TRIANGLE PHARMACEUTICALS INC
Form 10-Q
May 10, 2001

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 March 31, 2001

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|_|

As of March 31, 2001, there were 46,363,918 shares of Common Stock and 200,000 shares of Series B Preferred Stock outstanding.

Triangle Pharmaceuticals, Inc.

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Part I. Financial Information

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)

Assets	March 31, 2001 (unaudited)	December 2000
Current assets:		
Cash and cash equivalents	$ 63,586	$ 14,0
Investments	15,988	39,4
Interest receivable	728	1,0
Receivable from collaborative partner	317	4
Prepaid expenses	1,285	5
Total current assets	81,904	55,5
Property, plant and equipment, net	5,916	6,0
Investments	8,882	9,4

Total assets	$ 96,702	$ 71,0

Liabilities and Stockholders' Equity

Current liabilities:		
Accounts payable	$ 7,354	$ 9,5
Payable to collaborative partner	--	6,0
Capital lease obligation-current	3	
Accrued expenses	20,831	17,2
Deferred revenue	6,977	6,9
Total current liabilities	35,165	39,8
Deferred revenue	15,699	17,4
Total liabilities	50,864	57,2
Commitments and contingencies (See note 4 and note 6)	--	
Stockholders' equity:		
Convertible Preferred Stock, $0.001 par value; 5,000 shares authorized; 200 and 0 shares issued and outstanding, respectively	--	
Common Stock, $0.001 par value; 75,000 shares authorized; 46,364 and 38,529 shares issued and outstanding, respectively	46	
Additional paid-in capital	399,358	344,5
Accumulated deficit during development stage	(353,827)	(330,9
Accumulated other comprehensive income	261	1
Total stockholders' equity	45,838	13,7
Total liabilities and stockholders' equity	$ 96,702	$ 71,0

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 March 31, 2001	Three Months Ended March 31, 2000	Period from Inception (July 12, 1995) Through March 31, 2001
Revenue:			
Collaborative revenue	$ 1,744	$ 1,982	$ 9,039

Operating expenses:			
License fees	1,095	378	25,967
Development	21,839	27,190	290,863
Purchased research and development	--	5,350	17,858
Selling, general and administrative	2,708	2,726	51,654
Total operating expenses	25,642	35,644	386,342
Loss from operations	(23,898)	(33,662)	(377,303)
Interest income, net	1,040	2,276	23,476
Net loss	$ (22,858)	$ (31,386)	$(353,827)
Basic and diluted net loss per common share	$ (0.55)	$ (0.83)	
Shares used in computing basic and diluted net loss per common share	41,288	37,625	

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)

	Three Months Ended March 31, 2001	Three Months Ended March 31, 2000	Period from Inception (July 12, 1995) Through March 31, 2001
Cash flows from operating activities:			
Net loss	$ (22,858)	$ (31,386)	$(353,827)
Adjustments to reconcile net loss to net cash used by operating activities:			
Depreciation and amortization	500	417	4,741
Purchased research and development	--	5,350	17,858
Stock-based compensation	--	322	1,886
Change in assets and liabilities:			
Receivables	449	474	(1,045)
Prepaid expenses	(742)	(227)	(1,285)
Accounts payable	(8,231)	(705)	7,354
Accrued expenses	3,563	1,038	20,831
Deferred revenue	(1,744)	4,733	22,676

Net cash used by operating activities	(29,063)	(19,984)	(280,811)
Cash flows from investing activities:			
Sale of restricted deposits	--	13	--
Purchase of investments	(1,385)	(57,731)	(311,894)
Proceeds from sale and maturity of investments	25,491	72,216	287,285
Purchase of property, plant and equipment	(323)	(782)	(10,482)
Acquisition of Avid Corporation, net of cash acquired	--	--	(3,053)
Net cash provided (used) by investing activities	23,783	13,716	(38,144)
Cash flows from financing activities:			
Sale of stock, net of related issuance costs	54,493	249	381,547
Sale of options under salary investment option grant program	36	15	351
Proceeds from stock options/warrants exercised	286	233	906
Proceeds from notes payable	--	--	374
Equipment financing	--	--	354
Principal payments on capital lease obligations and notes payable	(4)	(37)	(991)
Net cash provided by financing activities	54,811	460	382,541
Net increase (decrease) in cash and cash equivalents ...	49,531	(5,808)	63,586
Cash and cash equivalents at beginning of period	14,055	58,486	--
Cash and cash equivalents at end of period	$ 63,586	$ 52,678	$ 63,586

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
(Unaudited)					
Sale of stock	200	--	--	7,724	7
Sale of stock options	--	--	--	--	--
Stock options/warrants exercised	--	--	--	111	--
Comprehensive loss:					
Reclassification adjustment for gains/(losses) in net loss ..	--	--	--	--	--
Change in unrealized gains/(losses) on investments	--	--	--	--	--
Net loss	--	--	--	--	--
Balance, March 31, 2001	200	$ --	$ --	46,364	$ 46

	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
(Unaudited)				
Sale of stock		--	--	54,493
Sale of stock options		--	--	36
Stock options/warrants exercised		--	--	286
Comprehensive loss:				
Reclassification adjustment for gains/(losses) in net loss ..	(4)	(4)	--	(4)
Change in unrealized gains/(losses) on investments	104	104	--	104
Net loss	(22,858)	--	--	(22,858)
Balance, March 31, 2001	$ (22,758)	$ 261	$ --	$ 45,838

The accompanying notes are an integral part of these condensed consolidated

financial statements.

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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 subsidiary (the "Company" or "Triangle") have been prepared in accordance with generally accepted accounting principles and applicable Securities and Exchange Commission ("SEC") regulations for interim financial information. 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 subsidiary. 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 month periods ended March 31, 2001 and 2000, 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 March 31, 2001, the Company has multiple license agreements for its drug candidates as well as collaborative agreements with specific third parties to assist in the identification and development of other novel drug candidates. In the aggregate, these agreements may require future payments of up to $90,500 contingent upon the achievement of certain development milestones, up to $30,000 upon the achievement of certain sales milestones, and $4,879 of future research

and development payments. One of the Company's licensors has the option to receive $2,000 of such future milestone payments in shares of Common Stock (based on the then current market price) in lieu of a cash payment. The Company is also obligated to issue up to an additional 1,650 shares of Common Stock upon the achievement of certain development milestones relating to mozenavir dimesylate acquired in the acquisition of Avid Corporation. Additionally, the Company will pay royalties based on a percentage of net sales of each licensed product incorporating these drug candidates. Most of the Company's license agreements require minimum royalty payments commencing three years after regulatory approval. Depending on the Company's success and timing in obtaining regulatory approval, aggregate annual minimum royalties and annual license preservation fees could range from $50 (if only a single drug candidate is approved for one indication) to $54,500 (if all drug candidates are approved for all indications) under the Company's existing license agreements. In addition, the Company has option agreements that allow it to obtain licenses on additional drug candidates in the future.

Triangle Pharmaceuticals, Inc.
(A Development Stage Company)
Notes to Condensed Consolidated Financial Statements
(Unaudited)
(In thousands, except per share amounts)

5. Equity Financings

In January 2001, the Company entered into definitive purchase agreements with a limited number of qualified institutional buyers and large institutional accredited investors for the sale of 7,700 shares of Common Stock at $6.00 per share for net proceeds totaling $43,475. The closing of the Common Stock sale occurred on March 1, 2001. Abbott Laboratories and another related party, which Triangle utilizes in the completion of its clinical and preclinical studies, participated in this financing purchasing 1,300 and 1,500 shares of Common Stock, respectively. As part of this transaction, the Company filed a registration statement covering the resale of these shares which the SEC declared effective on February 27, 2001.

Additionally, the Company completed the sale of 200 shares of convertible Series B Preferred Stock for $60.00 per share in a private offering to a small number of qualified institutional buyers and large institutional accredited investors on March 9, 2001. The total net proceeds of this offering were approximately $10,900. Dividend rights are $5.00 per share on all preferred shares that remain outstanding after August 15, 2001 and will be payable, at the Company's option, in cash or Common Stock. The conditional dividend, if applicable, is payable at the time of conversion to Common Stock. Each share of Preferred Stock will convert into ten shares of Common Stock at the earlier of stockholder approval of the terms of the sale of the Series B Preferred Stock or March 9, 2002, the first anniversary of the date the Preferred Stock was issued. Each share of Preferred Stock is entitled to cast ten votes on any matter presented to the stockholders. Except for the conditional dividend, the holders of the Series B Preferred Stock have no preferential rights to dividends or distributions.

6. Contingencies

The Company is indirectly involved in several opposition and interference proceedings and two lawsuits filed in Australia regarding the patent rights related to two of its licensed drug candidates. Although the Company is not a named party in any of these proceedings, it is obligated to reimburse its

licensors for certain legal expenses associated with these proceedings. In one of these patent opposition proceedings, on November 8, 2000, the Australian Patent Office held that several patent claims of Emory University directed to amdoxovir, (formerly known as DAPD) are not patentable over an earlier opposing patent. Emory University has appealed this decision of the Australian Patent Office to the Australian Federal Court. If Emory University and the Company are unsuccessful in the appeal, then the Company will not be able to sell amdoxovir in Australia without a license, which may not be available on reasonable terms or at all. The Company cannot predict the outcome of these proceedings. The Company believes that an adverse judgment would not result in a material financial obligation to the Company, nor would the Company have to recognize an impairment under Statement of Financial Accounting Standards No. 121 "Accounting for Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed of" as no amounts have been capitalized related to these drug candidates. However, any development in these proceedings adverse to the Company's interests could have a material adverse effect on the Company's future consolidated financial position, results of operations and cash flow.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This Quarterly Report on Form 10-Q may contain certain 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, such risks and uncertainties could cause actual results to differ materially from any future performance suggested below. We undertake no obligation to release publicly the results of any revisions to these forward-looking statements to reflect events or circumstances arising after the date hereof.

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 2000 Annual Report on Form 10-K as well as with our condensed consolidated financial statements and notes thereto 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 recruiting personnel, negotiating license and option arrangements for our drug candidates, raising working capital and developing our drug candidates. We have not received any revenues from the sale of products and do not believe it likely that any of our drug candidates will be commercially available until at least the year 2002. As of March 31, 2001, our accumulated deficit was approximately $353.8 million.

We require substantial working capital to fund the development and potential commercialization of our drug candidates. We will require significant expenditures to fund pre-clinical 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 at least 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. See "--Risk and Uncertainties-- We have incurred losses since inception and may never achieve profitability."

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. See "--Risk and Uncertainties-- All of our product candidates are in development and may never be successfully commercialized which would have an adverse impact on your investment and our business" and "--Risk and Uncertainties-- If we need additional funds and are unable to raise them, we will have to curtail or cease operations."

Our operating expenses are difficult to predict and will depend on several factors. Development expenses, including expenses for drug synthesis and manufacturing, pre-clinical testing and clinical research activities, will depend on the ongoing requirements of our drug development programs 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 pre-clinical 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. 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. See "--Risk and Uncertainties-- The market price of our stock may be adversely affected by market volatility."

Results of Operations

Collaborative Revenue

Revenue totaled $1.7 million for the three months ended March 31, 2001 as compared to $2.0 million for the same period in 2000. Revenue is solely related to collaborative revenue associated with our strategic alliance with Abbott Laboratories, Abbott, and arises from $31.7 million of non-contingent research and development expense reimbursement which is being amortized over the anticipated research and development arrangement period. The decrease in collaborative revenue in 2001 reflects an extension of the development period for which collaborative revenue is amortized from 2000.

License Fees

License fees totaled $1.1 million for the three months ended March 31, 2001 as compared to $378,000 for the same period in 2000. License fees in the first quarter of 2001 and 2000 relate to the recognition of milestone obligations and/or preservation fees under our license and option agreements for our portfolio of drug candidates. The increase in 2001, as compared to 2000, 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 existing licensing or option 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 and the extent to which we may in-license additional drug candidates.

Development Expenses

Development expenses totaled $21.8 million for the three months ended March 31, 2001 as compared to $27.2 million for the same period in 2000. Development expenses in 2001 consisted primarily of expenses for clinical trials, drug synthesis, employee compensation, consultation and preclinical testing. Development expenses in 2000 consisted primarily of expenses for drug synthesis, clinical trials, employee compensation, and preclinical testing. The decrease in development expenses for the three month period ended March 31, 2001, as compared to the three month period ended March 31, 2000, is primarily the result of reduced spending for manufacturing and related costs for Coactinon(R) and Coviracil(R). Approximately 83% of our first quarter development expenses were focused on Coviracil, amdoxovir, formerly known as DAPD, and Coactinon. Our future development expenses will depend on results of clinical and preclinical activities, availability of capital to fund multiple drug candidate development programs and direction by regulatory agencies. Accordingly, development expenses may fluctuate from period to period and such fluctuations may be significant. In addition, if we in-license or otherwise acquire rights to additional drug candidates, development expenses may increase.

Purchased Research and Development Expense

There was no purchased research and development expense in the three months ended March 31, 2001, as compared to $5.4 million for the three months ended March 31, 2000. In 2000, we issued 400,000 shares of common stock associated with the 1997 acquisition of Avid Corporation, Avid, as consideration to the former Avid stockholders for extending the payment date of certain contingent consideration from February 28, 2000 to August 28, 2001. The in-process research and development charge was based on the fair market value of our common stock at the date on which the extension was granted and relates to the drug candidate mozenavir dimesylate.

Selling, General and Administrative Expenses

Selling, general and administrative expenses totaled $2.7 million for the three months ended March 31, 2001 and 2000. Selling, general and administrative expenses in both 2001 and 2000 consisted primarily of employee compensation, amounts paid for outside professional services and rent expense. 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 of our future development activities and whether we continue to develop our sales and marketing organization.

Interest Income, Net

Net interest income totaled $1.0 million for the three months ended March 31, 2001 as compared to $2.3 million for the same period in 2000. The decrease in interest income is due primarily to a much smaller average investment balance offset by higher low-risk, short-term interest rates in the first quarter of 2001. Future interest income will depend on our future cash and investment balances and the return on these investments. See "--Liquidity and Capital Resources."

Liquidity and Capital Resources

We have financed our operations since inception (July 12, 1995) through March 31, 2001 primarily with the net proceeds received from private placements of equity securities, which provided aggregate net proceeds of approximately $166.3 million, and from initial and secondary public offerings, which provided aggregate net proceeds of approximately $96.8 million, as well as net proceeds from the completion of our strategic alliance with Abbott, the Abbott Alliance, including net proceeds from the sale of common stock and non-contingent research and development reimbursement, of approximately $147.7 million. In November 2000, we entered into a $100.0 million Firm Underwritten Equity Facility, the Facility, that provides us the ability to sell our common stock in the public market through November 2003. To date, we have raised approximately $807,000 in net proceeds from this Facility.

At March 31, 2001, we had net working capital of $46.7 million, an increase of approximately $31.0 million over December 31, 2000. The increase in working capital is principally the result of our two separate March 2001 private placements offset by use of funds for our normal operating expenses. Our principal source of liquidity at March 31, 2001, was $63.6 million in cash and cash equivalents, $22.9 million in investments which are considered "available-for-sale," and $2.0 million of strategic corporate investments, reflecting a $25.5 million increase of cash, cash equivalent and investment balances over those at December 31, 2000.

Our working capital requirements may fluctuate in future periods as we fund our drug development programs, pay obligations under our license and/or option agreements, continue the future development of our sales and marketing organization, acquire drug substance from third party manufacturers and incur other selling, general and administrative expenditures necessary to support our operations. The amount of our future working capital requirements will depend 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, including Abbott, the success of our drug development programs, the magnitude and scope of these programs, the cost, timing and outcome of regulatory reviews, changes in regulatory requirements, the costs under the license and/or option agreements relating to our drug candidates, including the costs of obtaining patent protection for our drug candidates, the timing and the terms of the acquisition of any additional drug candidates, the rate of technological advances relevant to our operations, determinations as to the commercial potential of our drug candidates, the level of required administrative and legal support, the potential expansion of required facility space and the potential use of third party sales contractors.

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 approval to commercialize drug candidates and the commercial success of approved drugs. Our existing license and research agreements, as of March 31, 2001, may require future cash payments of up to $90.5 million contingent on the achievement of development milestones, up to $30.0 million on the achievement of sales milestones, and $4.9 million of future research and development payments. One of our licensors has the option to receive $2.0 million of future milestone payments in shares of common stock, based on the then current market price, in lieu of a cash payment. As of March 31, 2001, we are also obligated to issue up to an additional 1,650,000 shares of common stock on the achievement of development milestones relating to mozenavir dimesylate, which was acquired in the acquisition of Avid. Additionally, we will pay royalties based on a percentage of net sales of each licensed product incorporating these drug candidates. Most of our license agreements require minimum royalty payments commencing three years after regulatory approval. 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

$50,000 if only a single drug candidate is approved for one indication, to $54.5 million if all drug

candidates are approved for all indications. In addition, we have option agreements that allow us to obtain licenses on additional drug candidates in the future. Exercise of these option agreements would increase our license obligations.

We believe that our existing cash, cash equivalents and investments, and expected net proceeds raised under the Facility will be adequate to satisfy our anticipated working capital requirements through at least the first quarter of 2002, but expect that we will be required to raise additional capital to fund our future operations from remaining availability under the Facility, or through equity or debt financings from other sources. We cannot assure you that additional funding will be available on favorable terms from any of these sources or at all. See "--Risk and Uncertainties-- If we need additional funds and are unable to raise them, we will have to curtail or cease operations."

Equity Financings

In January 2001, we entered into definitive purchase agreements with a limited number of qualified institutional buyers and large institutional accredited investors for the sale of 7.7 million shares of common stock at $6.00 per share for net proceeds totaling approximately $43.5 million. The closing of the common stock sale occurred on March 1, 2001 with Abbott and another related party, which Triangle utilizes in the completion of its clinical and preclinical studies, participating in this financing. Additionally, we closed the sale of 200,000 shares of convertible Series B preferred stock for $60.00 per share in a private offering to a small number of qualified institutional buyers and large institutional accredited investors on March 9, 2001. This sale yielded net proceeds of approximately $10.9 million. These preferred shares are convertible into ten shares of common stock at the earlier of our stockholders' approval of the issuance of the preferred shares or March 9, 2002. Holders of these preferred shares after August 15, 2001 are entitled to a $5.00 per share dividend, payable at Triangle's discretion in either cash or common stock at the time of conversion to common stock. Except for the conditional dividend, the holders of these preferred shares have no preferential rights to dividends or distributions.

Litigation and Other Contingencies

As discussed below in "Risk and Uncertainties," we are indirectly involved in several patent opposition and adversarial proceedings and two lawsuits filed in Australia regarding the patent rights related to two of our licensed drug candidates, Coviracil and amdoxovir. Although we are not a named party in any of these proceedings, we are obligated to reimburse our licensors for legal expenses associated with these proceedings. In one of these patent opposition proceedings, on November 8, 2000, the Australian Patent Office held that several patent claims of Emory University, Emory, directed to amdoxovir are not patentable over an earlier BioChem Pharma, Inc., BioChem Pharma, patent. Emory has appealed this decision of the Australian Patent Office to the Australian Federal Court. If Emory, the University of Georgia Research Foundation, Inc., University of Georgia, or Triangle is unsuccessful in the appeal, then we will not be able to sell amdoxovir in Australia without a license from BioChem Pharma, which may not be available on reasonable terms or at all. We cannot predict the outcome of this or any of the other proceedings. We believe that an adverse judgment rendered against us would not result in a material financial obligation, nor would we have to recognize an impairment under Statement of

Financial Accounting Standards No. 121 "Accounting for Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed of" as no amounts have been capitalized related to our drug candidates. However, any development in these proceedings adverse to our interests, including any adverse development related to the patent rights licensed to us for these two drug candidates or our related rights or obligations, could have a material adverse effect on our business and future consolidated financial position, results of operations and cash flow.

Risk and Uncertainties

In addition to the other information contained herein, the following risks and uncertainties should be carefully considered in evaluating Triangle and its business.

All of our product candidates are in development and may never be successfully commercialized which would have an adverse impact on your investment and our business.

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. None of our drug candidates has been approved by regulatory authorities. We do not expect any of our drug candidates to be commercially available until at least the year 2002. There are many reasons that we may fail in our efforts to develop our drug candidates, including that:

- our drug candidates will be ineffective, toxic or will not receive regulatory clearances,
- our drug candidates will be too expensive to manufacture or market or will not achieve broad market acceptance,
- third parties will hold proprietary rights that may preclude us from developing or marketing our drug candidates, or
- third parties will market equivalent or superior products.

The success of our business depends upon 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 we have only a limited operating history for you to review in evaluating our business. We have incurred losses since our inception. At March 31, 2001, our accumulated deficit was $353.8 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 until at least the year 2002. In addition, we expect annual losses to increase 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 profitable operations.

If we need additional funds and are unable to raise them, we will have to curtail or cease operations.

Our drug development programs and potential commercialization of 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 expenses, 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 and magnitude of our drug development programs,
- the scope and results of preclinical testing and clinical trials,
- the cost, timing and outcome of regulatory reviews,
- the costs under current and future license and option agreements for our drug candidates, including the costs of obtaining patent protection for our drug candidates,
- the costs of acquiring any additional drug candidates,
- the rate of technological advances,
- 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. Although the Abbott Alliance provided us with significant additional funding, we cannot assure you that available sources of funds will be sufficient to meet our future needs. In addition, we cannot assure you that we will receive the contingent future research funding payments under the Abbott Alliance. Therefore, we may 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. In addition, any future 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, to enter into new collaborative arrangements or to modify the Abbott Alliance on terms that are not favorable to us. These collaborative arrangements or modifications could result in the transfer to third parties of rights that we consider valuable. In addition, we often consider the acquisition of technologies and drug candidates that would increase our working capital requirements.

To facilitate our ability to raise additional equity capital, on November 1, 2000, we entered into the Facility pursuant to which we may be able to issue and sell up to $100.0 million of our common stock over the next three years. There are conditions and limitations on Ramius Securities, LLC's, Ramius', obligation to sell shares under the underwriting agreement and Ramius Capital Group, LLC's, Ramius Capital's, obligation to purchase shares under the purchase agreement. In particular, Ramius' and Ramius Capital's obligations are subject to share price and trading volume limitations which could reduce the number of shares of common stock they are obligated to sell or purchase, as the case may be, regardless of the number of shares of common stock we request to be sold. In some circumstances, such as an average trading price of less than $4.00 per share, they will have no obligation to sell or purchase our common stock, even if we request them to do so. In addition, we may elect not to sell shares of common stock if we believe that market conditions are unfavorable.

For a period of 90 days from the effective date, February 27, 2001, of our registration statement filed in connection with our March 1, 2001 private placement, we will not, without the prior written consent of Banc of America Securities LLC be allowed to sell, contract to sell or otherwise dispose of or issue any of our securities, except pursuant to previously issued options, any

agreements providing for anti-dilution or other share issuance rights, existing contractual obligations, any employee benefits or similar plans, any issuances to license holders, or any strategic alliances or joint ventures we may enter into. In addition, we will cause each of our officers and directors not to dispose of any of their equity securities of Triangle Pharmaceuticals, Inc. (other than securities acquired in the private placement) until May 29, 2001 without the prior written consent of Banc of America Securities LLC. We will not be able to issue any securities pursuant to our Facility until May 29, 2001.

Because our product candidates may not successfully complete clinical trials required for commercialization, our business may never achieve profitability.

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 could cause us or regulatory authorities to interrupt, delay or halt clinical trials of a drug candidate, as occurred with mozenavir dimesylate, or could result in regulatory authorities refusing to approve the drug candidate for any and all targeted indications. In April 2000, the South African Medicines Control Council, MCC, terminated the enrollment in one of our phase III clinical studies, FTC-302, and the Food and Drug Administration, FDA, issued a clinical hold on the study for our drug candidate, Coviracil. Study FTC-302 was being conducted under a U.S. Investigational New Drug Application at sites in South Africa. The FDA indicated that study FTC-302 may not be adequate to provide pivotal data in support of a New Drug Application, NDA. In February 2001, we were notified by the FDA that the study would remain on clinical hold even though the study had been completed. Discussions with the MCC and FDA are continuing; however, the planned submission of an U.S. NDA for Coviracil may be significantly delayed. 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. Clinical trials may not demonstrate that our drug candidates are safe or effective.

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, and
- the eligibility criteria for the 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 file 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, as occurred with Coactinon(R) and which may occur with Coviracil. In December 1999, the FDA advised that additional Phase III studies

would be required to support an NDA submission for Coactinon. In July 2000, we presented data to the FDA from a completed phase II study, MKC-202, showing that a lower dose of 500 mg twice-a-day compared to the previous dose of 750 mg twice-a-day, provided similar antiviral activity and an enhanced tolerability profile in patients taking Coactinon. Based on the new data, in July 2000, the FDA advised that enrolling an additional 280 patients into an ongoing phase III study, MKC-401, at the lower dose of 500 mg twice-a-day would generate sufficient data for filing of an NDA should the results be positive. In August 2000, we announced our decision to continue the development of Coactinon. The enrollment of the additional 280 patients into study MKC-401 was completed in April 2001.

Changes in regulatory policy or additional regulations adopted during product development and regulatory review of information we submit could also result in delays or rejections. The FDA has notified us that three of our drug candidates for the treatment of HIV, Coviracil, Coactinon and amdoxovir, qualify for designation as "fast track" products under provisions of the Food and Drug Administration Modernization Act of 1997. The fast track provisions are designed to expedite the review of new drugs intended to treat serious or life-threatening conditions and essentially codified the criteria previously established by the FDA for accelerated approval. These drug candidates may not, however, continue to qualify for expedited review and our other drug candidates may fail to qualify for fast track development or expedited review. Even though some of our drug candidates have qualified for expedited review, 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 product candidates, we may be unable to commercialize our product candidates or to 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 patents in our own name and we have a small number of patent applications of our own pending. One of our patent applications is a joint application with co-inventors from another institution. We have, however, licensed or we have an option to license 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, 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 in-licensed. In addition, others may challenge, seek to invalidate, infringe or circumvent any patents we own or in-license, and 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.

Several pharmaceutical and biotechnology companies, universities and research institutions have filed patent applications or received patents that cover our technologies or technologies similar to ours. Others have filed patent applications and received patents that conflict with patents or patent applications we own or have in-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, PTO, 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 such license on acceptable terms or at all. Any failure to obtain such licenses could delay or prevent us from pursuing the development or commercialization of our drug candidates, which would adversely affect our business.

There are significant risks regarding the patent rights of two of our in-licensed drug candidates. We may not be able to commercialize Coviracil or amdoxovir due to patent rights held by third parties other than our licensors. Third parties have filed numerous patent applications and have received numerous issued patents in the United States and many foreign countries that relate to these drug candidates and their use alone or in combination to treat HIV and hepatitis B. As a result, our patent position regarding the use of Coviracil and amdoxovir to treat HIV and/or hepatitis B is highly uncertain and involves numerous complex legal and factual questions that are unknown or unresolved. If any of these questions is resolved in a manner that is not favorable to us, we would not have the right to commercialize Coviracil and/or amdoxovir in the absence of a license from one or more third parties, which may not be available on acceptable terms or at all. In addition, even if any of these questions is favorably resolved, we may still attempt to obtain licenses from one or more third parties to reduce or eliminate the risks relating to some or all of these matters. Such licenses may not be available on acceptable terms or at all. Our inability to commercialize either of these drug candidates could adversely affect our business.

Coviracil (emtricitabine)

Coviracil, a purified form of FTC, belongs to the same general class of nucleosides as lamivudine. In the United States, the FDA has approved lamivudine for the treatment of hepatitis B and for use in combination with zidovudine, also known as AZT, for the treatment of HIV. Regulatory authorities have approved lamivudine for the treatment of hepatitis B and for use in combination with other nucleoside analogues for the treatment of HIV in a number of other countries. GlaxoSmithKline plc, formerly Glaxo Wellcome plc, Glaxo, currently sells lamivudine for the treatment of HIV and hepatitis B under a license agreement with BioChem Pharma. We obtained rights to Coviracil under a license from Emory. In 1990 and 1991, Emory filed in the United States and thereafter in numerous foreign countries patent applications with claims to compositions of matter and methods to treat HIV and hepatitis B with Coviracil. In 1991, Yale University, Yale, filed in the United States patent applications on FTC, including emtricitabine and its use to treat hepatitis B, and subsequently licensed its rights under those patent applications to Emory. Our license arrangement with Emory includes all rights to Coviracil and its uses claimed in the Yale patent applications.

HIV. Emory received a United States patent in 1993 covering a method to treat HIV with Coviracil. Emory has also received United States and European patents containing composition of matter claims that cover Coviracil. BioChem Pharma filed a patent application in the United States in 1989 and received a patent in 1991 covering a group of nucleosides in the same general class as Coviracil, but which did not include Coviracil. BioChem Pharma filed foreign

patent applications in 1990, which expanded upon its 1989 United States patent application to include FTC among a large class of nucleosides. The foreign patent applications are pending in many countries and have issued in a number of countries with claims directed to FTC that may cover Coviracil and its use to treat HIV. In addition, BioChem Pharma filed a United States patent application in 1991 specifically directed to Coviracil. BioChem Pharma has received two patents in the United States based on this patent application, one directed to Coviracil and the other directed to a method for treating viral diseases with Coviracil. The PTO has determined that there are conflicts between both BioChem Pharma patents and patent applications filed by Emory because they have overlapping claims to the same technology. The PTO is conducting two adversarial proceedings, interferences, to determine whether BioChem Pharma or Emory is entitled to the patent claims in dispute regarding BioChem Pharma's two issued patents. Emory may not prevail in the adversarial proceedings, and the proceedings may also delay the decision of the PTO regarding Emory's patent application. BioChem Pharma also filed patent applications in many foreign countries based upon its 1991 United States patent application and has received patents in certain countries. BioChem Pharma may have additional patent applications pending in the United States.

In the United States, the first to invent a technology is entitled to patent protection on that technology. For patent applications filed prior to January 1, 1996, United States patent law provides that a party who invented a technology outside the United States is deemed to have invented the technology on the earlier of the date it introduced the invention in the United States or the date it filed its patent application. In a filing with the Securities

and Exchange Commission, SEC, BioChem Pharma stated that prior to January 1, 1996, it conducted substantially all of its research activities outside the United States. BioChem Pharma also stated that it considered this to be a disadvantage in obtaining United States patents based on patent applications filed before January 1, 1996 as compared to companies that mainly conducted research in the United States. We do not know whether Emory or BioChem Pharma was the first to invent the technology claimed in their respective United States patent applications or patents. We also do not know whether BioChem Pharma invented the technology disclosed in its patent applications in the United States or introduced that technology in the United States before the date of its patent applications.

In foreign countries, the first party to file a patent application on a technology, not the first to invent the technology, is entitled to patent protection on that technology. We believe that Emory filed patent applications disclosing Coviracil as a useful anti-HIV agent in many foreign countries before BioChem Pharma filed its foreign patent applications on that technology. However, BioChem Pharma has received patents in several foreign countries. In addition, BioChem Pharma has filed patent applications on Coviracil and its uses in certain countries in which Emory did not file patent applications. Emory has opposed or otherwise challenged patent claims on Coviracil granted to BioChem Pharma in Australia and Europe. Emory may not initiate patent opposition proceedings in any other countries or be successful in any foreign proceeding attempting to prevent the issuance of, revoke or limit the scope of patents issued to BioChem Pharma. BioChem Pharma has opposed patent claims on Coviracil granted to Emory in Europe, Japan, Australia and South Korea. BioChem Pharma may make additional challenges to Emory patents or patent applications, which Emory may not succeed in defending. Our sales, if any, of Coviracil for the treatment of HIV may be held to infringe United States and foreign patent rights of BioChem Pharma. Under the patent laws of most countries, a product can be found to infringe a third party patent either if the third party patent expressly

covers the product or method of treatment using the product, or if the third party patent covers subject matter that is substantially equivalent in nature to the product or method, even if the patent does not expressly cover the product or method. If it is determined that the sale of Coviracil for the treatment of HIV infringes a BioChem Pharma patent, we would not have the right to make, use or sell Coviracil for the treatment of HIV in one or more countries in the absence of a license from BioChem Pharma. We may be unable to obtain a license from BioChem Pharma on acceptable terms or at all.

Hepatitis B. Burroughs Wellcome Co., Burroughs Wellcome, filed patent applications in March 1991 and May 1991 in Great Britain on a method to treat hepatitis B with FTC and purified forms of FTC, that include emtricitabine. Burroughs Wellcome filed similar patent applications in other countries, including the United States. Glaxo subsequently acquired Burroughs Wellcome's rights under those patent applications. Those patent applications were filed in foreign countries prior to the date Emory filed its patent application on the use of emtricitabine to treat hepatitis B. Burroughs Wellcome's foreign patent applications, therefore, have priority over those filed by Emory. In July 1996, Emory instituted litigation against Glaxo in the United States District Court to obtain ownership of the patent applications filed by Burroughs Wellcome, alleging that Burroughs Wellcome converted and misappropriated Emory's invention and property and that an Emory employee is the inventor or a co-inventor of the subject matter covered by the Burroughs Wellcome patent applications. In May 1999, Emory and Glaxo settled the litigation, and we became the exclusive licensee of the United States and all foreign patent applications and patents filed by Burroughs Wellcome on the use of emtricitabine to treat hepatitis B. Under the license and settlement agreements, Emory and we were also given access to development and clinical data and drug substance held by Glaxo relating to emtricitabine.

BioChem Pharma filed a patent application in May 1991 in Great Britain also directed to a method to treat hepatitis B with FTC. BioChem Pharma filed similar patent applications in other countries. In January 1996, BioChem Pharma received a patent in the United States, which included a claim to treat hepatitis B with emtricitabine. The PTO has determined that there is a conflict between the BioChem Pharma patent and patent applications filed by Yale and Emory. The PTO is conducting an adversarial proceeding, an interference, to determine which party is entitled to the patent claims in dispute. Yale licensed all of its rights relating to FTC, including emtricitabine, and its uses claimed in this patent application to Emory, which subsequently licensed these rights to us. Neither Emory nor Yale may prevail in the adversarial proceeding, and the proceeding may delay the decision of the PTO regarding Yale's and Emory's patent applications. In addition, the PTO has recently added the U.S. patent application filed by Burroughs Wellcome to this interference. Emory may not pursue or succeed in any such proceedings. We will not be able to sell emtricitabine for the treatment of hepatitis B in the United States unless a United States court or administrative body determines that the BioChem Pharma patent is invalid or unless

we obtain a license from BioChem Pharma. We may be unable to obtain such a license on acceptable terms or at all. In July 1991, BioChem Pharma received a United States patent on the use of lamivudine to treat hepatitis B and has corresponding patent applications pending or issued in foreign countries. If it is determined that the use of emtricitabine to treat hepatitis B is not substantially different from the use of lamivudine to treat hepatitis B, a court could hold that the use of emtricitabine to treat hepatitis B infringes these BioChem Pharma lamivudine patents.

In addition, BioChem Pharma has filed in the United States and foreign countries several patent applications on manufacturing methods relating to a class of nucleosides that includes emtricitabine, from which BioChem Pharma has received several patents in the United States and many foreign countries. If we use a manufacturing method that is covered by patents issued on any of these applications, we will not be able to manufacture emtricitabine without a license from BioChem Pharma. We may not be able to obtain a license on acceptable terms or at all.

Amdoxovir (formerly known as DAPD)

We obtained our rights to amdoxovir under a license from Emory and the University of Georgia. Our rights to amdoxovir include a number of issued United States patents that cover composition of matter, a method for the synthesis of amdoxovir, methods for the use of amdoxovir alone or in combination with certain other agents for the treatment of hepatitis B, and a method to treat HIV with amdoxovir. We also have rights to several foreign patents and patent applications that cover methods for the use of amdoxovir alone or in combination with certain other anti-hepatitis B agents for the treatment of hepatitis B. Additional foreign patent applications are pending which contain claims for the use of amdoxovir to treat HIV. Emory and the University of Georgia filed patent applications claiming these inventions in the United States in 1990 and 1992. BioChem Pharma filed a patent application in the United States in 1988 on a group of nucleosides in the same general class as amdoxovir and their use to treat HIV, and has filed corresponding patent applications in foreign countries. The PTO issued a patent to BioChem Pharma in 1993 covering a class of nucleosides that includes amdoxovir and its use to treat HIV. Corresponding patents have been issued to BioChem Pharma in many foreign countries. Emory has filed an opposition to patent claims granted to BioChem Pharma by the European Patent Office based, in part, upon Emory's assertion that BioChem Pharma's patent does not disclose how to make amdoxovir. In a patent opposition hearing held at the European Patent Office on March 4, 1999, the Opposition Division ruled that the BioChem Pharma European patent covering amdoxovir is valid. Emory has appealed this decision to the European Patent Office Technical Board of Appeal. If the Technical Board of Appeal affirms the decision of the Opposition Division, or if Emory or Triangle does not pursue the appeal, we would not be able to sell amdoxovir in Europe without a license from BioChem Pharma, which may not be available on acceptable terms or at all. Patent claims granted to Emory on both amdoxovir (the administered drug) and DXG (the parent drug into which amdoxovir is converted in the body) have also been opposed by BioChem Pharma in the Australian Patent Office. In a decision dated November 8, 2000, the Australian Patent Office held that Emory's patent claims directed to amdoxovir are not patentable over an earlier BioChem Pharma patent. Emory has appealed this decision of the Australian Patent Office to the Australian Federal Court. If Emory, the University of Georgia or Triangle is unsuccessful in the appeal, then we will not be able to sell amdoxovir in Australia without a license from BioChem Pharma, which may not be available on reasonable terms or at all. BioChem Pharma's opposition to Emory's patent claims on DXG in Australia is ongoing. If Emory, the University of Georgia and we do not challenge, or are not successful in any challenge to, BioChem Pharma's issued patents, pending patent applications, or patents that may issue from such applications, we will not be able to manufacture, use or sell amdoxovir in the United States and any foreign countries in which BioChem Pharma receives a patent without a license from BioChem Pharma. We may not be able to obtain such a license from BioChem Pharma on acceptable terms or at all.

Immunostimulatory Sequence Product Candidates

In March 2000, we entered into a licensing and collaborative agreement with Dynavax Technologies Corporation, Dynavax, to develop immunostimulatory polynucleotide sequence product candidates for the prevention and/or treatment of serious viral diseases, which became effective in April 2000.

Immunostimulatory sequences, 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 viral infection. ISS can be stabilized for use through internal linkages that do not occur in nature, including phosphorothioate linkages.

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 certain polynucleotides and methods for their use and manufacture. We could be prevented from making, using or selling any immunostimulatory sequence that is covered by a patent issued to a third party company, unless we obtain a license from that company, which may not be available on reasonable terms or at all.

With respect to any of our drug candidates, litigation, patent opposition and adversarial proceedings, including the currently pending proceedings, could result in substantial costs to us. We expect the costs of the currently pending proceedings to increase significantly during the next several years. We anticipate that additional litigation and/or proceedings will be necessary or may be initiated to enforce any patents we own or in-license, or to determine the scope, validity and enforceability of 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 drug candidates and technology. United States patents carry a presumption of validity and generally can be invalidated only through clear and convincing evidence. As indicated above, the PTO is conducting three adversarial proceedings in connection with the emtricitabine technology. We cannot assure you that a court or administrative body would hold our in-licensed patents valid or would find an alleged infringer to be infringing. Further, the license and option agreements with Emory, the University of Georgia, The Regents of the University of California, The DuPont Pharmaceuticals Company, Mitsubishi-Tokyo Pharmaceuticals, Inc. (formerly Mitsubishi Chemical Corporation), 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 in general we are required to reimburse these licensors for the costs they incur in performing these activities. Similarly, Yale 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 upon 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 such proceedings 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 such 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.

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 some technologies to which we do not have exclusive rights or which may not be patentable or proprietary and thus 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 logo, Coactinon(R) and Coviracil(R). We have received a Canadian trademark registration for the mark Coviracil(R). We have also received registrations in the European Union for the mark Coactinon(R) and our corporate logo. Our pending application in the European Union for the mark Coviracil(TM) has been opposed by Orsem, based upon registrations for the mark Coversyl in various countries, and Les Laboratories Serveir, based on a French registration for the mark Coversyl. We do not believe that the marks Coviracil and Coversyl are confusingly similar, but, in the event they are found to be confusingly similar, we may need to adopt a different product name for emtricitabine in the applicable jurisdictions. Several other companies use trade names that are similar to our name for their businesses. If we are unable to obtain any licenses 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.

We are subject to extensive government regulation and may fail to receive regulatory approval which could prevent or delay the commercialization of our products.

In addition to preclinical testing, clinical trials and other approval procedures for human pharmaceutical products, we are subject to numerous other regulations covering the development of pharmaceutical products. These regulations include, for example, domestic and international regulations relating to the manufacturing, safety, labeling, storage, record keeping, reporting, marketing and promotion of pharmaceutical products. We are also regulated with respect to non-clinical and clinical laboratory practices, safe working conditions and the use and disposal of hazardous substances, including radioactive compounds and infectious disease agents used 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. Further, 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 such 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 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, patent position and other factors. 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.

Because we face risks related to our license and option agreements, we could lose our rights to our drug candidates.

We have in-licensed or obtained an option to in-license our drug candidates under agreements with our licensors. These agreements permit our licensors to terminate the agreements under certain 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 could 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 our licensors are primarily responsible for any patent prosecution activities, such as litigation, patent conflict, patent opposition or other actions, for the technology licensed to us. These agreements also provide that in general we are required to reimburse our licensors for the costs they incur in performing these activities. We believe that these costs as well as other costs under our license and option 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 or option agreement for the drug candidate.

Because we may be unable 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 material. We plan to expand our existing relationships or to establish relationships with additional third party manufacturers for products that we successfully develop. The terms of the Abbott Alliance provide that Abbott will manufacture all or a portion of our product requirements for those products that are or become covered by the Abbott Alliance. We may be unable to maintain our relationship with Abbott or to establish or maintain relationships with other third party manufacturers on acceptable terms, and third party manufacturers may be unable to manufacture products in commercial quantities on a cost effective basis. Our dependence upon 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 connection with the manufacture of our products and may be unable to maintain the necessary governmental licenses and approvals to continue manufacturing our products.

We may be unable to successfully market, sell or distribute our drug candidates.

In the United States, we currently intend to market the drug candidates covered by the Abbott Alliance in collaboration with Abbott and to market other drug candidates that we successfully develop, that do not become part of the Abbott Alliance, through a direct sales force. Outside of the United States, we expect Abbott to market drug candidates covered by the Abbott Alliance and, for any other drug candidates that we successfully develop that do not become part of the Abbott Alliance, we intend to market and sell through arrangements or collaborations with third parties. In addition, we expect Abbott to handle the distribution and sale of drug candidates covered by the Abbott Alliance both inside and outside the United States. With respect to the United States, our ability to market the drug candidates that we successfully develop will be contingent upon recruitment, training and deployment of a sales and marketing force as well as the performance of Abbott under the Abbott Alliance. We may be unable to establish marketing or sales capabilities or to maintain arrangements or 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 also may have limited control over the amount and timing of resources that a third party may devote to our drug candidates. 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 development and acquisition of drug candidates, we may not be able to successfully acquire additional drug candidates or commercialize or develop our current drug candidates.

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. Although we have designed the clinical trials for our drug candidates, the contract research organizations have conducted many of the clinical trials. As a result, 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. 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 may not be able to attract and retain key personnel and advisors, we may not successfully develop our products or achieve our other business objectives.

We are highly dependent on our senior management and scientific staff, including Dr. David Barry, our Chairman and Chief Executive Officer. We have entered into employment agreements with each officer of Triangle. Dr. Barry's employment agreement contains certain non-competition provisions. In addition, the employment agreements for each officer provide for severance payments which are contingent upon each officer's refraining from competition with Triangle. 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. Our ability to attract and retain qualified personnel, consultants and advisors is critical to our success. 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. We may be unable to attract and retain these individuals, and our failure to do so would have an adverse effect on our business.

Health care reform measures and third party reimbursement practices are uncertain and may adversely impact the commercialization of our products.

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 proposed 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. While we cannot predict whether legislative or regulatory proposals will be adopted or what effect those proposals or managed care efforts may have on our business, the announcement and/or adoption of such proposals or efforts could have an adverse effect on our

profit margins and financial condition. 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 charged for medical products and services. Present combination treatment regimens for the treatment of HIV are expensive and 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 that reimbursement pressures will continue in the future. If we succeed in bringing one or more products to the market, these products may not be considered cost effective and reimbursement to the consumer may not be available or sufficient to allow us to sell our products on a competitive 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 upon 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, if any.

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. In the event of such an accident, we could be held liable for any damages or fines that result and any such liability could exceed our resources.

Our controlling stockholders may make decisions which you do not consider to be in your best interest.

As of March 31, 2001, our directors, executive officers and their affiliates, excluding Abbott, owned approximately 13.4% of our outstanding common stock and approximately 66.7% of our outstanding Series B Preferred Stock. Abbott owned approximately 17.1% of our outstanding common stock. Pursuant to the terms of the Abbott Alliance, Abbott has the right to purchase additional amounts of our common stock up to a maximum aggregate percentage of 21% of our outstanding common stock and has rights to purchase shares directly from us in order to maintain its existing level of ownership, also known as

antidilution protection. Abbott elected to exercise its right in connection with our March 1, 2001 private placement by purchasing 1,300,000 shares of our common stock. One Abbott designee serves as a member 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 be adversely affected by market volatility.

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,
- 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 due to the level of development expenses and other factors,
- changes in financial estimates by securities analysts and whether our earnings meet or exceed such estimates,
- conditions and trends in the pharmaceutical and other industries,
- new accounting standards,

- general economic, political and market conditions and other factors, and
- the occurrence of any of the risks described in these "Risk Factors."

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

In addition, 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 be reduced. As of March 31, 2001, there were 46,363,918 shares of common stock outstanding, of which approximately 25,000,000 were immediately eligible for resale in the public market without restriction. Holders of approximately 14,800,000 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 11,500,000 of these shares. In addition, Abbott will have the right on or after June 30, 2002 to cause us to register for resale in the public market the 6,571,428 shares of common stock purchased at the closing of the Abbott Alliance. Any such sales may make it more difficult for us to raise needed working capital through an offering of our equity or convertible debt securities and may reduce the market price of our common stock.

Declines in our stock price might harm our ability to issue equity under various financing arrangements including our Facility or other transactions. The price at which we issue shares in such transactions 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. A low stock price might impair our ability to raise capital under the Facility described above under "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources" because the underwriter is not obligated to sell our common stock under the Facility on a given day if our average stock price during such day is less than $4.00 per share (or less than any higher floor price specified by us).

Our stock price could decline and our stockholders could experience significant ownership dilution due to our ability to issue shares under the Firm Underwritten Equity Facility.

Under our Facility, we may sell, subject to various restrictions (including the 90-day blackout period associated with our March 1, 2001 private financing), up to $100.0 million of common stock over a three-year period. The aggregate number of shares that may be issued under the Facility depends on a number of factors, including the market price and trading volume of our common stock during each 15-trading day selling period.

Because the price of any shares we choose to sell under the Facility is based on the market price of the common stock on the date of sale, both the number of shares we would have to sell in order to raise any given amount of funding and the associated ownership dilution experienced by our stockholders will be greater if the price of our common stock declines. The lowest price at which common stock may be sold under the Facility is $4.00 per share.

The perceived risk associated with the possible sale of a large number of shares under the terms of the Facility could cause some of our stockholders to sell their stock, thus causing the price of our stock to decline. In addition, actual or anticipated downward pressure on our stock price due to actual or anticipated sales of our common stock under the Facility could cause some institutions or individuals to engage in short sales of our common stock, which may itself cause the price of our stock to decline.

Antitakeover provisions in our charter documents and Delaware law could delay, defer or prevent a tender offer or takeover attempt that you consider to be in your best interest.

We have adopted a number of provisions that could have antitakeover effects. We have also 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 Board. The rights plan will not prevent an acquisition of Triangle which is approved by the Board. Our charter authorizes the Board to determine the terms of and issue shares of undesignated preferred stock without stockholder approval. Moreover,

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. Our bylaws divide the Board into three classes of directors with each class serving a three year term. These and other provisions of our charter and our bylaws, as well as certain provisions of Delaware law, could delay or impede 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. These provisions could also limit the price that investors might be willing to pay for our common stock.

We have not declared or paid any dividends on our common stock.

We have never declared or paid any cash dividends on our common stock, and we currently do not intend to pay any cash dividends on our common stock in the foreseeable future. We intend to retain our earnings, if any, for the operation of our business.

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. At March 31, 2001, we had approximately $1.2 million of forward foreign currency contracts and approximately $350,000 of 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 market risk related to changes in interest rates, foreign currency exchange rates and investment market value.

Interest Rate Sensitivity

Triangle is subject to interest rate risk on its investment portfolio. We maintain an investment portfolio consisting primarily of high quality 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 March 31, 2001, 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 March 31, 2001, our portfolio consisted of approximately $16.0 million of investments maturing within one year and approximately $6.9 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 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 Triangle 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 March 31, 2001, Triangle had purchased approximately $1.2 million of forward foreign currency contracts in currencies participating in the European Monetary Union to hedge firm commitments. Additionally, Triangle has investments in various foreign currencies totaling approximately $350,000 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 the Euro and other 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 also have a strategic investment in Dynavax for $2.0 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.

PART II - OTHER INFORMATION

Item 2. Changes in Securities and Use of Proceeds

c. Issuance of Unregistered Securities

On March 1, 2001, we completed a private placement of 7,700,000 newly issued shares of common stock at a price of $6.00 per share. The net proceeds from the sale were approximately $43,475,000. We registered the resale of these shares on a registration statement which the SEC declared effective on February 27, 2001.

On March 9, 2001, we completed a private placement of 200,000 newly issued shares of convertible Series B preferred stock, par value $0.001 per share, at a price of $60.00 per share. The net proceeds from the sale were approximately $10,900,000. Dividend rights are $5.00 per share on all preferred shares that remain outstanding after August 15, 2001 and will be payable, at our option, in cash or common stock. The conditional dividend, if applicable, is payable at the time of conversion to common stock. Each share of preferred stock will convert into ten shares of common stock at the earlier of approval of the issuance of preferred shares by our stockholders or March 9, 2002, the first anniversary of the date the preferred stock was issued. Each share of preferred stock is entitled to cast ten votes on any matter presented to the stockholders.

Item 6. Exhibits and Reports on Form 8-K

a. Exhibits

None

b. Reports on Form 8-K

On March 21, 2001, we filed a current report on Form 8-K dated March 9, 2001 announcing our completion of a private placement of 200,000 newly issued shares of convertible Series B preferred stock.

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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: May 10, 2001

By: /s/ David W. Barry

David W. Barry
Chairman and Chief Executive Officer

TRIANGLE PHARMACEUTICALS, INC.

Date: May 10, 2001

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

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

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