

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2000

or

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

For the transition period from _____ to _____
Commission file number 000-26422

DISCOVERY LABORATORIES, INC.

(Exact name of small business issuer as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

94-3171943

350 South Main Street, Suite 307
Doylestown, Pennsylvania
(Address of principal executive offices)

18901
(Zip Code)

Registrants' telephone number, including area code: (215) 340-4699
Securities registered under Section 12(b) of the Exchange Act: None
Securities registered under Section 12(g) of the Exchange Act:
Common Stock, par value \$.001 per share

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

As of May 8, 2000, 20,781,499 shares of Common Stock, par value \$.001 per share,
were outstanding.

Documents incorporated by reference: None.

Transitional Small Business Disclosure Format: Yes No

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DISCOVERY LABORATORIES, INC. AND SUBSIDIARY
(a development stage company)

Consolidated Balance Sheets

	March 31, 2000 ---- (Unaudited)	December 31, 1999 ----
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 23,591,000	\$ 3,547,000
Inventory	575,000	575,000
Prepaid expenses and other current assets	122,000	66,000
	-----	-----
Total current assets	24,288,000	4,188,000
Property and equipment, net of depreciation	447,000	426,000
Security deposits	18,000	18,000
	-----	-----
	\$ 24,753,000	\$ 4,632,000
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	\$ 694,000	\$ 425,000
Deferred revenue	1,036,000	1,036,000
Capitalized lease - current	15,000	15,000
	-----	-----
Total current liabilities	1,745,000	1,476,000
	-----	-----
Capitalized lease - noncurrent	44,000	48,000
	-----	-----
Commitments		
Stockholders' Equity:		
Preferred stock, \$.001 par value; 5,000,000 shares authorized:		
Series B convertible; None and 1,530,756 shares issued and outstanding at		2,000
March 31, 2000 and December 31, 1999, respectively		
Series C redeemable convertible; None and 2,039 shares issued and outstanding		2,481,000
at March 31, 2000 and December 31, 1999, respectively.		
Common stock, \$.001 par value; 35,000,000 authorized; 20,721,135 and 9,689,240	21,000	10,000
shares issued and outstanding at March 31, 2000 and December 31, 1999		
respectively		
Treasury stock (at cost; 33,743 and 2,000 shares of common stock at March 31,	(250,000)	(5,000)
2000 and December 31, 1999, respectively)		
Additional paid-in capital	57,828,000	33,749,000
Unearned portion of compensatory stock options	(37,000)	(37,000)
Deficit accumulated during the development stage	(34,598,000)	(33,092,000)
	-----	-----
Total stockholders' equity	22,964,000	3,108,000
	-----	-----
	\$ 24,753,000	\$ 4,632,000
	=====	=====

DISCOVERY LABORATORIES, INC. AND SUBSIDIARY
(a development stage company)

Consolidated Statements of Operations
(Unaudited)

	Three Months Ended March 31,		May 18, 1993 (Inception) Through March 31, 2000
	2000	1999	
Interest	\$ 22,000	\$ 37,000	\$ 1,490,000
License Fees			68,000
Research Grants	19,000		156,000
	41,000	37,000	1,714,000
Expenses:			
Write-off of acquired in-process research and development and supplies			13,508,000
Research and development	774,000	1,419,000	13,643,000
General and administrative	735,000	636,000	8,490,000
Interest	2,000		15,000
Total expenses	1,511,000	2,055,000	35,656,000
	(1,470,000)	(2,018,000)	(33,942,000)
Minority interest in net loss of subsidiary			26,000
Net loss	(1,470,000)	(2,018,000)	(33,916,000)
Other comprehensive income:			
Unrealized gain on marketable securities available for sale		(3,000)	
Total comprehensive loss	\$ (1,470,000)	\$ (2,021,000)	\$ (33,916,000)
Net loss per share - basic and diluted	\$(0.12)	\$(0.36)	
Weighted average number of common shares outstanding	12,668,000	5,613,000	

See notes to financial statements
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DISCOVERY LABORATORIES, INC. AND SUBSIDIARY
(a development stage company)

Consolidated Statements of Changes in Stockholders' Equity
December 31, 1999 through March 31, 2000

	Common Stock		Treasury Stock		Preferred Stock Series B		Preferred Stock Series C	
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount
Balance - 12/31/99	9,689,240	\$ 10,000	(2,000)	\$ (5,000)	1,530,756	\$ 2,000	2,039	\$ 2,481,000
Exercise of Stock Options	445,259	-	(31,743)	(245,300)				
Common placement warrant conversions	14,130	-						
Preferred placement warrant conversions	8,511	-						
Exercise of Class C & D Warrants	2,480,009	3,000						
Series B preferred stock conversions	4,765,631	5,000			(1,530,756)	(2,000)		
Dividend Payable on Series C preferred stock								36,000
Series C preferred stock conversions	398,186						(2,039)	(2,517,000)
Common stock issued in payment for services	7,323	-						
Issuance of private placement units	2,902,846	3,000						
Net Loss								
Balance - 03/31/00	20,721,135	\$ 21,000	(33,743)	\$(250,300)	-	-	-	-

	Additional Paid-In Capital	Unearned Portion of Compensatory Stock Options	Deficit Accumulated during Development Stage	Total
Balance - 12/31/99	\$ 33,749,000	\$ (37,000)	\$ (33,092,000)	\$ 3,108,000
Exercise of Stock Options	440,000			\$ 195,000
Common placement warrant conversions	-			\$ -
Preferred placement warrant conversions	-			\$ -
Exercise of Class C & D Warrants	3,668,000			\$ 3,671,000
Series B preferred stock conversions	(3,000)			\$ -
Dividend Payable on Series C preferred stock			(36,000)	\$ -
Series C preferred stock conversions	2,517,000			\$ -
Common stock issued in payment for services	36,000			\$ 36,000
Issuance of private placement units	17,421,000			\$ 17,424,000
Net Loss			(1,470,000)	\$ (1,470,000)
Balance - 03/31/00	\$ 57,828,000	\$ (37,000)	\$ (34,598,000)	\$ 22,964,000

DISCOVERY LABORATORIES, INC. AND SUBSIDIARY
(a development stage company)

Consolidated Statements of Cash Flows
(Unaudited)

	Three Months Ended March 31,		May 18, 1993 (Inception) Through March 31, 2000
	2000	999	2000
Cash flows from operating activities:			
Net loss	\$ (1,470,000)	\$ (2,018,000)	\$ (33,916,000)
Adjustments to reconcile net loss to net cash used in operating activities			
Write-off of acquired in-process research and development and supplies			13,508,000
Write-off of licenses			683,000
Depreciation and amortization	24,000	19,000	240,000
Compensatory stock options		8,000	142,000
Expenses paid using treasury stock and common stock	36,000		114,000
Changes in:			
Prepaid expenses and other current assets	(56,000)	126,000	(91,000)
Accounts payable and accrued expenses	269,000	279,000	561,000
Deferred revenue			1,036,000
Other assets			(18,000)
Expenses paid on behalf of company			18,000
Employee stock compensation			42,000
Reduction of research and development supplies			(161,000)
Net cash used in operating activities	(1,197,000)	(1,586,000)	(17,842,000)
Cash flows from investing activities:			
Purchase of furniture and equipment	(45,000)	(14,000)	(591,000)
Proceeds from disposal of furniture and equipment			25,000
Acquisition of licenses			(711,000)
Purchase of marketable securities			(21,745,000)
Proceeds from sale or maturity of investments		1,078,000	22,150,000
Net cash payments on merger			(1,670,000)
Net cash provided by (used in) investing activities	(45,000)	1,064,000	(2,542,000)
Cash flows from financing activities:			
Proceeds on private placements of units, net of expenses	17,424,000		40,146,000
Purchase of treasury stock		(5,000)	(95,000)
Principal payments under capital lease obligation	(4,000)		(14,000)
Collections on stock subscriptions and proceeds on conversion of stock options and warrants	3,866,000	4,000	3,938,000
Net cash (used in) provided by financing activities	21,286,000	(1,000)	43,975,000
Net (decrease) increase in cash and cash equivalents	20,044,000	(523,000)	23,591,000
Cash and cash equivalents - beginning of period	3,547,000	1,474,000	
Cash and cash equivalents - end of period	\$ 23,591,000	\$ 951,000	\$ 23,591,000
Supplementary disclosure of cash flows information:			
Interest Paid:	\$ 2,000		\$ 15,000
Noncash transactions:			
Accrued dividends on preferred stock	\$ 36,000	\$ 51,000	\$ 682,000
Common stock and treasury stock issued in payment of services	36,000	69,000	109,000
Preferred Stock issued for inventory			575,000
Treasury stock received on exercise of options	245,000		245,000
Equipment acquired through capitalized lease			73,000
Series C preferred stock dividends paid using common stock			204,000

NOTE 1 - THE COMPANY AND BASIS OF PRESENTATION

The Company

Discovery Laboratories, Inc. (the "Company") was formed to license and develop pharmaceutical products to treat a variety of human diseases. The accompanying financial statements include the accounts of the Company and its wholly owned subsidiary, Acute Therapeutics, Inc. All intercompany balances and transactions have been eliminated.

The accompanying unaudited, consolidated, condensed financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information in accordance with the instructions to Form 10-QSB. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normally recurring accruals) considered for fair presentation have been included. Operating results for the three-month period ended March 31, 2000 are not necessarily indicative of the results that may be expected for the year ended December 31, 2000. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's 1999 Annual Report on form 10-KSB.

The Company's activities since incorporation have primarily consisted of conducting research and development, performing business and financial planning and raising capital. Accordingly, the Company is considered to be in the development stage, and expects to incur increasing losses and require additional financial resources to achieve commercialization of its products.

The Company also depends on third parties to conduct research on the Company's behalf through various research agreements. All of the Company's current products under development are subject to license agreements that will require the payment of future royalties.

Net Loss Per Share

Net loss per share is computed based on the weighted average number of common shares outstanding for the periods and common shares issuable for little or no cash consideration. Common shares issuable upon the exercise of options and warrants and the conversion of convertible securities are not included in the calculation of the net loss per share as their effect would be antidilutive.

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

Plan of Operations

Since its inception, the Company has concentrated its efforts and resources on the development and commercialization of pharmaceutical products and technologies. The Company has been unprofitable since its inception and has incurred a cumulative net loss of approximately \$33.9 million as of March 31, 2000. The Company expects to incur significantly increasing operating losses over the next several years, primarily due to the expansion of its research and development programs, including clinical trials for some or all of its existing products and technologies and other products and technologies that it may acquire or develop. The Company's ability to achieve profitability depends upon, among other things, its ability to discover and develop products, obtain regulatory approval for its proposed products, and enter into agreements for product development, manufacturing and commercialization. None of the Company's products currently generates revenues and the Company does not expect to achieve product revenues for the foreseeable future. Moreover, there can be no assurance that the Company will ever achieve significant revenues or profitable operations from the sale of any of its products or technologies.

The Company is a development stage pharmaceutical company that is focused on developing compounds intended for neonatal use in critical care hospital settings. The Company is also developing its lead product candidate, Surfaxin(R), for the treatment of various critical care respiratory conditions. The Company anticipates that during the next 12 months it will conduct substantial research and development of its compounds.

The Company is currently engaged in the development and commercialization of drugs for critical care that are intended to be used in a hospital setting. The Company anticipates that during the next 12 months it will conduct substantial research and development of its products under development and that it will focus primarily on the conduct of clinical trials for Surfaxin(R) indications. The Company expects to expand its research and development activities as a result of its receipt of approximately \$17.4 million of net proceeds from its offering completed in

March 2000. The Company anticipates the near term acquisition of equipment necessary to manufacture Surfaxin(R). The Company also anticipates the hiring of further personnel to augment the clinical development of Surfaxin(R).

SURFAXIN(R) (lucinactant)

Meconium Aspiration Syndrome (MAS)

The Company recently initiated a pivotal Phase 3 trial in MAS. The trial intends to enroll 200 MAS patients. The Company announced results of a Phase 2 clinical trial in MAS in full-term newborns in February 1999. The 22-patient Phase 2 trial showed an improvement in oxygenation parameters and a three-day savings on mechanical ventilation. An Orphan Products Development Grant awarded to the Company by the FDA Office of Orphan Products Development is expected to contribute significantly towards reducing the costs of this Phase 3 trial. The Company has received Fast Track designation for Surfaxin(R) from the FDA for MAS.

Respiratory Distress Syndrome (RDS) in premature infants

The Company is currently planning to commence a Phase 3 clinical trial of Surfaxin(R) for the treatment of RDS in premature infants during 2000. Such trial, and any other clinical trials of the Company's products in development that have not yet commenced, will require the approvals by the United States Food and Drug Administration (the "FDA") and/or world health authorities. There can be no assurance as to the receipt or the timing of such approvals.

Acute Lung Injury/Acute Respiratory Distress Syndrome (ALI/ARDS)

A pivotal Phase 2/3 clinical trial of Surfaxin for the treatment of ALI/ARDS was commenced in July 1998. This trial was stopped on January 27, 2000 due to the Company's cash position and so that a new Phase 2 ARDS/ALI trial could be commenced using a new, less viscous formulation of Surfaxin(R). A new Phase 2 trial is currently being planned, which the Company expects to commence following submission of a protocol and subsequent agreement by the FDA. The Company has received Fast Track designation for Surfaxin(R) from the FDA for ARDS.

SUPERVENT(TM) (tyloxapol)

Cystic Fibrosis (CF)

The Company began a Phase 2A clinical trial of SuperVent(TM) for the treatment of CF on August 4, 1999. Preliminary analysis of the data show that SuperVent(TM) decreased the amount of Interleukin 8 (IL-8) in the sputum of treated patients compared to controls. IL-8 is an important body chemical that causes the migration of inflammatory cells to the site of release. The Phase 2A clinical trial involved 8 patients. An additional Phase 2 trial will likely be required prior to commencement of a Phase 3 trial. Previously, the Company completed a Phase 1 trial in 20 normal healthy volunteers and determined a dose (1.25% tyloxapol concentration) that did not produce significant adverse effects.

Chronic Bronchitis (CB)

The Company plans to investigate the potential clinical application of SuperVent(TM) in CB following its successful Phase 2A trial in CF. A pilot study will be reviewed during 2000.

DSC-103 (Vitamin D analog)

Postmenopausal Osteoporosis

On December 5, 1997 a Phase 1 clinical study of DSC-103 as a once-daily, orally administered drug for the treatment of postmenopausal osteoporosis in the United States was initiated. Part B of such trial was commenced on April 2, 1998 and was successfully completed on June 29, 1998. The Company has had discussions with the licensor of DSC-103 regarding the possibility of terminating its license.

Results of Operations

The Company's expenses decreased from \$2,055,000 in the first quarter of 1999 to \$1,511,000 in the first quarter of 2000. The decrease was primarily a slow-down in research and development due to the Company's cash position. As a result of the receipt of proceeds from the private placement completed in March, 2000, the Company expects to significantly increase its research and development and clinical trial efforts. As a result of the decreases in expenses, the Company's total comprehensive net loss decreased from \$2,021,000 in the first quarter of 1999 to \$1,470,000 in the first quarter of 2000. In addition, due to the reduction in the total

comprehensive net loss and the increase in the weighted average common shares outstanding during the first quarter of 2000, the Company's net loss per share decreased from \$0.36 in 1999 to \$0.12 in 2000.

Liquidity

At March 31, 2000, the Company had working capital of \$22.5 million. In March 2000, the Company completed a private placement pursuant to which it received net proceeds of approximately \$17.4 million. The Company believes it has sufficient resources to meet its planned research and development activities through the fourth quarter 2001.

The Company will be required to raise additional capital in order to meet its business objectives, and there can be no assurance that it will be successful in doing so or, in general, that the Company will be able to achieve its business objectives.

The Company's working capital requirements will depend upon numerous factors, including, without limitation, progress of the Company's research and development programs, preclinical and clinical testing, timing and cost of obtaining regulatory approvals, levels of resources that the Company devotes to the development of manufacturing and marketing capabilities, technological advances, status of competitors and the ability of the Company to establish collaborative arrangements with other organizations.

Safe Harbor Statement Under the Private Securities Litigation Act of 1996

Certain statements set forth in this report, including, without limitation, statements concerning the Company's research and development programs, the possibility of submitting regulatory filings for the Company's products under development, the seeking of collaboration arrangements with pharmaceutical companies or others to develop, manufacture and market products, the research and development of particular compounds and technologies and the period of time for which the Company's existing resources will enable the Company to fund its operations, are forward-looking statements. All such statements involve significant risks and uncertainties. Actual results may differ materially from those contemplated in the forward looking statements as a result of risks and uncertainties, including but not limited to the following: the Company's ability to obtain substantial additional funds; the uncertainties inherent in the process of developing products of the kind being developed by the Company; the Company's ability to establish additional collaborative and licensing arrangements and the degree of success of the Company's collaboration partners; the Company's ability to obtain and maintain all necessary patents or licenses; the Company's ability to demonstrate the safety and efficacy of product candidates and to receive required regulatory approvals; the Company's ability to meet obligations and required milestones under its license agreement; the Company's ability to compete successfully against other products and to market products in a profitable manner; and other risks and uncertainties set forth in the Company's filings with the Securities and Exchange Commission.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 2. CHANGE IN SECURITIES.

On March 23, 2000, the Company received approximately \$17,400,000 in net proceeds from the sale of 37.74 units in a private placement. Each unit consists of 76,923 shares of common stock and Class E warrants to purchase an additional 15,385 shares of common stock at \$7.38 per share. In connection with this private placement, the placement agent, Paramount Capital, Inc. ("Paramount") received fees of \$1,321,000 and the Company agreed to issue to Paramount warrants to purchase 348,341 shares of common stock at \$8.11 per share.

During the Quarter ended March 31, 2000, the company received \$3,671,689 in proceeds from the exercise of 2,024,792 Class D warrants and 455,217 Class C warrants.

For each of the issuances described above, the securities received by investors were deemed to be exempt from registration under the Act in reliance on Section 4(2) thereof because such issuance did not involve a public offering. Investors in each financing represented their intention to acquire the securities for investment only and not with a view to or for sale in connection with any distribution thereof and appropriate legends were affixed to the securities certificates issued in such transactions. The investors in each financing had adequate access to information about the Company. Moreover, such investors represented to the Company, and the Company believed, that they were experienced in financial matters.

On March 3, 2000, Johnson & Johnson, Inc. elected to convert their shares of Series C Preferred stock into 398,186 shares of common stock. Subsequent to this conversion, the Company no longer has any shares of Series C Preferred stock outstanding.

On March 14, 2000, the Company forced the conversion of all its outstanding Series B Preferred Stock (827,750) into common. Pursuant to Section Fourth (B) (5) of the Restated Certificate of Incorporation of the Company, the Company exercised its right to cause the conversion. Subsequent to this conversion, the Company no longer has any classes of Preferred stock outstanding nor any long term debt.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

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

None

ITEM 5. OTHER INFORMATION.

The Company has entered into an agreement to purchase an approximately 4,000 square foot building adjacent to its current headquarters in Doylestown Pennsylvania for \$515,000. The Company intends to close on this purchase on June 30, 2000.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

(a) Exhibits:

1. Form of Class E Warrant
- 27.1 Financial Data Schedule.

(b) Reports on Form 8-K:

1. Form 8-K filed with the Commission on February 8, 2000.
2. Form 8-K filed with the Commission on March 7, 2000.
3. Form 8-K filed with the Commission on March 20, 2000.
4. Form 8-K filed with the Commission on March 29, 2000.

SIGNATURES

In accordance with the requirements of the Exchange Act, the Registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Discovery Laboratories, Inc.
(Registrant)

Date: May 15, 2000

/s/ Robert J. Capetola

Robert J. Capetola, Ph.D.
President/Chief Executive Officer

Date: May 15, 2000

/s/ Evan Myrianthopoulos

Evan Myrianthopoulos
Vice President, Finance
(Principal Financial Officer)

Date: May 15, 2000

/s/ Cynthia Davis

Cynthia Davis
Controller
(Principal Accounting Officer)

THE WARRANTS REPRESENTED BY THIS CERTIFICATE AND THE SECURITIES ISSUABLE UPON EXERCISE THEREOF HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 OR THE SECURITIES LAWS OF ANY STATE. NEITHER SUCH WARRANTS NOR SUCH SECURITIES MAY BE SOLD, PLEDGED, HYPOTHECATED OR OTHERWISE TRANSFERRED WITHOUT SUCH REGISTRATION, EXCEPT UPON DELIVERY TO THE COMPANY OF SUCH EVIDENCE AS MAY BE SATISFACTORY TO COUNSEL FOR THE COMPANY TO THE EFFECT THAT ANY SUCH TRANSFER SHALL NOT BE IN VIOLATION OF THE SECURITIES ACT OF 1933 OR APPLICABLE STATE SECURITIES LAWS OR ANY RULE OR REGULATION PROMULGATED THEREUNDER.

DISCOVERY LABORATORIES, INC.

Class E Warrant for the Purchase
of Shares of Common Stock

FOR VALUE RECEIVED, DISCOVERY LABORATORIES, INC., a Delaware corporation (the "Company"), hereby certifies that _____ (the "Holder"), its designee or its permitted assigns is entitled to purchase from the Company, at any time or from time to time commencing on March 21, 2000 and prior to 5:00 P.M., New York City time, on March 21, 2005 up to _____ fully paid and non-assessable shares of common stock (subject to adjustment), \$.001 par value per share, of the Company for \$7.375 per share (the "Purchase Agreement") (subject to adjustment as provided herein) an aggregate purchase price of \$_____. (Hereinafter, (i) said common stock, \$.001 par value per share, of the Company, is referred to as the "Common Stock," (ii) the shares of the Common Stock purchasable hereunder or under any other Warrant (as hereinafter defined) are referred to as the "Warrant Shares," (iii) the aggregate purchase price payable for the Warrant Shares purchasable hereunder is referred to as the "Aggregate Warrant Price," (iv) the price payable for each of the Warrant Shares is referred to as the "Per Share Warrant Price," (v) this Warrant, all similar Warrants issued on the date hereof and all warrants hereafter issued in exchange or substitution for this Warrant or such similar Warrants are referred to as the "Warrants," and (vi) the holder of this Warrant is referred to as the "Holder" and the holder of this Warrant and all other Warrants and Warrant Shares are referred to as the "Holders" and Holders of more than 50% of the outstanding Warrants and Warrant Shares are referred to as the "Majority of the Holders"). The Aggregate Warrant Price is not subject to adjustment.

By acceptance of this Warrant, the Holder agrees to comply with all applicable provisions of the Purchase Agreement to the same extent as if it were a party thereto.

1. Exercise of Warrant. a. This Warrant may be exercised in whole at any time, or in part from time to time, commencing on March 21, 2000 and prior to 5:00 P.M., Eastern Standard Time, on March 21, 2005 by the Holder by the surrender of this Warrant (with the

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subscription form at the end hereof duly executed) at the address set forth in Section 9(a) hereof, together with proper payment of the Aggregate Warrant Price, or the proportionate part thereof if this Warrant is exercised in part, with payment for the Warrant Shares made by certified or official bank check payable to the order of the Company; or

b. If this Warrant is exercised in part, this Warrant must be exercised for a number of whole shares of the Common Stock and the Holder is entitled to receive a new Warrant covering the Warrant Shares that have not been exercised and setting forth the proportionate part of the Aggregate Warrant Price applicable to such Warrant Shares.

c. Upon surrender of this Warrant, the Company will (i) issue a certificate or certificates in the name of the Holder for the largest number of whole shares of the Common Stock to which the Holder shall be entitled and, if this Warrant is exercised in whole, in lieu of any fractional share of the Common Stock to which the Holder shall be entitled, pay to the Holder cash in an amount equal to the fair value of such fractional share (determined in such reasonable manner as the Board of Directors of the Company shall determine), and (ii) deliver the other securities and properties receivable upon the exercise of this Warrant, or the proportionate part thereof if this Warrant is exercised in part, pursuant to the provisions of this Warrant.

2. Reservation of Warrant Shares; Listing. The Company agrees that, prior to the expiration of this Warrant, the Company shall at all times (i) have authorized and in reserve, and shall keep available, solely for issuance and delivery upon the exercise of this Warrant, the shares of the Common Stock and other securities and properties as from time to time shall be receivable upon the exercise of this Warrant, free and clear of all restrictions on sale or transfer, other than under Federal or state securities laws, and free and clear of all preemptive rights and rights of first refusal and (ii) use its best efforts to keep the Warrant Shares authorized for listing on the Nasdaq National Market, the Nasdaq SmallCap Market or any national securities exchange on which the Company's Common Stock is traded.

3. Protection Against Dilution. a. If, at any time or from time to time after the date of this Warrant, the Company shall issue or distribute to any holder of shares of Common Stock evidence of its indebtedness, any other securities of the Company or any cash, property or other assets (excluding a subdivision, combination or reclassification, or dividend or distribution payable in shares of Common Stock, referred to in Section 3(b), and also excluding cash dividends or cash distributions paid out of net profits legally available therefor in the full amount thereof (any such non-excluded event being herein called a "Special Dividend")), the Per Share Warrant Price shall be adjusted by multiplying the Per Share Warrant Price then in effect by a fraction, the numerator of which shall be the then Current Market Price in effect on the record date of such issuance or distribution less the fair market value (as determined in good faith by the Company's Board of Directors) of the evidence of indebtedness, cash, securities or property, or other assets issued or distributed in such Special Dividend applicable to one share of Common Stock and the denominator of which shall be the then Current Market Price in effect on the record date of such

issuance or distribution. An adjustment made pursuant to this Subsection 3(a) shall become effective immediately after the record date of any such Special Dividend.

b. In case the Company shall hereafter (i) pay a dividend or make a distribution to any holder of its capital stock in shares of Common Stock, (ii) subdivide its outstanding shares of Common Stock into a greater number of shares, (iii) combine its outstanding shares of Common Stock into a smaller number of shares or (iv) issue by reclassification of its Common Stock any shares of capital stock of the Company, the Per Share Warrant Price shall be adjusted to be equal to a fraction, the numerator of which shall be the Aggregate Warrant Price and the denominator of which shall be the number of shares of Common Stock or other capital stock of the Company that the Holder would have owned immediately following such action had such Warrant been exercised immediately prior thereto. An adjustment made pursuant to this Subsection 3(b) shall become effective immediately after the record date in the case of a dividend or distribution, and shall become effective immediately after the effective date in the case of a subdivision, combination or reclassification.

c. Except as provided in Subsections 3(a) and 3(b), in case the Company shall hereafter issue or sell any Common Stock, any securities convertible into Common Stock, any rights, options or warrants to purchase or otherwise receive an issuance of Common Stock or any securities convertible into, or exercisable or exchangeable for, Common Stock, in each case for a price per share or entitling the holders thereof to purchase Common Stock at a price per share (determined by dividing (i) the total amount, if any, received or receivable by the Company in consideration of the issuance or sale of such securities plus the total consideration, if any, payable to the Company upon exercise thereof (the "Total Consideration") by (ii) the number of additional shares of Common Stock issued, sold or issuable upon exercise of such securities) that is less than the then (1) Current Market Price in effect on the date of such issuance or sale and (2) the Redemption Price (as defined in Section 7 below), then the Per Share Warrant Price shall be adjusted as of the date of such issuance or sale by multiplying the Per Share Warrant Price then in effect by a fraction, the numerator of which shall be (x) the sum of (A) the number of shares of Common Stock outstanding on the record date of such issuance or sale plus (B) the Total Consideration divided by the Current Market Price and the denominator of which shall be (y) the number of shares of Common Stock outstanding on the record date of such issuance or sale plus the maximum number of additional shares of Common Stock issued, sold or issuable upon exercise or conversion of such securities.

d. No adjustment in the Per Share Warrant Price shall be required in the case of the issuance by the Company of Common Stock (i) pursuant to the exercise of any warrant; (ii) pursuant to the exercise of any stock options or warrants currently outstanding or securities issued after the date hereof, which may be approved by the Company's Board of Directors pursuant to any Company benefit plan or exercised, under any employee benefit plan of the Company to officers, directors, consultants or employees, but only with respect to such warrants or stock options as are exercisable at prices no lower than the closing bid price of the Common Stock as of the date of grant thereof.

e. In case of any capital reorganization or reclassification, or any consolidation or merger to which the Company is a party other than a merger or consolidation in which the Company is the continuing corporation, or in case of any sale or conveyance to another entity of the property of the Company as an entirety or substantially as a entirety, or in the case of any statutory exchange of securities with another corporation (including any exchange effected in connection with a merger of a third corporation into the Company), the Holder of this Warrant shall have the right thereafter to receive on the exercise of this Warrant the kind and amount of securities, cash or other property which the Holder would have owned or have been entitled to receive immediately after such reorganization, reclassification, consolidation, merger, statutory exchange, sale or conveyance had this Warrant been exercised immediately prior to the effective date of such reorganization, reclassification, consolidation, merger, statutory exchange, sale or conveyance and in any such case, if necessary, appropriate adjustment shall be made in the application of the provisions set forth in this Section 3 with respect to the rights and interests thereafter of the Holder of this Warrant to the end that the provisions set forth in this Section 3 shall thereafter correspondingly be made applicable, as nearly as may reasonably be, in relation to any shares of stock or other securities or property thereafter deliverable on the exercise of this Warrant. The above provisions of this Section 3(e) shall similarly apply to successive reorganizations, reclassifications, consolidations, mergers, statutory exchanges, sales or conveyances. The Company shall require the issuer of any shares of stock or other securities or property thereafter deliverable on the exercise of this Warrant to be responsible for all of the agreements and obligations of the Company hereunder. Notice of any such reorganization, reclassification, consolidation, merger, statutory exchange, sale or conveyance and of said provisions so proposed to be made, shall be mailed to the Holders of the Warrants not less than thirty (30) days prior to such event. A sale of all or substantially all of the assets of the Company for a consideration consisting primarily of securities shall be deemed a consolidation or merger for the foregoing purposes.

f. No adjustment in the Per Share Warrant Price shall be required unless such adjustment would require an increase or decrease of at least \$0.05 per share of Common Stock; provided, however, that any adjustments which by reason of this Subsection 3(g) are not required to be made shall be carried forward and taken into account in any subsequent adjustment; provided, further, however, that adjustments shall be required and made in accordance with the provisions of this Section 3 (other than this Subsection 3(g)) not later than such time as may be required in order to preserve the tax-free nature of a distribution to the Holder of this Warrant or Common Stock issuable upon the exercise hereof. All calculations under this Section 3 shall be made to the nearest cent or to the nearest 1/100th of a share, as the case may be. Anything in this Section 3 to the contrary notwithstanding, the Company shall be entitled to make such reductions in the Per Share Warrant Price, in addition to those required by this Section 3, as it in its discretion shall deem to be advisable in order that any stock dividend, subdivision of shares or distribution of rights to purchase stock or securities convertible or exchangeable for stock hereafter made by the Company to its stockholders shall not be taxable.

g. Whenever the Per Share Warrant Price is adjusted as provided in this Section 3 and upon any modification of the rights of a Holder of Warrants in accordance with this Section 3,

the Company shall promptly prepare a brief statement of the facts requiring such adjustment or modification and the manner of computing the same and cause copies of such certificate to be mailed to the Holders of the Warrants. The Company may, but shall not be obligated to unless requested by a Majority of the Holders, obtain, at its expense, a certificate of a firm of independent public accountants of recognized standing selected by the Board of Directors (who may be the regular auditors of the Company) setting forth the Per Share Warrant Price and the number of Warrant Shares in effect after such adjustment or the effect of such modification, a brief statement of the facts requiring such adjustment or modification and the manner of computing the same and cause copies of such certificate to be mailed to the Holders of the Warrants.

h. If the Board of Directors of the Company shall declare any dividend or other distribution with respect to the Common Stock other than a cash distribution out of earned surplus, the Company shall mail notice thereof to the Holders of the Warrants not less than ten (10) days prior to the record date fixed for determining stockholders entitled to participate in such dividend or other distribution.

i. If, as a result of an adjustment made pursuant to this Section 3, the Holder of any Warrant thereafter surrendered for exercise shall become entitled to receive shares of two or more classes of capital stock or shares of Common Stock and other capital stock of the Company, the Board of Directors (whose determination shall be conclusive and shall be described in a written notice to the Holder of any Warrant promptly after such adjustment) shall determine the allocation of the adjusted Per Share Warrant Price between or among shares or such classes of capital stock or shares of Common Stock and other capital stock.

j. Upon the expiration of any rights, options, warrants or conversion privileges with respect to the issuance of which an adjustment to the Per Share Warrant Price had been made, if such shall not have been exercised, the number of Warrant Shares purchasable upon exercise of this Warrant, to the extent this Warrant has not then been exercised, shall, upon such expiration, be readjusted and shall thereafter be such as they would have been had they been originally adjusted (or had the original adjustment not been required, as the case may be) on the basis of (A) the fact that Common Stock, if any, actually issued or sold upon the exercise of such rights, options, warrants or conversion privileges, and (B) the fact that such shares of Common Stock, if any, were issued or sold for the consideration actually received by the Company upon such exercise plus the consideration, if any, actually received by the Company for the issuance, sale or grant of all such rights, options, warrants or conversion privileges whether or not exercised; provided, however, that no such readjustment shall have the effect of decreasing the number of Warrant Shares purchasable upon exercise of this Warrant by an amount in excess of the amount of the adjustment initially made in respect of the issuance, sale or grant of such rights, options, warrants or conversion privileges.

k. In case any event shall occur as to which the other provisions of this Section 3 are not strictly applicable but as to which the failure to make any adjustment would not fairly protect the purchase rights represented by this Warrant in accordance with the essential intent and principles hereof then, in each such case, the Board of Directors of the Company shall in good faith determine

the adjustment, if any, on a basis consistent with the essential intent and principles established herein, necessary to preserve the purchase rights represented by the Warrants. Upon such determination, the Company will promptly mail a copy thereof to the Holder of this Warrant and shall make the adjustments described therein.

4. Fully Paid Stock; Taxes. The shares of the Common Stock represented by each and every certificate for Warrant Shares delivered upon the exercise of this Warrant shall at the time of such delivery, be duly authorized, validly issued and outstanding, fully paid and nonassessable, and not subject to preemptive rights or rights of first refusal, and the Company will take all such actions as may be necessary to assure that the par value, if any, per share of the Common Stock is at all times equal to or less than the then Per Share Warrant Price. The Company shall pay all documentary, stamp or similar taxes and other similar governmental charges that may be imposed with respect to the issuance or delivery of any Common Shares upon exercise of the Warrants (other than income taxes); provided, however, that if the Common Shares are to be delivered in a name other than the name of the Holder, no such delivery shall be made unless the person requesting the same has paid to the Company the amount of transfer taxes or charges incident thereto, if any.

5. Registration Under Securities Act of 1933. a. The Holder shall have the right to participate in the registration rights granted to Holders of Registrable Securities (as defined in the Subscription Agreement) with respect to the Warrant Shares.

b. Until all of the Warrant Shares have been sold under a registration statement declared effective by the Securities and Exchange Commission or pursuant to Rule 144, the Company shall use its reasonable best efforts to file with the Securities and Exchange Commission all current reports and the information as may be necessary to enable the Holder to effect sales of its shares in reliance upon Rule 144 promulgated under the Securities Act of 1933, as amended (the "Act").

6. Investment Intent; Limited Transferability. a. The Holder represents, by accepting this Warrant, that it understands that this Warrant and any securities obtainable upon exercise of this Warrant have not been registered for sale under Federal or state securities laws and are being offered and sold to the Holder pursuant to one or more exemptions from the registration requirements of such securities laws. In the absence of an effective registration of such securities or an exemption therefrom, any certificates for such securities shall bear the legend set forth on the first page hereof. The Holder understands that it must bear the economic risk of its investment in this Warrant and any securities obtainable upon exercise of this Warrant for an indefinite period of time, as this Warrant and such securities have not been registered under Federal or state securities laws and therefore cannot be sold unless subsequently registered under such laws, unless an exemption from such registration is available.

b. The Holder, by its acceptance of this Warrant, represents to the Company that it is acquiring this Warrant and will acquire any securities obtainable upon exercise of this Warrant

for its own account for investment and not with a view to, or for sale in connection with, any distribution thereof in violation of the Act. The Holder agrees that this Warrant and any such securities will not be sold or otherwise transferred unless (i) a registration statement with respect to such transfer is effective under the Act and any applicable state securities laws or (ii) such sale or transfer is made pursuant to one or more exemptions from the Act.

c. In addition to the limitations set forth in Section 1, this Warrant may not be sold, transferred, assigned or hypothecated by the Holder except in compliance with the provisions of the Act and the applicable state securities "blue sky" laws, and is so transferable only upon the books of the Company which it shall cause to be maintained for such purpose. The Company may treat the registered Holder of this Warrant as he or it appears on the Company's books at any time as the Holder for all purposes. The Company shall permit any Holder of a Warrant or his duly authorized attorney, upon written request during ordinary business hours, to inspect and copy or make extracts from its books showing the registered holders of Warrants. All Warrants issued upon the transfer or assignment of this Warrant will be dated the same date as this Warrant, and all rights of the holder thereof shall be identical to those of the Holder.

d. The Holder has been afforded (i) the opportunity to ask such questions as it has deemed necessary of, and to receive answers from, representatives of the Company concerning the terms and conditions of the Warrants or the exercise of the Warrants; and (ii) the opportunity to request such additional information which the Company possesses or can acquire without unreasonable effort or expense.

e. The Holder did not (i) receive or review any advertisement, article, notice or other communication published in a newspaper or magazine or similar media or broadcast over television or radio, whether closed circuit, or generally available; or (ii) attend any seminar, meeting or investor or other conference whose attendees were, to such Holder's knowledge, invited by any general solicitation or general advertising.

f. The Holder is an "accredited investor" within the meaning of Regulation D under the Act. Such Holder is acquiring the Warrants for its own account and not with a present view to, or for sale in connection with, any distribution thereof in violation of the registration requirements of the Securities Exchange Act of 1934, without prejudice, however, to such Holder's right, subject to the provisions of the Subscription Agreement and this Warrant, at all times to sell or otherwise dispose of all or any part of such Warrants and Warrant Shares.

g. Either by reason of such Holder's business or financial experience or the business or financial experience of its professional advisors (who are unaffiliated with and who are not compensated by the Company or any affiliate, finder or selling agent of the Company, directly or indirectly), such Holder has the capacity to protect such Holder's interests in connection with the transactions contemplated by this Warrant and the Purchase Agreement.

7. Optional Redemption. In the event that the closing bid price for the Common Stock for any 20 Trading Days in any 30 consecutive Trading Day period is at least 200% of the Per Share Warrant Price (the "Redemption Price"), the Company shall be entitled to redeem the Warrants, or any of them, at a per Warrant redemption price of \$0.01, by 30 business days' written notice to the Holder. Upon the expiration of such 30 business day period, all Warrants notified for redemption that have not theretofore been exercised by the Holder shall, upon payment of the aggregate redemption price therefor, cease to represent the right to purchase any shares of Common Stock and shall be deemed cancelled without any further act or deed on the part of the Company. The Holder undertakes to return the certificate representing any redeemed Warrants to the Company upon their redemption and to indemnify the Company with respect to any losses, claims, damages or liabilities arising from the Holder's failure to return such certificate. In the event the certificate so returned represents a number of Warrants in excess of the number being redeemed, the Company shall as promptly as practicable issue to the Holder a new certificate for the number of unredeemed Warrants.

8. Loss, etc., of Warrant. Upon receipt of evidence satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant, and of indemnity reasonably satisfactory to the Company, if lost, stolen or destroyed, and upon surrender and cancellation of this Warrant, if mutilated, the Company shall execute and deliver to the Holder a new Warrant of like date, tenor and denomination.

9. Warrant Holder Not Stockholder. This Warrant does not confer upon the Holder any right to vote on or consent to or receive notice as a stockholder of the Company, as such, in respect of any matters whatsoever, nor any other rights or liabilities as a stockholder, prior to the exercise hereof; this Warrant does, however, require certain notices to Holders as set forth herein.

10. Communication. No notice or other communication under this Warrant shall be effective unless, but any notice or other communication shall be effective and shall be deemed to have been given if, the same is in writing and is mailed by first-class mail, postage prepaid, addressed to:

a. the Company at Discovery Laboratories, Inc., 350 South Main Street, Suite 307, Doylestown, Pennsylvania 18901, Attn: Evan Myriantopoulos, Vice President of Finance or such other address as the Company has designated in writing to the Holder, or

b. the Holder at its address on the books of the Company, or other such address as the Holder has designated in writing to the Company.

11. Headings. The headings of this Warrant have been inserted as a matter of convenience and shall not affect the construction hereof.

12. Applicable Law. This Warrant shall be governed by and construed in accordance with the laws of the State of Delaware without giving effect to the principles of conflicts of law thereof.

13. Amendment, Waiver, etc. Except as expressly provided herein, neither this Warrant nor any term hereof may be amended, waived, discharged or terminated other than by a written instrument signed by the party against whom enforcement of any such amendment, waiver, discharge or termination is sought; provided, however, that any provisions hereof may be amended, waived, discharged or terminated upon the written consent of the Company and the Majority of the Holders.

IN WITNESS WHEREOF, the Company has caused this Warrant to be executed this 21st day of March, 2000.

DISCOVERY LABORATORIES, INC.

By:

Name: Robert J. Capetola, Ph.D.
Title: President and Chief Executive Officer

SUBSCRIPTION

The undersigned, _____, pursuant to the provisions of the foregoing Warrant, hereby agrees to subscribe for and purchase _____ shares of the Common Stock, par value \$.001 per share, of Discovery Laboratories, Inc. covered by said Warrant, and makes payment therefor in full at the price per share provided by said Warrant.

Dated: _____ Signature: _____
Address: _____

ASSIGNMENT

FOR VALUE RECEIVED _____ hereby sells, assigns and transfers unto _____ the foregoing Warrant and all rights evidenced thereby, and does irrevocably constitute and appoint _____, attorney, to transfer said Warrant on the books of Discovery Laboratories, Inc.

Dated: _____ Signature: _____
Address: _____

PARTIAL ASSIGNMENT

FOR VALUE RECEIVED _____ hereby assigns and transfers unto _____ the right to purchase _____ shares of Common Stock, par value \$.001 per share, of Discovery Laboratories, Inc. covered by the foregoing Warrant, and a proportionate part of said Warrant and the rights evidenced thereby, and does irrevocably constitute and appoint _____, attorney, to transfer such part of said Warrant on the books of the Company.

Dated: _____ Signature: _____
Address: _____

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION FROM DISCOVERY LABORATORIES, INC. FORM 10-QSB FOR THE PERIOD ENDED MARCH 31, 2000 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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