall arrange for such dispute to be resolved by SDR proceedings as set forth in Exhibit B. In any SDR proceedings pursuant to this Section 5.5(e)(ii), if the neutrals in such SDR proceedings determine that an actual conflict exists between Abbott's original General Target Reservation and the proposed third party Target Reservation, then Abbott shall at a minimum be allowed to retain semi-exclusive rights to the portion of its original General Target Reservation that conflicts with the proposed third party Target Reservation.

5.6 License Rights.

(a) Exercise of Option. Subject to availability, as described below, Abbott shall have the option to license a total of * Licensed Compound Sets under the terms of this Agreement. Abbott may exercise such license options upon written notice to ArQule at any time within the License Option Period, whereupon the parties shall determine the compounds comprising the Licensed Compound Set, in accordance with the following procedures:

(i) Abbott shall identify to ArQule a single ArQule Compound that Abbott has designated a "PPCC posttoxicity" compound under Abbott's then standard internal procedures ("Licensed Set Core"). The Licensed Set Core shall be identical to or derived from an Active ArQule Compound in a Reserved Array. The Licensed Set Core shall be included in the Licensed Compound Set.

(ii) The other ArQule Compounds comprising the Licensed Compound Set shall satisfy both of the following criteria:

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(A) The ArQule Compound shall exhibit at least * percent * homology with the Licensed Set Core (as measured by a widely accepted and used software program, such as Daylight).

(B) The ArQule Compound shall exhibit biological activity against the Target when the ArQule Compound is present at a concentration of * or less in

the relevant assay, or such higher concentration level demonstrating significant biological activity against the Target as the parties may mutually agree upon.

(iii) The ArQule Compound shall be available for inclusion in the Licensed Compound Set unless ArQule can reasonably demonstrate to Abbott that ArQule has previously committed the ArQule Compound to (A) a bona fide, documented external program involving the same ArQule Compound or (B) a bona fide, documented, internal program (including programs with academic collaborators) involving the same ArQule Compound.

(b) License Grant. ArQule hereby grants Abbott a worldwide, royalty-bearing license (with the right to sublicense) under ArQule Patent Rights to make, have made, use, import, offer to sell, and sell in the Abbott Field any Products that incorporate any ArQule Compound in any of the Licensed Compound Sets. Such license grant shall be exclusive to the extent that ArQule may legally grant an exclusive license to Abbott; otherwise, ArQule shall grant Abbott a license with the greatest degree of exclusivity that ArQule may legally grant.

(c) Diligence Requirements. Abbott shall maintain an active clinical development program on at least one (1) ArQule Compound in each Licensed Compound Set. Abbott shall have maintained such an active program if Abbott expends at least Three Million Dollars ($3,000,000) per year in direct costs (including, but not limited to, costs attributable to external services or material contracts) relating to clinical development of one (1) or more ArQule Compounds within the Licensed Compound Set during the period commencing on the date upon which the Licensed Compound Set is determined and ending on the date upon which Abbott makes a milestone payment to ArQule pursuant to Section 6.1 (a) for the initiation of Phase III Studies for an ArQule Compound within the Licensed Compound Set; provided, however, that this obligation shall be suspended for a period not to exceed twelve (12) months during any period that clinical trials are delayed or suspended because of an unexpected negative result occurring for reasons beyond the control of Abbott. If clinical trials are delayed or suspended because of such unexpected negative result for a period in excess of twelve (12) months, the parties shall in good faith negotiate appropriate modifications to Abbott's due diligence obligations under this Section.

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5.7 License from Abbott. Abbott hereby grants ArQule:

(a) a worldwide, royalty-free, non-exclusive license (with the right to sublicense) under any Composition of Matter Patents relating to ArQule Compounds that are included within the Abbott Patent Rights to make, have made, use, import, offer to sell, and sell any ArQule Compounds in the ArQule Field, and (b) a worldwide, royalty-free, exclusive license (with the of right to sublicense) under any Abbott Patent Rights relating to ArQule Compounds that are not Composition of Matter Patents to make, have made, use, import, offer to sell, and sell any ArQule Compounds in the ArQule Field, excluding in each case Abbott Patent Rights relating to ArQule Compounds in any Licensed Compound Set that are under active clinical development by Abbott.

5.8 Synthetic Support. During the Array Screening Period, at no cost to Abbott, ArQule shall provide Abbott with reasonable technical support relating

to the synthesis of ArQule Derivative Compounds. Such technical support shall be in the form of consultation and advice only, and shall not include any on-site instruction or the performance of any chemical synthesis.

5.9 Further Development and Regulatory Approvals. Abbott shall have the sole discretion to determine which Licensed Final Compounds and Products, if any, to develop or market, or to continue to develop or market, as well as those Licensed Final Compounds and Products for which Regulatory Approvals may be sought, and when, where, how and on what terms and conditions to market such Licensed Final Compounds and Products in the Territory. All Regulatory Approvals for Licensed Final Compounds and Products shall be owned solely by Abbott.

5.10 Agreements With Third Parties. The parties acknowledge and agree that ArQule may make ArQule Arrays available to third parties in addition to Abbott for screening and analytical work and possible further research and development work. If ArQule enters into an agreement with any third party and the general terms of such agreement relating to ArQule Arrays are substantially similar to the terms of this Agreement relating to ArQule Arrays, except that the financial terms of such third party agreement relating to ArQule Arrays, considered in the aggregate, are more favorable than the financial terms relating to ArQule Arrays under this Agreement, then Abbott may, at its option, elect to substitute the financial terms of such third party agreement relating to ArQule Arrays for the financial terms of this Agreement relating to ArQule Arrays in their entirety.

5.11 Other ArQule Compounds. ArQule acknowledges and agrees that Abbott shall have the right to commercially develop, market and sell ArQule Derivative Compounds synthesized by Abbott that are (a) not included in any Licensed Compound Set and (b) not covered by any ArQule Patent Rights, subject to Abbott's obligation to pay royalties and milestone payments to ArQule pursuant to Article 6. Abbott acknowledges and agrees that ArQule makes no warranties with respect to such ArQule Derivative Compounds.

ARTICLE 6

MILESTONE AND ROYALTY PAYMENTS

6.1 Milestone Payments. In consideration of ArQule's entering into this Agreement and the rights and licenses granted by ArQule to Abbott hereunder, Abbott shall pay ArQule the following milestone payments with respect to each Abbott Derivative Compound and ArQule Compound commercially developed by Abbott hereunder:

(a) * Dollars * * , payable within thirty (30) days after * with respect to each Abbott Derivative Compound and ArQule Compound anywhere in the Territory;

(b) * Dollars * , payable within thirty (30) days after FDA acceptance of the initial NDA for each Abbott Derivative Compound and ArQule Compound filed by Abbott;

(c) * Dollars * , payable within thirty, (30) days after

*

(d) * Dollars * , payable within thirty (30) days after

* and

(e) * Dollars * , payable within thirty (30) days after

*

6.2 No Multiple Milestone Payments. If Abbott determines, in its business judgment, to commercially develop and/or seek Regulatory Approval of a different Abbott Derivative Compound or a different ArQule Compound in substitution of an Abbott Derivative Compound or ArQule Compound for which Abbott has paid one (1) or more milestone payments pursuant to Section 6.1, then Abbott shall not be required to pay the same milestone payment(s) for the substituted Abbott Derivative Compound or ArQule Compound, as applicable (e.g., if Abbott has paid the * milestone payment referenced in Section 6.1 (a) after * with respect to Compound A and then Abbott subsequently substitutes Compound B for Compound A, Abbott shall have no obligation to pay a second * milestone payment for * with respect to Compound B. However, Abbott would still be obligated to make the milestone payments referenced in Section 6.1 (b)-(e) for Compound B, if applicable).

* confidential treatment has been requested for marked portions

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6.3 Royalty Rates and Payments. In further consideration of the rights and licenses granted to Abbott hereunder, Abbott shall pay ArQule royalties on Net Sales at the following royalty rates:

(a) For Products for which a Valid Claim is in effect, for as long as a Valid Claim is in effect on a country-by-country basis, Abbott shall pay royalties as follows:

(i) For Products containing Abbott Derivative Z Compounds (but not containing ArQule Compounds), * percent * of Net Sales during each calendar year; and

(ii) For Products containing ArQule Compounds (or both ArQule Compounds and Abbott Derivative Compounds), * percent * of Net Sales during each calendar year.

(b) For Products other than Products referenced in Section 6.3(a) which contain ArQule Compounds as a therapeutically active ingredient and for which no Valid Claim held by ArQule is in effect, Abbott shall pay ArQule royalties at the rate of * percent * of Net Sales during each calendar year for a period of ten (10) years from the date of the first commercial sale of each such Product in the United States, or any European Union member country, or Japan; provided, however, that Abbott shall have no obligation to pay royalties or milestone payments pursuant to this Article 6 if the ArQule Compound in question is an ArQule Derivative Compound that was first actually synthesized after the seventh anniversary of the Effective Date.

6.4 Lump Sum Royalty Payment. In addition to royalty payments pursuant to Section 6.3, with respect to any Products containing an ArQule Compound as a therapeutically active ingredient, Abbott shall pay ArQule a lump sum royalty payment of * Dollars * , payable within sixty (60) days after the end of the first calendar year during the Royalty Term in which Net Sales of any such Product are greater than * Dollars * This lump sum royalty payment shall be payable only once per Product during the term of this Agreement (i.e., no such payments shall be due during any subsequent calendar years in which Net Sales of the same Product are greater than *

6.5 Certain Compounds Previously in Abbott's Possession. Notwithstanding anything to the contrary set forth herein, Abbott shall have no obligation to pay ArQule royalties or milestone payments pursuant to this Article 6 with respect to any ArQule Core Compounds or Abbott Derivative Compounds that were in Abbott's possession (either by independent development or acquisition from a third party) prior to receipt thereof from ArQule, as evidenced by competent written records that Abbott presents to ArQule within

sixty (60) days after Abbott's receipt of the chemical composition and structure of such ArQule Core Compounds or Abbott Derivative Compounds from ArQule.

6.6 Royalty Reports and Payments. Commencing with the first Calendar Quarter in which Abbott, its Affiliates or sublicensees make the first commercial sale of any Product in the Territory, Abbott shall provide ArQule with a written report of Net Sales for each Product on a Product-by-Product, country-by-country basis within forty-five (45) days after the last day of

* confidential treatment has been requested for marked portions

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March, June, September and December for royalties accruing on Net Sales in the United States during the three (3) preceding calendar months and within seventy-five (75) days after the last day of February, May, August and November for royalties accruing on Net Sales in the Territory outside of the United States during the three (3) preceding calendar months. Concurrently with the submission of each such written report, Abbott shall pay or cause to be paid to ArQule the total amount of royalties shown to the due thereon.

6.7 Currency. Abbott shall make all milestone and royalty payments to ArQule pursuant to this Article 6 in U.S. Dollars. Royalty payments earned shall be first determined by Abbott in the currency of the country where the Net Sales were made and then converted by Abbott directly to its equivalent in U.S. Dollars. The rates of exchange for converting the currencies involved to U.S. Dollars as quoted by the Statistical Market Letter published by International Reports, Inc. as Foreign Exchange Rates quoted in New York as market rate (bid) on the last business day of the quarterly period in which the royalty payments were earned shall be used by Abbott to determine such conversion rates.

6.8 No Royalties Payable Between Affiliates. No royalties shall be payable to ArQule on sales between Abbott, its Affiliates or sublicensees, or between Abbott Affiliates and sublicensees.

6.9 No Multiple Royalties. No multiple royalties shall be payable because any Product, its manufacture, import, use, offer for sale, or sale is or shall be covered by multiple patents.

6.10 Sole License Payments; Fully Paid-up License. The parties acknowledge and agree that the milestone payments under Section 6.1 and the royalty payments under Sections 6.3 and 6.4 are the sole payments which may become due and owing by Abbott to ArQule in consideration for the license rights and other rights granted to Abbott by ArQule under Sections 4.2, 5.5(c), 5.6, and 5.11. Except as otherwise expressly provided herein, upon expiration of the Royalty Term for each Product such license rights and other rights shall become fully paid-up and irrevocable.

ARTICLE 7

PAYMENTS, BOOKS AND RECORDS

7.1 Method of Payment. Payments by Abbott to ArQule under this Agreement shall be made, at Abbott's option, either by check or by bank wire transfer to the address or bank account designated by ArQule.

7.2 Books and Records. Each party shall maintain complete and accurate financial books and records in accordance with United States generally accepted accounting principles, consistently applied and in sufficient detail to allow verification of any amounts subject to payment or reimbursement hereunder, including without limitation the calculation of Net Sales. Each party shall retain such records at its principal place of business for three (3) years or such other period as the parties may agree in writing.

7.3 Audit Rights. Upon the written request of either party (but not more frequently than once in any calendar year), the requesting party may retain an independent certified public accountant, subject to approval by the other party (which approval shall not be unreasonably withheld), to review such records of the other party to verify the accuracy of the payments made or payable hereunder. Such accountant shall be required to execute a confidentiality agreement in a form reasonably acceptable to the audited party and shall report to the auditing party (with a copy to the audited party) only the amount of any underpayment or overcharge. Within ten (10) business days after completion of such review, the parties shall reconcile any underpayment or overcharge. The auditing party shall pay the cost of any review of records conducted at its request under this Section, except that the audited party shall bear such cost if the audit reveals an underpayment of ten percent (10%) or greater. Such audit rights may be exercised by the parties only with respect to records of the other party for the current calendar year and the preceding two (2) calendar years.

ARTICLE 8

CONFIDENTIALITY, PUBLICITY AND PROPRIETARY MATERIALS

8.1 Confidentiality. During the term of this Agreement and for a period of seven (7) years thereafter, each party (as such, a "Receiving Party") shall keep in confidence any information and/or documentation received from or on behalf of the other party (as such, a "Furnishing Party") that is in written or tangible form and marked or otherwise identified as confidential or proprietary or, if originally disclosed orally or visually, that is reduced to a written document marked or otherwise identified as confidential or proprietary within sixty (60) days of oral or visual disclosure ("Confidential Information"), and the Receiving Party shall use the Confidential Information only for purposes of this Agreement. Abbott Confidential Information shall also include, but is not limited to, any information disclosed to ArQule concerning Abbott Compounds, Targets and ArQule Arrays that Abbott has reserved or requested to reserve, and targets for which Abbott is or may be screening Abbott Compounds. ArQule Confidential Information shall also include, but is not limited to, any information disclosed to Abbott concerning the identity of ArQule Compounds or the commitment of any ArQule Compounds or ArQule Arrays to a third party or an internal ArQule program. Except as expressly provided in this Agreement, the Receiving Party shall not at any time use or permit others to use any Confidential Information for any purposes, except as may be necessary for the Receiving Party to perform its obligations hereunder. The foregoing obligations shall not apply to, and the definition of "Confidential Information" does not include:

(a) information that was already in the public domain or subsequent to disclosure to the Receiving Party becomes part of the public domain other than through the fault of the Receiving Party;

(b) information that was rightfully known by the Receiving Party (as evidenced by its written records) prior to the date of disclosure by or on behalf of the Furnishing Party in connection with this Agreement;

(c) information that was received by the Receiving Party without restriction of confidentiality from a third party having a lawful right to disclose the same to the Receiving Party;

(d) information that the Receiving Party believes in good faith is required to be disclosed to comply with any applicable law, regulation or order of a government authority or court of competent jurisdiction (including, but not limited to, any disclosures required by the FDA or any foreign equivalent thereof and any securities laws applicable to a Receiving Party), in which event the Receiving Party shall use commercially reasonable efforts to advise the Furnishing Party in advance of the need for such disclosure; or

(e) information that is independently developed by or for the Receiving Party (as evidenced by its written records) by employees, agents or contractors

of the Receiving Party who have not had access to Confidential Information.

Notwithstanding the foregoing, the Receiving Party may disclose Confidential Information to its employees, agents, and contractors to the extent reasonably necessary for the performance of this Agreement, provided that such recipients are subject in writing to obligations of confidentiality and non-use with respect to such information to substantially the same extent as the Receiving Party is obligated hereunder. Further, Abbott may disclose relevant ArQule Confidential Information to appropriate government authorities without the necessity of obtaining ArQule's approval to the extent Abbott deems it necessary or appropriate in connection with its applications for Regulatory Approvals anywhere in the Territory, provided that Abbott shall use commercially reasonable efforts to consult with ArQule at least thirty (30) days prior to such disclosure in order to provide ArQule with an opportunity to comment on (i) the content, form and necessity of such disclosures and (ii) any potential effect of such disclosures on ArQule Patent Rights and Joint Patent Rights, as well as to provide ArQule with an opportunity to seek confidential treatment, if available, of the ArQule Confidential Information to be disclosed.

8.2 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 (a) either party may use the text of a written statement approved in advance by both parties without further approval, and (b) 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 federal, state or local laws or regulations, provided that the disclosing party uses commercially reasonable efforts to notify the other party of such disclosures and to consult with the other party concerning the form and content of such disclosures prior to such disclosures.

8.3 Proprietary Materials.

(a) Definition of Proprietary Materials. "Proprietary Materials" shall mean any tangible chemical, biological, or physical research materials that are furnished by or on behalf of one party (as such, a "Transferor") to the other party (as such, a "Recipient") in connection with this Agreement regardless of whether such materials are specifically designated as proprietary to the Transferor in the case of biological materials, Proprietary Materials shall also include other

materials ordinarily engendered by the original materials, including, for example, any progeny derived from a cell line (including naturally occurring mutants), monoclonal antibodies produced by hybridoma cells, DNA or RNA replicated from isolated DNA or RNA, recombinant proteins produced by a recombinant cell line, recombinant proteins produced through use of isolated DNA or RNA, and substances routinely purified from any source material included in the original materials. Proprietary Materials shall also include, without limitation, ArQule Compounds and Abbott Compounds exchanged by the parties under this Agreement. The Transferor shall furnish such Proprietary Materials, to the Recipient in a mutually acceptable form, including appropriate labelling and packaging.

(b) Limited Use. The Recipient shall use Proprietary Materials solely for the purposes set forth in this Agreement. The Recipient shall use the Proprietary Materials only in compliance with all applicable national, federal, state and local laws and regulations. The Recipient assumes all liability for damages that may arise from the use, storage, or disposal of any Proprietary Materials, except for damages resulting from the Transferor's negligence, willful misconduct or breach of this Agreement.

(c) Limited Disposition. Except as expressly authorized herein, the Recipient shall not transfer or distribute any Proprietary Materials to any third party without the prior written consent of the Transferor.

(d) Survival. The obligations of this Section shall remain in effect during the term of this Agreement for a period of seven (7) years thereafter.

8.4 Return of Confidential information and Proprietary Materials. Upon

the termination of this Agreement, at the request of the Furnishing Party, the Receiving Party shall return to the Furnishing Party all originals, copies, and summaries of documents, materials, and other tangible manifestations of the Furnishing Party's Confidential Information in the possession or control of the Receiving Party, except that the Receiving Party may retain one (1) copy of the Furnishing Party's 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 Recipient shall at the instruction of the Transferor either destroy or return any unused Proprietary Materials of the Transferor.

ARTICLE 9

REPRESENTATIONS AND WARRANTIES

Each party hereby represents and warrants to the other party as follows:

9.1 Corporate Existence and Power. Such party (a) is a corporation duly organized, validly existing and in good standing under the laws of the state in which it is incorporated, (b) has the corporate power and authority and the legal right to own and operate its property and assets, to lease the property and assets it operates under lease, and to carry on its business as it is now being conducted, and (c) is in compliance with all requirements of applicable laws and regulations, except to the extent that any noncompliance would not have a material adverse effect

on the properties, business, financial or other condition of such party and would not materially adversely affect such party's ability to perform its obligations under this Agreement.

9.2 Authorization and Enforcement of Obligations. Such party (a) has the corporate power and authority and the legal right to enter into this Agreement and to perform its obligations hereunder, and (b) has taken all necessary corporate action on its part to authorize the execution and delivery of this Agreement and the performance of its obligations hereunder. This Agreement has been duly executed and delivered on behalf of such party, and constitutes a legal, valid, binding obligation, enforceable against such party in accordance with its terms.

9.3 Consents. All necessary consents, approvals and authorizations of all governmental authorities and other persons required to be obtained by such party in connection with the execution, delivery and performance of this Agreement have been obtained.

9.4 No Conflict. The execution and delivery of this Agreement and the performance of such party's obligations hereunder (a) do not conflict with or violate any requirement of applicable laws or regulations and (b) do not conflict with, violate or breach or constitute a default or require any consent under, any contractual obligation of such party.

9.5 Compliance with Laws. Such party shall perform its activities under this Agreement in compliance with all applicable national, federal, state and local laws and regulations.

9.6 Patent Rights/Intellectual Property Infringement. To the best of its knowledge based upon reasonably diligent investigation, the issued patents included within its respective Patent Rights as of the Effective Date are and shall be valid and enforceable. Neither party represents or warrants to the other party that the exercise of the rights granted to the other party under this Agreement shall not infringe any patent rights of any third party (including, but not limited to, ArQule licensees).

ARTICLE 10

OWNERSHIP AND PROSECUTION OF PATENT RIGHTS

10.1 Abbott Core Compounds. Abbott may, at its own expense, take such

actions as it deems appropriate with respect to the preparation, filing, prosecution, issuance, maintenance, extension, enforcement and/or defense of all Patent Rights in or relating to Abbott Core Compounds (including but not limited to defending infringement suits and pursuing third party infringers). All Patent Rights in or relating to Abbott Core Compounds shall be in Abbott's name and shall be owned solely by Abbott.

10.2 Abbott Derivative Compounds. Abbott shall have sole control, at its expense, over the preparation, filing, prosecution, issuance, maintenance, extension, enforcement and/or defense of all Patent Rights in or relating to any Abbott Derivative Compounds. If any such Patent Rights constitute ArQule Patent Rights or Joint Patent Rights, Abbott shall use commercially reasonable efforts to consult with ArQule prior to any deadline or action with the

United States Patent and Trademark Office ("PTO") or any foreign patent office, and to furnish ArQule with copies of all relevant documents in advance of such consultation.

10.3 ArQule Compounds. ArQule shall have sole control, at its expense, over the preparation, filing, prosecution, issuance, maintenance, extension, enforcement and/or defense of any ArQule Patent Rights in or relating to ArQule Compounds; provided that ArQule shall use commercially reasonable efforts to consult with Abbott prior to any deadline or action with the PTO or any foreign patent office, and to furnish Abbott with copies of all relevant documents in advance of such consultation. Abbott shall have sole control, at its expense, over the preparation, filing, prosecution, issuance, maintenance, extension, enforcement and/or defense of any Joint Patent Rights in or relating to ArQule Compounds; provided that Abbott shall use commercially reasonable efforts to consult with ArQule prior to any deadline or action with the PTO or any foreign patent office, and to furnish ArQule with copies of all relevant documents in advance of such consultation. Abbott shall have control, at its expense, over the preparation, filing, prosecution, issuance, maintenance, extension, enforcement and/or defense of any Abbott Patent Rights in or relating to ArQule Compounds.

10.4 Waiver and Abandonment. If a party decides not to seek or maintain patent protection in any country for an invention for which such party controls the preparation and filing of a patent application and/or patent, and if such patent application and/or patent would constitute an ArQule Patent Right or a Joint Patent Right, the other party, at its expense, may assume responsibility for and control over such Patent Right in the relevant country. If a party decides to terminate or abandon an ArQule Patent Right or a Joint Patent Right with respect to which such party has control, then such party shall notify the other party at least sixty (60) days prior to such event to enable the other party, at its expense, to assume responsibility for and control over such Patent Right in the relevant country.

10.5 Full Cooperation. Each party agrees to cooperate fully in the preparation, filing, prosecution, issuance, maintenance. extension, enforcement and/or defense of any Patent Rights in or relating to ArQule Compounds and Abbott Derivative Compounds. 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 enable the other party to apply for, prosecute or defend patent applications or to oppose another party's patent applications or patents in any country;

(b) promptly informing the other party of any matters coming to a party's attention that may affect the validity, enforceability, preparation, filing, prosecution, or issuance of any such patent applications or maintenance of issued patents; and

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

10.6 Notification of Infringement. The parties shall promptly inform each other of any information that comes to their attention involving actual or possible infringement of Patent

Rights by any third party anywhere in the Territory or claims of alleged infringement made by any third party in the Territory against either party or its Affiliates resulting from the manufacture, import, offer for sale, sale or use of any Product.

10.7 Prosecution of Infringement Actions. Abbott shall have the right, under its own control and at its own expense, to pursue any third party infringer of ArQule Patent Rights or Joint Patent Rights in or relating to Abbott Derivative Compounds or ArQule Compounds that are in any Licensed Compound Set. Abbott may prosecute any infringement action in the name of ArQule, if so required by applicable law. If Abbott fails to initiate an infringement action within six (6) months after notification or knowledge of the basis for such action relating to a material infringement, ArQule shall have the right to prosecute such infringement, under its sole control and at its sole expense. Neither party shall enter into any settlement, consent judgment, or other voluntary final disposition of any infringement action without the prior written consent of the other party, which consent shall not be unreasonably withheld. Any recovery resulting from an infringement action brought under this Section shall be distributed in the following manner:

(a) First, the parties shall be reimbursed for any costs and expenses incurred in prosecuting the action.

(b) Second, ArQule shall receive an amount equal to the royalty payments lost due to sales of Products by the infringer.

(c) Third, Abbott shall receive an amount equal to the profits lost due to sale of Products by the infringer.

(d) Fourth, any remaining recovery will be retained by the party controlling the action at its conclusion.

10.8 Third Party Claims. In the event that any third party initiates a declaratory judgment action alleging the invalidity or unenforceability of ArQule Patent Rights or Joint Patent Rights in or relating to Abbott Derivative Compounds or ArQule Compounds that are in any Licensed Compound Set, or if any third party brings an infringement action against Abbott or its Affiliates or sublicensees because of the exercise of the rights granted Abbott under this Agreement, then Abbott shall have the right to defend such action under its own control and at its own expense; provided, however, that in the case of a declaratory judgment action involving ArQule Patent Rights, ArQule shall have the right to intervene and assume sole control of such defense, at its own expense. Neither party shall enter into any settlement, consent judgment, or other voluntary final disposition of any action under this Section without the consent of the other party, which consent shall not be unreasonably withheld. Any recovery shall be retained entirely by the party controlling the action at its conclusion.

10.9 Mutual Cooperation. In the event of any patent infringement litigation in the Territory involving any Patent Rights and/or any Products, the non-prosecuting or non-defending party, as applicable, shall render such reasonable assistance as may be requested by the prosecuting or defending party in connection with such infringement actions.

ARTICLE 11

INDEMNIFICATION AND INSURANCE

11.1 General Indemnification. Each party shall defend, indemnify and hold the other party, its Affiliates, contractors and sublicensees, and the officers, directors, employees and agents of each, harmless from and against any and all liabilities, damages, claims, demands, costs, or expenses (including reasonable attorneys' fees) claimed by any third party for any harm suffered by such third party to the extent such harm is determined to have been caused by the negligence or willful misconduct of the indemnifying party or the indemnifying party's manufacture or sale of any products, except to the extent caused by the negligence or willful misconduct of the indemnified party or the indemnified party's breach of this Agreement, and subject to the conditions of indemnification set forth in Section 11.2.

11.2 Conditions of Indemnification. With respect to any indemnification obligations of either party to the other party under this Agreement, the following conditions must be met for such indemnification obligations to become applicable:

(a) the indemnified party shall notify the indemnifying party promptly in writing of any claim which may give rise to an obligation on the part of the indemnifying party hereunder;

(b) the indemnifying party shall be allowed to undertake the sole control of the defense of any such action and claim, including all negotiations for the settlement, or compromise of such claim or action at its sole expense; and

(c) the indemnified party shall render reasonable assistance, information, co-operation and authority to permit the indemnifying party to defend such action, provided that any out-of-pocket expenses or other expenses incurred by the indemnified party in rendering the same shall be borne or reimbursed promptly by the indemnifying party.

11.3 Insurance. Each party shall maintain reasonably adequate insurance or self-insurance coverage for its potential liabilities to the other party in connection with the performance of this Agreement.

ARTICLE 12

DISPUTE RESOLUTION

Except for actions commenced by or involving third parties and disputes to be resolved by Scientific Dispute Resolution pursuant to Exhibit B, all disputes arising out of or in connection with this Agreement shall be resolved as follows:

12.1 Attempted Amicable Resolution. The parties shall promptly give each other written notice of any disputes requiring resolution hereunder, which written notice shall specify the Section(s) of this Agreement that the other party is alleged to have breached or that are in dispute, and shall briefly state the initiating party's claims. Thereafter, the parties shall use reasonable efforts to resolve any such disputes in an amicable manner.

12.2 Reference to Designated Officers. Any disputes arising in connection with this Agreement which cannot be resolved pursuant to Section 12.1 shall be referred, not later than thirty (30) days after initiation of dispute resolution proceedings pursuant to Section 12.1, to the following corporate officers of the parties for resolution:

For Abbott:

Vice President, Pharmaceutical Products Research and

Development (or his or her designee)

For ArQule:

Chief Executive Officer (or his or her designee)

Such officers (or their designees) shall attempt to resolve the dispute and shall communicate with each other by facsimile or telephone or in personal meetings in an effort to resolve the dispute.

12.3 Alternate Dispute Resolution. Any disputes arising in connection with this Agreement which cannot be resolved pursuant to Sections 12.1 or 12.2 within sixty (60) days after initiation of dispute resolution proceedings under Section 12.1 shall be finally settled by binding Alternate Dispute Resolution ("ADR") in accordance with the attached Exhibit A. Judgment upon any award rendered in such ADR proceedings may be issued and enforced by any court having competent jurisdiction.

12.4 ADR Ruling. The neutral in any ADR proceeding under Section 12.3 shall determine and notify the parties in writing:

(a) Whether either party has committed a breach of any of its obligations under this Agreement; and

(b) if either party has committed a breach, the appropriate remedy for any such breach pursuant to Section 12.5.

12.5 ADR Remedies. The neutral in any ADR proceeding under Section 12.3 shall have the authority to award the non-breaching party the following relief:

(a) For any breach other than those specified in Section 12.5(b) and (c), an award of damages and/or equitable relief;

(b) For the second material breach and any subsequent material breach of Abbott's obligations pursuant to Section 5.6(c), an award of damages and/or equitable relief and/or termination of Abbott's license rights related to the specific Licensed Compound Set(s) to which such breach relates (but not any other license rights of Abbott hereunder); and

(c) For the second material breach and any subsequent material breach of Abbott's obligations pursuant to Section 5.5(d), an award of damages and/or equitable relief and/or termination of Abbott's Target Reservation(s) to which such breach relates (but not any other Target Reservations by Abbott hereunder).

ARTICLE 13

TERM AND TERMINATION

13.1 Expiration. Unless terminated earlier by mutual written agreement of the parties or pursuant to Section 13.2, this Agreement shall expire on the later of: (a) the end of the License Option Period and (b) the date of expiration of the last Royalty Term for any Product to expire in any country in the Territory.

13.2 Early Termination. Either party shall have the right, without prejudice to any other rights or remedies available to it, to terminate this Agreement for cause by written notice to the other party in any of the following events: (a) if the other party is adjudged bankrupt, applies for judicial or extra-judicial settlement with its creditors, makes an assignment for the benefit of its creditors, voluntarily files for bankruptcy or has a receiver or trustee (or the like) in bankruptcy appointed by reason of its insolvency, or in the event an involuntary bankruptcy action is filed against the other party and

not dismissed within sixty (60) days of filing, or if the other party becomes the subject of liquidation or dissolution proceedings or otherwise discontinues business, (b) if the other party commits a material breach of this Agreement and the party alleged to be in breach fails to (i) cure such breach or (ii) commence dispute resolution proceedings under Article 12 contesting whether a breach has occurred and/or whether such breach is a material breach within sixty (60) days after receipt of written notice from the party asserting the breach.

13.3 Escrow Payments. In the event that the alleged breaching party commences dispute resolution proceedings pursuant to Article 12, and if the dispute involves non-payment of funds under this Agreement, all payments that would be due and payable under this Agreement in the absence of any dispute shall be paid into an interest-bearing escrow account until the matter is resolved and such escrow funds (plus interest) shall be distributed in accordance with the decision reached in such dispute resolution proceedings.

13.4 Effect of Termination. Except as otherwise expressly provided herein, termination or expiration of this Agreement through any means and for any reason shall not result in the termination of any license rights hereunder, shall not relieve the parties of any obligations accruing prior thereto, and shall be without prejudice to the rights and remedies of either party with respect to any prior breach of any of the provisions of this Agreement. Except to the extent

otherwise specified therein, the rights and obligations of the parties under the following provisions shall survive expiration or termination of this Agreement: Articles 7, 8 and 11.

ARTICLE 14

MISCELLANEOUS

14.1 Entire Agreement; Amendment. This Agreement contains the entire understanding of the parties with respect to the subject matter thereof and supersedes all previous verbal and written agreements, representations and warranties with respect to such subject matter. This Agreement may be amended only by a written agreement signed by authorized representatives of both parties.

14.2 Force Majeure. Failure of either party to perform its obligations under this Agreement (except the obligation to make payments) shall not subject such party to any liability or constitute a breach of this Agreement if such failure is caused by any event or circumstances beyond the reasonable control of such nonperforming party, including without limitation acts of God, fire, explosion, flood, drought, war, riot, sabotage, embargo, strikes or other labor trouble, failure in whole or in part of suppliers to deliver on schedule materials, equipment or machinery, interruption of or delay in transportation, a national health emergency or compliance with any order or regulation of any government entity. A party whose performance is affected by a force majeure shall take reasonably prompt action to remedy the effects of the force majeure. If the non-performing party fails to substantially remedy the effects of the force majeure event within twelve (12) months after the date upon which the force majeure event first occurred, the parties shall in good faith negotiate such modifications to this Agreement as the parties deem appropriate to continue performance of this Agreement notwithstanding such force majeure event. If the parties are unable to agree upon such modifications within sixty (60) days after the end of such twelve (12) month period and the non-performing party has still failed to substantially remedy the effects of the force majeure event, the party not affected by the force majeure event may terminate this Agreement upon thirty (30) days prior written notice to the non-performing party, in which case neither party shall have any liability to the other party with respect to any failure to perform to the extent caused by the force majeure event.

14.3 Waiver. A failure by either party to enforce any rights under this Agreement shall not be construed as a waiver of such rights nor shall a waiver

by either party in one or more instances by construed as constituting a continuing waiver or as a waiver in other instances. Any waiver of breach executed by either party shall affect only the specific breach and shall not operate as a waiver of any subsequent or preceding breach.

14.4 No Assignment. Except as otherwise expressly provided herein, neither party may sell, assign, pledge, delegate, subcontract or otherwise dispose of all or any portion of its rights or obligations under this Agreement except to an Affiliate or to a successor to all or substantially all of the party's business to which this Agreement relates. Subject to the foregoing, this Agreement shall inure to the benefit of and be binding upon the parties and their respective successors and permitted assigns. In the event ownership or control of ArQule changes after the

Effective Date as a result of a merger, an acquisition or otherwise, this Agreement (including, but not limited to, Abbott's licenses and other rights pursuant to Sections 4.2, 5.5(c), 5.6, and 5.11) shall continue in effect notwithstanding such change of ownership or control.

14.5 Severability. If any clause or provision of this Agreement is declared invalid or unenforceable by a court of competent jurisdiction, such provision shall be severed and the remaining provisions of the Agreement shall continue in full force and effect. The parties shall use all commercially reasonable efforts to agree upon a valid and enforceable provision as a substitute for the severed provision, taking into account the intent of this Agreement.

14.6 Relationship of Parties. The parties shall have the status of independent contractors under this Agreement and nothing in this Agreement shall be construed as authorization for either of the parties to act as a joint venturer with, agent for, or partner of, the other party.

14.7 Notices. Any notice, request or other communication required to be given pursuant to the provisions of this Agreement shall be in writing and shall be deemed to be given (a) when delivered in person or by overnight courier, (b) five (5) days after being deposited in the United States mail, postage prepaid, certified, return receipt requested, or (c) when received after being sent by confirmed facsimile transmission to the parties, addressed as follows:

If to Abbott to:

President
Pharmaceutical Products Division

Abbott Laboratories
200 Abbott Park Road
D-309, AP30
Abbott Park, Illinois 60064-3500
Tel: (708) 937-4367
Fax: (708) 938-5383

With a copy to:

General Counsel
Abbott Laboratories
100 Abbott Park Road
D-364, AP6D
Abbott Park, Illinois 60064-3500
Tel: (708) 937-8905
Fax: (708) 938-5277

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If to ArQule to:

President
ArQule, Inc.
200 Boston Avenue
Suite 3600
Medford, Massachusetts 02155
Tel: (617) 395-4100
Fax: (617) 395-1225

Either party may change its address or its fax number by giving the other party written notice, delivered in accordance with this Section 14.7.

14.8 Further Instruments. Each party shall execute and deliver such further instruments and do such further reasonable acts and things as reasonably may be required to carry out the intent and purpose of this Agreement.

14.9 Governing Law. The validity, performance, construction, and effect of this Agreement shall be governed by the laws of the State of Illinois, without giving effect to conflict of law rules. The parties expressly disclaim the applicability of the United Nations Convention on the International Sale of Goods to this Agreement.

14.10 Counterparts. This Agreement shall become binding when any, one or more counterparts hereof, individually or taken together, bears the signature of each of the parties. This Agreement may be executed in any number of counterparts, each of which shall be an original as against the party whose signature appears thereon, but all of which taken together shall constitute one and the same instrument.

IN WITNESS WHEREOF, each party has caused this Agreement to be signed by its duly authorized representative as of the Effective Date.

ABBOTT LABORATORIES	ARQULE,.INC.
By: /s/ Paul N. Clark _____	By: /s/ Eric Gordon _____
Name: Title: Senior Vice President, Pharmaceuticals Operations and President Product Pharmaceuticals Products Division	Name: Title:

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EXHIBIT A

Alternative Dispute Resolution

The parties recognize that a bona fide dispute as to certain matters may arise from time to time during the term of this Agreement which relates to either party's rights and/or obligations. To have such a dispute resolved by this Alternative Dispute Resolution ("ADR") provision, a party first must send written notice of the dispute to the other party for attempted resolution by good faith negotiations between the parties pursuant to Sections 12.1 and 12.2.

Any negotiations regarding a dispute shall be treated as settlement negotiations for purposes of the Federal Rules of Evidence and any similar state rules of evidence. Such negotiations shall not be admissible in any subsequent ADR hearing.

If the matter has not been resolved within sixty (60) days after initiation of dispute resolution proceedings pursuant to Section 12.1, either party may initiate an ADR proceeding as provided herein (all references to todays" in this ADR provision are to calendar days). The parties shall have the right to be represented by counsel in such a proceeding.

1. To begin an ADR proceeding, a party shall provide written notice to the other party of the issues to be resolved by ADR. Within fourteen (14) days after its receipt of such notice, the other party may, by written notice to the party initiating the ADR, add additional issues to be resolved within the same ADR.

2. Within twenty-one (21) days following receipt of the original ADR notice, the parties shall select a mutually acceptable neutral to preside in the resolution of any disputes in this ADR proceeding. If the parties are unable to agree on a mutually acceptable neutral within such period, the parties shall request the President of the Center for Public Resources ("CPR"), 366 Madison Avenue, New York, New York 10017 to select a neutral pursuant to the following procedures:

   (a) The CPR shall submit to the parties a list of not less than five (5) candidates within fourteen (14) days after receipt of the request from the parties, along with a Curriculum Vitae for each candidate. No candidate shall be an employee, director, or shareholder of either party or any of their subsidiaries or affiliates.

   (b) Such list shall include a statement of disclosure by each candidate of any circumstances likely to affect his or her impartiality.

   (c) Each party shall number the Candidates in order of preference (with the number one (1) signifying the greatest preference) and shall deliver the list to the CPR within seven (7) days following receipt of the list of candidates. if a party believes a conflict of interest exists regarding any of the candidates, that party shall provide a written explanation of the conflict to the CPR along with its list showing its order of preference for the candidates. Any party failing to return a

   list of preferences on time shall be deemed to have no order of preference.

   (d) if the parties collectively have identified fewer than three (3) candidates deemed to have conflicts, the CPR immediately shall designate as the neutral the candidate for whom the parties collectively have indicated the greatest preference. If a tie should result between two candidates, the CPR may designate either candidate. If the parties collectively have identified three (3) or more candidates deemed to have conflicts, the CPR shall review the explanations regarding conflicts and, in its sole discretion, may either (i) immediately designate as the neutral the candidate for whom the parties collectively have indicated the greatest preference, or (ii) issue a new list of not less than five (5) candidates, in which case the procedures set for in subparagraphs 2(a) - 2(d) shall be repeated.

3. No earlier than twenty-eight (28) days or later than fifty-six (56) days after selection, the neutral shall hold a hearing to resolve each of the issues identified by the parties. The ADR proceeding shall take place at a location agreed upon by the parties. If the parties cannot agree, the neutral shall designate a location other than the principal place of business of either party or any of their subsidiaries or affiliates.

4. At least seven (7) days prior to the hearing, each party shall submit the following to the other party and the neutral:

(a) a copy of all exhibits on which such party intends to rely in any oral or written presentation to the neutral;

(b) a list of any witnesses such party intends to call at the hearing, and a short summary of the anticipated testimony of each witness;

(c) a proposed ruling on each issue to be resolved, together with a request for a specific damage award or other remedy for each issue. The proposed rulings and remedies shall not contain any recitation of the facts or any legal arguments and shall not exceed one (1) page per issue.

(d) a brief in support of such party's proposed rulings and remedies, provided that the brief shall not exceed twenty (20) pages. This page limitation shall apply regardless of the number of issues raised in the ADR proceeding.

Except as expressly set forth in subparagraphs 4(a) - 4(d), no discovery shall be required or permitted by any means, including depositions, interrogatories, requests for admissions, or production of documents.

5. The hearing shall be conducted on two (2) consecutive days and shall be governed by the following rules:

(a) Each party shall be entitled to five (5) hours of hearing time to present its case. The neutral shall determine whether each party has had the five (5) hours

to which it is entitled.

(b) Each party shall be entitled, but not required, to make an opening statement, to present regular and rebuttal testimony, documents or other evidence, to cross-examine witnesses, and to make a closing argument. Cross-examination of witnesses shall occur immediately after their direct testimony, and cross-examination time shall be charged against the party conducting the crossexamination.

(c) The party initiating the ADR shall begin the hearing and, if it chooses to make an opening statement, shall address not only issues it raised but also any issues raised by the responding party. The responding party, if it chooses to make an opening statement, also shall address all issues raised in the ADR. Thereafter, the presentation of regular and rebuttal testimony and documents, other evidence, and closing arguments shall proceed in the same sequence.

(d) Except when testifying, witnesses shall be excluded from the hearing until closing arguments.

(e) Settlement negotiations shall not be admissible under any circumstances. Affidavits prepared for purposes of the ADR, hearing also shall not be admissible. As to all other matters, the neutral shall have sole discretion regarding the admissibility of any evidence.

6. Within seven (7) days following completion of the hearing, each party may submit to the other party and the neutral a post-hearing brief in support of its proposed rulings and remedies (subject to the provisions of Sections 12.4 and 12.5 with respect to remedies), provided that such brief shall not contain or discuss any new evidence and shall not exceed ten (10) pages. This page limitation shall apply regardless of the number of issues raised in the ADR proceeding.

7. The neutral shall rule on each disputed issue within fourteen (14) days following completion of the hearing. Such ruling shall adopt in its entirety the proposed ruling and remedy (subject to the provisions of Sections 12.4 and 12.5 with respect to remedies) of one of the parties on each disputed issue but may adopt one party's proposed rulings and remedies on some issues and the other party's proposed rulings and remedies on other issues. The neutral shall issue a brief written opinion, not to exceed ten (10) pages, which sets forth the ruling of the neutrals, the basis of ruling, and the remedy or remedies awarded. Neither party shall use such written opinion as the basis for any legal action that attempts to challenge or appeal such ruling or the remedy or remedies awarded.

8. The neutral shall be paid a reasonable fee plus expenses. These fees and expenses, along with the reasonable legal fees and expenses of the prevailing party (including all expert witness fees and expenses), the fees and expenses of a court reporter, and any expenses for a hearing room, shall be paid as follows:

(a) if the neutral rules in favor of one party on all disputed issues in the ADR,

the losing party shall pay 100% of such fees and expenses.

(b) if the neutral rules in favor of one party on some issues and the other party on other issues, the neutral shall issue with the rulings a written determination as to how such fees and expenses shall be allocated between the parties. The neutral shall allocate fees and expenses in a way that bears a reasonable relationship to the outcome of the ADR, with the party prevailing on more issues, or on issues of greater value or gravity, recovering a relatively larger share of its legal fees and expenses.

9. The rulings of the neutral and the allocation of fees and expenses shall be binding, non-reviewable, and non-appealable, and may be entered as a final judgment in any court having jurisdiction.

10. Except as provided in paragraph 9 or as required by law, the existence of the dispute, any settlement negotiations, the ADR hearing, any submissions (including exhibits, testimony, proposed rulings, and briefs), and the rulings shall be deemed Confidential Information. The neutral shall have the authority to impose sanctions for unauthorized disclosure of Confidential Information.

EXHIBIT B

Scientific Dispute Resolution

If the parties are unable to agree on a redefined, non-conflicting Target pursuant to Section 5.5(e) within thirty (30) days of initiating negotiations, the parties shall resolve such dispute through a Scientific Dispute Resolution ("SDR") proceeding as provided herein. (all references to "days" in this SDR proceeding are to calendar days).

1. Within fourteen (14) days after the end of the above-referenced thirty (30) day negotiation period each party shall designate one (1) neutral having the following minimum scientific qualifications: a Ph.D. degree in chemistry or life sciences and/or an M.D. degree plus at least ten (10) years of relevant business or scientific research experience. These two (2) neutrals shall select a third neutral having the same minimum scientific qualifications within fourteen (14) days of the appointment of the first two (2) neutrals. None of the neutrals shall be an employee, director or shareholder of either party or any of their

subsidiaries or affiliates, or otherwise have a materially conflicting interest in the outcome of the SDR proceeding.

2. No earlier than fourteen (14) days or later than twenty-eight (28) days after selection of the third neutral, the neutrals shall hold a hearing to determine a redefined, non-conflicting Target. The SDR proceeding shall take place at a location agreed upon by the parties. If the parties cannot agree, the neutrals shall designate a location other than the principal place of business of either party or any of their subsidiaries or affiliates.

3. At least seven (7) days prior to the hearing, each party shall submit the following to the other party and the neutrals:

(a) a proposed redefined, non-conflicting Target; and

(b) a brief in support of such party's proposed redefined, non-conflicting Target, provided that the brief shall not exceed ten (10) pages (excluding references to published scientific literature, not to exceed two (2) pages). No discovery shall be required or permitted by any means, including depositions, interrogatories, requests for admissions, or production of documents.

4. The hearing shall be conducted on one (1) day and shall be governed by the following rules:

(a) Each party shall be entitled to three (3) hours of hearing time to present its case. The neutrals shall determine whether each party has had the three (3) hours to which it is entitled.

(b) ArQule shall make its presentation first, followed by Abbott.

5. The neutrals, by majority vote, shall rule on each disputed issue within seven (7) days following completion of the hearing. Such ruling shall adopt in its entirety the redefined, non-conflicting Target proposed by one of the parties. The neutrals shall issue a brief written opinion, not to exceed ten (10) pages, which sets forth the ruling of the neutrals, the basis of ruling, and the remedy or remedies awarded. Neither party shall use such written opinion as the basis for any legal action that attempts to challenge or appeal such ruling or the remedy or remedies awarded.

6. The neutrals shall be paid reasonable fees plus expenses. These fees and expenses, the fees and expenses of a court reporter, and any expenses for a hearing room, shall be shared equally by the parties.

7. The rulings of the neutrals shall be binding, non-reviewable, and nonappealable.

8. Except as required by law, the existence of the dispute, any settlement negotiations, the SDR hearing, any submissions of the parties therein, and the rulings shall be deemed Confidential Information.

9. The parties may, by mutual written agreement, submit additional issues for dispute resolution under SDR procedures.

AMENDMENT NO. 1 TO RESEARCH, DEVELOPMENT AND LICENSE AGREEMENT

This Amendment No. 1 to Research, Development and License Agreement is

dated as of August 13, 1996 by and between Abbott Laboratories, an Illinois corporation having a principal place of business at 100 Abbott Park Road, Abbott Park, Illinois ("Abbott") and ArQule, Inc., a Delaware corporation having a principal place of business at 200 Boston Avenue, Suite 3600, Medford, Massachusetts ("ArQule").

RECITALS

WHEREAS, Abbott and ArQule have entered into that certain Research, Development and License Agreement, dated as of June 16, 1995 (the "License Agreement"), pursuant to which ArQule agreed, INTER ALIA, to provide Abbott with certain ArQule Compounds and Abbott Derivative Compounds (these and other capitalized terms used herein without definition shall have the respective meanings provided in the License Agreement) for screening in consideration of the payment by Abbott to ArQule of certain license fees, milestone payments and research funding payments on the terms and subject to the conditions set forth in the License Agreement; and

WHEREAS, ArQule and Abbott desire to amend the License Agreement to enable ArQule to supply Abbott with additional ArQule Compounds and to delete certain aspects of the License Agreement having to do with reservation of Targets and the Array Screening Period.

NOW, THEREFORE, in consideration of the premises and the mutual covenants and conditions contained herein and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

1. The License Agreement is hereby amended as follows:

1.1. Definitions.

(a) The following definitions are hereby deleted from Article 1 of the License Agreement (and the remaining definitions in Article 1 are renumbered accordingly):

(1) "1.26 License Option Period"
----

(2) "1.37 Reserved Arrays"
----

(3) "1.39 Target"
------

(4) "1.40 Target Reservation"
----

(5) "1.14 Array Screening Period".

(b) The definition of "ArQule Array" originally set forth in Section 1.8 of the License Agreement (now renumbered as Section 1.10) is hereby deleted in its entirety and replaced with the following:

"1.10 `ARQULE ARRAY' shall mean a set of structurally related small organic chemical molecules that are synthesized by ArQule using its proprietary technology arranged in a format such as a microtiter screening plate."

(c) The definition of "Licensed Final Compound" originally set forth in Section 1.23 of the License Agreement (now renumbered as Section 1.25) is hereby deleted in its entirety and replaced with the following:

"1.25 `LICENSED FINAL COMPOUND' shall mean a specific ArQule Compound from a Licensed Compound Set that Abbott commercially develops, markets and/or sells pursuant to Section 5.4."

(d) The definition of "Licensed Compound Set" originally set forth in Section 1.24 of the License Agreement (now renumbered as Section 1.26)

is hereby deleted in its entirety and replaced with the following:

"1.26 `LICENSED COMPOUND SET' shall mean, with respect to an Active ArQule Compound, such Active ArQule Compound and any Active ArQule Homolog thereto which have been licensed to Abbott by ArQule pursuant to Section 5.4."

(e) The following definitions are hereby added to Article 1 of the License Agreement (and the remaining definitions in Article 1 are renumbered accordingly):

"1.7 `ACTIVE ARQULE HOMOLOG' shall mean

*

"1.9 `AMENDMENT DATE' shall mean August 13, 1996."

"1.17 `CHEMICAL THEME' shall mean the chemical or structural characteristics shared by a group of ArQule Compounds in an ArQule Array."

"1.22 `EXCLUSIVE DEVELOPMENT PERIOD' shall have the meaning provided in Section 5.5(a)."

"1.27 `MINIMUM FTE REQUIREMENT' shall have the meaning provided in Section 5.5(a)."

"1.28 `MUTUAL DISCLOSURE DATE' shall mean the date on which the information described in Section 5.2 of this Agreement is first disclosed by

* confidential treatment has been requested for marked portions

each party to the other with respect to any Active ArQule Compound and any Active ArQule Homolog thereto."

"1.41 `THIRD PARTY MAPPING ARRAY PARTNER' shall mean any third party to whom ArQule provides ArQule Arrays."

1.2. The first two sentences of Section 5.1 are hereby deleted in their entirety and replaced with the following:

"During the Array Transfer Period, ArQule shall deliver to Abbott ArQule Core Compounds within ArQule Arrays as follows: (i) during the initial Contract Year, ArQule shall deliver to Abbott at least * ArQule Core Compounds within ArQule Arrays having not less than * different Chemical Themes and (ii) during the second Contract Year, ArQule shall deliver to Abbott at least * ArQule Core Compounds within ArQule Arrays having not less than * different Chemical Themes (with a minimum of * ArQule Core Compounds and a maximum of * ArQule Core Compounds for each Chemical Theme). Abbott hereby acknowledges that ArQule has delivered to Abbott, as of the Amendment Date, * ArQule Core Compounds and hereby agrees that such ArQule Core Compounds shall be, in all respects, subject to this Agreement, as amended from time to time. ArQule may, at its option, also deliver to Abbott additional ArQule Arrays. ArQule shall select the ArQule Arrays to be delivered to Abbott hereunder and the ArQule Core Compounds within each such ArQule Array; PROVIDED, HOWEVER, that

(i) each ArQule Core Compound shall appear only once in any ArQule Array shipped to Abbott hereunder and (ii) no more than * percent * of any shipment of ArQule Core Compounds delivered to Abbott under this Agreement shall have been previously committed to a Third Party Mapping Array Partner or a bona fide, documented internal ArQule program as of the date of such shipment."

1.3. Section 5.2 of the License Agreement is hereby deleted in its entirety and replaced with the following:

"5.2 SCREENING OF ARQULE COMPOUNDS. ArQule hereby grants to Abbott and its Affiliates a nonexclusive, worldwide, royalty-free license (without the right to sublicense or subcontract) during the term of this Agreement and thereafter to perform such testing and analytical work as Abbott deems appropriate on ArQule Core Compounds delivered by ArQule hereunder. Notwithstanding the foregoing, Abbott may, during the term of this Agreement and thereafter, deliver ArQule Core Compounds to one or more third parties so as to allow such third parties to perform testing and analytical work on such ArQule Core Compounds provided that, prior to delivering any ArQule Core Compounds to any such third party, Abbott, ArQule and each such third party enter into a materials transfer agreement substantially in the form of the attached EXHIBIT B or such other form as may be acceptable to ArQule. At the time of delivery, ArQule will identify the Chemical Theme of each ArQule Array delivered to Abbott but not the structures of the

* confidential treatment has been requested for marked portions

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individual ArQule Core Compounds in such ArQule Arrays. Initially, Abbott will not disclose the targets against which such ArQule Arrays are screened. If Abbott detects any Active ArQule Compound in an ArQule Array, it will promptly notify ArQule. ArQule shall then determine if such Active ArQule Compound and any Active ArQule Homolog thereto have been previously committed to a Third Party Mapping Array Partner or to a bona fide, documented internal ArQule program (including programs with academic collaborators). ArQule will disclose to Abbott (a) the structure of such Active ArQule Compound if it has not been so committed and all Active ArQule Homologs thereto (if any) that have not been so committed and (b) the structures, but not the locations in the ArQule Array, of all other ArQule Compounds in such ArQule Array and Abbott will disclose to ArQule (a) the identity of the biological target as to which activity was detected and (b) the level of activity exhibited by such Active ArQule Compound and such Active ArQule Homolog (the date of such mutual disclosure being referred to herein as the "Mutual Disclosure Date"). All such disclosed information shall be treated as Confidential Information by the receiving party in accordance with Article 8."

1.4. Sections 5.3 and 5.5 of the License Agreement are hereby deleted in their entirety (and the remaining sections in Article 5 are renumbered accordingly).

1.5. All references in Section 5.3(a) (as renumbered) of the License Agreement to "Active ArQule Compounds" are hereby changed to "Active ArQule Compounds and Active ArQule Homologs"; all references in Section 5.3(a) (as renumbered) of the License Agreement to "Section 5.3" are hereby changed to "Section 5.2."; and all references in Section 5.3(b) (as renumbered) of the License Agreement to "Section 5.4(a)" are hereby changed to "Section 5.3(a)".

1.6. Sections 5.6(a) and (b) (as originally numbered) of the License Agreement are hereby deleted in their entirety and replaced with the following:

"5.4 LICENSE RIGHTS. On the Mutual Disclosure Date for any Active ArQule Compound and any Active ArQule Homolog thereto comprising the

Licensed Compound Set, ArQule shall grant to Abbott and its Affiliates an exclusive, worldwide, royalty-bearing license (with the right to sublicense), in the Abbott Field under ArQule Patent Rights and under ArQule's interest in any Joint Patent Rights to develop, have developed, make, have made, use, import, offer to sell, sell and have sold in the Abbott Field Products incorporating any ArQule Compounds within the Licensed Compound Set."

1.7. Section 5.6(c) (as originally numbered) of the License Agreement is hereby deleted in its entirety and replaced with the following:

"5.5 Diligence Requirements.

(a) DILIGENCE REQUIREMENTS DURING EXCLUSIVE DEVELOPMENT PERIOD. During the one (1) year period commencing on the Mutual Disclosure Date for any Licensed Compound Set and continuing until the first anniversary thereof (such period being referred to herein as the "Exclusive Development Period"), Abbott shall maintain a minimum of * FTE scientist to perform research and development activities on * or more ArQule Compounds within such Licensed Compound Set (the "Minimum FTE Requirement"). Abbott shall have the option to extend the Exclusive Development Period for such Licensed Compound Set, subject to the Minimum FTE Requirement, for up to four (4) additional one year periods. The Exclusive Development Period shall be deemed to be automatically extended by Abbott each year through the end of the fourth additional one year period unless Abbott gives ArQule written notice of termination no later than thirty (30) days prior to any anniversary of the Mutual Disclosure Date for such Licensed Compound Set; PROVIDED, that Abbott must have complied with the Minimum FTE Requirement for the immediately preceding year for any such extension to be effective. Notwithstanding the foregoing, upon Abbott's request and with ArQule's consent, which consent shall not be unreasonably withheld, an extension to the Exclusive Development Period may be made beyond five (5) years if Abbott reasonably demonstrates to ArQule that Abbott has devoted appropriate resources toward commercialization of at least * within the Licensed Compound Set and is reasonably likely to enter into an active clinical development program with respect thereto. Upon expiration of the Exclusive Development Period for any Licensed Compound Set, the license granted to Abbott under Section 5.4 of this Agreement shall terminate unless, within thirty (30) days of such date, Abbott commences the clinical development program described in Section 5.5(b) for * or more ArQule Compounds within such Licensed Compound Set.

(b) DILIGENCE REQUIREMENTS AFTER EXCLUSIVE DEVELOPMENT PERIOD. After the Exclusive Development Period, Abbott shall maintain an active clinical development program on at least one (1) ArQule Compound in each Licensed Compound Set. Abbott shall have maintained such an active program if Abbott expends at least Three Million Dollars ($3,000,000) per year in direct costs (including, but not limited to, costs attributable to external services or material contracts) relating to clinical development of * or more ArQule Compounds within the Licensed Compound Set during the period commencing at the end of the Exclusive Development Period and ending on the date upon which Abbott makes a milestone

* confidential treatment has been
requested for marked portions

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payment to ArQule pursuant to Section 6.1 (a) for the initiation of Phase III Studies for an ArQule Compound within the Licensed Compound Set; provided, however, that this obligation shall be suspended for a period not to exceed twelve (12) months during any period that clinical trials are delayed or suspended because of an unexpected negative result occurring for reasons beyond the control of Abbott. If clinical trials are delayed or suspended because of such unexpected negative result for a period in excess of twelve (12) months, the parties shall in good faith negotiate appropriate modifications to Abbott's due diligence obligations under this Section."

1.8. All references to "Section 5.5(c)" and "Section 5.6" in Sections 6.10 and 14.4 of the License Agreement are hereby replaced by "Section 5.2" and "Section 5.4", respectively, and all references to "Section 5.6(c)" in Section 12.5 of the License Agreement are hereby replaced by "Section 5.5".

1.9. Section 12.5(c) of the License Agreement is hereby deleted in its entirety and "and (c)" is hereby deleted from Section 12.5(a) of the License Agreement.

1.10. Section 13.1 of the License Agreement is hereby deleted in its entirety and replaced with the following:

"13.1 EXPIRATION. Unless terminated earlier by mutual written agreement of the parties or pursuant to Section 13.2, this Agreement shall expire on the date of expiration of the last Royalty Term for any Product to expire in any country in the Territory, subject to the provisions of Section 5.2."

1.11. Section 14.7 of the License Agreement is hereby amended by replacing the telephone and facsimile numbers for Abbott for purposes of notice with the following:

Tel: (847) 937-4367
Fax: (847) 938-5383

1.12. EXHIBIT B to the License Agreement is hereby deleted in its entirety and replaced with EXHIBIT B attached hereto.

2. Miscellaneous

2.1 GOVERNING LAW. This Amendment shall be governed in all respects by the laws of the State of Illinois without giving effect to principles of conflicts of law thereunder.

2.2 SUCCESSORS AND ASSIGNS. Except as otherwise expressly provided herein, the provisions hereof shall inure to the benefit of, and be binding upon, the successors, permitted assigns, heirs, executors and administrators of the parties hereto.

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2.3 LICENSE AGREEMENT. Except as specifically provided herein, the License Agreement as previously executed shall remain in full force and effect.

2.4 COUNTERPARTS. This Amendment may be executed in any number of counterparts, each of which shall be an original, but all of which together shall constitute one and the same instrument.

2.5 RESTATED AGREEMENT. Attached hereto as Exhibit C is a copy of the Agreement, as amended by this Amendment, reflecting the terms of the Agreement, as amended hereby, in effect as of the Amendment Date.

IN WITNESS WHEREOF, the parties have duly executed this Amendment as of the date first above written.

ABBOTT LABORATORIES

By: /s/ Paul N. Clark

Name:
Title: Senior Vice President, Pharmaceuticals Operations and President Product Pharmaceuticals Products Division

ARQULE, INC.

By: /s/

Eric B. Gordon
President

EXHIBIT B

FORM OF MATERIALS TRANSFER AGREEMENT

EXHIBIT B

FORM OF MATERIALS TRANSFER AGREEMENT

This Agreement, effective as of the date last written below, is by and among ArQule, Inc. ("ArQule"), Abbott Laboratories ("Abbott") and _____ ("Recipient").

[Set on left column of page]

WHEREAS, Abbott and ArQule have entered into that certain Research, Development and License Agreement, dated as of June 16, 1995, as amended by Amendment No. 1

to Research, Development and License Agreement, dated as of August __, 1996 (as so amended, the "License Agreement"), pursuant to which ArQule has agreed, INTER ALIA, to provide Abbott with certain compounds for screening on the terms and subject to the conditions set forth in the License Agreement; and

WHEREAS, pursuant to Section 5.2 of the License Agreement, Abbott is permitted to deliver such compounds to third parties such as Recipient, provided such parties execute and deliver this Agreement to ArQule.

NOW, THEREFORE, in consideration of the premises and the mutual covenants and conditions contained herein and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

1. SUPPLY OF MATERIALS: Within _____ days after receiving an original of this Agreement executed by all parties, Abbott will supply Recipient with the compounds set forth on EXHIBIT A (the "Materials"). Upon written request, Abbott may provide the Recipient with additional quantities of such Materials or with additional compounds, which compounds shall also be considered Materials for the purposes of this Agreement.

2. USE AND TRANSFER RESTRICTIONS: Recipient acknowledges and agrees that the Materials are proprietary to and owned by ArQule and are or may be covered by claims of U.S. and international patents or patent applications of ArQule. Recipient agrees to use the Materials solely to screen them for potential pharmacological activity for Abbott using the assay procedure [previously disclosed to Abbott/set forth on EXHIBIT B]. Recipient agrees (i) not to transfer such Materials to any third party without the prior written consent of ArQule and Abbott, (ii) to permit access to the Materials only to its employees and consultants requiring such access, (iii) to inform such employees and consultants of the proprietary nature of the Materials, (iv) to take reasonable precautions, at least as stringent as those observed by Recipient to protect its own proprietary materials, to ensure that such employees and consultants observe the obligations of Recipient pursuant to this Section and (v) to execute and deliver any documents of assignment or conveyance that may be necessary to effectuate the ownership rights of ArQule in the Materials. Upon the expiration of this Agreement, Recipient shall, at the instruction of ArQule or Abbott, either destroy or return any unused Materials.

3. COMPLIANCE WITH LAW: Recipient agrees to comply with all federal, state, and local laws and regulations applicable to the use, testing, storage, disposal, and transfer of the Materials, including without limitation the Toxic Substances Control Act (15 USC 2601 ET SEQ.) and implementing regulations (in particular, 40 CFR 720.36 [Research and Development Exemption]), the Food, Drug, and Cosmetic Act (21 USC 301 ET SEQ.) and implementing regulations, and all Export Administration Regulations of the Department of Commerce. Recipient assumes sole responsibility for any violation of such laws or regulations by Recipient or any of its affiliates or sublicensees.

4. TERMINATION: This Agreement shall commence on the date last written below and continue for a period of _____ months. Sections 3, 6 and 7 shall survive termination of this Agreement.

5. NO WARRANTIES: Any Materials delivered pursuant to this Agreement are understood to be experimental in nature and may have hazardous properties. Recipient should assume that the Materials are dangerous and should use appropriate precautions. NEITHER ABBOTT NOR ARQULE MAKES ANY REPRESENTATIONS, OR EXTENDS ANY WARRANTIES OF ANY KIND, EITHER EXPRESS OR IMPLIED, WITH RESPECT TO THE COMPOUNDS. THERE ARE NO EXPRESS OR IMPLIED WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE, OR THAT THE USE OF THE MATERIALS WILL NOT INFRINGE ANY PATENT RIGHTS OF OTHERS.

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6. ASSIGNMENT OF INVENTIONS: Recipient agrees promptly to disclose to Abbott any and all ideas, concepts, discoveries, inventions, developments, improvements, trade secrets, technical data, know-how or biological materials that are conceived, devised, invented, developed or reduced to practice or tangible medium by Recipient, or any of its agents or employees, or under its direction, during the term of this Agreement and which arise out of its screening or evaluation of the Materials (hereinafter "Inventions"). Recipient hereby assigns to Abbott all of its right, title and interest in and to the Inventions and any and all related patent rights, copyrights and applications and registrations therefor. During and after the expiration of this Agreement,

Recipient shall cooperate with Abbott, at Abbott's expense, in obtaining proprietary protection for the Inventions and shall execute all documents which Abbott shall reasonably request in order to perfect Abbott's rights in the Inventions.

7. INDEMNIFICATION: Recipient assumes all liability for, and agrees to indemnify, defend, and hold harmless ArQule and Abbott and their respective directors, officers, representatives, employees, and agents against, all losses, expenses (including without limitation any legal expenses), claims, demands, damages, judgments, suits, or other actions arising from the use, testing, storage, or disposal of the Materials by Recipient and its agents or employees, or from any breach of its obligations under Section 2 of this Agreement.

8. MISCELLANEOUS: This Agreement shall not be assigned or otherwise transferred by Recipient without the prior written consent of ArQule and Abbott. This Agreement shall be governed by the laws of the Commonwealth of Massachusetts. This Agreement constitutes the entire understanding of the parties and supersedes all prior agreements, written or oral, with respect to the subject matter hereof.

Recipient

Signature:

Name:

Title:

Date:

Shipping Address:

- ---

- ---

- ---
Tel:

Fax:

ACCEPTED AND AGREED:
ArQule, Inc.
Signature:

Name:

Title:

Date:

Address:
ArQule, Inc.
200 Boston Avenue, Suite 3600
Medford, MA 02155
Tel: (800) 644-5000
Fax: (617) 395-1225

ACCEPTED AND AGREED:
Abbott Laboratories
Signature:

Name:

Title:

Date:

Address:
Abbott Laboratories
100 Abbott Park Road

Abbott Park, IL 60064
Tel: (847) 937-4367
Fax: (847) 938-5383

EXHIBIT C

See Exhibit 10.15 of the Registrant's Registration Statement.

EXHIBIT 23.1

CONSENT OF 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 October 4, 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

October 15, 1996