

CORPORATE GOVERNANCE PRINCIPLES

The core values of ArQule, Inc. (the “Company”) are honesty, integrity and fairness in our dealings with our fellow employees, our stockholders and our communities. In addition to meeting both the letter and the spirit of federal and state law and regulations and the rules of the NASDAQ Global Market, Inc. (“NASDAQ”) the Board of Directors of the Company (the “Board”) has mandated that our business dealings comply with the highest ethical and corporate governance standards.

The Company has adopted the following guidelines to assist the Board and senior management of the Company to fulfill our obligations to provide effective and appropriate corporate governance. As is the case with our other policies and practices, the guidelines are intended to align the interests of the Board and management with those of our stockholders. We will review and, if in our judgment necessary, modify the guidelines from time to time.

Corporate Code of Conduct

The Company shall maintain a Corporate Code of Conduct and associated policies and procedures covering specific areas of corporate conduct in detail. Our Corporate Code of Conduct currently covers such areas as corporate communications; legal and regulatory requirements; knowledge of laws and regulations; fair treatment of employees; anti-discrimination and sexual harassment; environmental health and safety; conflicts of interest; trading in securities; political activity and contributions; protecting ArQule assets; records retention and disposal; intellectual property policies and procedures; and reporting violations of Company policies and investigation of complaints. Our directors are expressly subject to the Company’s Corporate Code of Conduct. Material waivers of the requirements of the Code or associated policies with respect to members of the Board will be subject to the approval of the full Board.

Functions of Board and Management

The Board is the ultimate decision-making body of the Company, but its role is one of oversight. The Board is elected by the stockholders to oversee management and to assure that the long-term interests of our stockholders are being served. Senior management of the Company will be responsible, with advice from the Board, for the day-to-day management and operations of the Company. The Board may exercise all of the powers of the Company that are not by law required to be exercised by our stockholders. Each member of the Board is expected to act in what he or she reasonably believes is in the exercise of prudent business judgment to be in the best interests of the Company.

More particularly, the Board, acting directly or through its committees, will concern itself with strategic planning and implementation; management succession planning; business risk assessment and mitigation; setting performance goals; measurement of strategic, competitive and financial performance; and management evaluation. It will also ensure that processes are in place for maintaining the integrity of the Company’s financial statements and its compliance with legal, regulatory and ethical standards. The Board and its Compensation, Nominating and Governance Committee shall undertake periodic reviews of the performance of the Board as a whole, each Committee of the Board and each Board member, and shall consider the results of such reviews when it makes its recommendations to the stockholders with respect to membership on the Board. The Board and its Compensation, Nominating and Governance Committee will review the performance of members of senior management and determine their compensation.

Board Membership

The Company's By-laws provide that the Board will have at least one member. The Board will fix the exact number of directors annually after considering the recommendation of our Compensation and Nominating Committee in light of the Company's needs. Classes of Board members will be elected annually by the Company's stockholders for staggered, three-year terms. The Board may fill vacancies in existing or new director positions. Such directors elected by the Board will serve only until the next election of the class of directors in which the vacancy occurred.

Each year at the Company's annual meeting, the Board will propose a slate of directors for election by stockholders. The Board's proposal will be based on the recommendations of its Compensation, Nominating and Governance Committee as to the suitability of each individual, and the slate as a whole, to serve as directors of the Company. Stockholders may propose nominees for consideration in accordance with the Company's By-laws.

Director Qualifications

The Board has not set formal criteria or qualifications for individuals to be nominated or renominated as candidates for Board membership. Instead, the Compensation, Nominating and Governance Committee takes many factors into consideration in evaluating an individual's suitability. Such factors will include a candidate's judgment, ethics, integrity, values, business experience at policy-making levels in areas relevant to the Company's business, educational and professional background, level of commitment and other competing professional obligations.

The Board will also consider issues of diversity among its members in identifying and considering nominees for director and will attempt, where appropriate, to achieve a diversity of perspectives, genders, ages and ethnicities, among other areas, among the membership of the Board and its committees.

Because the Board believes a historical perspective of the Company is valuable and outweighs possible benefits from forced turnover in membership, it has not prescribed a limit on the number of terms an individual may serve as a director or a mandatory retirement age. The Board does not believe that absent adverse circumstances such as real or potential conflicts of interest or specific regulatory prohibitions, directors should be prohibited from serving on the boards and committees of other organizations. Nevertheless, the Board and the Compensation, Nominating and Governance Committee will take into consideration the nature and extent of our directors' service on other boards and whether such service impairs their effectiveness and suitability for continued service with the Company.

Independence of Directors

It is the Company's policy that the Board consist of a majority of independent directors. On an annual basis, the Board or its Compensation, Nominating and Governance Committee will affirmatively determine whether each individual director is independent. In particular, the Board will evaluate whether an individual serving or nominated to serve as a director meets the independence requirements of the Securities Exchange Act of 1934, as amended, and the rules and regulations of the SEC and NASDAQ and whether that individual has a "material relationship" with the Company which would preclude a finding of independence.

The Directors determined by the Board to be independent are so identified on the Company's website, www.arqule.com.

Frequency of Meetings

The Board shall meet at least quarterly and may meet more frequently if it deems it appropriate to do so. Directors are expected to attend all scheduled board and committee meetings. The Board will devote a substantial portion of one meeting per year to strategic planning.

Board Committees

The Board utilizes an active committee structure. The standing Committees are the Audit Committee, the Compensation, Nominating and Governance Committee, the Science Committee each of which will be chaired by, and comprised entirely of, independent directors. The current charters and key practices of these committees are published on the Company's website, www.arqule.com. Each Committee will provide minutes of its meetings to the full Board following each meeting and, if appropriate, meet with the full Board.

Executive Sessions of Independent Directors

In order to further enhance the Board's independence, at each Board meeting where the members are physically present (generally 4-6 meetings per year) independent directors will meet in executive session without management directors or management present. Topics for such meetings will include the Company's long-term strategy, its strategic, scientific and financial performance, Board and management performance and such other topics as the independent directors deem necessary or appropriate; provided, however, that any action proposed as a result of such discussions will be voted upon by the full Board at a duly constituted meeting.

Access to Senior Management

The Board will have free access to management and all other employees of the Company and to its outside counsel and auditors in order to ensure that directors can ask all questions and obtain all information necessary to fulfill their duties.

Access to Independent Advisors

The Board is authorized to hire independent legal, financial or other advisors as it considers necessary, without conferring with or obtaining the approval of management. The Board and its Audit and Compensation, Nominating and Governance Committees, and its Compliance Subcommittee have the right to retain, at the Company's expense, such outside advisors as they consider necessary or appropriate.

Director Compensation

Our compensation plan for directors is intended to attract and retain qualified individuals and increase the proprietary interest of our directors in the Company's performance and growth. The Compensation, Nominating and Governance Committee will review and approve compensation (including fees and stock option grants and other equity-based compensation) for the Company's directors. Under the Company's By-laws, the Board may fix fees for the services of its membership and expenses of attendance may be allowed for attendance at each meeting. Audit Committee members may not receive any compensation from the Company other than fees (including stock options or other equity-based compensation) for their Committee and Board service. Details of current director compensation are provided in the Company's most recent proxy statement which is posted on the Company's website, www.arqule.com.

Indemnification of Directors and Officers

Subject to conformance with procedures and limitations in our By-laws, the Company will, to the extent legally permissible, indemnify director and officers of the Company or its subsidiaries, against expenses and liabilities incurred in connection with legal proceedings related to serving as an officer or director. Indemnification is not available to a director or officer unless he or she was acting in good faith in the best interests of the Company and otherwise in accordance with his or her fiduciary duty. We will maintain insurance on behalf of directors and officers covering liability arising from their service to the Company or its subsidiaries.

Stock Purchases and Ownership

In addition to legal sanctions, it is the policy of the Company that no director, officer or other employee of the Company who is aware of material nonpublic information relating to the Company may, directly or through family members or other persons or entities, (a) buy or sell securities of the Company, or engage in any other action to take personal advantage of that information, or (b) pass that information on to others outside the Company, including family and friends. In addition, it is the policy of the Company that no director, officer or other employee of the Company who, in the course of working for the Company, learns of material nonpublic information about a company with which the Company does business, including any customer or supplier of the Company, may trade in that company's securities or pass that information along to others until the information becomes public or is no longer material. In addition, members of the Board and senior management may not engage in certain transactions involving Company stock such as short-term trading, short sales, options trading, hedging transactions or margin accounts or other pledges. We have a mandatory pre-clearance procedure in place to ensure compliance by members of the Board and senior management with these trading policies.

The Company does not require members of the Board or senior management to purchase or hold a minimum amount of shares of Company stock. Information regarding current ownership of stock by directors and certain officers is set forth in the Company's most recent proxy statement which is posted on the Company's website, www.arqule.com. Current information regarding transactions in Company securities by directors and certain officers is also posted on the Company's website.