

TRIANGLE PHARMACEUTICALS INC
Form DEF 14A
August 28, 2002

SCHEDULE 14A
(RULE 14A-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION
PROXY STATEMENT PURSUANT TO SECTION 14(A) OF THE SECURITIES
EXCHANGE ACT OF 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- | | |
|--|--|
| <input type="checkbox"/> Preliminary Proxy Statement | <input type="checkbox"/> Confidential, for Use of the
Commission Only (as
permitted by Rule 14a-6(e)(2)) |
| <input checked="" type="checkbox"/> Definitive Proxy Statement | |
| <input type="checkbox"/> Definitive Additional Materials | |
| <input type="checkbox"/> Soliciting Material Pursuant to Rule 14a-11(c) or Rule 14a-12 | |

TRIANGLE PHARMACEUTICALS, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
- (1) Title of each class of securities to which transaction applies:
 - (2) Aggregate number of securities to which transaction applies:
 - (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
 - (4) Proposed maximum aggregate value of transaction:
 - (5) Total fee paid:
- Fee paid previously with preliminary materials:
- Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.
- (1) Amount Previously Paid:

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- (2) Form, Schedule or Registration Statement No.:
- (3) Filing Party:
- (4) Date Filed:

[LETTERHEAD OF TRIANGLE PHARMACEUTICALS]

August 28, 2002

To the Stockholders of TRIANGLE PHARMACEUTICALS, INC.:

You are cordially invited to attend a special meeting of the stockholders of Triangle Pharmaceuticals, Inc., to be held at The University Club, 3100 Tower Boulevard, Durham, North Carolina 27707 on September 20, 2002 at 10:00 a.m.

Details of the business to be conducted at the special meeting are given in the attached Notice of Special Meeting and Proxy Statement which you are urged to read carefully.

If you do not plan to attend the special meeting, please sign, date, and return the enclosed proxy card promptly in the accompanying reply envelope. You may also vote by phone by following the instructions on the proxy card. If you decide to attend the special meeting and wish to change your proxy vote, you may do so by voting in person at the special meeting.

We look forward to seeing you at the meeting.

/s/ Daniel G. Welch

Daniel G. Welch
CHAIRMAN AND CHIEF EXECUTIVE OFFICER

YOUR VOTE IS IMPORTANT

IN ORDER TO ASSURE YOUR REPRESENTATION AT THE SPECIAL MEETING, YOU ARE REQUESTED TO COMPLETE, SIGN AND DATE THE ENCLOSED PROXY CARD AS PROMPTLY AS POSSIBLE AND RETURN IT IN THE ENCLOSED ENVELOPE, TO WHICH NO POSTAGE NEED BE AFFIXED IF MAILED IN THE UNITED STATES. YOU MAY ALSO VOTE BY PHONE BY FOLLOWING THE INSTRUCTIONS ON THE PROXY CARD.

TRIANGLE PHARMACEUTICALS, INC.
4 UNIVERSITY PLACE, 4611 UNIVERSITY DRIVE
DURHAM, NORTH CAROLINA 27707

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NOTICE OF SPECIAL MEETING OF STOCKHOLDERS
TO BE HELD SEPTEMBER 20, 2002

To the Stockholders of
TRIANGLE PHARMACEUTICALS, INC.:

A Special Meeting of Stockholders of Triangle Pharmaceuticals, Inc., Triangle, will be held at The University Club, 3100 Tower Boulevard, Durham, North Carolina 27707 on September 20, 2002 at 10:00 a.m., to consider and vote upon the following matters:

1. To approve an amendment to the 1996 Stock Incentive Plan (i) increasing the number of shares of common stock available for issuance under the plan by 3,000,000 shares, and (ii) increasing the number of options, stock appreciation rights and stock issuances which may be granted to any one person in the aggregate per calendar year to 1,500,000.

2. To transact any other business that properly comes before the Special Meeting or any adjournment thereof.

These items of business are more fully described in the proxy statement accompanying this Notice. All stockholders of record at the close of business on August 5, 2002 will be entitled to vote at the Special Meeting and at any adjournment thereof. The transfer books will not be closed. A list of stockholders entitled to vote at the Special Meeting will be available for inspection at Triangle's offices.

By Order of the Board of Directors

/s/ Andrew Finkle

R. Andrew Finkle, SECRETARY

August 28, 2002

YOUR VOTE IS VERY IMPORTANT, REGARDLESS OF THE NUMBER OF SHARES YOU OWN. PLEASE READ THE ATTACHED PROXY STATEMENT CAREFULLY, COMPLETE, SIGN AND DATE THE ENCLOSED PROXY CARD AS PROMPTLY AS POSSIBLE AND RETURN IT IN THE ENCLOSED ENVELOPE. YOU MAY ALSO VOTE BY PHONE BY FOLLOWING THE INSTRUCTIONS ON THE PROXY CARD.

TRIANGLE PHARMACEUTICALS, INC.
4 UNIVERSITY PLACE, 4611 UNIVERSITY DRIVE
DURHAM, NORTH CAROLINA 27707

PROXY STATEMENT

FOR THE SPECIAL MEETING OF STOCKHOLDERS
TO BE HELD

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SEPTEMBER 20, 2002

The enclosed proxy is solicited on behalf of the Board of Directors of Triangle Pharmaceuticals, Inc., Triangle, a Delaware corporation, for use at the special meeting of stockholders to be held on September 20, 2002 and at any adjournment or postponement of the special meeting. The meeting will be held at 10:00 a.m. at The University Club, 3100 Tower Boulevard, Durham, North Carolina 27707. All stockholders of record on August 5, 2002, the record date, will be entitled to notice of and to vote at the special meeting. We intend to mail this proxy statement and the accompanying proxy on or about August 28, 2002 to all stockholders of record at the close of business on the record date.

The mailing address of the principal executive office of Triangle is 4611 University Drive, P.O. Box 50530, Durham, North Carolina 27717.

PURPOSE OF MEETING

The specific proposal to be considered and acted on at the special meeting is summarized in the accompanying Notice of Special Meeting of Stockholders and is described in more detail in this proxy statement.

VOTING RIGHTS AND SOLICITATION

VOTING

On August 5, 2002, the record date for determining stockholders entitled to vote at the special meeting, there were 76,861,837 shares of common stock outstanding. Each holder of common stock as of the record date is entitled to one vote per share on all matters brought before the special meeting.

The holders of a majority of the stock issued and outstanding and entitled to vote, 38,430,919 shares, present in person or by proxy will constitute a quorum at the special meeting. If you sign your proxy and we receive it before the special meeting, your shares will be voted as specified on your proxy card. If you do not specify a choice on the proposal, then your shares will be voted affirmatively for the proposal. Abstentions and broker non-votes will be counted for

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purposes of determining whether a quorum is present at the special meeting and abstentions will have the effect of negative votes.

Under Delaware law, dissenters' appraisal rights are not available to stockholders with respect to the proposal.

REVOCABILITY OF PROXIES

Any person giving a proxy has the power to revoke it at any time before its exercise. You may revoke your proxy by filing with the Secretary of Triangle Pharmaceuticals, Inc. at our principal executive office, 4 University Place, 4611 University Drive, Durham, North Carolina 27707, a notice of revocation or another signed proxy with a later date. You may also revoke your proxy by attending the special meeting and voting in person.

SOLICITATION

We will bear the entire cost of solicitation, including the preparation, assembly, printing and mailing of this proxy statement, the proxy

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and any additional soliciting materials furnished to stockholders. We will provide copies of solicitation materials to brokerage houses, fiduciaries and custodians holding shares in their names that are beneficially owned by others so that they may forward the solicitation materials to the beneficial owners. In addition, we may reimburse these record holders for their costs of forwarding the solicitation materials to beneficial owners. We may supplement this original solicitation of proxies by mail with solicitation by telephone, facsimile, telegram or other means by some of our directors, officers, employees or agents. No additional compensation will be paid to these individuals for these services. Except as described above, we do not presently intend to solicit proxies other than by mail.

RECOMMENDATION

The Board of Directors unanimously recommends a vote FOR the approval of Proposal 1.

PROPOSAL 1

APPROVAL OF AMENDMENT TO THE 1996 STOCK INCENTIVE PLAN

You are being asked to approve an amendment to our 1996 Stock Incentive Plan, the 1996 Incentive Plan, that will increase the number of shares of common stock authorized for issuance under the 1996 Incentive Plan in 2002 by 3,000,000 shares and will increase the number of options, stock appreciation rights and stock issuances that may be granted to any one person in the aggregate per calendar year to 1,500,000.

The Board of Directors believes that the increase in the number of shares available to be granted under the 1996 Incentive Plan is necessary in order to assure that we will have a sufficient reserve of shares of common stock available to grant options and issue stock under the plan to help us attract and retain the services of individuals essential to our long-term success. In addition, the Board of Directors believes the increase in the number of options that may be granted to any one person in a calendar year is appropriate as our stock has been subject to significant fluctuations in value and the

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Compensation Committee should have the flexibility to grant greater numbers of options or other stock based compensation to new or existing employees.

The 1996 Incentive Plan became effective when it was adopted by the Board of Directors on August 30, 1996 and was subsequently approved by our stockholders. The 1996 Incentive Plan is the successor to our 1996 Stock Option/Stock Issuance Plan, the Predecessor Plan, and all outstanding options under the Predecessor Plan have been incorporated into the 1996 Incentive Plan. The amendments to the 1996 Incentive Plan which are the subject of this Proposal were adopted by the Board of Directors on August 2, 2002. The following is a summary of the principal features of the 1996 Incentive Plan, as amended as described in this Proposal. The summary is not a complete description of all the provisions of the 1996 Incentive Plan. Any stockholder who wishes to obtain a copy of the actual plan document may do so on written request to the Secretary at our principal executive offices in Durham, North Carolina.

EQUITY INCENTIVE PROGRAMS

The 1996 Incentive Plan contains four separate equity incentive programs:

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- o a Discretionary Option Grant Program,
- o a Salary Investment Option Grant Program,
- o a Stock Issuance Program, and
- o an Automatic Option Grant Program.

The principal features of each program are described below. The Compensation Committee has the exclusive authority to administer the Discretionary Option Grant and Stock Issuance Programs with respect to option grants and stock issuances made to our executive officers and non-employee members of the Board of Directors. With respect to all other participants, those programs may be administered by either the Compensation Committee or a special stock option committee, the Secondary Committee, comprised of two or more directors appointed by the Board of Directors, or the Board of Directors may retain the authority to administer those programs. The Compensation Committee also has the exclusive authority to administer the Salary Investment Option Grant Program. Express provisions of the Automatic Option Grant Program govern option grants under that program, and none of the Compensation Committee, the Secondary Committee or the Board of Directors will exercise any discretion with respect to that program. We use the term Plan Administrator in this summary to mean the Compensation Committee, the Secondary Committee or the Board of Directors, to the extent the entity is acting within the scope of its authority under the 1996 Incentive Plan.

SHARE RESERVE

Options to purchase 6,903,208 shares of common stock have been granted and were outstanding as of August 1, 2002. As of August 1, 2002, without the amendment which is part of this Proposal 1, we were able to grant options to purchase an additional 1,271,554 shares of common stock during fiscal year 2002. On August 2, 2002, the Board of Directors and the Compensation Committee approved the granting as of August 5, 2002 to employees of Triangle of options to purchase 1,075,000 shares of common stock under the 1996 Incentive Plan. At the same time, the Board of Directors approved, subject to approval of the amendment to the 1996 Incentive Plan which is part of this Proposal 1, the granting as of August 5, 2002 to employees of Triangle of

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options to purchase 750,000 shares of common stock. The grants which are subject to the approval of the amendment were made to the following officers in the following amounts:

OFFICER	OPTIONS
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Robert F. Amundsen, Jr.	150,000
Paul A. Dreyer	150,000
R. Andrew Finkle	150,000
Anne F. McKay	150,000
Franck S. Rousseau	150,000

TOTAL	750,000

The shares of common stock issuable under the 1996 Incentive Plan will be drawn from shares of our authorized but unissued common stock or from shares of common stock we reacquire. Shares subject to any outstanding options under the 1996 Incentive Plan, including options incorporated from the Predecessor

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Plan, which expire, are cancelled or otherwise terminate prior to exercise will be available for subsequent issuance. Unvested shares issued under the 1996 Incentive Plan that we subsequently repurchase, at the option exercise or direct issue price paid per share, will be added back to the share reserve and will be available for reissuance. However, shares subject to any option surrendered in accordance with the stock appreciation rights provisions of the 1996 Incentive Plan will not be available for subsequent issuance. In addition, shares of common stock withheld to pay the exercise price of an option or in satisfaction of withholding taxes incurred on the exercise or the vesting of a stock issuance will not be available for subsequent issuance under the 1996 Incentive Plan.

ELIGIBILITY

Our employees, non-employee members of the Board of Directors, consultants and other independent advisors are eligible to participate in the Discretionary Option Grant and Stock Issuance Programs. Executive officers and other highly compensated employees are also eligible to participate in the Salary Investment Option Grant Program, and non-employee members of the Board of Directors automatically participate in the Automatic Option Grant Program.

No persons may receive options, separately exercisable stock appreciation rights and direct stock issuances for more than 1,500,000 shares of common stock in the aggregate for any calendar year.

As of August 1, 2002, executive officers, non-employee members of the Board of Directors and approximately 115 other employees were eligible to participate in the Discretionary Option Grant and Stock Issuance Programs, 14 employees were eligible to participate in the Salary Investment Option Grant Program, and the seven non-employee Board members participate in the Automatic Option Grant Program.

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VALUATION

The fair market value per share of common stock on any relevant date under the 1996 Incentive Plan is the closing selling price per share on that date on the Nasdaq National Market. However, if there is no closing selling price per share on the date in question, the fair market value will be the closing selling price for the last preceding date for which a quotation exists. On August 21, 2002, the closing selling price per share on the Nasdaq National Market was \$3.25.

DISCRETIONARY OPTION GRANT PROGRAM

GRANTS

The Plan Administrator has complete discretion under the Discretionary Option Grant Program to determine which eligible individuals will receive option grants, when grants will be made, the number of shares subject to each grant, the status of any granted option as either an incentive stock option or a non-statutory option under the federal tax laws, the vesting schedule, if any, to be in effect for the option grant and the maximum term for which any granted option is to remain outstanding. We pay all expenses incurred in administering the 1996 Incentive Plan.

PRICE AND EXERCISABILITY

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Each option will have an exercise price per share not less than 85% of the fair market value per share of common stock on the option grant date. No option may have a term in excess of ten years. Options generally become exercisable in a series of installments over the optionee's period of service with us, although other exercisability schedules are permitted.

Holders of options may pay the exercise price in cash or in shares of common stock. We have also established a same-day sale program in which a designated brokerage firm will effect an immediate sale of the shares purchased under the option and pay over to us, out of the sale proceeds available on the settlement date, sufficient funds to cover the exercise price for the purchased shares plus all applicable withholding taxes.

When an optionee's period of service ends, the optionee usually will have a three-month period of time in which to exercise any vested portion of outstanding options. The Plan Administrator has complete discretion to extend the period following the optionee's cessation of service during which he or she may exercise outstanding options and/or to accelerate the exercisability or vesting of those options. The Plan Administrator may accelerate vesting or extend an exercise period at any time while the options remain outstanding, whether before or after the optionee's actual cessation of service.

STOCK APPRECIATION RIGHTS

The Plan Administrator may grant tandem stock appreciation rights under the Discretionary Option Grant Program that provide the holders with the right to surrender their options for an appreciation distribution in amount equal to the excess of (a) the fair market value of the vested shares of common stock subject to the surrendered option over (b) the aggregate exercise price payable for

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those shares. The appreciation distribution may, at the discretion of the Plan Administrator, be made in cash or in shares of common stock.

In addition, we may grant officers and non-employee members of the Board of Directors limited stock appreciation rights in tandem with their outstanding options. These grants must comply with the short-swing profit restriction of the Federal securities laws. Any option with a limited stock appreciation right may be surrendered to us on the occurrence of a hostile tender offer for more than 50% of our outstanding shares, and the optionee will in return be entitled to a cash distribution from us in an amount per surrendered option share equal to the excess of (i) the highest reported price per share of common stock paid in the tender offer over (ii) the option exercise price payable per share.

CANCELLATION/REGRANT PROGRAM

The Plan Administrator has the authority to effect the cancellation of outstanding options under the Discretionary Option Grant Program which have exercise prices in excess of the then current market price of our common stock and to issue replacement options with an exercise price based on the market price of our common stock at the time of the new grant.

SALARY INVESTMENT OPTION GRANT PROGRAM

GRANTS

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The Plan Administrator has discretion in implementing the Salary Investment Option Grant Program and in selecting the executive officers and other highly compensated individuals eligible to participate in the program. As a condition to participation, each selected individual must, prior to the start of the calendar year of participation, file with the Plan Administrator an irrevocable authorization directing us to reduce his or her base salary for the upcoming calendar year by an amount not less than \$10,000 nor more than \$50,000. Each individual whose salary reduction authorization is approved by the Plan Administrator will be granted an option under the Salary Investment Option Grant Program as soon as possible after the start of the calendar year for which the salary reduction is to be in effect.

TERMS

Each option is subject to substantially the same terms and conditions applicable to option grants made under the Discretionary Option Grant Program, except for the following differences:

- o Each option is a non-statutory option.
- o The exercise price per share will be equal to not less than $33\frac{1}{3}\%$ nor more than $66\frac{2}{3}\%$ of the fair market value of our common stock on the option grant date, with the exact percentage fixed by the Plan Administrator. The number of option shares will be determined by dividing the total dollar amount of the reduction in the optionee's base salary by the amount by which the fair market value per share of common stock on the option grant date exceeds the option exercise price. As a result, the total spread on the option (the fair market value of the option shares on the grant date less the aggregate exercise price payable

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for those shares) will be equal to the dollar amount of the reduction to the optionee's base salary that will be in effect for the year for which the option grant is made.

- o The option will become exercisable for the option shares in a series of 12 successive equal monthly installments on the optionee's completion of each calendar month of service in the calendar year for which the salary reduction is in effect.
- o Each option is exercisable after it becomes vested until the earlier of (i) the expiration of the ten-year option term or (ii) the expiration of three years after the optionee's service terminates.

Under the Salary Investment Option Grant Program, the Compensation Committee granted options for an aggregate of 75,756 shares on January 14, 2002 at an exercise price of \$2.63 per share, which was equal to two-thirds of the fair market value per share on that date.

STOCK ISSUANCE PROGRAM

Shares may be sold under the Stock Issuance Program at a price not less than 100% of their fair market value, payable in cash or through a promissory note. Shares may also be issued as a bonus for past services with no cash outlay

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required of the participant.

Shares issued as a bonus for past services will be fully vested upon issuance. All other shares issued under the program will be subject to a vesting schedule tied to the performance of service or the attainment of performance goals. The Plan Administrator has the discretionary authority at any time to accelerate the vesting of any unvested shares outstanding under the Stock Issuance Program.

AUTOMATIC OPTION GRANT PROGRAM

GRANTS

On the date that each non-employee member of the Board of Directors is first elected or appointed as a non-employee Board member, we will make an automatic option grant to that Board member, and on the date that each non-employee Board member is re-elected to the Board of Directors, we will make an additional option grant to that non-employee Board member. Each automatic option grant will be a Non-Statutory Option. Each non-employee Board member will receive an option upon his or her initial election or appointment as a non-employee Board member for 7,500 shares plus an additional 7,500 shares for each full or partial year of the term for which he or she was elected or appointed. On each re-election, each non-employee Board member will receive an additional option to purchase 7,500 shares for each full or partial year of the term for which the non-employee Board member is re-elected to the Board of Directors. There is no limit on the number of automatic option grants any one director may receive over his or her period of service on the Board of Directors, and non-employee Board members who have previously been in our employ or who have otherwise received a stock option grant from us are eligible to receive one or more annual option grants over their period of continued service on the Board of Directors.

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TERMS

Each option under the Automatic Option Grant Program will have an exercise price per share equal to 100% of the fair market value per share of common stock on the option grant date and a maximum term of ten years measured from that grant date.

Provided the optionee continues to serve as a member of the Board of Directors, the initial automatic option grant will vest and become exercisable with respect to 7,500 shares on the day the non-employee Board member is first elected or appointed to the Board of Directors and with respect to an additional 7,500 shares on the day immediately preceding the date of each subsequent annual stockholders meeting until the automatic option grant is fully vested and exercisable. Each subsequent automatic option grant will vest and become exercisable with respect to 7,500 shares on the day immediately preceding the date of each subsequent annual stockholders meeting until the automatic option grant is fully vested and exercisable. No portion of any automatic option grant will vest after the optionee has ceased to be a member of the Board of Directors.

Each outstanding automatic option will become immediately exercisable for all the shares subject to the option should any of the following events occur while the optionee continues on the Board of Directors: (i) the optionee's death or permanent disability, (ii) an acquisition of Triangle by merger or asset sale or (iii) a hostile take-over, whether effected through a successful tender offer for more than 50% of our outstanding voting stock or through a

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change in the majority of the Board of Directors as a result of one or more contested elections. An optionee will have a 12-month period after he or she is no longer on the Board of Directors to exercise his or her outstanding automatic option grants for any or all of the option shares for which those options are exercisable at the time the person ceases being on the Board of Directors.

All options granted under the Automatic Option Grant Program include a limited stock appreciation right which entitles the holder to surrender his or her outstanding automatic options for a cash distribution in the event of a hostile tender offer for more than 50% of our outstanding shares. The cash distribution will be in an amount per surrendered option share equal to the excess of (i) the highest reported price per share of common stock paid in the tender offer over (ii) the option exercise price payable per share. No additional approval of the Plan Administrator or the Board of Directors will be required at the time of the actual option surrender or cash distribution.

STOCK AWARDS

As of August 1, 2002, 16,235 shares of common stock were granted as direct stock issuances under the 1996 Incentive Plan and the Predecessor Plan, 6,903,208 shares of common stock were subject to outstanding options granted under the 1996 Incentive Plan and the Predecessor Plan and 1,271,554 shares remained available for future issuance, excluding the increase which is part of this Proposal 1. Through August 1, 2002, 971,161 shares of common stock have been issued on the exercise of options granted under the 1996 Incentive Plan and the Predecessor Plan.

The following table shows, as to each of the Named Executive Officers in the Summary Compensation Table and the indicated individuals and groups, the aggregate number of options that

have been granted and are outstanding under the 1996 Incentive Plan and the Predecessor Plan through August 1, 2002, together with the weighted average exercise price payable per share.

NAME AND POSITION	OPTIONS OUTSTANDING AS OF AUGUST 1, 2002 (NUMBER OF SHARES)	WEIGH EXERCIS
Daniel G. Welch (2)..... Chairman of the Board of Directors and Chief Executive Officer	0	
Chris A. Rallis, J.D..... President, Chief Operating Officer and Director	526,470 (3)	
Robert F. Amundsen, Jr..... Executive Vice President and Chief Financial Officer	305,000 (4)	
Anne F. McKay..... Executive Vice President, Drug Regulatory Affairs	341,643 (5)	
George R. Painter, III, Ph.D..... Executive Vice President, Research and Development	337,905	
Franck S. Rousseau, M.D.....	457,643 (6)	

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Executive Vice President, Medical Affairs and
Chief Medical Officer

All executive officers as a group (8 persons).....	2,586,617 (7)
All non-employee directors as a group (7 persons).....	184,501
All employees and other individuals (excluding executive officers) as a group (115 persons).....	4,132,090

- (1) Weighted average exercise price does not reflect options which are subject to approval of this amendment.
- (2) Mr. Welch was appointed Chairman and Chief Executive Officer on August 5, 2002. As an inducement to employment, Mr. Welch was granted options to purchase 2,300,000 shares of common stock at an exercise price of \$2.92 per share. These options were not granted under the 1996 Incentive Plan.
- (3) On August 5, 2002, Mr. Rallis was granted options to purchase 75,000 shares of common stock at \$2.92 per share under the 1996 Incentive Plan.
- (4) On August 5, 2002, Mr. Amundsen was granted options to purchase 100,000 shares of common stock at \$2.92 per share under the 1996 Incentive Plan and, subject to approval of the amendment to the plan that is the subject of Proposal 1, options to purchase 150,000 shares of common stock.
- (5) On August 5, 2002, Ms. McKay was granted options to purchase 100,000 shares of common stock at \$2.92 per share under the 1996 Incentive Plan and, subject to approval of the amendment to the plan that is the subject of Proposal 1, options to purchase 150,000 shares of common stock.
- (6) On August 5, 2002, Dr. Rousseau was granted options to purchase 100,000 shares of common stock at \$2.92 per share under the 1996 Incentive Plan and, subject to approval of the amendment to the plan that is the subject of Proposal 1, options to purchase 150,000 shares of common stock.
- (7) An aggregate of 750,000 options to purchase shares of common stock have been granted to executive officers at an exercise price of \$2.92 per share, subject to approval of this amendment.

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GENERAL PLAN PROVISIONS

ACCELERATION

In the event that we are acquired by merger or asset sale, generally each outstanding option under the Discretionary Option Grant Program which is not to be assumed or replaced by the successor entity will automatically accelerate in full and terminate following closing of the transaction, and generally all unvested shares under the Stock Issuance Program will immediately vest, except to the extent our repurchase rights with respect to those shares are transferred to the successor entity. In the event of a change of control other than a merger or asset sale, the Plan Administrator may provide for automatic acceleration of outstanding options on the termination of an optionee's service within a designated period after the change of control. The Plan Administrator will have complete discretion to grant one or more options under the Discretionary Option Grant Program which will become fully exercisable

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for all option shares in the event those options are assumed in the acquisition and the optionee's service with us or the acquiring entity is subsequently terminated within a designated period following an acquisition or hostile take-over. The Plan Administrator may also provide for the automatic vesting of any outstanding shares under the Stock Issuance Program upon similar terms and conditions.

Each option outstanding under the Salary Investment Option Grant Program will automatically accelerate in the event of an acquisition or change in control. Each outstanding option under the Salary Investment Option Grant Program that is not exercised prior to a change in control will also be subject to repurchase by us at a price equal to the amount by which the optionee's salary was reduced in connection with the grant of that option.

The acceleration of vesting in the event of a change in the ownership or control may be seen as an anti-takeover provision and may have the effect of discouraging a merger proposal, a takeover attempt or other efforts to gain control of Triangle.

CHANGES IN CAPITALIZATION

In the event any change is made to the outstanding shares of common stock by reason of any recapitalization, stock dividend, stock split, combination of shares, exchange of shares or other change in corporate structure effected without our receipt of consideration, appropriate adjustments will be made to (i) the maximum number and/or class of securities issuable under the 1996 Incentive Plan, (ii) the number and/or class of securities for which any one person may be granted stock options, separately exercisable stock appreciation rights and direct stock issuances under the 1996 Incentive Plan per calendar year, (iii) the number and/or class of securities for which grants are subsequently to be made under the Automatic Option Grant Program to new and continuing non-employee members of the Board of Directors and (iv) the number and/or class of securities and the exercise price per share in effect under each outstanding option under the 1996 Incentive Plan, including options granted under the Predecessor Plan, in order to prevent the dilution or enlargement of benefits.

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FINANCIAL ASSISTANCE

The Plan Administrator may institute a loan program to assist one or more participants in financing the exercise of outstanding options granted under the Discretionary Option Grant Program or the purchase of shares issued under the Stock Issuance Program. The Plan Administrator will determine the terms of any loan program. The maximum amount of financing provided to any participant may not exceed the cash consideration payable for the issued shares plus all applicable taxes incurred in connection with the acquisition of the shares. To date no loans have been extended under these programs.

SPECIAL TAX ELECTION

The Plan Administrator may provide one or more holders of options or unvested shares with the right to have Triangle withhold a portion of the shares otherwise issuable in satisfaction of the tax liability incurred by those holders in connection with the exercise of those options or the vesting of those shares. Alternatively, the Plan Administrator may allow holders to deliver previously acquired shares of common stock in payment of the tax liability.

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AMENDMENT AND TERMINATION

The Board of Directors may amend or modify the 1996 Incentive Plan in any or all respects whatsoever, subject to any required stockholder approval under applicable law or regulation. However, no amendment or modification may adversely affect an outstanding award under the 1996 Incentive Plan without the consent of the affected award recipient. The Board of Directors may terminate the 1996 Incentive Plan at any time, and the 1996 Incentive Plan will terminate automatically on August 30, 2006.

FEDERAL INCOME TAX CONSEQUENCES

OPTION GRANTS

Options granted under the 1996 Incentive Plan may be either incentive stock options which are intended to satisfy the requirements of Section 422 of the Internal Revenue Code or non-statutory options which are not intended to meet those requirements. The Federal income tax treatment for the two types of options differs as follows:

INCENTIVE STOCK OPTIONS. No taxable income is recognized by the optionee at the time of the option grant, and no taxable income is generally recognized at the time the option is exercised. However, holders of options may be subject to alternative minimum tax obligations as a result of the exercise of their options. The optionee will, however, recognize taxable income in the year in which the purchased shares are sold or otherwise made the subject of disposition. For Federal income tax purposes, dispositions are divided into two categories: qualifying and disqualifying. A qualifying disposition occurs if the sale or other disposition is made after the optionee has held the shares for more than two years after the option grant date and more than one year after the exercise date. If either of these two holding periods is not satisfied, then a disqualifying disposition will result.

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On a qualifying disposition, the optionee will recognize long-term capital gain in an amount equal to the excess of (i) the amount realized upon the sale or other disposition of the purchased shares over (ii) the exercise price paid for the shares. If there is a disqualifying disposition of the shares, then the excess of (i) the fair market value of those shares on the exercise date over (ii) the exercise price paid for the shares will be taxable as ordinary income to the optionee and we and the optionee will be required to satisfy the tax withholding requirements applicable to the income. The optionee will recognize any additional gain or loss on the disposition as a capital gain or loss.

If the optionee makes a disqualifying disposition of the purchased shares, then we will be entitled to an income tax deduction, for the taxable year in which the disposition occurs, equal to the excess of (i) the fair market value of the shares on the option exercise date over (ii) the exercise price paid for the shares. In no other instance will we be allowed a deduction with respect to the optionee's disposition of the purchased shares.

NON-STATUTORY STOCK OPTIONS. No taxable income is recognized by an optionee upon the grant of a non-statutory option. The optionee will in general recognize ordinary income, in the year in which the option is exercised, equal to the excess of the fair market value of the purchased shares on the exercise date over the exercise price paid for the shares, and we and the optionee will be required to satisfy the tax withholding requirements applicable to the

income.

If the shares acquired upon exercise of the non-statutory option are unvested and subject to repurchase by us in the event of the optionee's termination of service prior to vesting in those shares, then the optionee generally will not recognize any taxable income at the time of exercise but will recognize ordinary income, as and when our repurchase right lapses, an amount equal to the excess of (i) the fair market value of the shares on the date the repurchase right lapses over (ii) the exercise price paid for the shares. The optionee may, however, elect under Section 83(b) of the Internal Revenue Code to include as ordinary income in the year of exercise of the option an amount equal to the excess of (i) the fair market value of the purchased shares on the exercise date over (ii) the exercise price paid for the shares. If the Section 83(b) election is made, the optionee will not recognize any additional income as and when the repurchase right lapses.

We will be entitled to an income tax deduction equal to the amount of ordinary income recognized by the optionee with respect to the exercised non-statutory option. The deduction will in general be allowed for the taxable year in which the optionee recognizes the ordinary income.

STOCK APPRECIATION RIGHTS

An optionee who is granted a stock appreciation right will recognize ordinary income in the year of exercise equal to the amount of the appreciation distribution. We will be entitled to an income tax deduction equal to the appreciation distribution for the taxable year in which the optionee recognizes ordinary income.

DIRECT STOCK ISSUANCE

The tax principles applicable to direct stock issuances under the 1996 Incentive Plan will be substantially the same as those summarized above for the exercise of non-statutory option grants.

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DEDUCTIBILITY OF EXECUTIVE COMPENSATION

We anticipate that any compensation deemed paid by us in connection with disqualifying dispositions of incentive stock option shares or exercises of non-statutory options granted with exercise prices equal to the fair market value of the option shares on the grant date or direct stock issuances will qualify as performance-based compensation for purposes of Code Section 162(m) and will not have to be taken into account for purposes of the \$1 million limitation per covered individual on the deductibility of the compensation paid to some of our executive officers. Accordingly, we anticipate that all compensation deemed paid with respect to those options will remain deductible by us without limitation under Code Section 162(m).

ACCOUNTING TREATMENT

Option grants or stock issuances to employees and/or directors with exercise or issue prices less than the fair market value of the shares on the grant or issue date will result in a direct compensation expense to our earnings generally equal to the difference between the exercise or issue price and the fair market value of the shares on the grant or issue date. We will recognize the compensation expense over the period that the option shares or issued shares are to vest. Option grants or stock issuances at 100% of fair market value or

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above generally will not result in any direct charge to our earnings. However, we must disclose in our financial statements and related notes, the fair value of those options and the impact those options would have on our reported earnings were the value of those options at the time of grant treated as compensation expense. Whether or not granted at a discount, the number of outstanding options may be a factor in determining our diluted earnings per common share. Should one or more optionees be granted stock appreciation rights which have no conditions on exercisability other than a service or employment requirement, then those rights will result in a compensation expense to our earnings. Option grants or stock issuances that provide for vesting on attainment of performance objectives may result in additional compensation expense.

VOTE REQUIRED

The affirmative vote of a majority of the votes entitled to be cast by holders of shares present or represented and voting at the special meeting is required for approval of the amendments to the 1996 Incentive Plan. Stockholders of Triangle holding in the aggregate approximately 52% of the outstanding common stock as of August 5, 2002 entered into Voting Agreements with Triangle under which they agreed to vote in favor of this proposal. Instructions on how you may obtain a copy of the form of Voting Agreement are described below under "Documents Incorporated by Reference."

RECOMMENDATION OF THE BOARD OF DIRECTORS

The Board of Directors unanimously recommends that stockholders vote FOR the approval of the amendment to the 1996 Incentive Plan.

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The following table gives information as of December 31, 2001 about all of our equity compensation plans previously approved by stockholders. We had no compensation plans that were not approved by stockholders as of December 31, 2001.

PLAN	Number of Securities to be issued on the exercise of outstanding options (A)	Weighted- average exercise price of outstanding options (B)	Number remaining future i equity plans (e reflecte
	-----	-----	-----
1996 Incentive Plan.....	4,583,687	\$9.04	139,
Employee Stock Purchase Plan...	16,382	\$2.72	95,

- (1) The number of shares reserved for issuance under the 1996 Incentive Plan increased by 1,500,000 shares on January 1, 2002 and was increased again on May 23, 2002 by 1,962,329 shares. The 1996 Incentive Plan incorporates a formula by which the number of shares reserved for issuance increases on each January 1, beginning January 1, 2003, so that the number of authorized shares available for new grants under the plan on each January 1 will equal the lesser of 4.5% of the total

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number of shares of Triangle common stock outstanding on the preceding December 31st or 5,000,000 shares.

- (2) The number of shares available for issuance under the Employee Stock Purchase Plan will increase on January 1, 2003 by 250,000 shares as a result of the amendment to the Purchase Plan approved by our stockholders on May 23, 2002. These amounts were calculated based on payroll deductions as of December 31, 2001, and assuming the exercise price provided for under the Employee Stock Purchase Plan was determined as of December 31, 2001.

PRINCIPAL STOCKHOLDERS

The following table contains information regarding the beneficial ownership of our common stock as of August 5, 2002 by:

- o each person known by us to beneficially own more than five percent of our common stock,
- o each of our directors,
- o our Chief Executive Officer and the four additional most highly compensated executive officers and
- o all directors and executive officers as a group.

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Except as otherwise indicated:

- o the persons named in the table have sole voting and investment power with respect to all shares of common stock shown as beneficially owned by them, subject to community property laws, where applicable and
- o the address of all stockholders listed in the table is:
4 University Place, 4611 University Drive, Durham, North Carolina 27707.

Beneficial ownership is calculated pursuant to Rule 13d-3(d)(1) under the Securities Exchange Act of 1934, as amended. On August 5, 2002, 76,861,837 shares of common stock were issued and outstanding.

NAME AND ADDRESS OF BENEFICIAL OWNER -----	AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP COMMON STOCK NUMBER -----
Warburg Pincus Private Equity VIII, L.P. 466 Lexington Avenue New York, NY 10017	23,384,887
Abbott Laboratories (1) 100 Abbott Park Road Abbott Park, IL 60064-3500	7,953,244
Orbimed Advisors, Inc. (2) 767 Third Avenue New York, NY 10010	4,782,500

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Wellington Management Company, LLP (3)	4,142,460
75 State Street Boston, MA 02109	
T. Rowe Price Associates, Inc. (4)	3,910,926
100 East Pratt Street Baltimore, MD 21202	
Anthony B. Evnin, Ph.D. (5)	1,025,974
30 Rockefeller Plaza New York, NY 10112	
Standish M. Fleming (6)	2,214,393
9255 Towne Centre Drive Suite 300 San Diego, CA 92121	
Dennis B. Gillings, Ph.D. (7)	3,810,500
4709 Creekstone Drive Durham, NC 27703	
Henry G. Grabowski, Ph.D. (8)	25,500
Duke University, 305 Social Sciences, Box 90097	

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Durham, NC 27708	
Stewart J. Hen (9)	15,000
466 Lexington Avenue New York, NY 10017	
Jonathan S. Leff (10)	23,399,887
466 Lexington Avenue New York, NY 10017	
George McFadden (11)	1,171,000
745 Fifth Avenue New York, NY 10151	
Anne F. McKay (12)	145,954
George R. Painter, III, Ph.D. (13)	238,086
Chris A. Rallis, J.D. (14)	415,967
Franck S. Rousseau, M.D. (15)	207,529
Daniel G. Welch (16)	76,667
All directors and executive officers as a group (15 persons) (5)-(16)	32,954,424

* Less than 1%.

- (1) Includes 15,000 shares of common stock issuable upon the exercise of options beneficially owned by James L. Tyree. Mr. Tyree, a former director of Triangle, is a Vice President of Abbott Laboratories.
- (2) Includes shares of common stock held by the following entities that are advised by Orbimed Advisors, Inc. (i) Caduceus Capital II, L.P., (ii) PW Eucalyptus Fund, L.L.C., (iii) PW Eucalyptus Fund, Ltd., and (iv) Winchester Global Trust Company Limited as Trustee for Caduceus Capital Trust.
- (3) These securities are owned by clients for whom Wellington Management Company, LLP serves as investment advisor with shared power to vote the

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securities.

- (4) These securities are owned by various individual and institutional investors which T. Rowe Price Associates, Inc., Price Associates, serves as investment advisor with power to direct investments and/or sole power to vote the securities. For purposes of the reporting requirements of the Securities Exchange Act of 1934, Price Associates is deemed to be a beneficial owner of such securities; however, Price Associates expressly disclaims that it is, in fact, the beneficial owner of such securities.
- (5) Includes 8,667 shares of common stock issuable upon the exercise of options. Also includes 647,651 shares of common stock beneficially owned by Venrock Associates and 324,902 shares owned by Venrock Associates II, L.P.. Dr. Evnin is a general partner of Venrock Associates and Venrock Associates II, L.P. and consequently shares voting and investment power with respect to all these shares. Dr. Evnin disclaims beneficial ownership of these shares other than to the extent of his individual partnership interest.
- (6) Includes 14,834 shares of common stock issuable upon the exercise of options. Also includes a total of 2,093,477 shares of common stock beneficially owned by each of the following persons in the amounts indicated: (i) 1,229,130 shares owned by Forward Ventures IV, L.P., (ii) 520,000 shares owned by Forward Ventures II, L.P., (iii) 233,663 shares owned by Forward Ventures III, L.P., (iv) 104,200 shares owned by Forward Ventures IV B, L.P., (v) 4,122 shares owned by Forward II Associates, L.P., and (vi) 2,362 shares owned by two family trusts. Mr. Fleming is a general partner of Forward II Associates, L.P., which is the general partner of Forward Ventures II, L.P., and a managing member of Forward III Associates, L.L.C., which is the general partner of Forward Ventures III, L.P., and a managing member of Forward IV Associates, L.L.C., which is the general partner of Forward Ventures IV, L.P. and Forward Ventures IV B, L.P., and consequently shares voting and investment power with respect to all these shares. Mr. Fleming disclaims beneficial ownership of these shares other than to the extent of his individual partnership and member interests.

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- (7) Includes 15,500 shares of common stock issuable upon the exercise of options and 3,775,000 shares of common stock beneficially owned by QFinance, Inc., a subsidiary of Quintiles Transnational Corp. Dr. Gillings is Chairman and a significant shareholder of Quintiles Transnational Corp. Dr. Gillings disclaims beneficial ownership of shares beneficially owned by QFinance, Inc.
- (8) Includes 15,500 shares of common stock issuable upon the exercise of options and 10,000 shares of common stock held in a pension fund.
- (9) Includes 15,000 shares of common stock issuable upon the exercise of options.
- (10) Includes 15,000 shares of common stock issuable upon the exercise of options and 23,384,887 shares of common stock beneficially owned by Warburg Pincus Private Equity VIII, L.P. Warburg Pincus & Co. is the sole general partner of Warburg Pincus Private Equity VIII, L.P. which is managed by Warburg Pincus LLC. Lionel I. Pincus is the managing partner of Warburg Pincus & Co. and the managing member of Warburg

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Pincus LLC and may be deemed to control both entities. Mr. Leff, a director of Triangle, is a Managing Director of Warburg Pincus LLC, the manager of Warburg Pincus Private Equity VIII, L.P., and disclaims beneficial ownership of the shares beneficially owned by Warburg Pincus Private Equity VIII, L.P.

- (11) Includes 8,000 shares of common stock issuable upon the exercise of options. Also includes a total of 885,000 shares of common stock beneficially owned by each of the following persons in the amounts indicated: (i) 515,000 shares owned by a family trust under the will of Alexander B. McFadden, (ii) 210,000 shares owned by three family trusts for the benefit of Mr. McFadden's children, (iii) 85,000 shares owned by Mr. McFadden's wife, and (iv) 75,000 shares owned by a former family member as custodian for one of Mr. McFadden's children. Mr. McFadden exercises shared voting and investment power with respect to all such shares. Mr. McFadden disclaims beneficial ownership of these shares other than to the extent of his pecuniary interest in the shares beneficially owned by the family trust under the will of Alexander B. McFadden.
- (12) Includes 141,588 shares of common stock issuable upon the exercise of options.
- (13) Includes 149,272 shares of common stock issuable upon the exercise of options. Also includes 8,500 shares held separately by Dr. Painter's wife. Dr. Painter resigned effective September 1, 2002.
- (14) Includes 210,397 shares of common stock issuable upon the exercise of options. Also includes 500 shares held separately by Mr. Rallis' wife, 1,500 shares held by Mr. Rallis' wife as custodian for their children under the Uniform Gift to Minors Act and 15,800 shares held by The Rallis Richner Foundation, Inc., a charitable North Carolina corporation of which Mr. Rallis serves as President. Mr. Rallis disclaims beneficial ownership of the shares beneficially owned by The Rallis Richner Foundation, Inc.
- (15) Includes 203,729 shares of common stock issuable upon the exercise of options.
- (16) Includes 76,667 shares of common stock issuable upon the exercise of options.

EXECUTIVE COMPENSATION AND OTHER INFORMATION

SUMMARY OF CASH AND CERTAIN OTHER COMPENSATION

The following table contains information concerning the aggregate compensation we paid to Daniel G. Welch, our Chief Executive Officer, David W. Barry, our former Chief Executive Officer, Chris A. Rallis, our President and Chief Operating Officer, the four additional most highly compensated executive officers (collectively referred to as the Named Executive Officers) and Carolyn Underwood, a former officer of Triangle, for services rendered in all capacities to Triangle for the years ended December 31, 1999, 2000 and 2001. The aggregate

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amount of perquisites and other personal benefits, if any, did not exceed the lesser of \$50,000 or 10% of the total annual salary and bonus reported for each Named Executive Officer and has therefore been omitted.

SUMMARY COMPENSATION TABLE

NAME AND PRINCIPAL POSITION	YEAR	ANNUAL COMPENSATION		LONG TERM COMPENSATION AWARDS
		SALARY (\$)	BONUS (\$)	SECURITIES UNDERLYING OPTIONS/SARS (#)
Daniel G. Welch	2001(2)	--	--	--
Chairman of the	2000(2)	--	--	--
Board of Directors and	1999(2)	--	--	--
Chief Executive Officer				
Chris A. Rallis, J.D.	2001	308,196	--	50,000
President, Chief Operating	2000	255,919	76,775	97,500
Officer and Director	1999	209,405	282,524 (3)	30,000
Robert F. Amundsen, Jr.	2001	210,000	--	45,000
Executive Vice President and	2000(4)	91,797	45,000	110,000
Chief Financial Officer	1999(4)	--	--	--
Anne F. McKay.....	2001	210,000	--	30,000
Executive Vice President, Drug	2000	172,301(6)	54,690	57,304 (6)
Regulatory Affairs	1999	158,000(7)	92,400	29,862 (7)
George R. Painter, III, Ph.D. ...	2001	252,396	--	30,000
Executive Vice President,	2000	213,813	64,145	35,000
Research & Development	1999	161,620(8)	105,150	38,416 (8)
Franck S. Rousseau, M.D.	2001	267,036	--	70,000
Executive Vice President,	2000	226,215	67,865	35,000
Medical Affairs and	1999	187,470(9)	111,775	35,223 (9)
Chief Medical Officer				
David W. Barry, M.D.	2001	320,004	--	10,000
former Chairman and Chief	2000	263,500	100,000	60,000
Executive Officer	1999	250,950	170,000	50,000
Carolyn S. Underwood (11).....	2001	--	--	--
former Executive Vice	2000	183,283	90,055	20,000
President, Commercial	1999	194,215	108,988	32,937
Operations				

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(1) Represents the amounts paid 2001, 2000 and 1999 in the form of premiums for individual life insurance policies for the benefit of the Named Executive Officers and as matching 401(k) contributions in the following amounts for the following Named Executive Officers: Mr. Rallis, \$2,000, \$2,000 and \$2,000; Mr. Amundsen, \$2,000 and \$417; Ms. McKay, \$2,000, \$2,000 and \$1,750; Dr. Painter, \$2,000, \$1,773 and \$1,881; Dr. Rousseau, \$2,000, \$2,000 and \$2,000 and Dr. Barry, \$2,000, \$1,956 and \$1,863.

(2) Mr. Welch was not employed by Triangle prior to August 5, 2002.

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- (3) Includes 6,235 shares of common stock granted to Mr. Rallis on June 25, 1999 under our Stock Issuance Program under the 1996 Incentive Plan. The fair market value per share on June 25, 1999 was \$16.25.
- (4) Mr. Amundsen was not employed by Triangle prior to July 17, 2000.
- (5) Includes amounts paid by Triangle for income tax liabilities related to life insurance premiums.
- (6) Excludes an aggregate of \$10,000 of Ms. McKay's salary earned in 2000 allocated toward the acquisition of options to purchase 2,304 shares of common stock under our Salary Investment Option Grant Program for \$4.34 per underlying share. The options were granted on January 4, 2000, were fully vested as of December 31, 2000, and are exercisable at a price of \$8.66 per share.
- (7) Excludes an aggregate of \$10,000 of Ms. McKay's salary earned in 1999 allocated toward the acquisition of options to purchase 2,237 shares of common stock under our Salary Investment Option Grant Program for \$4.468 per underlying share. The options were granted on January 29, 1999, were fully vested as of December 31, 1999, and are exercisable at a price of \$8.938 per share.
- (8) Excludes an aggregate of \$25,000 of Dr. Painter's salary earned in 1999 allocated toward the acquisition of options to purchase 5,594 shares of common stock under our Salary Investment Option Grant Program for \$4.468 per underlying share. The options were granted on January 29, 1999, were fully vested as of December 31, 1999, and are exercisable at a price of \$8.938 per share.
- (9) Excludes an aggregate of \$10,000 of Dr. Rousseau's salary earned in 1999 allocated toward the acquisition of options to purchase 2,237 shares of common stock under our Salary Investment Option Grant Program for \$4.468 per underlying share. The options were granted on January 29, 1999, were fully vested as of December 31, 1999, and are exercisable at a price of \$8.938 per share.
- (10) Includes amounts paid by Triangle for income tax liabilities related to life insurance premiums.
- (11) Ms. Underwood's employment ended October 31, 2000.
- (12) Includes payments made under an agreement between Triangle and Ms. Underwood. Under the terms of this agreement, we agreed to make payments to Ms. Underwood through April 2002.

STOCK OPTIONS

The following table contains information concerning stock option grants made to each of the Named Executive Officers during the year ended December 31, 2001. We granted options to acquire an aggregate of 1,395,455 shares of common stock to our officers and employees in 2001. We did not grant any stock appreciation rights to the Named Executive Officers during the year ended December 31, 2001.

All options were granted under the 1996 Incentive Plan. Unless otherwise indicated, each option vests and becomes exercisable as follows: 25% after 12 months of service from the date of the grant, indicated by footnote for each grant, and the remaining 75% thereafter in a series of 36-equal-monthly installments. Unless otherwise indicated, the shares subject to each option will immediately vest in the event we are acquired by a merger or asset sale, unless

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the options are assumed by the acquiring entity. The options further provide that the shares subject to each option will immediately vest even if options are assumed by the acquiring entity if the Named Executive

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Officer's employment is terminated involuntarily, which includes a reduction in the responsibilities of the Named Executive Officer, at any time within 12 months after the merger or asset sale.

Unless otherwise indicated, the exercise price per share of options granted represented the fair market value of the underlying shares of common stock on the dates the options were granted as determined by the Compensation Committee of the Board of Directors. Option holders may pay the exercise price in cash or in shares of common stock valued at fair market value on the exercise date or a combination of cash and shares or any other form of consideration approved by the Board of Directors or the Compensation Committee. The fair market value of shares of common stock is determined in accordance with provisions of the 1996 Incentive Plan based on the closing selling price of a share of common stock on the date in question on the Nasdaq National Market.

We provide no assurance to any Named Executive Officer or any other holder of our securities that the actual stock price appreciation over the 10-year option term will be at the assumed 0%, 5% or 10% levels or at any other defined level. Unless the market price of the common stock does in fact appreciate over the option term, no value will be realized from the option grants made to the Named Executive Officers.

OPTION/SAR GRANTS IN LAST FISCAL YEAR
INDIVIDUAL GRANTS

NAME	NUMBER OF SECURITIES UNDERLYING OPTIONS/SARS GRANTED	PERCENT OF TOTAL OPTIONS/ SARS GRANTED		EXERCISE OR BASE PRICE (\$/SH)	EXPIRATION DATE	PO AS ---
		TO EMPLOYEES IN FISCAL YEAR (%)				
Daniel G. Welch	--	--		--	--	
Chris A. Rallis, J.D.	20,000 (1)	1.4		2.55	8/12/11	0
	30,000 (2)	2.1		3.60	12/16/11	0
Robert F. Amundsen, Jr.	20,000 (1)	1.4		2.55	8/12/11	0
	25,000 (2)	1.8		3.60	12/16/11	0
Anne F. McKay.....	20,000 (1)	1.4		2.55	8/12/11	0
	10,000 (2)	0.7		3.60	12/16/11	0
George R. Painter, III, Ph.D..	20,000 (1)	1.4		2.55	8/12/11	0
	10,000 (2)	0.7		3.60	12/16/11	0
Franck S. Rousseau, M.D.	20,000 (1)	1.4		2.55	8/12/11	0
	50,000 (2)	3.6		3.60	12/16/11	0
David W. Barry, M.D.	10,000 (2) (3)	0.7		3.60	12/16/11	0

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- (1) Represents options granted on August 13, 2001 pursuant to our Discretionary Option Grant Program. Each option vests and becomes exercisable as follows: 50% after 12 months of service measured from the date of the option grant and 50% after 24 months of service measured from the date of the option grant. If applications for marketing approval in the United States or Europe are approved before August 13, 2003, the vesting of these options will be accelerated and the options will become fully exercisable.
- (2) Represents options granted on December 17, 2001 pursuant to our Discretionary Option Grant Program.

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- (3) On the death of Dr. Barry on January 28, 2002, the vesting of these options was accelerated so that all of the options were fully vested as of January 28, 2002.

OPTION EXERCISES AND HOLDINGS

The following table provides information concerning option exercises during the year ended December 31, 2001 by the Named Executive Officers and Ms. Underwood and the value of unexercised options held by each of the Named Executive Officers as of December 31, 2001. No stock appreciation rights were exercised during the year ended December 31, 2001. Value of unexercised in-the-money options is defined as the fair market price of our common stock at December 31, 2001 less the exercise price of the option. On December 31, 2001, the closing selling price of a share of our common stock on the Nasdaq National Market was \$4.01.

AGGREGATED OPTION/SAR EXERCISES IN LAST FISCAL YEAR AND FISCAL YEAR-END OPTION/SAR VALUES

NAME	SHARES		NUMBER OF UNEXERCISED OPTIONS AT FY-END (#)		VALUE IN-THE-MONEY UNEXERCISED OPTIONS AT FY-END
	ACQUIRED ON EXERCISE (#)	VALUE REALIZED	EXERCISABLE	UNEXERCISABLE	
Daniel G. Welch.....	--	--	--	--	
Chris A. Rallis, J.D.	--	--	150,699	125,771	\$6
Robert F. Amundsen, Jr.....	--	--	37,917	117,083	
Anne F. McKay.....	--	--	108,847	82,796	
George R. Painter, III, Ph.D. .	--	--	117,431	70,474	
Franck S. Rousseau, M.D.	--	--	171,252	111,391	
David W. Barry, M.D.	--	--	175,798	79,583	
Carolyn S. Underwood.....	111,035	\$418,571	--	--	

EMPLOYMENT CONTRACTS AND CHANGE OF CONTROL ARRANGEMENTS

We entered into an employment agreement with Daniel G. Welch, our Chairman and Chief Executive Officer, as of August 5, 2002. The employment agreement continues unless terminated as provided in the agreement. We employed Mr. Welch at a base salary of \$425,000 per year, subject to increase by our Board of Directors, and paid Mr. Welch a \$50,000 signing bonus. In addition, Mr. Welch was granted options to purchase 2,300,000 shares of common stock at an exercise price of \$2.92 per share. These options were not granted under the 1996 Incentive Plan. We will pay Mr. Welch's reasonable and customary relocation expense up to \$300,000. Mr. Welch is eligible for a bonus each year based on objectives agreed to by the Board of Directors and Mr. Welch. We have also agreed to provide to Mr. Welch any other benefits that are provided to our other executive officers. Mr. Welch's employment is terminable by either us or Mr. Welch. In the event we terminate Mr. Welch's employment without "cause," as defined in the agreement, or Mr. Welch resigns for "good reason," as defined in the agreement, we have agreed to continue to pay Mr. Welch's then-current base salary for a period of eighteen months as well as a pro-rated annual

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bonus based on the number of days worked during the year assuming 100% achievement of targeted annual bonus. Mr. Welch has agreed that during the twelve-month period following termination of employment he will not engage in any business activities related to the anti-viral segment of the pharmaceutical industry or any other major segment of the pharmaceutical industry in which Triangle is engaged or decided to become engaged during Mr. Welch's employment by Triangle. In addition, Mr. Welch agreed that for the two-year period following termination of his employment he will not solicit any person who had been employed by or engaged to perform services by Triangle within the previous twelve months.

We have also entered into employment agreements with each of our officers, including each Named Executive Officer. These employment agreements automatically renew from year to year, unless otherwise terminated. Each officer is also eligible to participate in our retirement and welfare benefit plans. The officer's employment is terminable at will by either us or the officer. In the event we terminate the officer's employment without cause or we elect not to renew the officer's term, we have agreed to continue to pay the officer's then-current base salary for a period of eighteen months and to accelerate by 12 months the vesting of unvested stock and/or options, subject to the officer's agreement during the eighteen-month period not to engage in the same or similar function area in any for-profit pharmaceutical business that competes with us in the field of HIV/hepatitis B within North America. In addition, in the event that, within 12 months following a change in control, we terminate the officer's employment without cause, the officer resigns for good reason, or we elect not to renew the officer's term, we have agreed to continue to pay the officer's then-current base salary for a period of two years and to accelerate totally the vesting of any unvested stock and/or options.

All of the options awarded to the Named Executive Officers during the year ended December 31, 2001 provide that the shares subject to each option will immediately vest in the event we are acquired by a merger or asset sale, unless the options are assumed by the acquiring entity. The options also provide that the shares subject to each option will immediately vest even if the options are assumed by the acquiring entity if the Named Executive Officer's employment is

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terminated involuntarily, which includes a reduction in the responsibilities of the Named Executive Officer, at any time within twelve months after the merger or asset sale.

DEADLINE FOR STOCKHOLDER PROPOSALS

Stockholder proposals that are intended to be presented at our annual meeting of stockholders to be held in 2003 must be received by us no later than December 13, 2002, in order to be included in the proxy statement and related proxy materials.

In addition, if we have not received notice prior to February 26, 2003, of any matter a stockholder intends to propose for a vote at the annual meeting of stockholders to be held in 2003, then a proxy solicited by the Board of Directors may be voted on that matter in the discretion of the proxyholder.

OTHER BUSINESS

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The Board of Directors knows of no other business that will be presented for consideration at the special meeting. If other matters are properly brought before the special meeting, however, it is the intention of the persons named in the accompanying proxy to vote the shares represented on any additional matters in accordance with their best judgment.

DOCUMENTS INCORPORATED BY REFERENCE

The Form of Stock Voting Agreement dated August 2, 2002 between Triangle and each Stockholder who is a party thereto is incorporated by reference into this proxy statement and filed as an exhibit to our Current Report on Form 8-K filed with the Securities and Exchange Commission on August 28, 2002.

You may obtain copies of this document without charge on written or oral request to R. Andrew Finkle, Executive Vice President, General Counsel and Secretary, 4611 University Drive, P.O. Box 50530, Durham, North Carolina 27717, telephone number (919) 493-5980.

Dated: August 28, 2002

Order of the Board of Directors

/s/ Andrew Finkle

R. Andrew Finkle, SECRETARY

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TRIANGLE PHARMACEUTICALS, INC.

1996 STOCK INCENTIVE PLAN
(AS AMENDED AND RESTATED THROUGH AUGUST 2, 2002)

ARTICLE ONE

GENERAL PROVISIONS

I. PURPOSE OF THE PLAN

This 1996 Stock Incentive Plan is intended to promote the interests of Triangle Pharmaceuticals, Inc., a Delaware corporation, by providing eligible persons with the opportunity to acquire a proprietary interest, or otherwise increase their proprietary interest, in the Corporation as an incentive for them to remain in the service of the Corporation.

Capitalized terms shall have the meanings assigned to such terms in the attached Appendix.

II. STRUCTURE OF THE PLAN

A. The Plan shall be divided into four separate equity programs:

- the Discretionary Option Grant Program under which eligible persons may, at the discretion of the Plan Administrator, be granted options to purchase shares of Common Stock,

- the Salary Investment Option Grant Program under which eligible employees may elect to have a portion of their base salary invested each year in special option grants,

- the Stock Issuance Program under which eligible persons may, at the discretion of the Plan Administrator, be issued shares of Common Stock directly, either through the immediate purchase of such shares or as a bonus for services rendered the Corporation (or any Parent or Subsidiary), and

- the Automatic Option Grant Program under which eligible non-employee Board members shall automatically receive option grants at periodic intervals to purchase shares of Common Stock.

B. The provisions of Articles One and Six shall apply to all equity programs under the Plan and shall govern the interests of all persons under the Plan.

III. ADMINISTRATION OF THE PLAN

A. The Primary Committee shall have sole and exclusive authority to administer the Discretionary Option Grant and Stock Issuance Programs with respect to Section 16 Insiders and shall have sole and exclusive authority to administer the Salary Investment Option Grant Program with respect to all

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eligible individuals.

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B. Administration of the Discretionary Option Grant and Stock Issuance Programs with respect to all other persons eligible to participate in those programs may, at the Board's discretion, be vested in the Primary Committee or a Secondary Committee, or the Board may retain the power to administer those programs with respect to all such persons. The members of the Secondary Committee may be Board members who are Employees eligible to receive discretionary option grants or direct stock issuances under the Plan or any other stock option, stock appreciation, stock bonus or other stock plan of the Corporation (or any Parent or Subsidiary).

C. Members of the Primary Committee or any Secondary Committee shall serve for such period of time as the Board may determine and may be removed by the Board at any time. The Board may also at any time terminate the functions of any Secondary Committee and reassume all powers and authority previously delegated to such committee.

D. Each Plan Administrator shall, within the scope of its administrative functions under the Plan, have full power and authority (subject to the provisions of the Plan) to establish such rules and regulations as it may deem appropriate for proper administration of the Discretionary Option Grant, Salary Investment Option Grant and Stock Issuance Programs and to make such determinations under, and issue such interpretations of, the provisions of such programs and any outstanding options or stock issuances thereunder as it may deem necessary or advisable. Decisions of the Plan Administrator within the scope of its administrative functions under the Plan shall be final and binding on all parties who have an interest in the Discretionary Option Grant, Salary Investment Option Grant and Stock Issuance Programs under its jurisdiction or any option or stock issuance thereunder.

E. Service on the Primary Committee or the Secondary Committee shall constitute service as a Board member, and members of each such committee shall accordingly be entitled to full indemnification and reimbursement as Board members for their service on such committee. No member of the Primary Committee or the Secondary Committee shall be liable for any act or omission made in good faith with respect to the Plan or any option grants or stock issuances under the Plan.

F. Administration of the Automatic Option Grant Program shall be self-executing in accordance with the terms of that program, and no Plan Administrator shall exercise any discretionary functions with respect to any option grants or stock issuances made under this program.

IV. ELIGIBILITY

A. The persons eligible to participate in the Discretionary Option Grant and Stock Issuance Programs are as follows:

(i) Employees,

(ii) non-employee members of the Board or the board of directors of any Parent or Subsidiary, and

(iii) consultants and other independent advisors who provide services to the Corporation (or any Parent or Subsidiary).

2.

B. Only Employees who are Section 16 Insiders and other highly compensated Employees shall be eligible to participate in the Salary Investment Option Grant Program.

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C. Each Plan Administrator shall, within the scope of its administrative jurisdiction under the Plan, have full authority to determine, (i) with respect to the option grants under the Discretionary Option Grant Program, which eligible persons are to receive option grants, the time or times when such option grants are to be made, the number of shares to be covered by each such grant, the status of the granted option as either an Incentive Option or a Non-Statutory Option, the time or times when each option is to become exercisable, the vesting schedule (if any) applicable to the option shares and the maximum term for which the option is to remain outstanding and (ii) with respect to stock issuances under the Stock Issuance Program, which eligible persons are to receive stock issuances, the time or times when such issuances are to be made, the number of shares to be issued to each Participant, the vesting schedule (if any) applicable to the issued shares and the consideration for such shares.

D. The Plan Administrator shall have the absolute discretion either to grant options in accordance with the Discretionary Option Grant Program or to effect stock issuances in accordance with the Stock Issuance Program.

E. The individuals eligible to participate in the Automatic Option Grant Program shall be determined in accordance with the provisions of Article Five.

V. STOCK SUBJECT TO THE PLAN

A. The stock issuable under the Plan shall be shares of authorized but unissued or reacquired Common Stock, including shares repurchased by the Corporation on the open market. Effective August 2, 2002, the number of shares of Common Stock reserved for issuance under the Plan shall be 12,162,158 shares. On January 1 of each year, beginning January 1, 2003, the number of shares of Common Stock reserved for issuance under the Plan shall automatically increase so that the number of authorized shares available for new grants under the plan on each January 1 will equal the lesser of 4.5% of the total number of shares of Triangle Common Stock outstanding on the preceding December 31st or 5,000,000 shares. For example, if on any such December 31, there are 200,000 shares that remain available for future grants under the Plan, and 70,000,000 shares of Common Stock are outstanding, then the number of shares issuable under the Plan shall be increased by 2,950,000 additional shares, so that 3,150,000 shares (70,000,000 x 4.5%) are available for issuance under the Plan as of the following January 1.

B. No one person participating in the Plan may receive options, separately exercisable stock appreciation rights and direct stock issuances for more than 1,500,000 shares of Common Stock in the aggregate per calendar year, beginning with the 1996 calendar year.

C. Shares of Common Stock subject to outstanding options (including options incorporated into this Plan from the Predecessor Plan) shall be available for subsequent issuance under the Plan to the extent (i) those options expire or terminate for any reason prior to exercise in full or (ii) those options are cancelled in accordance with the cancellation/regrant provisions of Article Two. Unvested shares issued under the Plan and subsequently cancelled or repurchased by the Corporation, at the original issue price paid per share, pursuant to the Corporation's repurchase rights under the Plan shall be added back to the number of shares of Common Stock reserved for issuance under the Plan and shall accordingly be

available for reissuance through one or more subsequent option grants or direct stock issuances under the Plan. However, should the exercise price of an option under the Plan be paid with shares of Common Stock or should shares of Common Stock otherwise issuable under the Plan be withheld by the Corporation in satisfaction of the withholding taxes incurred in connection with the exercise of an option or the vesting of a stock issuance under the Plan, then the number of shares of Common Stock available for issuance under the Plan shall be reduced by the gross number of shares for which the option is exercised or which vest under the stock issuance, and not by the net number of shares of Common Stock issued to the holder of such option or stock issuance.

D. If any change is made to the Common Stock by reason of any stock split, stock dividend, recapitalization, combination of shares, exchange of shares or other change affecting the outstanding Common Stock as a class without the Corporation's receipt of consideration, appropriate adjustments shall be made to (i) the maximum number and/or class of securities issuable under the Plan, (ii) the maximum number and/or class of securities for which the share reserve under the Plan is to be increased each year pursuant to the automatic annual increase provisions of Section V.A of this Article One, (iii) the number and/or class of securities for which any one person may be granted stock options, separately exercisable stock appreciation rights and direct stock issuances under this Plan per calendar year, (iv) the number and/or class of securities for which grants are subsequently to be made under the Automatic Option Grant Program to new and continuing non-employee Board members, (v) the number and/or class of securities and the exercise price per share in effect under each outstanding option under the Plan and (vi) the number and/or class of securities and price per share in effect under each outstanding option incorporated into this Plan from the Predecessor Plan. Such adjustments to the outstanding options are to be effected in a manner which shall preclude the enlargement or dilution of rights and benefits under such options. The adjustments determined by the Plan Administrator shall be final, binding and conclusive.

4.

ARTICLE TWO

DISCRETIONARY OPTION GRANT PROGRAM

I. OPTION TERMS

Each option shall be evidenced by one or more documents in the form approved by the Plan Administrator; PROVIDED, however, that each such document shall comply with the terms specified below. Each document evidencing an Incentive Option shall, in addition, be subject to the provisions of the Plan applicable to such options.

A. EXERCISE PRICE.

1. The exercise price per share shall be fixed by the Plan Administrator but shall not be less than eighty-five percent (85%) of the Fair Market Value per share of Common Stock on the option grant date.

2. The exercise price shall become immediately due upon exercise of the option and shall, subject to the provisions of Section I of Article Six and the

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documents evidencing the option, be payable in one or more of the forms specified below:

(i) cash or check made payable to the Corporation,

(ii) shares of Common Stock held for the requisite period necessary to avoid a charge to the Corporation's earnings for financial reporting purposes and valued at Fair Market Value on the Exercise Date, or

(iii) to the extent the option is exercised for vested shares, through a special sale and remittance procedure pursuant to which the Optionee shall concurrently provide irrevocable written instructions to (a) a Corporation-designated brokerage firm to effect the immediate sale of the purchased shares and remit to the Corporation, out of the sale proceeds available on the settlement date, sufficient funds to cover the aggregate exercise price payable for the purchased shares plus all applicable Federal, state and local income and employment taxes required to be withheld by the Corporation by reason of such exercise and (b) the Corporation to deliver the certificates for the purchased shares directly to such brokerage firm in order to complete the sale.

Except to the extent such sale and remittance procedure is utilized, payment of the exercise price for the purchased shares must be made on the Exercise Date.

B. EXERCISE AND TERM OF OPTIONS. Each option shall be exercisable at such time or times, during such period and for such number of shares as shall be determined by the Plan Administrator and set forth in the documents evidencing the option. However, no option shall have a term in excess of ten (10) years measured from the option grant date.

5.

C. EFFECT OF TERMINATION OF SERVICE.

1. The following provisions shall govern the exercise of any options held by the Optionee at the time of cessation of Service or death:

(i) Any option outstanding at the time of the Optionee's cessation of Service for any reason shall remain exercisable for such period of time thereafter as shall be determined by the Plan Administrator and set forth in the documents evidencing the option, but no such option shall be exercisable after the expiration of the option term.

(ii) Any outstanding option held by the Optionee at the time of death and exercisable in whole or in part at that time may be subsequently exercised by the personal representative of the Optionee's estate or by the person or persons to whom the option is transferred pursuant to the Optionee's will or in accordance with the laws of descent and distribution.

(iii) Should the Optionee's Service be terminated for Misconduct, then all outstanding options held by the Optionee shall terminate immediately and cease to be outstanding.

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(iv) During the applicable post-Service exercise period, the option may not be exercised in the aggregate for more than the number of vested shares for which the option is exercisable on the date of the Optionee's cessation of Service. Upon the expiration of the applicable exercise period or (if earlier) upon the expiration of the option term, the option shall terminate and cease to be outstanding for any vested shares for which the option has not been exercised. However, the option shall, immediately upon the Optionee's cessation of Service, terminate and cease to be outstanding to the extent the option is not otherwise at that time exercisable for vested shares.

2. The Plan Administrator shall have complete discretion, exercisable either at the time an option is granted or at any time while the option remains outstanding, to:

(i) extend the period of time for which the option is to remain exercisable following the Optionee's cessation of Service from the limited exercise period otherwise in effect for that option to such greater period of time as the Plan Administrator shall deem appropriate, but in no event beyond the expiration of the option term, and/or

(ii) permit the option to be exercised, during the applicable post-Service exercise period, not only with respect to the number of vested shares of Common Stock for which such option is exercisable at the time of the Optionee's cessation of Service but also with respect to one or more additional installments in which the Optionee would have vested had the Optionee continued in Service.

D. STOCKHOLDER RIGHTS. The holder of an option shall have no stockholder rights with respect to the shares subject to the option until such person shall have exercised the option, paid the exercise price and become a holder of record of the purchased shares.

6.

E. REPURCHASE RIGHTS. The Plan Administrator shall have the discretion to grant options which are exercisable for unvested shares of Common Stock. Should the Optionee cease Service while holding such unvested shares, the Corporation shall have the right to repurchase, at the exercise price paid per share, any or all of those unvested shares. The terms upon which such repurchase right shall be exercisable (including the period and procedure for exercise and the appropriate vesting schedule for the purchased shares) shall be established by the Plan Administrator and set forth in the document evidencing such repurchase right.

F. LIMITED TRANSFERABILITY OF OPTIONS. During the lifetime of the Optionee, Incentive Options shall be exercisable only by the Optionee and shall not be assignable or transferable other than by will or by the laws of descent and distribution following the Optionee's death. However, a Non-Statutory Option may be assigned in whole or in part during the Optionee's lifetime. The assigned portion may only be exercised by the person or persons who acquire a proprietary interest in the option pursuant to the assignment. The terms applicable to the assigned portion shall be the same as those in effect for the option immediately prior to such assignment and shall be set forth in such documents issued to the assignee as the Plan Administrator may deem appropriate.

II. INCENTIVE OPTIONS

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The terms specified below shall be applicable to all Incentive Options. Except as modified by the provisions of this Section II, all the provisions of Articles One, Two and Six shall be applicable to Incentive Options. Options which are specifically designated as Non-Statutory Options when issued under the Plan shall NOT be subject to the terms of this Section II.

A. ELIGIBILITY. Incentive Options may only be granted to Employees.

B. EXERCISE PRICE. The exercise price per share shall not be less than one hundred percent (100%) of the Fair Market Value per share of Common Stock on the option grant date.

C. DOLLAR LIMITATION. The aggregate Fair Market Value of the shares of Common Stock (determined as of the respective date or dates of grant) for which one or more options granted to any Employee under the Plan (or any other option plan of the Corporation or any Parent or Subsidiary) may for the first time become exercisable as Incentive Options during any one calendar year shall not exceed the sum of One Hundred Thousand Dollars (\$100,000). To the extent the Employee holds two (2) or more such options which become exercisable for the first time in the same calendar year, the foregoing limitation on the exercisability of such options as Incentive Options shall be applied on the basis of the order in which such options are granted.

D. 10% STOCKHOLDER. If any Employee to whom an Incentive Option is granted is a 10% Stockholder, then the exercise price per share shall not be less than one hundred ten percent (110%) of the Fair Market Value per share of Common Stock on the option grant date, and the option term shall not exceed five (5) years measured from the option grant date.

III. CORPORATE TRANSACTION/CHANGE IN CONTROL

A. In the event of any Corporate Transaction, each outstanding option shall automatically accelerate so that each such option shall, immediately prior to the effective date of the Corporate Transaction, become fully exercisable with respect to the total number of shares of Common Stock at the time subject to such option and may be exercised for any or all of those shares as fully-vested

7.

shares of Common Stock. However, an outstanding option shall not so accelerate if and to the extent: (i) such option is, in connection with the Corporate Transaction, either to be assumed by the successor corporation (or parent thereof) or to be replaced with a comparable option to purchase shares of the capital stock of the successor corporation (or parent thereof), (ii) such option is to be replaced with a cash incentive program of the successor corporation which preserves the spread existing on the unvested option shares at the time of the Corporate Transaction and provides for subsequent payout in accordance with the same vesting schedule applicable to those option shares or (iii) the acceleration of such option is subject to other limitations imposed by the Plan Administrator at the time of the option grant. The determination of option comparability under clause (i) above shall be made by the Plan Administrator, and its determination shall be final, binding and conclusive.

B. All outstanding repurchase rights shall terminate automatically, and the shares of Common Stock subject to those terminated rights shall immediately vest in full, in the event of any Corporate Transaction, except to the extent: (i) those repurchase rights are to be assigned to the successor corporation (or

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parent thereof) in connection with such Corporate Transaction or (ii) such accelerated vesting is precluded by other limitations imposed by the Plan Administrator at the time the repurchase right is issued.

C. Immediately following the consummation of the Corporate Transaction, all outstanding options shall terminate and cease to be outstanding, except to the extent assumed by the successor corporation (or parent thereof).

D. Each option which is assumed in connection with a Corporate Transaction shall be appropriately adjusted, immediately after such Corporate Transaction, to apply to the number and class of securities which would have been issuable to the Optionee in consummation of such Corporate Transaction had the option been exercised immediately prior to such Corporate Transaction. Appropriate adjustments to reflect such Corporate Transaction shall also be made to (i) the exercise price payable per share under each outstanding option, PROVIDED the aggregate exercise price payable for such securities shall remain the same, (ii) the maximum number and/or class of securities available for issuance over the remaining term of the Plan and (iii) the maximum number and/or class of securities for which any one person may be granted stock options, separately exercisable stock appreciation rights and direct stock issuances under the Plan per calendar year.

E. The Plan Administrator shall have full power and authority to grant options under the Discretionary Option Grant Program which will automatically accelerate in the event the Optionee's Service subsequently terminates by reason of an Involuntary Termination within a designated period (not to exceed eighteen (18) months) following the effective date of any Corporate Transaction in which those options are assumed or replaced and do not otherwise accelerate. Any options so accelerated shall remain exercisable for fully-vested shares until the EARLIER of (i) the expiration of the option term or (ii) the expiration of the one (1)-year period measured from the effective date of the Involuntary Termination. In addition, the Plan Administrator may provide that one or more of the Corporation's outstanding repurchase rights with respect to shares held by the Optionee at the time of such Involuntary Termination shall immediately terminate, and the shares subject to those terminated repurchase rights shall accordingly vest in full.

F. The Plan Administrator shall have full power and authority to grant options under the Discretionary Option Grant Program which will automatically accelerate in the event the Optionee's Service subsequently terminates by reason of an Involuntary Termination within a designated period (not to exceed eighteen (18) months) following the effective date of any Change in Control. Each option so

8.

accelerated shall remain exercisable for fully-vested shares until the EARLIER of (i) the expiration of the option term or (ii) the expiration of the one (1)-year period measured from the effective date of the Involuntary Termination. In addition, the Plan Administrator may provide that one or more of the Corporation's outstanding repurchase rights with respect to shares held by the Optionee at the time of such Involuntary Termination shall immediately terminate, and the shares subject to those terminated repurchase rights shall accordingly vest in full.

G. The portion of any Incentive Option accelerated in connection with a Corporate Transaction or Change in Control shall remain exercisable as an Incentive Option only to the extent the applicable One Hundred Thousand Dollar

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limitation is not exceeded. To the extent such dollar limitation is exceeded, the accelerated portion of such option shall be exercisable as a Non-Statutory Option under the Federal tax laws.

H. The outstanding options shall in no way affect the right of the Corporation to adjust, reclassify, reorganize or otherwise change its capital or business structure or to merge, consolidate, dissolve, liquidate or sell or transfer all or any part of its business or assets.

IV. CANCELLATION AND REGRANT OF OPTIONS

The Plan Administrator shall have the authority to effect, at any time and from time to time, with the consent of the affected option holders, the cancellation of any or all outstanding options under the Discretionary Option Grant Program (including outstanding options incorporated from the Predecessor Plan) and to grant in substitution new options covering the same or different number of shares of Common Stock but with an exercise price per share based on the Fair Market Value per share of Common Stock on the new grant date.

V. STOCK APPRECIATION RIGHTS

A. The Plan Administrator shall have full power and authority to grant to selected Optionees tandem stock appreciation rights and/or limited stock appreciation rights.

B. The following terms shall govern the grant and exercise of tandem stock appreciation rights:

(i) One or more Optionees may be granted the right, exercisable upon such terms as the Plan Administrator may establish, to elect between the exercise of the underlying option for shares of Common Stock and the surrender of that option in exchange for a distribution from the Corporation in an amount equal to the excess of (a) the Fair Market Value (on the option surrender date) of the number of shares in which the Optionee is at the time vested under the surrendered option (or surrendered portion thereof) over (b) the aggregate exercise price payable for such shares.

(ii) No such option surrender shall be effective unless it is approved by the Plan Administrator, either at the time of the actual option surrender or at any earlier time. If the surrender is so approved, then the distribution to which the Optionee shall be entitled may be made in shares of Common Stock valued at Fair Market Value on the option surrender date, in cash, or partly in shares and partly in cash, as the Plan Administrator shall in its sole discretion deem appropriate.

9.

(iii) If the surrender of an option is not approved by the Plan Administrator, then the Optionee shall retain whatever rights the Optionee had under the surrendered option (or surrendered portion thereof) on the option surrender date and may exercise such rights at any time prior to the LATER of (a) five (5) business days after the receipt of the rejection notice or (b) the last day on which the option is otherwise exercisable in accordance with the terms of the documents evidencing such option, but in no event may such rights be exercised more than ten (10) years after the option grant date.

C. The following terms shall govern the grant and exercise of limited

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stock appreciation rights:

(i) One or more Section 16 Insiders may be granted limited stock appreciation rights with respect to their outstanding options.

(ii) Upon the occurrence of a Hostile Take-Over, each individual holding one or more options with such a limited stock appreciation right shall have the unconditional right (exercisable for a thirty (30)-day period following such Hostile Take-Over) to surrender each such option to the Corporation, to the extent the option is at the time exercisable for vested shares of Common Stock. In return for the surrendered option, the Optionee shall receive a cash distribution from the Corporation in an amount equal to the excess of (A) the Take-Over Price of the shares of Common Stock which are at the time vested under each surrendered option (or surrendered portion thereof) over (B) the aggregate exercise price payable for such shares. Such cash distribution shall be paid within five (5) days following the option surrender date.

(iii) The Plan Administrator shall pre-approve, at the time the limited stock appreciation right is granted, the subsequent exercise of that right in accordance with the terms of the grant and the provisions of this Section V.C. No additional approval of the Plan Administrator or the Board shall be required at the time of the actual option surrender and cash distribution.

(iv) The balance of the option (if any) shall remaining outstanding and exercisable in accordance with the documents evidencing such option.

10.

ARTICLE THREE

SALARY INVESTMENT OPTION GRANT PROGRAM

I. OPTION GRANTS

The Primary Committee shall have the sole and exclusive authority to determine the calendar year or years (if any) for which the Salary Investment Option Grant Program is to be in effect and to select the Section 16 Insiders and other highly compensated Employees eligible to participate in the Salary Investment Option Grant Program for such calendar year or years. Each selected individual who elects to participate in the Salary Investment Option Grant Program must, prior to the start of each calendar year of participation, file with the Plan Administrator (or its designate) an irrevocable authorization directing the Corporation to reduce his or her base salary for that calendar year by an amount not less than Ten Thousand Dollars (\$10,000.00) nor more than Fifty Thousand Dollars (\$50,000.00). The Primary Committee shall have complete discretion to determine whether to approve the filed authorization in whole or in part. To the extent the Primary Committee approves the authorization, the individual who filed that authorization shall be granted an option under the Salary Investment Grant Program as soon as possible after the start of the calendar year for which the salary reduction is to be in effect. All grants under the Salary Investment Option Grant Program shall be at the sole discretion

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of the Primary Committee.

II. OPTION TERMS

Each option shall be a Non-Statutory Option evidenced by one or more documents in the form approved by the Plan Administrator; PROVIDED, however, that each such document shall comply with the terms specified below.

A. EXERCISE PRICE.

1. The exercise price per share shall be equal to the excess of (i) the Fair Market Value per share of Common Stock on the option grant date over (ii) the amount of the approved Salary Reduction divided by the number of shares subject to the Option.

2. The exercise price shall become immediately due upon exercise of the option and shall be payable in one or more of the alternative forms authorized under the Discretionary Option Grant Program. Except to the extent the sale and remittance procedure specified thereunder is utilized, payment of the exercise price for the purchased shares must be made on the Exercise Date.

B. NUMBER OF OPTION SHARES. The number of shares of Common Stock subject to the option shall be determined pursuant to the following formula (rounded down to the nearest whole number):

$$X = A / (B \times C), \text{ where}$$

X is the number of option shares,

A is the dollar amount of the approved reduction in the Optionee's base salary for the calendar year,

B is the Fair Market Value per share of Common Stock on the option grant date, and

11.

C is a percentage not less than 33 1/3% nor more than 66 2/3% fixed by the Plan Administrator, in its sole discretion, for purposes of the option grants to be made under the Salary Investment Option Grant Program for a particular calendar year for which that program is to be in effect.

C. EXERCISE AND TERM OF OPTIONS. The option shall become exercisable in a series of twelve (12) successive equal monthly installments upon the Optionee's completion of each calendar month of Service in the calendar year for which the salary reduction is in effect. Each option shall have a maximum term of ten (10) years measured from the option grant date.

D. EFFECT OF TERMINATION OF SERVICE. Should the Optionee cease Service for any reason while holding one or more options under this Article Three, then each such option shall remain exercisable, for any or all of the shares for which the option is exercisable at the time of such cessation of Service, until the EARLIER of (i) the expiration of the ten (10)-year option term or (ii) the expiration of the three (3)-year period measured from the date of such cessation of Service. Should the Optionee die while holding one or more options under this Article Three, then each such option may be exercised, for any or all of the shares for which the option is exercisable at the time of the Optionee's cessation of Service (less any shares subsequently purchased by Optionee prior

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to death), by the personal representative of the Optionee's estate or by the person or persons to whom the option is transferred pursuant to the Optionee's will or in accordance with the laws of descent and distribution. Such right of exercise shall lapse, and the option shall terminate, upon the EARLIER of (i) the expiration of the ten (10)-year option term or (ii) the three (3)-year period measured from the date of the Optionee's cessation of Service. However, the option shall, immediately upon the Optionee's cessation of Service for any reason, terminate and cease to remain outstanding with respect to any and all shares of Common Stock for which the option is not otherwise at that time exercisable.

III. CORPORATE TRANSACTION/CHANGE IN CONTROL

A. In the event of any Corporate Transaction while the Optionee remains in Service, each outstanding option held by such Optionee under this Salary Investment Option Grant Program shall automatically accelerate so that each such option shall, immediately prior to the effective date of the Corporate Transaction, become fully exercisable with respect to the total number of shares of Common Stock at the time subject to such option and may be exercised for any or all of those shares as fully-vested shares of Common Stock. Each such outstanding option shall be assumed by the successor corporation (or parent thereof) in the Corporate Transaction and shall remain exercisable for the fully-vested shares until the EARLIER of (i) the expiration of the ten (10)-year option term or (ii) the expiration of the three (3)-year period measured from the date of the Optionee's cessation of Service.

B. In the event of a Change in Control while the Optionee remains in Service, each outstanding option held by such Optionee under this Salary Investment Option Grant Program shall automatically accelerate so that each such option shall immediately become fully exercisable with respect to the total number of shares of Common Stock at the time subject to such option and may be exercised for any or all of those shares as fully-vested shares of Common Stock. Any option not exercised prior to the Change in Control may be repurchased by the Corporation at the time of the Change in Control at a repurchase price equal to the amount by which the Optionee's salary was reduced in connection with the grant of that option. Any option which is neither exercised nor repurchased shall remain exercisable for fully-vested shares until the EARLIER or (i) the expiration of the ten (10)-year option term or (ii) the expiration of the three (3)-year period measured from the date of the Optionee's cessation of Service.

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C. The grant of options under the Salary Investment Option Grant Program shall in no way affect the right of the Corporation to adjust, reclassify, reorganize or otherwise change its capital or business structure or to merge, consolidate, dissolve, liquidate or sell or transfer all or any part of its business or assets.

III. REMAINING TERMS

The remaining terms of each option granted under the Salary Investment Option Grant Program shall be the same as the terms in effect for option grants made under the Discretionary Option Grant Program.

13.

ARTICLE FOUR

STOCK ISSUANCE PROGRAM

I. STOCK ISSUANCE TERMS

Shares of Common Stock may be issued under the Stock Issuance Program through direct and immediate issuances without any intervening option grants. Each such stock issuance shall be evidenced by a Stock Issuance Agreement which complies with the terms specified below.

A. PURCHASE PRICE.

1. The purchase price per share shall be fixed by the Plan Administrator, but shall not be less than one hundred percent (100%) of the Fair Market Value per share of Common Stock on the issuance date.

2. Subject to the provisions of Section I of Article Six, shares of Common Stock may be issued under the Stock Issuance Program for any of the following items of consideration which the Plan Administrator may deem appropriate in each individual instance:

(i) cash or check made payable to the Corporation, or

(ii) past services rendered to the Corporation (or any Parent or Subsidiary).

B. VESTING PROVISIONS.

1. Shares of Common Stock issued under the Stock Issuance Program may, in the discretion of the Plan Administrator, be fully and immediately vested upon issuance or may vest in one or more installments over the Participant's period of Service or upon attainment of specified performance objectives. The elements of the vesting schedule applicable to any unvested shares of Common Stock issued under the Stock Issuance Program, namely:

(i) the Service period to be completed by the Participant or the performance objectives to be attained,

(ii) the number of installments in which the shares are to vest,

(iii) the interval or intervals (if any) which are to lapse between installments, and

(iv) the effect which death, Permanent Disability or other event designated by the Plan Administrator is to have upon the vesting schedule,

shall be determined by the Plan Administrator and incorporated into the Stock Issuance Agreement.

2. Any new, substituted or additional securities or other property (including money paid other than as a regular cash dividend) which the Participant may have the right to receive with respect to the Participant's unvested shares of Common Stock by reason of any stock dividend, stock split,

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recapitalization, combination of shares, exchange of shares or other change affecting the outstanding Common Stock as a class without the Corporation's receipt of consideration shall be issued subject to (i) the same vesting requirements applicable to the Participant's unvested shares of Common Stock and (ii) such escrow arrangements as the Plan Administrator shall deem appropriate.

3. The Participant shall have full stockholder rights with respect to any shares of Common Stock issued to the Participant under the Stock Issuance Program, whether or not the Participant's interest in those shares is vested. Accordingly, the Participant shall have the right to vote such shares and to receive any regular cash dividends paid on such shares.

4. Should the Participant cease to remain in Service while holding one or more unvested shares of Common Stock issued under the Stock Issuance Program or should the performance objectives not be attained with respect to one or more such unvested shares of Common Stock, then those shares shall be immediately surrendered to the Corporation for cancellation, and the Participant shall have no further stockholder rights with respect to those shares. To the extent the surrendered shares were previously issued to the Participant for consideration paid in cash or cash equivalent (including the Participant's purchase-money indebtedness), the Corporation shall repay to the Participant the cash consideration paid for the surrendered shares and shall cancel the unpaid principal balance of any outstanding purchase-money note of the Participant attributable to the surrendered shares.

5. The Plan Administrator may in its discretion waive the surrender and cancellation of one or more unvested shares of Common Stock which would otherwise occur upon the cessation of the Participant's Service or the non-attainment of the performance objectives applicable to those shares. Such waiver shall result in the immediate vesting of the Participant's interest in the shares as to which the waiver applies. Such waiver may be effected at any time, whether before or after the Participant's cessation of Service or the attainment or non-attainment of the applicable performance objectives.

II. CORPORATE TRANSACTION/CHANGE IN CONTROL

A. All of the Corporation's outstanding repurchase/cancellation rights under the Stock Issuance Program shall terminate automatically, and all the shares of Common Stock subject to those terminated rights shall immediately vest in full, in the event of any Corporate Transaction, except to the extent (i) those repurchase/cancellation rights are to be assigned to the successor corporation (or parent thereof) in connection with such Corporate Transaction or (ii) such accelerated vesting is precluded by other limitations imposed in the Stock Issuance Agreement.

B. The Plan Administrator shall have the discretionary authority, exercisable either at the time the unvested shares are issued or any time while the Corporation's repurchase/cancellation rights remain outstanding under the Stock Issuance Program, to provide that those rights shall automatically terminate in whole or in part, and the shares of Common Stock subject to those terminated rights shall immediately vest, in the event the Participant's Service should subsequently terminate by reason of an Involuntary Termination within a designated period (not to exceed eighteen (18) months) following the effective date of any Corporate Transaction in which those repurchase/cancellation rights are assigned to the successor corporation (or parent thereof).

C. The Plan Administrator shall have the discretionary authority,

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exercisable either at the time the unvested shares are issued or any time while the Corporation's repurchase/cancellation rights remain outstanding under the Stock Issuance Program, to provide that those rights shall automatically terminate in whole or in part, and the shares of Common Stock subject to those terminated rights shall

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immediately vest, in the event the Participant's Service should subsequently terminate by reason of an Involuntary Termination within a designated period (not to exceed eighteen (18) months) following the effective date of any Change in Control.

III. SHARE ESCROW/LEGENDS

Unvested shares may, in the Plan Administrator's discretion, be held in escrow by the Corporation until the Participant's interest in such shares vests or may be issued directly to the Participant with restrictive legends on the certificates evidencing those unvested shares.

16.

ARTICLE FIVE

AUTOMATIC OPTION GRANT PROGRAM

I. OPTION TERMS

A. GRANT DATES. Effective with the 2001 Annual Meeting, (i) on the date that each non-employee Board member is first elected or appointed to the Board, option grants shall be made to such non-employee Board member and (ii) on the date that each non-employee Board member is re-elected to the Board, option grants shall be made to such non-employee Board member. Each automatic option grant shall be a Non-Statutory Option. For each individual who is first elected or appointed as a non-employee Board member, the number of shares of Common Stock subject to the option shall be equal to 7,500 shares. Each non-employee Board member so elected shall, during any partial year and for each full year of the term for which the non-employee Board member is elected or appointed, also receive an option to purchase an additional 7,500 shares of Common Stock. Each non-employee Board member who is re-elected to the Board at any time after his or her initial term will receive, during any partial year and for each full year of the term for which the non-employee Board member is re-elected to the Board, an automatic grant of an option to purchase an additional 7,500 shares of Common Stock. There shall be no limit on the number of such automatic grants any one Eligible Director may receive over his or her period of Board service, and non-employee Board members who have previously been in the employ of the

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Corporation (or any Parent or Subsidiary) or who have otherwise received a stock option grant from the Corporation prior to becoming a non-employee Board member shall be eligible to receive one or more such annual option grants over their period of continued Board service.

B. EXERCISE PRICE.

1. The exercise price per share shall be equal to one hundred percent (100%) of the Fair Market Value per share of Common Stock on the option grant date.

2. The exercise price shall be payable in one or more of the alternative forms authorized under the Discretionary Option Grant Program. Except to the extent the sale and remittance procedure specified thereunder is utilized, payment of the exercise price for the purchased shares must be made on the Exercise Date.

C. OPTION TERM. Each option shall have a term of ten (10) years measured from the option grant date.

D. EXERCISE AND VESTING OF OPTIONS. Each option shall be exercisable only with respect to option shares with respect to which the automatic option grant has become vested. Provided the optionee continues to serve as a Board member, the automatic option grant shall vest with respect to 7,500 shares on the day the non-employee Board member is first elected or appointed to the Board and with respect to an additional 7,500 shares on the day immediately preceding the date of each subsequent Annual Meeting following the date of the automatic option grant until the automatic option grant has become fully vested and exercisable for all the option shares. No portion of the automatic option grant shall vest after the optionee has ceased to be a member of the Board.

E. TERMINATION OF BOARD SERVICE. The following provisions shall govern the exercise of any options held by the Optionee at the time the Optionee ceases to serve as a Board member:

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(i) The Optionee (or, in the event of Optionee's death, the personal representative of the Optionee's estate or the person or persons to whom the option is transferred pursuant to the Optionee's will or in accordance with the laws of descent and distribution) shall have a twelve (12)-month period following the date of such cessation of Board service in which to exercise each such option.

(ii) During the twelve (12)-month exercise period, the option may not be exercised in the aggregate for more than the number of vested shares of Common Stock for which the option is exercisable at the time of the Optionee's cessation of Board service.

(iii) Should the Optionee cease to serve as a Board member by reason of death or Permanent Disability, then all shares at the time subject to the option shall immediately vest so that such option may, during the twelve (12)-month exercise period following such cessation of Board service, be exercised for all or any portion of those shares as fully-vested shares of Common Stock.

(iv) In no event shall the option remain exercisable after the expiration of the option term. Upon the expiration of the twelve

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(12)-month exercise period or (if earlier) upon the expiration of the option term, the option shall terminate and cease to be outstanding for any vested shares for which the option has not been exercised. However, the option shall, immediately upon the Optionee's cessation of Board service for any reason other than death or Permanent Disability, terminate and cease to be outstanding to the extent the option is not otherwise at that time exercisable for vested shares.

II. CORPORATE TRANSACTION/CHANGE IN CONTROL/HOSTILE TAKE-OVER

A. In the event of any Corporate Transaction, the shares of Common Stock at the time subject to each outstanding option but not otherwise vested shall automatically vest in full so that each such option shall, immediately prior to the effective date of the Corporate Transaction, become fully exercisable for all of the shares of Common Stock at the time subject to such option and may be exercised for all or any portion of those shares as fully-vested shares of Common Stock. Immediately following the consummation of the Corporate Transaction, each automatic option grant shall terminate and cease to be outstanding, except to the extent assumed by the successor corporation (or parent thereof).

B. In connection with any Change in Control, the shares of Common Stock at the time subject to each outstanding option but not otherwise vested shall automatically vest in full so that each such option shall, immediately prior to the effective date of the Change in Control, become fully exercisable for all of the shares of Common Stock at the time subject to such option and may be exercised for all or any portion of those shares as fully-vested shares of Common Stock. Each such option shall remain exercisable for such fully-vested option shares until the expiration or sooner termination of the option term or the surrender of the option in connection with a Hostile Take-Over.

C. Upon the occurrence of a Hostile Take-Over, the Optionee shall have a thirty (30)-day period in which to surrender to the Corporation each of his or her outstanding automatic option grants. The Optionee shall in return be entitled to a cash distribution from the Corporation in an amount equal to the excess of (i) the Take-Over Price of the shares of Common Stock at the time subject to each surrendered option (whether or not the Optionee is otherwise at the time vested in those shares) over (ii) the aggregate exercise price payable for such shares. Such cash distribution shall be paid within five (5) days following

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the surrender of the option to the Corporation. Stockholder approval of this March 27, 1998 amendment of the Plan shall constitute pre-approval of each option subsequently granted under this Article Five with such a surrender provision and the subsequent surrender of that option in accordance with the terms of this Section II.C. No additional approval of the Board or any Plan Administrator shall be required at the time of the actual option surrender and cash distribution.

D. Each option which is assumed in connection with a Corporate Transaction shall be appropriately adjusted, immediately after such Corporate Transaction, to apply to the number and class of securities which would have been issuable to the Optionee in consummation of such Corporate Transaction had the option been exercised immediately prior to such Corporate Transaction. Appropriate adjustments shall also be made to the exercise price payable per share under each outstanding option, PROVIDED the aggregate exercise price

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payable for such securities shall remain the same.

E. The grant of options under the Automatic Option Grant Program shall in no way affect the right of the Corporation to adjust, reclassify, reorganize or otherwise change its capital or business structure or to merge, consolidate, dissolve, liquidate or sell or transfer all or any part of its business or assets.

III. REMAINING TERMS

The remaining terms of each option granted under the Automatic Option Grant Program shall be the same as the terms in effect for option grants made under the Discretionary Option Grant Program.

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ARTICLE SIX

MISCELLANEOUS

I. FINANCING

The Plan Administrator may permit any Optionee or Participant to pay the option exercise price under the Discretionary Option Grant Program or the purchase price of shares issued under the Stock Issuance Program by delivering a full-recourse, interest bearing promissory note payable in one or more installments. The terms of any such promissory note (including the interest rate and the terms of repayment) shall be established by the Plan Administrator in its sole discretion. In no event may the maximum credit available to the Optionee or Participant exceed the sum of (i) the aggregate option exercise price or purchase price payable for the purchased shares plus (ii) any Federal, state and local income and employment tax liability incurred by the Optionee or the Participant in connection with the option exercise or share purchase.

II. TAX WITHHOLDING

A. The Corporation's obligation to deliver shares of Common Stock upon the exercise of options or the issuance or vesting of such shares under the Plan shall be subject to the satisfaction of all applicable Federal, state and local income and employment tax withholding requirements.

B. The Plan Administrator may, in its discretion, provide any or all holders of Non-Statutory Options or unvested shares of Common Stock under the Plan (other than the options granted or the shares issued under the Automatic Option Grant Program) with the right to use shares of Common Stock in satisfaction of all or part of the Taxes incurred by such holders in connection with the exercise of their options or the vesting of their shares. Such right may be provided to any such holder in either or both of the following formats:

STOCK WITHHOLDING: The election to have the Corporation withhold, from the shares of Common Stock otherwise issuable upon the exercise of such Non-Statutory Option or the vesting of such shares, a portion of those shares with an aggregate Fair Market Value equal to the percentage of the Taxes (not to exceed one hundred percent (100%)) designated by the holder.

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STOCK DELIVERY: The election to deliver to the Corporation, at the time the Non-Statutory Option is exercised or the shares vest, one or more shares of Common Stock previously acquired by such holder (other than in connection with the option exercise or share vesting triggering the Taxes) with an aggregate Fair Market Value equal to the percentage of the Taxes (not to exceed one hundred percent (100%)) designated by the holder.

III. EFFECTIVE DATE AND TERM OF THE PLAN

A. The Plan became effective immediately upon the Plan Effective Date. However, the Salary Investment Option Grant Program shall not be implemented until such time as the Primary Committee may deem appropriate.

B. The Plan shall serve as the successor to the Predecessor Plan, and no further option grants or direct stock issuances shall be made under the Predecessor Plan. All options outstanding under the Predecessor Plan on the Section 12 Registration Date have been incorporated into the Plan and shall be

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treated as outstanding options under the Plan. However, each outstanding option so incorporated shall continue to be governed solely by the terms of the documents evidencing such option, and no provision of the Plan shall be deemed to affect or otherwise modify the rights or obligations of the holders of such incorporated options with respect to their acquisition of shares of Common Stock.

C. One or more provisions of the Plan, including (without limitation) the option/vesting acceleration provisions of Article Two relating to Corporate Transactions and Changes in Control, may, in the Plan Administrator's discretion, be extended to one or more options incorporated from the Predecessor Plan which do not otherwise contain such provisions.

D. On the Plan Effective Date, 2,200,000 shares of Common Stock were available for issuance over the term of the Plan. Such authorized share reserve was comprised of the number of shares which remained available for issuance, as of the Plan Effective Date, under the Predecessor Plan as last approved by the Corporation's stockholders, including the shares subject to the outstanding options incorporated into the Plan and the additional shares which were otherwise available for future grant, plus an additional increase of 500,000 shares authorized by the Board and subsequently approved by the stockholders prior to the Section 12 Registration Date.

On December 4, 1997, the Board adopted an amendment to the Plan (the "1997 Amendment") to effect the following changes: (i) increase the maximum number of shares of Common Stock available for issuance over the term of the Plan by an additional 1,000,000 shares, and (ii) implement an automatic share increase feature pursuant to which the number of shares of Common Stock available for issuance under the Plan automatically increased on January 1 of each of the calendar years 1999, 2000 and 2001 by an amount equal to four percent (4%) of the total number of shares of Common Stock issued and outstanding on December 31st of the immediately preceding calendar year; provided, however, that in no event did any such annual increase exceed the difference between (x) 1,000,000 shares and (y) the number of shares of Common Stock available for future option grants under the Plan on such December 31 (net of all outstanding options and unvested stock issuances). The increase under this provision was 629,723 shares effective January 1, 1999, 905,791 shares effective January 1, 2000, and 964,315 shares effective January 1, 2001, for an

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aggregate of 2,499,829 over this three year period.

On March 27, 1998, the Board adopted an amendment to the Plan (the "1998 Amendment") to effect the following change: under the Automatic Option Grant Program, effective with the 1998 Annual Meeting (A) automatically grant to each individual who is first appointed or elected as a non-employee Board member an option to purchase shares of Common Stock in an amount equal to 2,000 shares of Common Stock plus 2,000 shares for any partial year and for each full year of the term for which the non-employee Board member is first appointed or elected, and (B) automatically grant to each individual who is re-elected to serve as a non-employee Board member an option to purchase 2,000 shares of Common Stock for each full year of the term for which the non-employee Board member is re-elected to the Board. The 1997 Amendment and the 1998 Amendment were approved by the stockholders of the Corporation at the 1998 Annual Meeting.

On March 6, 2001, the Board unanimously adopted an amendment to the Plan (the "2001 Amendment") to (i) increase the maximum number of shares of Common Stock available for issuance over the term of the Plan by an additional 1,500,000 shares effective January 1, 2002, (ii) increase the maximum number of shares of Common Stock available for issuance over the term of the Plan by an additional 1,500,000 shares effective January 1, 2003 and (iii) under the Automatic Option Grant Program, effective with the 2001 Annual Meeting (A) automatically grant to each individual who is first appointed or elected as a non-employee Board member an option to purchase 7,500 shares of Common Stock (B) during any

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partial year and for each full year of the term for which the non-employee Board member is first appointed or elected, automatically grant an option to purchase 7,500 shares of Common Stock, and (C) during each full year of the term for which the non-employee Board member is re-elected to the Board, automatically grant to each individual who is re-elected to serve as a non-employee Board member an option to purchase 7,500 shares of Common Stock. The 2001 Amendment was approved by the stockholders of the Corporation at the 2001 Annual Meeting.

Effective February 27, 2002, the Board unanimously adopted an amendment to the Plan (the "2002 Amendment"), subject to approval by the stockholders of the Corporation to (i) increase the number of shares of Common Stock authorized for issuance under the Plan by an additional 1,962,329 shares and (ii) increase the number of shares of Common Stock available for issuance under the Plan effective January 1 of each year beginning January 1, 2003 so that the number of authorized shares available for new grants under the plan on each January 1 will equal the lesser of 4.5% of the total number of shares of Triangle Common Stock outstanding on the preceding December 31st or 5,000,000 shares. The 2002 Amendment was approved by the stockholders of the Corporation at the 2002 Annual Meeting.

On August 2, 2002, the Board unanimously adopted an amendment to the Plan (the "August 2002 Amendment"), subject to approval by the stockholders of the Corporation to (i) increase the number of shares of common stock available for issuance under the Plan by 3,000,000 shares, and (ii) increase the number of options, stock appreciation rights and stock issuances which may be granted to any one person in the aggregate per calendar year to 1,500,000.

E. The Plan shall terminate upon the EARLIEST of (i) August 30, 2006, (ii) the date on which all shares available for issuance under the Plan shall have been issued as fully-vested shares or (iii) the termination of all

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outstanding options in connection with a Corporate Transaction. Upon such plan termination, all outstanding option grants and unvested stock issuances shall thereafter continue to have force and effect in accordance with the provisions of the documents evidencing such grants or issuances.

IV. AMENDMENT OF THE PLAN

A. The Board shall have complete and exclusive power and authority to amend or modify the Plan in any or all respects. However, no such amendment or modification shall adversely affect the rights and obligations with respect to stock options or unvested stock issuances at the time outstanding under the Plan unless the Optionee or the Participant consents to such amendment or modification. In addition, certain amendments may require stockholder approval if so determined by the Board or pursuant to applicable laws or regulations.

B. Options to purchase shares of Common Stock may be granted under the Discretionary Option Grant and Salary Investment Option Grant Programs and shares of Common Stock may be issued under the Stock Issuance Program that are in each instance in excess of the number of shares then available for issuance under the Plan, provided any excess shares actually issued under those programs shall be held in escrow until there is obtained any required approval of an amendment sufficiently increasing the number of shares of Common Stock available for issuance under the Plan. If such approval is not obtained within twelve (12) months after the date the first such excess issuances are made, then (i) any unexercised options granted on the basis of such excess shares shall terminate and cease to be outstanding and (ii) the Corporation shall promptly refund to the Optionees and the Participants the exercise or purchase price paid for any excess shares issued under the Plan and held in escrow, together with interest (at the applicable Short Term Federal Rate) for the period the shares were held in escrow, and such shares shall thereupon be automatically cancelled and cease to be outstanding.

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V. USE OF PROCEEDS

Any cash proceeds received by the Corporation from the sale of shares of Common Stock under the Plan shall be used for general corporate purposes.

VI. REGULATORY APPROVALS

A. The implementation of the Plan, the granting of any stock option under the Plan and the issuance of any shares of Common Stock (i) upon the exercise of any granted option or (ii) under the Stock Issuance Program shall be subject to the Corporation's procurement of all approvals and permits required by regulatory authorities having jurisdiction over the Plan, the stock options granted under it and the shares of Common Stock issued pursuant to it.

B. No shares of Common Stock or other assets shall be issued or delivered under the Plan unless and until there shall have been compliance with all applicable requirements of Federal and state securities laws, including the filing and effectiveness of the Form S-8 registration statement for the shares of Common Stock issuable under the Plan, and all applicable listing requirements of any stock exchange (or the Nasdaq National Market, if applicable) on which Common Stock is then listed for trading.

VII. NO EMPLOYMENT/SERVICE RIGHTS

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Nothing in the Plan shall confer upon the Optionee or the Participant any right to continue in Service for any period of specific duration or interfere with or otherwise restrict in any way the rights of the Corporation (or any Parent or Subsidiary employing or retaining such person) or of the Optionee or the Participant, which rights are hereby expressly reserved by each, to terminate such person's Service at any time for any reason, with or without cause.

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APPENDIX

The following definitions shall be in effect under the Plan:

A. AUTOMATIC OPTION GRANT PROGRAM shall mean the automatic option grant program in effect under the Plan.

B. BOARD shall mean the Corporation's Board of Directors.

C. CHANGE IN CONTROL shall mean a change in ownership or control of the Corporation effected through either of the following transactions:

(i) the acquisition, directly or indirectly by any person or related group of persons (other than the Corporation or a person that directly or indirectly controls, is controlled by, or is under common control with, the Corporation), of beneficial ownership (within the meaning of Rule 13d-3 of the 1934 Act) of securities possessing more than fifty percent (50%) of the total combined voting power of the Corporation's outstanding securities pursuant to a tender or exchange offer made directly to the Corporation's stockholders which the Board does not recommend such stockholders to accept, or

(ii) a change in the composition of the Board over a period of thirty-six (36) consecutive months or less such that a majority of the Board members ceases, by reason of one or more contested elections for Board membership, to be comprised of individuals who either (A) have been Board members continuously since the beginning of such period or (B) have been elected or nominated for election as Board members during such period by at least a majority of the Board members described in clause (A) who were still in office at the time the Board approved such election or nomination.

D. CODE shall mean the Internal Revenue Code of 1986, as amended.

E. COMMON STOCK shall mean the Corporation's common stock.

F. CORPORATE TRANSACTION shall mean either of the following stockholder-approved transactions to which the Corporation is a party:

(i) a merger or consolidation in which securities possessing more than fifty percent (50%) of the total combined voting power of the Corporation's outstanding securities are transferred to a person or persons different from the persons holding those securities immediately prior to such transaction, or

(ii) the sale, transfer or other disposition of all

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or substantially all of the Corporation's assets in complete liquidation or dissolution of the Corporation.

G. CORPORATION shall mean Triangle Pharmaceuticals, Inc., a Delaware corporation, and its successors.

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H. DISCRETIONARY OPTION GRANT PROGRAM shall mean the discretionary option grant program in effect under the Plan.

I. EMPLOYEE shall mean an individual who is in the employ of the Corporation (or any Parent or Subsidiary), subject to the control and direction of the employer entity as to both the work to be performed and the manner and method of performance.

J. EXERCISE DATE shall mean the date on which the Corporation shall have received written notice of the option exercise.

K. FAIR MARKET VALUE per share of Common Stock on any relevant date shall be determined in accordance with the following provisions:

(i) If the Common Stock is at the time traded on the Nasdaq National Market, then the Fair Market Value shall be deemed equal to the closing selling price per share of Common Stock on the date in question, as such price is reported on the Nasdaq National Market. If there is no closing selling price for the Common Stock on the date in question, then the Fair Market Value shall be the closing selling price on the last preceding date for which such quotation exists.

(ii) If the Common Stock is at the time listed on any Stock Exchange, then the Fair Market Value shall be deemed equal to the closing selling price per share of Common Stock on the date in question on the Stock Exchange determined by the Plan Administrator to be the primary market for the Common Stock, as such price is officially quoted in the composite tape of transactions on such exchange. If there is no closing selling price for the Common Stock on the date in question, then the Fair Market Value shall be the closing selling price on the last preceding date for which such quotation exists.

L. HOSTILE TAKE-OVER shall mean the acquisition, directly or indirectly, by any person or related group of persons (other than the Corporation or a person that directly or indirectly controls, is controlled by, or is under common control with, the Corporation) of beneficial ownership (within the meaning of Rule 13d-3 of the 1934 Act) of securities possessing more than fifty percent (50%) of the total combined voting power of the Corporation's outstanding securities pursuant to a tender or exchange offer made directly to the Corporation's stockholders which the Board does not recommend such stockholders to accept.

M. INCENTIVE OPTION shall mean an option which satisfies the requirements of Code Section 422.

N. INVOLUNTARY TERMINATION shall mean the termination of the Service of any individual which occurs by reason of:

(i) such individual's involuntary dismissal or discharge by the Corporation for reasons other than Misconduct, or

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(ii) such individual's voluntary resignation following (A) a change in his or her position with the Corporation which materially reduces his or her level of responsibility, (B) a reduction in his or her level of compensation (including base salary, fringe benefits and participation in any corporate-performance based bonus or incentive

A-2.

programs) by more than fifteen percent (15%) or (C) a relocation of such individual's place of employment by more than fifty (50) miles, provided and only if such change, reduction or relocation is effected by the Corporation without the individual's consent.

O. MISCONDUCT shall mean the commission of any act of fraud, embezzlement or dishonesty by the Optionee or Participant, any unauthorized use or disclosure by such person of confidential information or trade secrets of the Corporation (or any Parent or Subsidiary), or any other intentional misconduct by such person adversely affecting the business or affairs of the Corporation (or any Parent or Subsidiary) in a material manner. The foregoing definition shall not be deemed to be inclusive of all the acts or omissions which the Corporation (or any Parent or Subsidiary) may consider as grounds for the dismissal or discharge of any Optionee, Participant or other person in the Service of the Corporation (or any Parent or Subsidiary).

P. 1934 ACT shall mean the Securities Exchange Act of 1934, as amended.

Q. NON-STATUTORY OPTION shall mean an option not intended to satisfy the requirements of Code Section 422.

R. OPTIONEE shall mean any person to whom an option is granted under the Discretionary Option Grant, Salary Investment Option Grant or the Automatic Option Grant Program.

S. PARENT shall mean any corporation (other than the Corporation) in an unbroken chain of corporations ending with the Corporation, provided each corporation in the unbroken chain (other than the Corporation) owns, at the time of the determination, stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

T. PARTICIPANT shall mean any person who is issued shares of Common Stock under the Stock Issuance Program.

U. PERMANENT DISABILITY OR PERMANENTLY DISABLED shall mean the inability of the Optionee or the Participant to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment expected to result in death or to be of continuous duration of twelve (12) months or more. However, solely for purposes of the Automatic Option Grant Program, Permanent Disability or Permanently Disabled shall mean the inability of the non-employee Board member to perform his or her usual duties as a Board member by reason of any medically determinable physical or mental impairment expected to result in death or to be of continuous duration of twelve (12) months or more.

V. PLAN shall mean the Corporation's 1996 Stock Incentive Plan, as set forth in this document.

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W. PLAN ADMINISTRATOR shall mean the particular entity, whether the Primary Committee, the Board or the Secondary Committee, which is authorized to administer the Discretionary Option Grant and Stock Issuance Programs with respect to one or more classes of eligible persons, to the extent such entity is carrying out its administrative functions under those programs with respect to the persons under its jurisdiction.

X. PLAN EFFECTIVE DATE shall mean, August 30, 1996, the date on which the Plan was adopted by the Board.

A-3.

Y. PREDECESSOR PLAN shall mean the Corporation's pre-existing 1996 Stock Option/Stock Issuance Plan in effect immediately prior to the Plan Effective Date hereunder.

Z. PRIMARY COMMITTEE shall mean the committee of two (2) or more non-employee Board members appointed by the Board to administer the Discretionary Option Grant and Stock Issuance Programs with respect to Section 16 Insiders and to administer the Salary Investment Option Grant Program with respect to all eligible individuals.

AA. SALARY INVESTMENT OPTION GRANT PROGRAM shall mean the salary investment option grant program in effect under the Plan.

BB. SECONDARY COMMITTEE shall mean a committee of two (2) or more Board members appointed by the Board to administer the Discretionary Option Grant and Stock Issuance Programs with respect to eligible persons other than Section 16 Insiders.

CC. SECTION 12 REGISTRATION DATE shall mean the date on which the Common Stock was first registered under Section 12 of the 1934 Act.

DD. SECTION 16 INSIDER shall mean an officer or director of the Corporation subject to the short-swing profit liabilities of Section 16 of the 1934 Act.

EE. SERVICE shall mean the performance of services for the Corporation (or any Parent or Subsidiary) by a person in the capacity of an Employee, a non-employee member of the board of directors or a consultant or independent advisor, except to the extent otherwise specifically provided in the documents evidencing the option grant or stock issuance.

FF. STOCK EXCHANGE shall mean either the American Stock Exchange or the New York Stock Exchange.

GG. STOCK ISSUANCE AGREEMENT shall mean the agreement entered into by the Corporation and the Participant at the time of issuance of shares of Common Stock under the Stock Issuance Program.

HH. STOCK ISSUANCE PROGRAM shall mean the stock issuance program in effect under the Plan.

II. SUBSIDIARY shall mean any corporation (other than the Corporation) in an unbroken chain of corporations beginning with the Corporation, provided each corporation (other than the last corporation) in the unbroken chain owns, at the time of the determination, stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

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JJ. TAKE-OVER PRICE shall mean the GREATER of (i) the Fair Market Value per share of Common Stock on the date the option is surrendered to the Corporation in connection with a Hostile Take-Over or (ii) the highest reported price per share of Common Stock paid by the tender offeror in effecting such Hostile Take-Over. However, if the surrendered option is an Incentive Option, the Take-Over Price shall not exceed the clause (i) price per share.

KK. TAXES shall mean the Federal, state and local income and employment tax liabilities incurred by the holder of Non-Statutory Options or unvested shares of Common Stock in connection with the exercise of those options or the vesting of those shares.

A-4.

LL. 10% STOCKHOLDER shall mean the owner of stock (as determined under Code Section 424(d)) possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Corporation (or any Parent or Subsidiary).

A-5.

PROXY CARD

TRIANGLE PHARMACEUTICALS, INC.
PROXY SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS

The undersigned hereby appoints Daniel G. Welch and R. Andrew Finkle jointly and severally, as proxies, with full power of substitution and resubstitution, to vote all shares of stock which the undersigned is entitled to vote at the special meeting of stockholders of Triangle Pharmaceuticals, Inc. to be held on Friday, September 20, 2002, or at any postponements or adjournments of the special meeting, as specified on the reverse, and to vote in their discretion on any other business as may properly come before the special meeting and any adjournments thereof.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR PROPOSAL 1.

UNLESS OTHERWISE SPECIFIED BY THE UNDERSIGNED, THIS PROXY WILL BE VOTED FOR PROPOSAL 1 AND WILL BE VOTED BY THE PROXYHOLDERS AT THEIR DISCRETION AS TO ANY OTHER MATTERS PROPERLY TRANSACTED AT THE MEETING OR ANY ADJOURNMENTS THEREOF. TO VOTE IN ACCORDANCE WITH THE BOARD OF DIRECTORS' RECOMMENDATIONS JUST SIGN BELOW, NO BOXES NEED BE CHECKED.

(PLEASE SIGN AND DATE ON REVERSE SIDE)

SPECIAL MEETING OF STOCKHOLDERS

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TRIANGLE PHARMACEUTICALS, INC.
SEPTEMBER 20, 2002

PROXY VOTING INSTRUCTIONS

SELECT ONE OF THE FOLLOWING:

VOTE BY MAIL

Please date, sign and mail your proxy card in the envelope provided as soon as possible.

VOTE BY TELEPHONE (TOUCH-TONE PHONE ONLY)

Please call toll-free 1-800-PROXIES and follow the instructions. Have your control number and the proxy card available when you call.

YOUR CONTROL NUMBER IS _____

DO NOT RETURN YOUR PROXY CARD
IF YOU VOTE BY TELEPHONE

PLEASE DETACH AND MAIL IN THE ENVELOPE PROVIDED

/X/ PLEASE MARK YOUR VOTES AS IN THIS EXAMPLE.

1. Amendment of Stock Option Plan: To approve an amendment to the 1996 Stock Incentive Plan (i) increasing the number of shares of common stock available for issuance under the plan by 3,000,000 shares, and (ii) increasing the number of options, stock appreciation rights and stock issuances which may be granted to any one person in the aggregate per calendar year to 1,500,000.

/ / FOR

/ / AGAINST

/ / ABSTAIN

SIGNATURE OF STOCKHOLDER

PRINTED NAME OF STOCKHOLDER

TITLE (IF APPROPRIATE)

Dated: _____, 2002

Note: Please sign exactly as name appears on this proxy. If signing as attorney, executor, administrator, trustee or guardian, please give full title as such, and, if signing for a corporation, give your title. When shares are in the names of more than one person, each should sign.