TRIANGLE PHARMACEUTICALS INC
Form 10-Q
November 08, 2002

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2002

OR

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

For the transition period from _____ to _____.

Commission File Number: 000-21589

TRIANGLE PHARMACEUTICALS, INC.
(Exact name of Registrant as specified in its charter)

DELAWARE	56-1930728
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
4 University Place 4611 University Drive Durham, North Carolina	27707
(Address of principal executive offices)	(zip code)

Registrant's telephone number, including area code: (919) 493-5980

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Securities Exchange Act of 1934.) Yes /X/ No / /

As of September 30, 2002, there were 76,903,883 shares of Triangle Pharmaceuticals, Inc. Common Stock outstanding.

TRIANGLE PHARMACEUTICALS, INC.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

TRIANGLE PHARMACEUTICALS, INC.
(A DEVELOPMENT STAGE COMPANY)
CONDENSED CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	SEPTEMBER 30, 2002	D
	(UNAUDITED)	

ASSETS

Current assets:

Cash and cash equivalents	$ 36,696	$
Investments	25,614	
Interest and other receivables	537	
Prepaid expenses	389	
Total current assets	63,236	
Property, plant and equipment, net	3,139	
Investments	5,960	
Total assets	$ 72,335	$
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 6,621	$
Debt-current	1,352	
Accrued expenses	15,244	
Deferred revenue	--	
Total current liabilities	23,217	
Debt-noncurrent	778	
Deferred revenue	2,000	
Total liabilities	25,995	
Commitments and contingencies (See notes 4, 5 and 6)	--	
Stockholders' equity:		
Convertible Preferred Stock, $0.001 par value; 10,000 shares authorized; 0 shares issued and outstanding	--	
Common Stock, $0.001 par value; 175,000 shares authorized; 76,904 and 76,829 shares issued and outstanding, respectively	77	
Additional paid-in capital	470,807	
Accumulated deficit during development stage	(424,670)	
Accumulated other comprehensive income	126	
Total stockholders' equity	46,340	
Total liabilities and stockholders' equity	$ 72,335	$

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

TRIANGLE PHARMACEUTICALS, INC.
(A DEVELOPMENT STAGE COMPANY)
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	THREE MONTHS ENDED SEPTEMBER 30,	NINE MONTHS ENDED

	2002	2001	2002
Revenue:			
Collaborative revenue	$ 14,556	$ 1,271	$ 16,625
Operating expenses:			
License fees	1,582	500	1,800
Development	12,168	15,477	38,939
Purchased research and development	--	320	--
Selling, general and administrative	2,328	1,602	5,342
Restructuring	--	2,342	--
Total operating expenses	16,078	20,241	46,081
Loss from operations	(1,522)	(18,970)	(29,456)
Gain (loss) on investments, net	11	9	16
Interest income, net	456	764	1,665
Other income	--	--	10,000
Net loss	$ (1,055)	$ (18,197)	$ (17,775)
Basic and diluted net loss per common share	$ (0.01)	$ (0.35)	$ (0.23)
Shares used in computing basic and diluted net loss per common share	76,876	52,366	76,856

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

TRIANGLE PHARMACEUTICALS, INC.
(A DEVELOPMENT STAGE COMPANY)
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(IN THOUSANDS)

	NINE MONTHS ENDED SEPTEMBER 30,	
	2002	2001
Cash flows from operating activities:		
Net loss	$ (17,775)	$ (62,218)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization	1,110	1,467
(Gain) loss from disposal of property, plant and equipment	(10)	260
(Gain) loss on investments	(16)	(76)
Purchased research and development	--	320
Stock-based compensation	80	183

Change in assets and liabilities:		
Receivables	741	792
Prepaid expenses	252	(124)
Accounts payable	(7,908)	(3,453)
Accrued expenses	1,321	3,650
Deferred revenue	(16,626)	(4,760)
Net cash used by operating activities	(38,831)	(63,959)
Cash flows from investing activities:		
Purchase of investments	(11,992)	(19,184)
Proceeds from sale and maturity of investments	23,428	39,186
Proceeds from sale of property, plant and equipment	77	7
Purchase of property, plant and equipment	(225)	(456)
Acquisition of Avid Corporation, net of cash acquired	--	--
Net cash provided (used) by investing activities	11,288	19,553
Cash flows from financing activities:		
Sale of stock, net of related issuance costs	147	78,557
Sale of options under salary investment option grant program	75	57
Proceeds from stock options/warrants exercised	27	288
Proceeds from notes payable	--	--
Proceeds from equipment financing	169	--
Principal payments on capital lease obligations and notes payable	(1,173)	(7)
Net cash (used) provided by financing activities	(755)	78,895
Net (decrease) increase in cash and cash equivalents	(28,298)	34,489
Cash and cash equivalents at beginning of period	64,994	14,055
Cash and cash equivalents at end of period	$ 36,696	$ 48,544

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

TRIANGLE PHARMACEUTICALS, INC.
(A DEVELOPMENT STAGE COMPANY)
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(IN THOUSANDS)

	CONVERTIBLE PREFERRED STOCK			COMMON STOCK	
	SHARES	AMOUNT	WARRANTS	SHARES	AMOUNT
Initial sale of stock	933	$ 1	$ --	1,175	$ 1
Additional sale of stock	4,249	4	--	1,495	2
Stock-based compensation	--	--	--	--	--
Comprehensive loss:					
Net loss	--	--	--	--	--

Balance, December 31, 1995	5,182	5	--	2,670	3
Sale of stock	3,756	4	--	4,943	5
Stock-based compensation	--	--	152	700	1
Stock options exercised	--	--	--	317	--
Conversion of Preferred to Common Stock	(8,938)	(9)	--	8,938	9
Comprehensive loss:					
Net loss	--	--	--	--	--
Balance, December 31, 1996	--	--	152	17,568	18
Sale of stock	--	--	--	2,014	2
Acquisition of Avid Corp.	--	--	--	400	--
Sale of stock options	--	--	--	--	--
Stock-based compensation	--	--	(38)	--	--
Stock options exercised	--	--	--	13	--
Comprehensive loss:					
Net loss	--	--	--	--	--
Balance, December 31, 1997	--	--	114	19,995	20
Sale of stock	170	--	--	8,868	9
Sale of stock options	--	--	--	--	--
Stock-based compensation	--	--	--	--	--
Stock options exercised	--	--	--	8	--
Comprehensive loss:					
Change in unrealized gains/(losses) on investments..	--	--	--	--	--
Net loss	--	--	--	--	--
Balance, December 31, 1998	170	--	114	28,871	29
Sale of stock	--	--	--	6,605	7
Sale of stock options	--	--	--	--	--
Stock-based compensation	--	--	--	6	--
Stock options/warrants exercised..	--	--	(114)	296	--
Conversion of Preferred to Common Stock	(170)	--	--	1,700	2
Purchased in-process research and development costs	--	--	--	100	--
Comprehensive loss:					
Reclassification adjustment for gains/(losses) in net loss	--	--	--	--	--
Change in unrealized gains/(losses) on investments..	--	--	--	--	--
Net loss	--	--	--	--	--
Balance, December 31, 1999	--	$ --	$ --	37,578	$ 38

(CONTINUED)

	COMPREHENSIVE INCOME (LOSS)	ACCUMULATED OTHER COMPREHENSIVE INCOME/(LOSS)	DEFERRED COMPENSATION	TOTAL
Initial sale of stock	$	$ --	$ --	$ 712
Additional sale of stock		--	--	3,143
Stock-based compensation		--	(12)	--
Comprehensive loss:				
Net loss	(967)	--	--	(967)
Balance, December 31, 1995	(967)	--	(12)	2,888
Sale of stock		--	--	59,515

Stock-based compensation		--	(141)	1,139
Stock options exercised		--	(26)	31
Conversion of Preferred to Common Stock		--	--	--
Comprehensive loss:				
Net loss	(10,917)	--	--	(10,917)
Balance, December 31, 1996	(10,917)	--	(179)	52,656
Sale of stock		--	--	29,523
Acquisition of Avid Corp.		--	--	8,117
Sale of stock options		--	--	70
Stock-based compensation		--	48	10
Stock options exercised		--	6	9
Comprehensive loss:				
Net loss	(37,668)	--	--	(37,668)
Balance, December 31, 1997	(37,668)	--	(125)	52,717
Sale of stock		--	--	116,334
Sale of stock options		--	--	97
Stock-based compensation		--	48	48
Stock options exercised		--	7	8
Comprehensive loss:				
Change in unrealized gains/(losses) on investments..	18	18	--	18
Net loss	(67,271)	--	--	(67,271)
Balance, December 31, 1998	(67,253)	18	(70)	101,951
Sale of stock		--	--	116,218
Sale of stock options		--	--	95
Stock-based compensation		--	58	159
Stock options/warrants exercised..		--	12	377
Conversion of Preferred to Common Stock		--	--	--
Purchased in-process research and development costs		--	--	1,247
Comprehensive loss:				
Reclassification adjustment for gains/(losses) in net loss	(21)	(21)	--	(21)
Change in unrealized gains/(losses) on investments..	(132)	(132)	--	(132)
Net loss	(104,621)	--	--	(104,621)
Balance, December 31, 1999	$ (104,774)	$ (135)	$ --	$ 115,273

(CONTINUED)

TRIANGLE PHARMACEUTICALS, INC.
(A DEVELOPMENT STAGE COMPANY)
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(IN THOUSANDS)

	CONVERTIBLE PREFERRED STOCK			COMMON STOCK	
	SHARES	AMOUNT	WARRANTS	SHARES	AMOUNT

(CONTINUED)					
Sale of stock	--	$ --	$ --	326	$ 1
Sale of stock options	--	--	--	--	--
Stock-based compensation	--	--	--	--	--
Stock options/warrants exercised..	--	--	--	225	--
Purchased in-process research and development costs	--	--	--	400	--
Comprehensive loss:					
Reclassification adjustment for gains/(losses) in net loss	--	--	--	--	--
Change in unrealized gains/(losses) on investments..	--	--	--	--	--
Net loss	--	--	--	--	--
Balance, December 31, 2000	--	--	--	38,529	39
Sale of stock	200	--	--	36,058	36
Sale of stock options	--	--	--	--	--
Stock-based compensation	--	--	--	--	--
Stock options/warrants exercised..	--	--	--	142	--
Purchased in-process research and development costs	--	--	--	100	--
Conversion of Preferred to Common Stock	(200)	--	--	2,000	2
Comprehensive loss:					
Reclassification adjustment for gains/(losses) in net loss	--	--	--	--	--
Change in unrealized gains/(losses) on investments..	--	--	--	--	--
Net loss	--	--	--	--	--
Balance, December 31, 2001	--	--	--	76,829	77
(UNAUDITED)					
Sale of stock	--	--	--	54	--
Sale of stock options	--	--	--	--	--
Stock-based compensation	--	--	--	--	--
Stock options/warrants exercised..	--	--	--	21	--
Comprehensive loss:					
Reclassification adjustment for gains/(losses) in net loss	--	--	--	--	--
Change in unrealized gains/(losses) on investments..	--	--	--	--	--
Net loss	--	--	--	--	--
Balance, September 30, 2002.....	--	$ --	$ --	76,904	$ 77

	COMPREHENSIVE INCOME (LOSS)	ACCUMULATED OTHER COMPREHENSIVE INCOME/(LOSS)	DEFERRED COMPENSATION	TOTAL
(CONTINUED)				
Sale of stock	$	$ --	$ --	$ 1,609
Sale of stock options		--	--	52
Stock-based compensation		--	--	348
Stock options/warrants exercised..		--	--	378
Purchased in-process research and development costs		--	--	5,350
Comprehensive loss:				
Reclassification adjustment for				

gains/(losses) in net loss	133	133	--	133
Change in unrealized gains/(losses) on investments..	163	163	--	163
Net loss	(109,525)	--	--	(109,525)
Balance, December 31, 2000	(109,229)	161	--	13,781
Sale of stock		--	--	125,106
Sale of stock options		--	--	68
Stock-based compensation		--	--	183
Stock options/warrants exercised..		--	--	289
Purchased in-process research and development costs		--	--	320
Conversion of Preferred to Common Stock		--	--	--
Comprehensive loss:				
Reclassification adjustment for gains/(losses) in net loss	(57)	(57)	--	(57)
Change in unrealized gains/(losses) on investments..	189	189	--	189
Net loss	(75,926)	--	--	(75,926)
Balance, December 31, 2001	(75,794)	293	--	63,953
(UNAUDITED)				
Sale of stock		--	--	147
Sale of stock options		--	--	75
Stock-based compensation		--	--	80
Stock options/warrants exercised..		--	--	27
Comprehensive loss:				
Reclassification adjustment for gains/(losses) in net loss	(172)	(172)	--	(172)
Change in unrealized gains/(losses) on investments..	5	5	--	5
Net loss	(17,775)	--	--	(17,775)
Balance, September 30, 2002.....	$ (17,942)	$ 126	$ --	$ 46,340

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

TRIANGLE PHARMACEUTICALS, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

1. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements of Triangle Pharmaceuticals, Inc. and its wholly-owned subsidiaries (the "Company" or "Triangle") have been prepared in accordance with generally accepted accounting principles and applicable Securities and Exchange Commission regulations for interim financial information. Triangle is a development stage company and has incurred losses and negative cash flows from operations since its inception. The Company has sufficient liquidity to continue its planned operations through the second quarter of 2003. Continuation of its operations beyond that date will require the Company to raise additional capital through

equity or debt financings or from other sources. These financial statements do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. It is presumed that users of this interim financial information have read or have access to the audited financial statements for the preceding fiscal year contained in the Company's Annual Report on Form 10-K. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for fair presentation have been included. Operating results for the interim periods presented are not necessarily indicative of the results that may be expected for the full year.

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 those estimates.

2. PRINCIPLES OF CONSOLIDATION

The condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

3. NET LOSS PER COMMON SHARE

Basic net loss per common share is computed using the weighted average number of shares of Common Stock outstanding during the period. Diluted net loss per common share is computed using the weighted average number of shares of common and dilutive potential common shares outstanding during the period. Potential common shares consist of stock options, warrants and convertible preferred stock using the treasury stock method and are excluded if their effect is antidilutive. For the three and nine month periods ended September 30, 2002 and 2001, the weighted average shares outstanding used in the calculation of net loss per common share do not include potential shares outstanding because they have the effect of reducing net loss per common share.

4. LICENSING AGREEMENTS

As of September 30, 2002, the Company has multiple license agreements for its portfolio of drug candidates. In the aggregate, these agreements may require future payments of up to $40,750 contingent upon the achievement of development milestones, up to $30,000 upon the achievement of sales milestones, and $1,250 of future research and development payments. The Company is also obligated to issue 250 shares of common stock if development milestones are achieved regarding compounds for the treatment of hepatitis B obtained in the Avid Corporation acquisition. Additionally, the Company will pay royalties ranging from 12% to 23.25% of net sales of each licensed product depending on the net sales volume for each approved drug candidate. The Company's license agreements also require minimum royalty payments commencing three years after regulatory approval of the licensed compound. Milestone payments are typically contingent on completing phases of clinical trials and receiving registrations for compounds. Depending on the Company's success and timing in obtaining regulatory approval, aggregate annual minimum royalties and annual license preservation fees could range from $75 (if only a single drug candidate is approved for one indication) to $43,000 (if all drug candidates are approved for all indications) under the Company's existing license agreements.

(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

5. TERMINATION OF ABBOTT ALLIANCE

On July 30, 2002, the Company terminated its alliance with Abbott Laboratories ("Abbott"). In connection with this termination, the Company: reacquired all rights previously granted to Abbott for Coviracil(R) for the treatment of HIV and hepatitis B, amdoxovir, and clevudine; will no longer be required to provide Abbott a right of first discussion on all future compounds developed; will have access to two unsecured lines of credit totaling $42,500, subject to reduction if the Company receives certain types of non-dilutive financing or to the extent the Company's aggregate cash and investment balances exceed $40,000; executed a new manufacturing and supply agreement whereby Abbott will manufacture Coviracil subject to certain terms and conditions; will forego rights to all remaining milestone payments and its right to co-promote Kaletra(R), Abbott's HIV product; and granted a 1% royalty to Abbott on the first $200,000 of cumulative, worldwide Coviracil sales. In addition, this termination resulted in all but $2,000 of the then remaining deferred revenue being recognized as revenue in the Company's third quarter 2002 results, resignation of Abbott's representative on the board of directors and termination of Abbott's right to purchase additional Triangle common stock.

6. CONTINGENCIES

On May 31, 2002, Emory University ("Emory"), GlaxoSmithKline plc ("GlaxoSmithKline") and Shire Pharmaceuticals Group plc ("Shire") settled patent disputes involving lamivudine and Coviracil. Under the terms of the settlement, Emory received an exclusive license from Shire under Shire's patents relating to Coviracil and methods for its use and manufacture, and Shire and GlaxoSmithKline received exclusive licenses under Emory's patents relating to lamivudine. Under the terms of the Company's license agreement with Emory, Triangle automatically acquired an exclusive sublicense to the Shire patents relating to Coviracil granted under the terms of the settlement, thereby resolving all previously pending patent disputes regarding Coviracil.

On August 30, 2002, the Company resolved its patent disputes involving amdoxovir with Shire. Under the terms of the settlement, Emory and the University of Georgia Research Foundation, Inc. ("University of Georgia") received an exclusive license to Shire's patent rights covering amdoxovir and methods for its use and manufacture. Under the terms of this license agreement, Triangle acquired an exclusive sublicense to these rights in exchange for an obligation to pay Shire an incremental royalty on future amdoxovir sales. Under the settlement agreement, Emory, University of Georgia and Triangle granted Shire an exclusive license under their patent rights to BCH-13520 and methods for its use and manufacture.

7. RECENT ACCOUNTING PRONOUNCEMENTS

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 141, "BUSINESS COMBINATIONS" and SFAS No. 142, "GOODWILL AND OTHER INTANGIBLE ASSETS." SFAS No. 141 eliminates the pooling-of-interests method of accounting for business combinations except for qualifying business combinations that were initiated prior to July 1, 2001. SFAS No. 142 changes the accounting for goodwill and indefinite lived intangible assets from an amortization method to an impairment-only approach.

In August 2001, the FASB issued SFAS No. 143, "ACCOUNTING FOR ASSET RETIREMENT OBLIGATIONS." The objectives of SFAS No. 143 are to establish

accounting standards for the recognition and measurement of an asset retirement obligation and its associated asset retirement cost. The provisions of SFAS No. 143 are effective for fiscal years beginning after June 15, 2002.

In October 2001, the FASB issued SFAS No. 144, "ACCOUNTING FOR THE IMPAIRMENT OR DISPOSAL OF LONG-LIVED ASSETS." This statement supersedes SFAS No. 121, "ACCOUNTING FOR THE IMPAIRMENT OF LONG-LIVED ASSETS AND FOR LONG-LIVED ASSETS TO BE DISPOSED OF" and Accounting Principles Board Opinion No. 30, "REPORTING THE RESULTS OF OPERATIONS - REPORTING THE EFFECTS OF DISPOSAL OF A SEGMENT OF BUSINESS, AND EXTRAORDINARY, UNUSUAL AND

INFREQUENTLY OCCURRING EVENTS AND TRANSACTIONS." The provisions of SFAS No. 144 are effective for fiscal years beginning after December 15, 2001.

In April 2002, the FASB issued SFAS No. 145, "Rescission of SFAS Nos. 4, 44 and 64, Amendment of SFAS No. 13, and Technical Corrections." As the title implies, SFAS No. 145 rescinds or amends previously issued authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. The provisions of SFAS No. 145 are effective for fiscal years beginning after May 15, 2002.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issue Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." The provisions of SFAS No. 146 are required to be applied for exit or disposal activities initiated after December 31, 2002.

The Company adopted SFAS Nos. 142 and 144 as of January 1, 2002, and expects to adopt SFAS Nos. 143, 145 and 146 as of January 1, 2003, as required. Adoption of SFAS Nos. 142 and 144 did not have a significant impact, and the Company does not expect SFAS Nos. 143, 145 and 146 to have a significant impact, on its consolidated financial position, results of operations and cash flows.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Quarterly Report on Form 10-Q may contain projections, estimates and other forward-looking statements that involve a number of risks and uncertainties, including those discussed below at "--Risk and Uncertainties." While this outlook represents management's current judgment on the future direction of the business, risks and uncertainties could cause actual results to differ materially from any future performance suggested below.

The following discussion and analysis should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in our 2001 Annual Report on Form 10-K as well as with our condensed consolidated financial statements and notes appearing elsewhere in

this Quarterly Report on Form 10-Q.

OVERVIEW

Triangle is engaged in the development of new drug candidates primarily for serious viral diseases. Since our inception on July 12, 1995, our operating activities have related primarily to developing our drug candidates, raising working capital, negotiating license and option and other strategic arrangements for our drug candidates and recruiting personnel. We have not received any revenues from the sale of products and none of our products will be commercially available before the year 2003. As of September 30, 2002, our accumulated deficit was approximately $424.7 million.

We require substantial working capital to fund the development and potential commercialization of our drug candidates. We will require significant expenditures to fund preclinical/toxicology testing, clinical research studies, drug synthesis and manufacturing, license obligations, development of a sales and marketing infrastructure and ongoing administrative support before receiving regulatory approvals for our drug candidates. These approvals may be delayed or not granted at all. We have been unprofitable since our inception and expect to incur substantial losses for the next several years. Because of the nature of our business, we expect that losses will fluctuate from period to period and that fluctuations may be substantial.

You should consider the operating and financial risks associated with drug development activities when evaluating our prospects. To address these risks we must, among other things, successfully develop and commercialize our drug candidates, secure and maintain all necessary proprietary rights, respond to a rapidly changing competitive market, obtain additional financing and continue to attract, retain and motivate qualified personnel. We cannot assure you that we will be successful in addressing these risks.

Our operating expenses are difficult to predict and will depend on several factors. Development expenses, including expenses for drug synthesis and manufacturing, preclinical testing and clinical research activities, will depend on the ongoing requirements of our drug development programs, availability of capital and direction from regulatory agencies, which are difficult to predict. Management may in some cases be able to control the timing of development expenses in part by accelerating or decelerating preclinical testing and clinical trial activities, but many of these expenditures will occur irrespective of whether our drug candidates are approved when anticipated or at all. Additionally, selling, general and administrative expenses may vary depending on which commercialization strategy is adopted for each drug candidate and whether or not we enter into collaborations with third parties to commercialize our products. As a result of these factors, we believe that period to period comparisons are not necessarily meaningful and you should not rely on them as an indication of future performance. Due to all of the foregoing factors, it is possible that our consolidated operating results will be below the expectations of market analysts and investors. In such event, the prevailing market price of our common stock could be materially adversely affected.

RESULTS OF OPERATIONS

THREE MONTHS ENDED SEPTEMBER 30, 2002 AND 2001

COLLABORATIVE REVENUE

Revenue totaled $14.6 million for the three months ended September 30, 2002 as compared to $1.3 million for the same period in 2001. Revenue is solely

related to the realization of deferred collaborative revenue associated with the Abbott Laboratories strategic alliance, the Abbott Alliance, which we terminated on July 30, 2002. Prior to this termination, $31.7 million of non-contingent research and development payments were being amortized over the projected development period for our drug candidates under the Abbott Alliance. The termination of this arrangement resulted in all but $2.0 million of our remaining deferred revenue being recognized upon termination, as we will no longer have development obligations to Abbott for any of our drug candidates. The remaining deferred revenue will be recognized in conjunction with, and to offset, Coviracil royalty payments to Abbott, which are based upon worldwide Coviracil sales.

LICENSE FEES

License fees totaled $1.6 million for the three months ended September 30, 2002 as compared to $500,000 for the same period in 2001. The increase in 2002 license fees, as compared to 2001, is related to the timing and magnitude of milestone obligations and preservation payments under our license and option agreements for our portfolio of drug candidates. Future license fees may consist of milestone payments or preservation payments under our license agreements, the amount of which could be substantial and the timing of which will depend on a number of factors that we cannot predict. These factors include, among others, the success of our drug development programs, the timing of regulatory submissions, the amount of capital available for allocation to individual drug candidates in our portfolio, and the extent to which we may in-license or out-license drug candidates.

DEVELOPMENT EXPENSES

Development expenses totaled $12.2 million for the three months ended September 30, 2002 as compared to $15.5 million for the same period in 2001. The decrease in 2002 development expenses, as compared to 2001, is due primarily to the discontinuation of certain development projects associated with our restructuring in August 2001 as well as a significant reduction in patent litigation related expenses. See "--Litigation and Other Contingencies."

On September 3, 2002, we submitted a New Drug Application, NDA, to the U.S. Food and Drug Administration, FDA, for U.S. marketing approval of Coviracil to treat HIV disease. On November 1, 2002, the FDA notified us that our NDA had been accepted for standard review. Accordingly, we hope to have our first NDA approved as early as the third quarter of 2003. We intend to submit a Marketing Authorisation Application, MAA, in Europe, and to complete our evaluation of alternative strategies for the commercialization of Coviracil before December 31, 2002. Once approved, these authorizations would allow us to market Coviracil for the treatment of HIV disease in the United States and the European Union.

Our future development expenses will depend on the results and magnitude of our clinical and preclinical/toxicology activities, our targeted future cash usage, availability of capital to simultaneously fund multiple drug candidate development programs and requirements imposed by regulatory agencies. In addition, we occasionally enter into collaborative arrangements with governmental and other parties to assist in conducting the clinical trials necessary for the development of our compounds. This practice allows us to benefit from the experience of the collaborative party in conducting such trials and to share some of the financial and administrative burden of these trials. To date, we have entered into collaborative clinical trial arrangements for our Coviracil, amdoxovir and immunostimulatory sequences, ISS, drug candidates. Since our development expenses will depend on our clinical and preclinical activities, development expenses may fluctuate significantly from period to period. We expect our development costs to increase as more of our development programs enter into the later stages of clinical development. In addition, if we in-license or out-license rights to drug candidates our development expenses may

fluctuate significantly from prior periods.

PURCHASED RESEARCH AND DEVELOPMENT EXPENSE

There was no purchased research and development expense for the three months ended September 30, 2002 as compared to $320,000 for the same period in 2001. The 2001 charge relates to the September 2001 issuance of 100,000 shares of common stock as consideration to the former Avid Corporation shareholders for their remaining rights relating to mozenavir dimesylate. That issuance satisfied all current and any future obligations in regards to contingent development obligations for mozenavir dimesylate to the former Avid Corporation shareholders and no future purchased research and development expenses are currently anticipated.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses totaled $2.3 million for the three months ended September 30, 2002 as compared to $1.6 million for the same period in 2001. The increase in 2002 selling, general and administrative expenses, as compared to 2001, is primarily related to an increase in 2002 salaries and benefits as well as an increase in 2002 professional services, including legal services. Our selling, general and administrative expenses may fluctuate from period to period and such fluctuations may be significant. Future selling, general and administrative expenses will depend on the level and method of our future development and commercialization activities, the commercial availability of our products and the commercialization strategy we adopt. We expect that our selling, general and administrative expenses will increase significantly in future periods that immediately precede and follow our first product launch and subsequent launches of other products.

RESTRUCTURING EXPENSE

There was no restructuring expense for the three months ended September 30, 2002 as compared to $2.3 million for the same period in 2001. In August 2001, we announced and began a restructuring of our development activities and overall operations designed to lower our near term monthly cash usage and to focus our financial and human resources on activities that are expected to have the highest probability of near term regulatory approval and economic return. The charges recorded at that time were sufficient to complete the corporate restructuring.

GAINS (LOSSES) ON INVESTMENTS, NET

Gains on investments totaled $11,000 for the three months ended September 30, 2002 as compared to $9,000 of gains for the same period in 2001. These gains represent realized gains on our general investment portfolio.

INTEREST INCOME, NET

Net interest income totaled $456,000 for the three months ended September 30, 2002 as compared to $764,000 for the same period in 2001. The significant decrease in 2002 interest income, as compared to 2001, is due to smaller average investment balances and much lower short-term interest rates in the third quarter of 2002. Future interest income will depend on our future cash and investment balances and the return on these investments. See "--Liquidity and Capital Resources."

NINE MONTHS ENDED SEPTEMBER 30, 2002 AND 2001

COLLABORATIVE REVENUE

Revenue totaled $16.6 million for the nine months ended September 30, 2002 as compared to $4.8 million for the same period in 2001. Revenue is solely related to the realization of deferred collaborative revenue associated with the Abbott Alliance which we terminated on July 30, 2002. Prior to this termination, $31.7 million of non-contingent research and development payments were being amortized over the projected development period for our drug candidates under the Abbott Alliance. The termination of this arrangement resulted in all but $2.0 million of our remaining deferred revenue being recognized upon termination, as we will no longer have development obligations to Abbott for any of our drug candidates. The remaining deferred revenue will be recognized in conjunction with, and to offset, Coviracil royalty payments to Abbott, which are based upon worldwide Coviracil sales.

LICENSE FEES

License fees totaled $1.8 million for the nine months ended September 30, 2002 as compared to $2.5 million for the same period in 2001. License fees for 2002 and 2001 relate to the recognition of milestone obligations and preservation fees under our license and option agreements for our portfolio of drug candidates. The decrease in 2002 license fee expense, as compared to 2001, is related to the timing and magnitude of milestone obligations and preservation payments under our license and option agreements for our portfolio of drug candidates. Future license fees may consist of milestone payments or preservation payments under our license agreements, the amount of which could be substantial and the timing of which will depend on a number of factors that we cannot predict. These factors include, among others, the success of our drug development programs, the timing of regulatory submissions, the amount of capital available for allocation to individual drug candidates in our portfolio, and the extent to which we may in-license or out-license drug candidates.

DEVELOPMENT EXPENSES

Development expenses totaled $38.9 million for the nine months ended September 30, 2002 as compared to $58.1 million for the same period in 2001. Development expenses for 2002 consisted primarily of expenses for clinical trials, employee compensation, drug synthesis and amounts paid for professional services. Development expenses for 2001 consisted primarily of expenses for drug synthesis, clinical trials, employee compensation, and preclinical/toxicology testing. The substantial decrease in 2002 development expenses, as compared to 2001, is the result of significantly reduced spending on non-core development programs, other drug candidates, and moderated spending as a result of our restructuring in August 2001, as well as substantially reduced manufacturing and patent litigation expenses for Coviracil and amdoxovir. As all of the previously pending intellectual property disputes associated with Coviracil and amdoxovir have been resolved, we expect that our future patent litigation costs will decrease significantly from historical levels. See "--Litigation and Other Contingencies."

Development expenses by major project for the nine months ended September 30, 2002 and 2001 are shown below (dollars in thousands).

COMPOUND	INDICATION	2002 COSTS	%	2001 COSTS	%	DIFFEREN

Coviracil	HIV	$ 17,366	45	$ 18,553	32	$ (1,18
Amdoxovir	HIV	825	2	9,799	17	(8,97
Clevudine	Hepatitis B	1,048	3	2,074	4	(1,02
Coviracil	Hepatitis B	3,490	9	3,152	5	33
Immunostimulatory sequences candidate	Hepatitis B	943	2	1,750	3	(80
Other drug candidates		506	1	6,283	11	(5,77
Indirect (unallocated) development costs		14,761	38	16,504	28	(1,74
Total		$ 38,939	100	$ 58,115	100	$ (19,17

Our future development expenses will depend on the results and magnitude of our clinical and preclinical/toxicology activities, our targeted future cash usage, availability of capital to simultaneously fund multiple drug candidate development programs and requirements imposed by regulatory agencies. In addition, we occasionally enter into collaborative arrangements with governmental and other parties to assist in conducting the clinical trials necessary for the development of our compounds. This practice allows us to benefit from the experience of the collaborative party in conducting such trials and to share some of the financial and administrative burden of these trials. To date, we have entered into collaborative clinical trial arrangements for our Coviracil, amdoxovir and ISS drug candidates. Since our development expenses will depend on our clinical and preclinical activities, development expenses may fluctuate significantly from period to period. We expect our development costs to increase as more of our development programs enter into the later stages of clinical development. In addition, if we in-license or out-license rights to drug candidates our development expenses may fluctuate significantly from prior periods.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses totaled $5.3 million for the nine months ended September 30, 2002 as compared to $6.6 million for the same period in 2001. Selling, general and administrative expenses for 2002 consisted primarily of employee compensation, amounts paid for outside professional services, insurance costs and rent expense. Selling, general and administrative expenses for 2001 consisted primarily of employee compensation, amounts paid for outside professional services, and rent expense. The decrease in 2002 selling, general and administrative expenses, as compared to 2001, is primarily related to decreased 2002 sales and marketing spending for the period. Our selling, general and administrative expenses may fluctuate from period to period and such fluctuations may be significant. Future selling, general and administrative expenses will depend on the level and method of our future development and commercialization activities, the commercial availability of our products and the commercialization strategy we adopt. We expect that our selling, general and administrative expenses will increase significantly in future periods that immediately precede and follow our first product launch and subsequent launches of other products.

GAINS (LOSSES) ON INVESTMENTS, NET

Gains on investments totaled $16,000 for the nine months ended September 30, 2002 as compared to $76,000 of gains for the same period in 2001. These gains represent realized gains on our general investment portfolio.

INTEREST INCOME, NET

Net interest income totaled $1.7 million for the nine months ended September 30, 2002 as compared to $2.7 million for the same period in 2001. The significant decrease in 2002 interest income, as compared to 2001, is due to smaller average investment balances in 2002 and much lower short-term interest rates. Future interest income will depend on our future cash and investment balances and the return on these investments. See "--Liquidity and Capital Resources."

OTHER INCOME

Other income totaled $10.0 million for the nine months ended September 30, 2002, as compared to no income or expense for the same period in 2001. In January 2002, our then Chief Executive Officer and Chairman of the Board, Dr. David W. Barry, died unexpectedly. We subsequently received a $10.0 million payment under a key-man insurance policy.

LIQUIDITY AND CAPITAL RESOURCES

We have financed our operations since inception (July 12, 1995) through September 30, 2002 primarily with the net proceeds received from private placements of equity securities, which have provided aggregate net proceeds of approximately $353.1 million, from public offerings of common stock, which have provided aggregate net proceeds of approximately $97.7 million, as well as $31.5 million of net non-contingent research and development reimbursement proceeds from the Abbott Alliance and receipt of a $10.0 million key-man insurance policy payment.

At September 30, 2002, we had net working capital of $40.0 million, a decrease of approximately $14.1 million from December 31, 2001. The decrease in working capital is principally due to the use of funds for our normal operating expenses offset by the receipt of a $10.0 million key-man insurance policy payment received in March 2002. Our principal sources of liquidity at September 30, 2002 were $36.7 million in cash and cash equivalents, $30.6 million in investments which are considered "available-for-sale," and $1.0 million of strategic corporate investments, reflecting a $39.9 million decrease of cash, cash equivalent and investment balances over those at December 31, 2001.

Our working capital requirements may fluctuate in future periods depending on many factors, including the efficiency of manufacturing processes developed on our behalf by third parties, the cost of drugs supplied by third party contractors, the magnitude, scope and timing of our drug development programs, the cost, timing and outcome

of regulatory reviews and changes in regulatory requirements, costs under the license agreements relating to our drug candidates, including the costs of obtaining patent protection for our drug candidates, the timing and terms of business development activities related to current and new drug candidates, the rate of technological advances relevant to our operations, the timing, method and cost of the commercialization of our drug candidates, the level of required administrative and legal support, the availability of capital to support multiple drug candidate development programs and the potential expansion of facility space.

Amounts payable by us in the future under our existing license and research agreements are uncertain due to a number of factors, including the progress of our drug development programs, our ability to obtain regulatory approval to commercialize drug candidates and the commercial success of approved drugs. As of September 30, 2002, our existing license and research agreements may require future cash payments of up to $40.8 million contingent on the achievement of development milestones, up to $30.0 million on the achievement of sales milestones, and $1.3 million of future research and development payments. As of September 30, 2002, we are also obligated to issue 250,000 shares of common stock if development milestones are achieved regarding compounds for the treatment of hepatitis B obtained in the Avid Corporation acquisition, although we are not currently developing these compounds. Additionally, we are obligated to pay royalties ranging from 12% to 23.25% of net sales of each licensed product depending on net sales volume of each of our drug candidates. Most of our license agreements require minimum royalty payments commencing three years after regulatory approval of the licensed compound. Depending on our success and timing in obtaining regulatory approval, aggregate annual minimum royalties and license preservation fees under our existing license agreements could range from $75,000 if only a single drug candidate is approved for one indication, to $43.0 million if all drug candidates are approved for all indications.

We believe that our existing cash, cash equivalents and investments will be adequate to satisfy our anticipated working capital requirements through the second quarter of 2003. We expect that upon approval of Coviracil for the treatment of HIV in the United States and Europe, additional liquidity may be available under the Abbott lines of credit (See "--Termination of the Abbott Alliance."). In addition, we have an effective shelf registration statement and may seek additional funding through one or more equity financings. The potential utilization of all, or a component, of either of these two financing mechanisms would extend our ability to satisfy our anticipated working capital requirements beyond the second quarter of 2003. We expect that we will be required to raise additional capital to fund our future operations through equity or debt financings or from other sources. Additional funding may not be available on favorable terms from any of these sources or at all. Our future financing needs will depend on the results of clinical trials, size of drug candidate portfolio, timing of regulatory submissions and approvals, business development activities, commercial potential of our drug candidates and our ability to successfully commercialize our drug candidates. We may also consider modifying the timing or scope of our clinical programs, out-licensing one or more of our compounds or entering into new collaborative arrangements, any of which may impact our anticipated capital requirements. Our liquidity projections are subject to several risks including unanticipated cost overruns, the need to expand the magnitude or scope of existing development programs, the need to change the number or timing of clinical trials, unanticipated regulatory requirements, the timing and costs related to the FDA's review and preparation for the commercial launch of Coviracil, the timing of regulatory approvals and our ability to access the Abbott lines of credit, our ability to sell common stock under our shelf registration, and other factors described under the caption "Risk and Uncertainties" elsewhere in this Form 10-Q.

TERMINATION OF THE ABBOTT ALLIANCE

On July 30, 2002, we reacquired full product rights, including rights to all profits, from Abbott for four of our drug development programs in clinical development. We entered into a series of agreements with Abbott terminating the Abbott Alliance under which we:

- reacquired all rights previously granted to Abbott, which includes the rights to all future profits for Coviracil for the treatment of HIV and hepatitis B, amdoxovir, and clevudine;
- will no longer be required to provide Abbott a right of first discussion on all future compounds which we develop;

- will have access to two unsecured lines of credit totaling $42.5 million, subject to certain terms and conditions. Upon approval of Coviracil for the treatment of HIV in the United States, Abbott will make available to us an unsecured line of credit of $30 million. Upon

approval of Coviracil for the treatment of HIV in Europe, Abbott will make available to us an unsecured line of credit of $12.5 million. The amounts available under the Abbott lines of credit will be reduced if we receive certain types of non-dilutive financing from other parties. The amounts can also be reduced by the extent our aggregate cash and investment balances exceed $40.0 million.
- executed a new manufacturing and supply agreement under which Abbott will manufacture quantities of Coviracil expected to be sufficient for approximately the first year's sales, and Abbott will provide manufacturing capabilities through July 31, 2005 at our request. Abbott will also provide resources for and facilitate the transfer of the Coviracil manufacturing process to a third-party manufacturer.
- will forego rights to all remaining milestone payments and our right to co-promote Abbott's HIV product, Kaletra(R).
- granted a 1% royalty to Abbott on the first $200 million of cumulative, worldwide Coviracil sales.

Termination of the Abbott Alliance resulted in all but $2.0 million of our remaining deferred revenue being recognized in our third quarter 2002 results as we no longer have development obligations to Abbott for any of our drug candidates. In addition, Abbott's representative on our board of directors has resigned and Abbott's right to purchase additional Triangle common stock has terminated.

We are currently exploring strategic opportunities for developing, commercializing and manufacturing our drug candidates, any of which could have a material impact on our working capital requirements and on our business as a whole. These opportunities may include alliances, out-licensing arrangements and joint ventures. In addition, from time to time we receive indications of interest from third parties to acquire us. At this time, we have no agreements or firm commitments to enter into any such arrangements. We will continue to evaluate opportunities on an ongoing basis.

LITIGATION AND OTHER CONTINGENCIES

On May 31, 2002, Emory University, GlaxoSmithKline plc and Shire Pharmaceuticals Group plc settled patent disputes involving lamivudine and Coviracil. Under the terms of the settlement, Emory received an exclusive license from Shire under Shire's patents relating to Coviracil and methods for its use and manufacture, and Shire and GlaxoSmithKline received exclusive licenses under Emory's patents relating to lamivudine. Under the terms of our license agreement with Emory, we automatically acquired an exclusive sublicense to the Shire patents relating to Coviracil granted under the terms of the settlement, thereby resolving all previously pending patent disputes regarding Coviracil.

On August 30, 2002, we resolved our patent disputes involving amdoxovir with Shire. Under the terms of the settlement, Emory and the University of Georgia Research Foundation, Inc., University of Georgia, received an exclusive license to Shire's patent rights covering amdoxovir and methods for its use and manufacture. Under the terms of this license agreement, Triangle acquired an exclusive sublicense to these rights in exchange for an obligation to pay Shire an incremental royalty on future amdoxovir sales. Under the settlement agreement, Emory, University of Georgia and Triangle granted Shire an exclusive

license under their patent rights to BCH-13520 and methods for its use and manufacture.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our condensed consolidated financial statements require us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosure of contingent assets and liabilities. We evaluate our estimates, judgments and the policies underlying these estimates on a periodic basis as the situation changes, and regularly discuss financial events, policies, and issues with members of our audit committee and our independent accountants. We routinely evaluate our estimates and policies regarding clinical trial, preclinical/toxicology and manufacturing liabilities; patent related liabilities; license milestone obligations; revenue recognition; inventory; intangible assets and deferred tax assets.

We generally enter into contractual agreements with third-party vendors to provide clinical, preclinical/toxicology, manufacturing and other services in the ordinary course of business. Many of these contracts are subject to milestone based invoicing and the contract could extend over several years. We record liabilities under these contractual commitments when we determine an obligation has been incurred, regardless of the timing of the invoice. Patent related and license milestone liabilities are recorded based upon various assumptions or events that we believe are the most reasonable in each individual circumstance, as well as based upon historical experience. License milestone liabilities and the related expense are recorded when the milestone criterion achievement or license preservation payment is probable. We have not recognized any assets for inventory, intangible items or deferred taxes as we have yet to receive regulatory approval for any of our drug candidates and there is therefore uncertainty in regards to the expected net realizable value for any potential asset that could be recorded in regards to these items. We have recognized collaboration revenue based upon the amortization of non-contingent reimbursed research and development payments that were received under the Abbott Alliance. As a result of the termination of the Abbott Alliance, we have recognized all but $2.0 million of deferred revenue associated with the Abbott Alliance in our third quarter 2002 results.

In all cases, actual results may differ from our estimates.

RISK AND UNCERTAINTIES

IN ADDITION TO THE OTHER INFORMATION IN THIS DOCUMENT, THE FOLLOWING RISKS AND UNCERTAINTIES SHOULD BE CAREFULLY CONSIDERED IN EVALUATING US AND OUR BUSINESS.

ALL OF OUR DRUG CANDIDATES ARE IN DEVELOPMENT AND WE MAY NEVER SUCCESSFULLY COMMERCIALIZE THEM.

Some of our drug candidates are at an early stage of development and all of our drug candidates will require expensive and lengthy testing and regulatory clearances before we may commercialize them. We do not expect any of our drug candidates to be commercially available before the year 2003. There are many reasons that we may fail in our efforts to develop or commercialize our drug candidates, including that:

- our drug candidates may be ineffective, toxic or may not receive regulatory clearances,
- our drug candidates may be too expensive to manufacture or market or may not achieve broad market acceptance,

- third parties may hold proprietary rights that preclude us from developing or marketing our drug candidates, or
- third parties may market equivalent or superior products.

The success of our business depends on our ability to successfully develop and market our drug candidates.

WE HAVE INCURRED LOSSES SINCE INCEPTION AND MAY NEVER ACHIEVE PROFITABILITY.

We formed Triangle in July 1995 and have incurred losses since our inception. At September 30, 2002, our accumulated deficit was $424.7 million. Our historical costs relate primarily to the acquisition and development of our drug candidates and selling, general and administrative costs. We have not generated any revenue from the sale of our drug candidates to date, and do not expect to do so before the year 2003. In addition, we expect annual losses to continue over the next several years as a result of our drug development and commercialization efforts. To become profitable, we must successfully develop and obtain regulatory approval for our drug candidates and effectively manufacture, market and sell any products we develop. We may never generate significant revenue or achieve profitability.

IF WE NEED ADDITIONAL FUNDS AND ARE UNABLE TO RAISE THEM, WE WILL HAVE TO CURTAIL OR CEASE OPERATIONS.

Our drug development programs and our efforts to commercialize our drug candidates require substantial working capital, including expenses for:

- preclinical testing,
- chemical synthetic scale-up,
- manufacture of drug substance for clinical trials,
- toxicology studies,
- clinical trials of drug candidates,
- sales and marketing,
- payments to our licensors, and
- potential commercial launch of our drug candidates.

Our future working capital needs will depend on many factors, including:

- the progress, magnitude and success of our drug development programs,
- the scope and results of preclinical testing and clinical trials,
- the cost, timing and outcome of regulatory submissions and reviews,
- the costs under current and future license agreements for our drug candidates, including the costs of obtaining and enforcing patent protection for our drug candidates,
- the costs of acquiring any additional drug candidates,
- the out-licensing of existing drug candidates,
- the rate of technological advances by us and other companies,
- the commercial potential of our drug candidates,
- the magnitude of our administrative and legal expenses,
- the costs of establishing sales and marketing functions, and
- the costs of establishing third party arrangements for manufacturing.

We have incurred negative cash flow from operations since we incorporated Triangle and do not expect to generate positive cash flow from our operations for at least the next several years. We believe that our existing cash, cash equivalents and investments will be adequate through the second quarter of 2003. We expect that we will need additional future financings to fund our operations. We may not be able to obtain adequate financing to fund our operations and any additional financing we obtain may be on terms that are not favorable to us. Our

ability to access the lines of credit from Abbott is subject to conditions we may not be able to meet. Any future equity financings could substantially dilute our stockholders. If adequate funds are not available, we will be required to delay, reduce or eliminate one or more of our drug development programs or to enter into new collaborative arrangements on terms that may not be favorable to us. These collaborative arrangements could result in the transfer of valuable rights to third parties. In addition, we may acquire technologies and drug candidates that would increase our working capital requirements.

PROJECTED DEVELOPMENT COSTS ARE DIFFICULT TO ESTIMATE AND MAY CHANGE FREQUENTLY PRIOR TO REGULATORY APPROVAL.

While all new compounds require standard regulated phases of testing, the actual type and scope of testing can vary significantly among different drug candidates which may result in significant disparities in the total costs required to complete the respective development programs.

The number and type of studies that may be required by the FDA for a particular compound are based on the compound's clinical profile compared to existing therapies for the targeted patient population. Factors that affect the costs of a clinical trial include:

- the number of patients required to participate in clinical trials to demonstrate statistical significance for a drug's safety and efficacy,
- the time required to enroll the targeted number of patients in clinical trials, which may vary depending on the size and availability of the targeted patient population and the perceived benefit to study participants, and
- the number and type of required laboratory tests supporting clinical trials.

Other activities required before submitting an NDA include regulatory preparation for submission, biostatistical analyses, scale-up synthesis, and the production of a required amount of commercial grade drug product inventory which meets current Good Manufacturing Practice standards.

In addition, ongoing development programs and associated costs are subject to frequent, significant and unpredictable changes due to a number of factors, including:

- data collected in preclinical or clinical studies may prompt significant changes or enhancements to an ongoing development program,
- the FDA may direct the sponsor to change or enhance its ongoing development program based on developments in the testing of similar compounds or related compounds,
- unexpected regulatory requirements or interim reviews by regulatory agencies may cause delays or changes to development programs, and
- anticipated manufacturing costs may change significantly due to required changes in manufacturing processes or variances from anticipated manufacturing process yields.

BECAUSE WE MAY NOT SUCCESSFULLY COMPLETE CLINICAL TRIALS REQUIRED FOR REGULATORY APPROVAL OF OUR DRUG CANDIDATES, OUR BUSINESS MAY NEVER ACHIEVE PROFITABILITY.

No regulatory authority has approved any of our drug candidates. To obtain regulatory approvals needed for the sale of our drug candidates, we must demonstrate through preclinical testing and clinical trials that each drug candidate is safe and effective. The clinical trial process is complex and uncertain and the regulatory environment varies widely from country to country.

Positive results from preclinical testing and early clinical trials do not ensure positive results in pivotal clinical trials. Many companies in our industry have suffered significant setbacks in pivotal clinical trials, even after promising results in earlier trials. Any of our drug candidates may produce undesirable side effects in humans. These side effects, or side effects from other drugs in a trial, could cause us or regulatory authorities to interrupt, delay or halt clinical trials of a drug candidate, or could result in regulatory authorities refusing to approve the drug candidate for any and all targeted indications. We, the FDA, or foreign regulatory authorities may suspend or terminate clinical trials at any time if we or they believe the trial participants face unacceptable health risks.

Our clinical development program for amdoxovir was placed on partial clinical hold by the FDA as a result of concern about possible side effects called lenticular opacities. The extent to which amdoxovir increased the occurrence of lenticular opacities in patients receiving amdoxovir, if at all, is unknown. Patients in clinical studies who are benefiting from amdoxovir may continue on treatment. New studies involving patients who have failed other treatments which contained a drug from each currently approved class of anti-HIV medications and require amdoxovir in their regimens may also proceed. We plan to initiate two clinical trials to be conducted by the AIDS Clinical Trial Group in the United States and a third Phase II clinical trial in Europe. The data from these trials should help us determine several objectives, including if there is any relationship between lenticular opacities and the use of amdoxovir. Discussions with the FDA regarding the partial clinical hold are ongoing.

CLINICAL TRIALS MAY TAKE LONGER TO COMPLETE AND COST MORE THAN WE EXPECT, WHICH WOULD ADVERSELY AFFECT OUR ABILITY TO COMMERCIALIZE DRUG CANDIDATES AND ACHIEVE PROFITABILITY.

Clinical trials are lengthy and expensive. They require adequate supplies of drug substance and sufficient patient enrollment. Patient enrollment is a function of many factors, including:

- the size of the patient population,
- the nature of the protocol,
- the proximity of patients to clinical sites,
- the eligibility criteria for the clinical trial, and
- the perceived benefit of participating in a clinical trial.

Delays in patient enrollment can result in increased costs and longer development times. Even if we successfully complete clinical trials, we may not be able to submit any required regulatory submissions in a timely manner and we may not receive regulatory approval for the drug candidate. In addition, if the FDA or foreign regulatory authorities require additional clinical trials we could face increased costs and significant development delays.

We conduct clinical trials in many countries around the world and are subject to the risks and uncertainties of doing business internationally. Disruptions in communication and transportation, changes in governmental policies, civil unrest and currency exchange rates may affect the time and costs required to complete clinical trials in other countries.

Changes in regulatory policy or new regulations could also result in delays or rejections of our applications for approval of our drug candidates. Drug candidates designated as "fast track" products by the FDA may not continue to qualify for expedited review. Even though some of our drug candidates have received "fast track" designation, the FDA may not approve them at all or any sooner than other drug candidates that do not qualify for expedited review.

IF WE OR OUR LICENSORS ARE NOT ABLE TO OBTAIN AND MAINTAIN ADEQUATE PATENT PROTECTION FOR OUR DRUG CANDIDATES, WE MAY BE UNABLE TO COMMERCIALIZE OUR DRUG CANDIDATES OR PREVENT OTHER COMPANIES FROM USING OUR TECHNOLOGY IN COMPETITIVE PRODUCTS.

Our success will depend on our ability and the ability of our licensors to obtain and maintain patents and proprietary rights for our drug candidates and to avoid infringing the proprietary rights of others, both in the United States and in foreign countries. We have no issued patents solely in our own name and we have a small number of patent applications of our own pending. We have several patents and patent applications which are jointly owned with other entities. We have licensed patents, patent applications and other proprietary rights from third parties for each of our drug candidates. If we breach our licenses, we may lose rights to important technology and drug candidates.

Our patent position on some of our drug candidates, like that of many pharmaceutical companies, is uncertain and involves complex legal and factual questions for which important legal principles are unresolved. We may not develop or obtain rights to products or processes that are patentable. Even if we do obtain patents, they may not adequately protect the technology we own or have licensed. In addition, others may challenge, seek to invalidate, infringe or circumvent any patents we own or license. If they do so successfully, rights we receive under those patents may not provide competitive advantages to us. Further, the manufacture, use or sale of our products or processes may infringe the patent rights of others.

Third parties may file patent applications or receive patents that conflict with patents or patent applications we own or have licensed, either by claiming the same methods or compounds or by claiming methods or compounds that could dominate those owned by or licensed to us. In addition, we may not be aware of all patents or patent applications that may impact our ability to make, use or sell any of our drug candidates. For example, United States patent applications are confidential while pending in the Patent and Trademark Office, and patent applications filed in foreign countries are often first published six months or more after filing. Any conflicts resulting from third party patent applications and patents could significantly reduce the coverage of our patents and limit our ability to obtain meaningful patent protection. If other companies obtain patents with conflicting claims, we may be required to obtain licenses to these patents or to develop or obtain alternative technology. We may not be able to obtain any license on acceptable terms or at all. Any failure to obtain licenses could delay or prevent us from pursuing the development or commercialization of our drug candidates, which would adversely affect our ability to achieve profitability.

IMMUNOSTIMULATORY SEQUENCE PRODUCT CANDIDATES

In March 2000, we entered into a licensing and collaborative agreement with Dynavax Technologies Corporation to develop immunostimulatory polynucleotide sequence product candidates for the prevention and/or treatment of serious viral diseases, which was amended in September 2002. The amendment narrowed the scope of the license to specific ISS which are combined with hepatitis B antigen. The

amendment limits our diligence obligations to development regarding the treatment of hepatitis B and provides that Dynavax will conduct specific amounts of research for the development of the technology licensed to us. ISS are polynucleotides which stimulate the immune system, and could potentially be used in combination with our small molecule product candidates to increase the body's

ability to defend against hepatitis B infection.

There are a number of companies which have patent applications and issued patents, both in the United States and in other countries, that cover ISS and their uses. Coley Pharmaceuticals, Inc. has filed several patent applications in this area and has in addition exclusively licensed a number of patent applications on this subject from the University of Iowa and Isis Pharmaceuticals, Inc. A number of these patent applications have been issued. A number of companies have also filed patent applications and have or are expected to receive patents on a number of polynucleotides and methods for their use and manufacture. These patents, if granted, could prevent us from making, using or selling any ISS that is covered by a patent issued to a third party unless we obtain a license from that party which may not be available on acceptable terms or at all.

With respect to any of our drug candidates, litigation, patent opposition and adversarial proceedings could result in substantial costs to us. We anticipate that additional litigation and/or proceedings could be initiated to enforce any patents we own or license, or to determine the scope, validity and enforceability of our or other parties' proprietary rights and the priority of an invention. Any of these activities could result in substantial costs and/or delays to us. The outcome of any of these proceedings may significantly affect our rights to develop and commercialize drug candidates and technology.

United States patents carry a presumption of validity and generally can be invalidated only through clear and convincing evidence. A court or administrative body may not hold our licensed patents valid or may not find an alleged infringer to be infringing. Further, the license agreements with Emory, the University of Georgia and Dynavax provide that each of these licensors is primarily responsible for any patent prosecution activities, such as litigation, patent conflict proceeding, patent opposition or other actions, for the technology licensed to us. These agreements also provide that we generally must reimburse these licensors for the costs they incur in performing these activities. Similarly, Yale University and the University of Georgia, the licensors of clevudine to Bukwang Pharm. Ind. Co., Ltd., are primarily responsible for patent prosecution activities with respect to clevudine at our expense. As a result, we generally do not have the ability to institute or determine the conduct of any patent proceedings unless our licensors elect not to institute or to abandon the proceedings. If our licensors elect to institute and prosecute patent proceedings, our rights will depend in part on the manner in which these licensors conduct the proceedings. In any proceedings they elect to initiate and maintain, these licensors may not vigorously pursue or defend or may decide to settle on terms that are unfavorable to us. An adverse outcome of these proceedings could subject us to significant liabilities to third parties, require disputed rights to be licensed from third parties or require us to cease using technology, any of which could adversely affect our business. Moreover, the mere uncertainty resulting from the initiation and continuation of any technology related litigation or adversarial proceeding could adversely affect our business pending resolution of the disputed matters.

BECAUSE WE MAY NOT BE ABLE TO MAINTAIN THE CONFIDENTIALITY OF OUR TRADE SECRETS AND KNOW-HOW, WE MAY LOSE A COMPETITIVE ADVANTAGE.

We also rely on unpatented trade secrets and know-how to maintain our competitive position, which we seek to protect, in part, by confidentiality agreements with employees, consultants and others. These parties may breach or terminate these agreements, and we may not have adequate remedies for any breach. Our trade secrets may also be independently discovered by competitors. We rely on technologies to which we do not have exclusive rights or which may not be patentable or proprietary and may be available to competitors. We have filed applications for, but have not obtained, trademark registrations for various marks in the United States and other jurisdictions. We have received

U.S. trademark registrations for our corporate name and our corporate name and logo, as well as the mark Coviracil(R). We have received a Canadian trademark registration for the mark Coviracil(R). We have also received a registration in the European Union for our corporate logo. Our application in the European Union for the mark Coviracil(TM) has been denied by the Office for Harmonization in the Internal Market; however, we have filed an appeal with this office. If our appeal is not granted, we will need to adopt a different product name for emtricitabine in Europe. Several other companies use trade names that are similar to our name for their businesses. If we are unable to obtain any licenses or trademark registrations that may be necessary for the use of our corporate name, we may be required to change our name. Our management personnel were

previously employed by other pharmaceutical companies. The prior employers of these individuals may allege violations of trade secrets and other similar claims relating to their drug development activities for us.

THE COSTS AND TIME REQUIRED TO COMPLY WITH EXTENSIVE GOVERNMENT REGULATIONS COULD PREVENT OR DELAY THE COMMERCIALIZATION OF OUR DRUG CANDIDATES.

In addition to preclinical testing, clinical trials and other approval procedures for human pharmaceutical products, we are subject to numerous domestic and international regulations covering the development, registration, and commercialization of pharmaceutical products. These regulations affect:

- manufacturing,
- safety,
- labeling,
- storage,
- record keeping,
- reporting, and
- marketing and promotion.

We must also comply with regulations governing non-clinical and clinical laboratory practices, safe working conditions, and the use and disposal of hazardous substances, including radioactive compounds and infectious disease agents we use in connection with our development work. The requirements vary widely from country to country and some requirements may vary from state to state in the United States. We expect the process of obtaining these approvals and complying with appropriate government regulations to be time consuming and expensive. Even if our drug candidates receive regulatory approval, we may still face difficulties in marketing and manufacturing those drug candidates. Any approval may be contingent on postmarketing studies or other conditions. The approval of any of our drug candidates may limit the indicated uses of the drug candidate. A marketed product, its manufacturer and the manufacturer's facilities are subject to continual review and periodic inspections. The discovery of previously unknown problems with a product, manufacturer or facility may result in restrictions on the product or manufacturer, including withdrawal of the product from the market. The failure to comply with applicable regulatory requirements can, among other things, result in:

- fines,
- suspended regulatory approvals,
- refusal to approve pending applications,
- refusal to permit exports from the United States,
- product recalls,
- seizure of products,
- injunctions,
- operating restrictions, and

- criminal prosecutions.

In addition, adverse clinical results by others could negatively impact the development and approval of our drug candidates. Some of our drug candidates are intended for use as combination therapy with one or more other drugs, and adverse safety, effectiveness or regulatory developments in connection with the other drugs will also have an adverse effect on our business.

INTENSE COMPETITION MAY RENDER OUR DRUG CANDIDATES NONCOMPETITIVE OR OBSOLETE.

We are engaged in segments of the drug industry that are highly competitive and rapidly changing. Any of our current drug candidates that we successfully develop will compete with numerous existing therapies. In addition, many companies are pursuing novel drugs that target the same diseases we are targeting. We believe that a significant number of drugs are currently under development and will become available in the future for the treatment of HIV and hepatitis B. We anticipate that we will face intense and increasing competition as new products enter the market and advanced technologies become available. Our competitors' products may be more effective, or more effectively marketed and sold, than any of our products. Competitive products may render our

products obsolete or noncompetitive before we can recover the expenses of developing and commercializing our drug candidates. Furthermore, the development of a cure or new treatment methods for the diseases we are targeting could render our drug candidates noncompetitive, obsolete or uneconomical. Many of our competitors:

- have significantly greater financial, technical and human resources than we have and may be better equipped to develop, manufacture and market products,
- have extensive experience in preclinical testing and clinical trials, obtaining regulatory approvals and manufacturing and marketing pharmaceutical products, and
- have products that have been approved or are in late stage development and operate large, well-funded research and development programs.

Smaller companies may also prove to be significant competitors, particularly through collaborative arrangements with large pharmaceutical and biotechnology companies. Academic institutions, governmental agencies and other public and private research organizations are also becoming increasingly aware of the commercial value of their inventions and are more actively seeking to commercialize the technology they have developed.

If we successfully develop and obtain approval for our drug candidates, we will face competition based on many factors including:

- the safety and effectiveness of our products,
- the timing and scope of regulatory approvals,
- the availability of supply,
- marketing and sales capability,
- reimbursement coverage,
- price, and
- patent position.

Our competitors may develop or commercialize more effective or more affordable products, or obtain more effective patent protection, than we do. Accordingly, our competitors may commercialize products more rapidly or effectively than we do, which could hurt our competitive position.

IF OUR LICENSORS TERMINATE THEIR AGREEMENTS WITH US, WE COULD LOSE OUR RIGHTS TO OUR DRUG CANDIDATES.

We have licensed our drug candidates under agreements with our licensors. These agreements permit our licensors to terminate the agreements in circumstances such as our failure to achieve development milestones or the occurrence of an uncured material breach by us. The termination of any of these agreements would result in the loss of our rights to a drug candidate. On the termination of most of our license agreements, we are required to return the licensed technology to our licensors. In addition, most of these agreements provide that we generally must reimburse our licensors for the costs they incur in performing any patent prosecution activities such as litigation, patent conflict, patent opposition or other actions, for the technology licensed to us. We believe that these costs as well as other costs under our license agreements will be substantial and may increase significantly during the next several years. Our inability or failure to pay any of these costs with respect to any drug candidate could result in the termination of the license agreement for the drug candidate.

IF WE ARE NOT ABLE TO SUCCESSFULLY MANUFACTURE OUR DRUG CANDIDATES, OUR BUSINESS MAY NEVER ACHIEVE PROFITABILITY.

We do not have any internal manufacturing capacity and we rely on third party manufacturers for the manufacture of all of our clinical trial and commercial material. We plan to use our existing relationships and to establish relationships with additional third party manufacturers for products that we develop. For instance, Abbott has agreed to manufacture an initial quantity of Coviracil, assist us in the transfer of the Coviracil manufacturing process to another third party and provide extended manufacturing capability for Coviracil upon our request. We will need to enter into other arrangements with third party manufacturers for future production of products. We may be unable to establish or maintain relationships with manufacturers on acceptable terms, and manufacturers may be unable to manufacture products in commercial quantities on a cost effective basis for all of our products. Our

dependence on third parties for the manufacture of our products may adversely affect our profit margins and our ability to develop and commercialize products on a timely and competitive basis. Further, third party manufacturers may encounter manufacturing or quality control problems in manufacturing our products and may be unable to maintain the necessary governmental licenses and approvals to continue manufacturing our products.

BECAUSE WE NEED TO ESTABLISH OR OBTAIN ADDITIONAL SALES AND MARKETING RESOURCES AND CAPABILITIES, WE MAY BE UNABLE TO SUCCESSFULLY MARKET, SELL OR DISTRIBUTE PRODUCTS WE DEVELOP.

We do not have an established sales force to market and distribute any products we successfully develop. We will have to develop a sales force and/or rely on arrangements with third parties for the marketing, distribution and sale of our products. We may be unable to establish marketing or sales capabilities sufficient to successfully commercialize our products or to enter into new arrangements with third parties to perform those activities on favorable terms. In addition, third parties may have significant control or influence over important aspects of the commercialization of our drug candidates, including market identification, marketing methods, pricing, composition of sales force and promotional activities. We may have limited control over the amount and timing of resources that a third party devotes to our products and may be unable to prevent any third party from pursuing alternative products that could result in the development of products that compete with our products, or their withdraw

of support for our programs. Further, any internal capabilities or third party arrangements may not be successful. Our business may never achieve profitability if we fail to establish or maintain a sales force and marketing, sales and distribution capabilities.

BECAUSE WE DEPEND ON THIRD PARTIES FOR THE DISCOVERY AND DEVELOPMENT OF DRUG CANDIDATES, WE MAY NOT SUCCESSFULLY ACQUIRE ADDITIONAL DRUG CANDIDATES OR DEVELOP OUR CURRENT DRUG CANDIDATES.

We do not currently intend to engage in drug discovery. Our strategy for obtaining additional drug candidates is to utilize the relationships of our management team and scientific consultants to identify drug candidates for in-licensing from companies, universities, research institutions and other organizations. We may not succeed in acquiring additional drug candidates on acceptable terms or at all.

Because we have engaged and intend to continue to engage third party contract research organizations and other third parties to help us develop our drug candidates, many important aspects of our drug development programs have been and will continue to be outside of our direct control. In addition, the contract research organizations may not perform all of their obligations under arrangements with us. If the contract research organizations do not perform clinical trials in a satisfactory manner or breach their obligations to us, the development and commercialization of any drug candidate may be delayed or precluded.

BECAUSE WE MAY NOT BE ABLE TO ATTRACT AND RETAIN KEY PERSONNEL AND ADVISORS, WE MAY NOT SUCCESSFULLY DEVELOP OUR DRUG CANDIDATES OR ACHIEVE OUR OTHER BUSINESS OBJECTIVES.

We are highly dependent on our senior management and scientific staff. The loss of the services of any member of our senior management or scientific staff may significantly delay or prevent the achievement of product development and other business objectives. In order to pursue our drug development programs and marketing plans, we will need to hire additional qualified scientific and management personnel. Competition for qualified individuals is intense and we face competition from numerous pharmaceutical and biotechnology companies, universities and other research institutions. If we are not able to attract and retain these individuals we may not be able to successfully commercialize our drug candidates. Under our amended and restated agreement with Chris A. Rallis, our President and Chief Operating Officer, Mr. Rallis has agreed to remain with us until December 31, 2002.

HEALTH CARE REFORM MEASURES AND THIRD PARTY REIMBURSEMENT PRACTICES ARE UNCERTAIN AND MAY DELAY OR PREVENT THE COMMERCIALIZATION OF OUR DRUG CANDIDATES.

The efforts of governments and third party payors to contain or reduce the cost of health care will continue to affect the business and financial condition of drug companies. A number of legislative and regulatory proposals to change the health care system have been considered in recent years. In addition, an increasing emphasis on managed care in the United States has and will continue to increase pressure on drug pricing. Legislative or regulatory proposals or changes in managed care systems may be adopted that may have a negative effect on our

business. The announcement and/or adoption of proposals could have an adverse effect on our ability to raise capital and earn profits. Sales of prescription drugs depend significantly on the availability of reimbursement to the consumer from third party payors, such as government and private insurance plans. These

third party payors frequently require that drug companies give them predetermined discounts from list prices, and they are increasingly challenging the prices for medical products and services. Present combination treatment regimens for the treatment of HIV are expensive and costs may increase as new combinations are developed. These costs have resulted in limitations in the reimbursement available from third party payors for the treatment of HIV infection, and we expect these limitations will continue in the future. Third party payors may not consider products we may bring to the market cost effective and may not reimburse the consumer sufficiently to allow us to sell our products on a profitable basis.

IF OUR DRUG CANDIDATES DO NOT ACHIEVE MARKET ACCEPTANCE, OUR BUSINESS MAY NEVER ACHIEVE PROFITABILITY.

Our success will depend on the market acceptance of any products we develop. The degree of market acceptance will depend on a number of factors, including:

- the receipt and scope of regulatory approvals,
- the establishment and demonstration in the medical community of the safety and effectiveness of our products and their potential advantages over existing treatment methods, and
- reimbursement policies of government and third party payors.

Physicians, patients, payors or the medical community in general may not accept or utilize any product that we may develop.

WE MAY NOT HAVE ADEQUATE INSURANCE PROTECTION AGAINST PRODUCT LIABILITY.

Our business exposes us to potential product liability risks that are inherent in the testing of drug candidates and the manufacturing and marketing of drug products and we may face product liability claims in the future. We currently have only limited product liability insurance. We may be unable to maintain our existing insurance and/or obtain additional insurance in the future at a reasonable cost or in sufficient amounts to protect against potential losses. A successful product liability claim or series of claims brought against us could require us to pay substantial amounts that would decrease our profitability.

WE MAY INCUR SUBSTANTIAL COSTS RELATED TO OUR USE OF HAZARDOUS MATERIALS.

We use hazardous materials, chemicals, viruses and various radioactive compounds in our drug development programs. Although we believe that our handling and disposing of these materials comply with state and federal regulations, the risk of accidental contamination or injury still exists. We could be held liable for any damages or fines that result from any accidental contamination or injury and the liability could exceed our resources.

OUR CONTROLLING STOCKHOLDERS MAY MAKE DECISIONS YOU DO NOT CONSIDER TO BE IN YOUR BEST INTEREST.

As of September 30, 2002, our directors, executive officers and their affiliates, excluding Warburg Pincus Private Equity VIII, L.P., Warburg Pincus, owned approximately 11.0% of our outstanding common stock. Warburg Pincus owned approximately 30.4% of our outstanding common stock. In addition, Abbott owned approximately 10.3% of our outstanding common stock. For so long as Warburg Pincus continues to own at least 5,846,222 shares of our common stock and at least 10% of our outstanding common stock, Warburg Pincus has the right to participate in any sales of equity securities by Triangle, other than sales in connection with a registered underwritten offering, a merger or similar transaction or a stock option or similar plan, in proportion to the percentage of all outstanding securities of Triangle held by Warburg Pincus at the time of

the transaction. Warburg Pincus has the right to designate two people to serve as members of our board of directors. As a result, our controlling stockholders are able to significantly influence all matters requiring stockholder approval, including the election of directors and the approval of significant corporate transactions. This concentration of ownership could also delay or prevent a change in control of Triangle that may be favored by other stockholders.

THE MARKET PRICE OF OUR STOCK MAY FALL AS A RESULT OF MARKET VOLATILITY AND FUTURE DEVELOPMENTS IN OUR INDUSTRY.

The market price of our common stock is likely to be volatile and could fluctuate widely in response to many factors, including:

- announcements of the results of clinical trials by us or our competitors,
- announcements of the timing of regulatory submissions and/or approvals by us or our competitors,
- developments with respect to patents or proprietary rights,
- announcements of technological innovations by us or our competitors,
- announcements of new products or new contracts by us or our competitors,
- actual or anticipated variations in our operating results, including targeted cash usage, due to the level of development expenses and other factors,
- changes in financial estimates by securities analysts and whether our earnings meet or exceed analysts' estimates,
- conditions and trends in the pharmaceutical and other industries,
- new accounting standards,
- general economic, political and market conditions and other factors,
- low transaction volume due to high concentrations of ownership, and
- the occurrence of any of the risks described in these "Risk and Uncertainties."

In the past, following periods of volatility in the market price of the securities of companies in our industry, securities class action law suits have often been brought against those companies. If we face litigation in the future, it would result in substantial costs and a diversion of management attention and resources, which would negatively impact our business.

APPROXIMATELY 35,000,000 SHARES OF OUR COMMON STOCK MAY BE SOLD WITHOUT RESTRICTION AND APPROXIMATELY 35,300,000 SHARES ARE REGISTERED FOR SALE. SALES OF A LARGE NUMBER OF OUR SHARES MAY CAUSE OUR STOCK PRICE TO FALL EVEN IF OUR BUSINESS IS DOING WELL.

If our stockholders sell a substantial number of shares of our common stock in the public market, the market price of our common stock could decline. As of September 30, 2002, there were 76,903,883 shares of common stock outstanding, of which approximately 35,000,000 were immediately eligible for resale in the public market without restriction. Holders of approximately 41,900,000 shares have rights to cause us to register their shares for sale to the public. We have filed registration statements to register the sale of approximately 35,300,000 of these shares.

Declines in our stock price might harm our ability to issue equity or secure other types of financing arrangements. The price at which we issue shares is generally based on the market price of our common stock and a decline in our stock price would result in our needing to issue a greater number of shares to raise a given amount of funds or acquire a given amount of goods or services. For this reason, a decline in our stock price might also result in increased

ownership dilution to our stockholders.

PROVISIONS IN OUR CHARTER DOCUMENTS AND DELAWARE LAW COULD DELAY OR PREVENT A CHANGE IN MANAGEMENT OR A TAKEOVER ATTEMPT THAT YOU CONSIDER TO BE IN YOUR BEST INTEREST.

We have adopted a number of provisions that could deter an acquisition of Triangle which was not approved by our board of directors. We have adopted a preferred stock purchase rights plan, commonly referred to as a "poison pill." The rights plan is intended to deter an attempt to acquire Triangle in a manner or on terms not approved by the board of directors. The rights plan will not prevent an acquisition of Triangle which is approved by the board of directors. Our charter authorizes the board of directors to determine the terms of any shares of undesignated preferred stock and issue them without stockholder approval. The issuance of preferred stock may make it more difficult for a third party to acquire, or may discourage a third party from acquiring, voting control of Triangle.

Provisions in our charter and bylaws, as well as some provisions of Delaware law could delay or prevent the removal of incumbent directors and could make more difficult a merger, tender offer or proxy contest involving Triangle, even if the events could be beneficial to our stockholders. For example, our bylaws divide the board of directors into three classes of directors with each class serving a three-year term, stockholders may not call a special meeting, and vacancies on the board of directors may only be filled by a vote of the directors then in office. These provisions could also limit the price that investors might be willing to pay for our common stock.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Triangle is exposed to various market risks, including changes in foreign currency exchange rates, investment market value and interest rates. Market risk is the potential loss arising from adverse changes in market rates and prices, such as foreign currency exchange and interest rates. We may enter into forward foreign currency contracts or purchase investments in foreign currencies to hedge foreign currency commitments. We have, however, established policies and procedures for market risk assessment and the approval, reporting and monitoring of derivative financial instrument activities. The following discusses our exposure to risks related to changes in interest rates, foreign currency exchange rates and investment market value.

INTEREST RATE SENSITIVITY

We are subject to interest rate risk on our investment portfolio. We maintain an investment portfolio consisting primarily of high quality money market instruments, and government and corporate bonds. Our portfolio has a current average maturity of less than 12 months. We attempt to mitigate default risk by investing in high credit quality securities and by monitoring the credit rating of investment issuers. Our investment portfolio includes only marketable securities with active secondary or resale markets to help ensure portfolio liquidity and we have implemented guidelines limiting the duration of investments. These available-for-sale securities are subject to interest rate risk and will decrease in value if market interest rates increase. If market rates were to increase by 10 percent from levels at September 30, 2002, we expect that the fair value of our investment portfolio would decline by an immaterial aggregate amount primarily due to the relatively short maturity of

the portfolio. At September 30, 2002, our portfolio consisted of approximately $25.6 million of investments maturing within one year and approximately $5.0 million of investments maturing after one year but within 30 months. Additionally, we generally have the ability to hold our fixed income investments to maturity and therefore do not expect that our consolidated operating results, financial position or cash flows will be affected by a significant amount due to a sudden change in interest rates.

FOREIGN CURRENCY EXCHANGE RISK

The majority of our transactions occur in U.S. dollars and we do not have significant subsidiaries or investments in foreign countries. Therefore, we are not subject to significant foreign currency exchange risk. We have, however, established policies and procedures for market risk assessment, including a foreign currency-hedging program. The goal of our hedging program is to establish fixed exchange rates on firm foreign currency cash outflows and to minimize the impact to us of foreign currency fluctuations. These policies specifically provide for the hedging of firm commitments and prohibit the holding of derivative instruments for speculative or trading purposes. At September 30, 2002, we had no forward foreign currency contracts, but had investments in foreign currencies totaling approximately $265,000 used to hedge foreign currency commitments. The purchase and the holding of foreign currencies are governed by established corporate policies and procedures and are entered into when management determines this methodology to be in our best interests. These investments are subject to both foreign currency risk and interest rate risk. The hypothetical loss associated with a 10 percent devaluation of these foreign currencies would not materially affect our consolidated operating results, financial position or cash flow.

STRATEGIC INVESTMENT RISK

In addition to our normal investment portfolio, we have a strategic investment in Dynavax valued at $1.0 million. This investment represents unregistered preferred stock and is subject to higher investment risk than our normal investment portfolio due to the lack of an active resale market for the investment.

ITEM 4. CONTROLS AND PROCEDURES

Based on our most recent evaluation, which was completed within 90 days of the filing of this Form 10-Q, Triangle's Chief Executive Officer and Chief Financial Officer believe our disclosure controls and procedures (as defined in Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934, as amended) are effective. There have been no significant changes in internal controls or in other factors that could significantly affect these controls subsequent to the date of the most recent evaluation of our internal controls, including any corrective actions with regard to significant deficiencies and material weaknesses.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On May 31, 2002, Emory, GlaxoSmithKline and Shire settled patent disputes involving lamivudine and Coviracil. Under the terms of the settlement, Emory received an exclusive license from Shire under Shire's patents relating to

Coviracil and methods for its use and manufacture, and Shire and GlaxoSmithKline received exclusive licenses under Emory's patents relating to lamivudine. Under the terms of our license agreement with Emory, we automatically acquired an exclusive sublicense to the Shire patents relating to Coviracil granted under the terms of the settlement, thereby resolving all previously pending patent disputes regarding Coviracil.

On August 30, 2002, we resolved our patent disputes involving amdoxovir with Shire. Under the terms of the settlement, Emory and the University of Georgia received an exclusive license to Shire's patent rights covering amdoxovir and methods for its use and manufacture. Under the terms of this license agreement, Triangle acquired an exclusive sublicense to these rights in exchange for an obligation to pay Shire an incremental royalty on future amdoxovir sales. Under the settlement agreement, Emory, University of Georgia and Triangle granted Shire an exclusive license under their patent rights to BCH-13520 and methods for its use and manufacture.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

a. A Special Meeting of the Stockholders of Triangle Pharmaceuticals, Inc., the Meeting, was held on September 20, 2002. The holders of 58,764,742 of the 76,861,837 shares of our common stock outstanding on the record date were present at the Meeting in person or by proxy.

b. At the Meeting, a proposal to approve an amendment to the 1996 Stock Incentive Plan was approved. The proposal included amendments to our 1996 Stock Incentive Plan (i) increasing the number of shares of common stock authorized for issuance under the plan by 3,000,000 shares and (ii) increasing the number of options, stock appreciation rights and stock issuances which may be granted to any one person in the aggregate per calendar year to 1,500,000. The number of votes cast for, against and to abstain on the proposal are indicated below:

FOR	AGAINST	ABSTENTIONS
48,714,898	9,968,496	81,348

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

a. Exhibits

+10.1 Amended and Restated License Agreement between Dynavax Technologies Corporation and Triangle Pharmaceuticals, Inc. dated September 25, 2002.

+10.2 Second Amendment to License Agreement among Emory University, University of Georgia Research Foundation, Inc. and Triangle Pharmaceuticals, Inc. dated August 30, 2002.

b. Reports on Form 8-K

On July 31, 2002, we filed a current report on Form 8-K announcing the reacquisition of product rights from Abbott Laboratories and the results from our Phase III trial (FTC-301) for Coviracil (emtricitabine) for the treatment of HIV disease.

On August 6, 2002, we filed a current report on Form 8-K announcing the appointment of Daniel G. Welch as Chairman and Chief Executive Officer.

On August 13, 2002, we filed a current report on Form 8-K announcing our second quarter financial results.

On August 13, 2002, we furnished a current report on Form 8-K pursuant to Regulation FD announcing our CEO/CFO certifications pursuant to the Sarbanes-Oxley Act. This report shall not be deemed to be incorporated by reference into this Form 10-Q or filed hereunder for purposes of liability under the Securities Exchange Act of 1934.

On August 28, 2002, we filed a current report on Form 8-K disclosing the execution of a Stock Voting Agreement.

On September 19, 2002, we filed a current report on Form 8-K disclosing the execution of a Third Amendment to License Agreement with Bukwang Pharm. Co. Ltd, a Termination Agreement with Abbott Laboratories, a Supply and Manufacturing Agreement with Abbott Laboratories and a Settlement and Exclusive License Agreement with Shire Biochem Inc., Shire Pharmaceuticals Group plc, Emory University and the University of Georgia Research Foundation, Inc.

On September 23, 2002, we filed a current report on Form 8-K disclosing the execution of an Amended and Restated Employment Agreement with Chris A. Rallis and the execution of a Third Amendment to Triangle Pharmaceuticals, Inc. 1996 Incentive Plan.

On September 24, 2002, we filed a current report on Form 8-K announcing the submission of an NDA for Coviracil for the treatment of HIV disease.

+ Certain confidential portions of this Exhibit were omitted by means of marking such portions with an asterisk (the "Mark"). This Exhibit has been filed separately with the Secretary of the SEC without the Mark pursuant to the Company's Application Requesting Confidential Treatment under Rule 24b-2 under the Securities Exchange Act of 1934.

TRIANGLE PHARMACEUTICALS, INC.
SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Quarterly Report on Form 10-Q to be signed on its behalf by the undersigned, thereunto duly authorized.

TRIANGLE PHARMACEUTICALS, INC.

Date: November 8, 2002

By: /s/ Daniel G. Welch

Daniel G. Welch
Chairman and Chief Executive Officer

TRIANGLE PHARMACEUTICALS, INC.

Date: November 8, 2002

By: /s/ Robert F. Amundsen, Jr.

Robert F. Amundsen, Jr.
Executive Vice President and
Chief Financial Officer

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CERTIFICATIONS

I, Daniel G. Welch certify that:

1. I have reviewed this quarterly report on Form 10-Q of Triangle Pharmaceuticals, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

   c. presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors:

   a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 8, 2002

/s/ Daniel G. Welch

Daniel G. Welch
Chairman of the Board and
Chief Executive Officer

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I, Robert F. Amundsen, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Triangle Pharmaceuticals, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

   c. presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors:

   a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this

quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 8, 2002

/s/ Robert F. Amundsen, Jr.

Robert F. Amundsen, Jr.
Executive Vice President and
Chief Financial Officer