

VANDA PHARMACEUTICALS INC.

CORPORATE GOVERNANCE GUIDELINES

The following corporate governance guidelines have been adopted by the Board of Directors of Vanda Pharmaceuticals Inc. (the “Board”) as of March 16, 2006:

Board Composition.

1. Selection of Chairman and CEO. The Board should be free to make this choice in a manner that is deemed best for the Company at a given point in time. The Board does not have a policy on whether or not the roles of Chief Executive Officer and Chairman should be separate and, if they are to be separate, whether the Chairman should be selected from the non-employee directors or be an employee.

2. Size of the Board. The size of the Board shall be fixed from time to time exclusively by the Board of Directors pursuant to a resolution adopted by a majority of the authorized directors (whether or not any vacancies exist), subject to the Company’s Amended and Restated Bylaws as amended or restated from time to time (the “Bylaws”). The Board periodically reviews the appropriate size of the Board.

3. Mix of Inside and Outside Directors. The Board believes that there should be a majority of independent directors on the Board. However, the Board is willing to have members of management, in addition to the Chief Executive Officer, as directors.

4. Board Definition of What Constitutes Independence for Outside Directors. The Company complies with all applicable requirements for independent directors (including Nasdaq Stock Market Rules and the U.S. federal securities laws and the rules and regulations promulgated thereunder).

5. Board Membership Criteria. The Nominating and Governance Committee is responsible for reviewing with the Board from time to time the appropriate skills and characteristics required of Board members in the context of the current make-up of the Board. This assessment should include issues of diversity, age and experience in areas such as finance, science, marketing and government affairs - all in the context of an assessment of the perceived needs of the Board at that point in time. Board members are expected to rigorously prepare for, attend, and participate in all Board and applicable Committee meetings. Each Board member is expected to ensure that other existing and planned future commitments do not materially interfere with the member’s service as an outstanding director.

6. Selection of New Director Candidates. The Board should be responsible for selecting its own members to fill vacancies between stockholder elections, to the extent permitted by the Bylaws. The Board delegates the screening process involved to the Nominating and Governance Committee.

7. Directors Who Change Their Present Job Responsibility. The Board does not believe that directors who retire or change from the position they held when they came on the Board should necessarily leave the Board. There should, however, be an opportunity for the Board, via the Nominating and Governance Committee, to review the continued appropriateness of Board membership under these circumstances, it being understood that the ability to remove Board members shall be subject to the provisions of the Bylaws and the Company's Amended and Restated Certificate of Incorporation, as amended or restated from time to time.

8. Director Orientation and Continuing Education. The Company will establish or sponsor director attendance at appropriate director orientation and continuing education programs.

9. Term Limits. The Board does not believe it should establish term limits other than any class distinctions set forth in the Company's Amended and Restated Certificate of Incorporation. While term limits could help ensure that there are fresh ideas and viewpoints available to the Board, they hold the disadvantage of losing the contribution of directors who over time have developed increasing insight into the Company and its operations and therefore provide an increasing contribution to the Board as a whole.

10. Board Compensation Review. It is appropriate for the management of the Company to report from time to time to the Compensation Committee on the status of Board compensation in relation to other U.S. companies. Changes in Board compensation, if any, should come at the suggestion of the Compensation Committee, but with full discussion and concurrence by the Board and, to the extent required by applicable laws, rules or regulations (including the Delaware General Corporation Law, the applicable rules and regulations promulgated by the Securities and Exchange Commission and the applicable rules and regulations of the Nasdaq National Market), with the approval of the company's stockholders.

Board Meetings.

1. Scheduling and Selection of Agenda Items for Board Meetings. Board meetings are scheduled in advance typically four times per year. Generally,, the meetings are held at the Company's headquarters, but occasionally a meeting may be held elsewhere. The Chairman of the Board, in consultation with the Chief Executive Officer and the Secretary of the Company, draft the agenda for each Board meeting, if any, and distribute it in advance to the Board. Each Board member is free to suggest the inclusion of items on the agenda.

2. Board Material Distributed in Advance. Information and data that is important to the Board's understanding of the business should be distributed electronically and or in writing to the Board before the Board meets. As a general rule, materials on specific subjects should be sent to the Board members in advance so that Board meeting time may be conserved and

discussion time focused on questions that the Board has about the material. Sensitive subject matters may be discussed at the meeting without written materials being distributed in advance or at the meeting.

3. Board Presentations and Access to Employees. The Board has complete access to any of the Company's employees. The Board encourages management to schedule managers to present at Board meetings who: (a) can provide additional insight into the items being discussed because of personal involvement in these areas, or (b) have future potential that management believes should be given exposure to the Board.

4. Outside Directors' Discussion. The Board's policy is to have a separate meeting time for the outside directors regularly scheduled during each regularly scheduled Board meeting. The Chairman will assume the responsibility of chairing the regularly scheduled meetings of outside directors and shall bear such further responsibilities which the outside directors as a whole might designate from time to time.

Board Committees.

1. Number of Committees. The current Committees of the Board are the Pricing Committee, the Audit Committee, the Compensation Committee and the Nominating and Governance Committee. There will, from time to time, be occasions on which the Board may want to form a new committee or disband a current committee depending upon the circumstances.

2. Assignment and Term of Service of Committee Members. The Board will be responsible for the appointment of Committee members and Committee Chairs to the extent permitted by the Bylaws. It is expected that each Committee Chair will have had previous service on the applicable Committee, and will rotate off the Committee when his or her term as Chair is completed.

3. Frequency and Length of Committee Meetings and Committee Agenda. The Chair of each Committee, in consultation with appropriate members of management, will determine the frequency and length of the Committee meetings and develop the Committee's agenda. The agendas and meeting minutes of the Committees will be shared with the full Board, and other Board members are welcome to attend Committee meetings.

Management Review and Responsibility.

1. Formal Evaluation of Officers. The Compensation Committee conducts, and reviews with the outside directors, an evaluation annually in connection with the determination of the salary and executive bonus of all officers (including the Chief Executive Officer).

2. Succession Planning and Management Development. The Chief Executive Officer reviews succession planning and management development with the Board on an annual basis.

3. Board Interaction with Institutional Investors, Press, Customers, Etc. The Board believes that management speaks for the Company. Individual Board members may, from time to time, meet or otherwise communicate with various constituencies that are involved with the Company, but it is expected that Board members would do this with the knowledge of management and, in most instances, at the request of management.

4. Annual Review. The Board will conduct an evaluation of management's effectiveness on at least an annual basis.