U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-KSB/A
AMENDMENT NO. 1

|X| Annual Report under Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2000

|_| Transition report under Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _________ to _________

Commission file number 0-26422

DISCOVERY LABORATORIES, INC.
(Name of Small Business Issuer in Its Charter)

DELAWARE	94-3171943
(State or other jurisdiction of incorporation)	(IRS Employer Identification Number)

350 SOUTH MAIN STREET, SUITE 307, DOYLESTOWN, PENNSYLVANIA 18901
(Address of Principal Executive Offices Including Zip Code)

(215) 340-4699
(Issuer's Telephone Number, Including Area Code)

Securities registered under Section 12(b) of the Exchange Act:

Title of Each Class	Name of Each Exchange on Which Registered
None	None

Securities registered under Section 12(g) of the Exchange Act:

Common Stock, $.001 par value
(Title of Class)

Check whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES |X| NO |_|

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB/A or any amendment to this Form 10-KSB/A. |_|

State issuer's revenues for its most recent fiscal year. $741,000.

The aggregate market value of all of the registrant's outstanding common stock, par value $0.001 per share 25,546,293 shares, including shares of common stock held by each director and executive officer (as such term is defined in Rule 16a-1(f) of the Exchange Act) and each person who beneficially owns 10% or more of the outstanding shares of common stock) was approximately $95,000,000 computed by reference to the closing price of such common equity on the Nasdaq SmallCap Market on December 31, 2001.

As of December 31, 2001, 20,949,318 shares of the registrant's common stock were outstanding (exclusive of shares of such common stock owned by each director and executive officer (as such term is defined in Rule 16a-1(f) of the Exchange Act) and each person who beneficially owns 10% or more of the outstanding shares of common stock). The aggregate market value of voting and non-voting common equity held by non-affiliates computed by using the closing price of such common equity on the Nasdaq SmallCap Market on December 31, 2001, was approximately $78,000,000. Shares of common stock beneficially owned by each director and executive officer (as such term is defined in Rule 16a-1(f) of the Exchange Act) and each person who beneficially owns 10% or more of the outstanding shares of common stock have been excluded from the calculations set forth in this paragraph in that such persons may be deemed affiliates of the registrant. This determination of affiliate status is not necessarily conclusive.

Transitional Small Business Disclosure Format: YES |_| NO |X|

This Amendment No. 1 hereby amends Part II, Item 7 of the Registrant's Annual Report on Form 10-KSB for the year ended December 31, 2000, by replacing the Consolidated Financial Statements referenced therein with the new Consolidated Financial Statements set forth below in the Index to Consolidated Statements on page F-1. The Consolidated Financial Statements filed herewith are unchanged from those previously filed by the Registrant except for modifications to the predecessor independent auditor's report included therein and solely with respect to such report's reference to the registrant's reporting period from May 18, 1993 (inception) through December 31, 1999.

ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K.

Exhibits

Exhibits are listed on the Index to Exhibits at the end of this Report. The exhibits required by Item 601 of Regulation S-B, listed on such Index in response to this Item, are incorporated herein by reference.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

DISCOVERY LABORATORIES, INC.

Date: January 10, 2002

By: /s/ Robert J. Capetola

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

In accordance with the Exchange Act, this Report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Name & Title	Date
/s/ Robert J. Capetola	Robert J. Capetola, Ph.D. Chief Executive Officer	January 10, 2002
/s/ John G. Cooper	John G. Cooper Principal Financial Officer	January 10, 2002
/s/ Cynthia Davis	Cynthia Davis Controller	January 10, 2002
/s/ Herbert McDade	Herbert McDade, Jr. Chairman of the Board of Directors	January 10, 2002

/s/ Richard Power	Richard Power Director	January 10, 2002
/s/ Marvin Rosenthale	Marvin Rosenthale Director	January 10, 2002
/s/ Mark C. Rogers	Mark C. Rogers, M.D. Director	January 10, 2002
	Max Link, Ph.D. Director	January 10, 2002

EXHIBIT INDEX

EXHIBIT NO.	DESCRIPTION
23.1	Consent of Richard A. Eisner & Company, LLP.
23.2	Consent of Ernst & Young LLP.

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

Contents

REPORT OF INDEPENDENT AUDITORS

Board of Directors and Stockholders
Discovery Laboratories, Inc.
Doylestown, Pennsylvania

We have audited the accompanying consolidated balance sheet of Discovery Laboratories, Inc. (a development stage enterprise) as of December 31, 2000, and the related consolidated statements of operations, stockholders' equity, and cash flows for the year then ended, and for the period May 18, 1993 (inception) through December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. The consolidated financial statements for the period May 18, 1993 (inception) through December 31, 1999 include total revenues and net loss of $1,673,000 and $32,446,000, respectively. Our opinion on the consolidated statements of operations, stockholders' equity, and cash flows for the period May 18, 1993 (inception) through December 31, 2000, insofar as it relates to amounts for prior periods through December 31, 1999, is based solely on the report of other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Discovery Laboratories, Inc., at December 31, 2000, and the consolidated results of its operations and its cash flows for the year then ended and the period from May 18, 1993 (inception) through December 31, 2000, in conformity with accounting principles generally accepted in the United States.

/s/ Ernst & Young LLP

Philadelphia, Pennsylvania
March 27, 2001

REPORT OF INDEPENDENT AUDITORS

Board of Directors and Stockholders
Discovery Laboratories, Inc.
Doylestown, Pennsylvania

We have audited Discovery Laboratories, Inc.'s (a development stage company) consolidated statements of operations, changes in stockholders' equity and cash flows for the year ended December 31, 1999 and for the period from May 18, 1993 (inception) through December 31, 1999 (from inception through December 1999 not presented seperately herein except for the consolidated statement of changes in stockholders' equity). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements enumerated above present fairly, in all material respects, the consolidated results of operations and consolidated cash flows of Discovery Laboratories, Inc. for the year ended December 31, 1999 and for the period from May 18, 1993 (inception) through December 31, 1999, in conformity with accounting principles generally accepted in the United States of America.

/s/ Richard A. Eisner & Company, LLP
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New York, New York
February 25, 2000

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

Consolidated Balance Sheet
December 31, 2000

ASSETS	
Current assets:	
Cash and cash equivalents	$ 7,281,000
Available-for-sale marketable securities	11,587,000
Prepaid expenses and other current assets	149,000
Total current assets	19,017,000
Property and equipment, net of depreciation	697,000
Security deposits	3,000
	$ 19,717,000
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	
Accounts payable and accrued expenses	$ 2,382,000
Capitalized lease - current	17,000
Total current liabilities	2,399,000
Deferred revenue	851,000
Capitalized lease	31,000
Total liabilities	3,281,000
Stockholders' equity:	
Common stock, $.001 par value; 35,000,000 authorized; 20,871,112 shares issued	21,000
Additional paid-in capital	60,891,000
Unearned portion of compensatory stock options	(347,000)
Deficit accumulated during the development stage	(43,989,000)
Treasury stock (26,743 shares of common stock at cost)	(213,000)
Accumulated other comprehensive income	73,000
	16,436,000
	$ 19,717,000

See notes to financial statements

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

Consolidated Statements of Operations

	Year Ended December 31, 2000	Year Ended December 31, 1999	May 18, 1993 (Inception) Through December 31, 2000
Revenues:			
Interest, dividends, and realized gains	$ 1,042,000	$ 156,000	$ 2,510,000
Research and development collaborative contracts	741,000	178,000	946,000
	1,783,000	334,000	3,456,000
Expenses:			
Write-off of acquired in-process research and development and supplies	--	--	13,508,000
Research and development	7,356,000	2,869,000	20,225,000
General and administrative	2,768,000	2,296,000	10,381,000
Compensatory stock options	2,515,000	125,000	2,657,000
Interest	5,000	2,000	18,000
Total expenses	12,644,000	5,292,000	46,789,000
	(10,861,000)	(4,958,000)	(43,333,000)
Minority interest in net loss of subsidiary	--	--	26,000
Net loss	$(10,861,000)	$ (4,958,000)	$(43,307,000)
Net loss per common share	$ (0.58)	$ (0.66)	
Weighted average number of common shares outstanding	18,806,000	7,545,000	

See notes to financial statements

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

Consolidated Statements of Changes in Stockholders' Equity
May 18, 1993 (Inception) Through December 31, 2000

	Common Stock		Treasury Stock		Preferred Stock Series B	
	Shares	Amount	Shares	Amount	Shares	Amount
Issuance of common shares, May 1993	440,720	$1,000				
Issuance of common shares, February 1995	143,016					
Expenses paid on behalf of the Company, 1993						
Payment on stock subscriptions, 1995						
Expenses paid on behalf of the Company, 1995						
Issuance of common shares, March 1996	1,070,175	1,000				
Issuance of private placement units August, October and November 1996	856,138	1,000			2,200,256	$2,000
Issuance of common shares for cash and Compensation, September 1996	82,502					
Exercise of stock options, July and October 1996	19,458					
Private placement expenses, 1997						
Issuance of common shares pursuant to Ansan Merger, November 1997	546,433					
Exercise of stock options, July, August and October 1997	17,513					
Accumulated dividends on preferred stock, 1997						
Issuance of common shares pursuant to ATI Merger, June 1998	1,033,500	1,000				
Fair value of common stock issuable on Exercise of ATI options, 1998						
Series C preferred stock issued pursuant to ATI Merger, June 1998						
Accrued dividends payable on Series C Preferred stock at time of ATI Merger, 1998						
Common stock issued in settlement of Series C preferred stock dividends, 1998	49,846					
Exercise of stock options, July and December 1998	131,676					
Series B preferred stock converted, 1998	685,103	1,000			(253,375)	
Noncash exercise of private placement warrants, 1998	8,372					
Dividends payable on Series C preferred stock, 1998						
Treasury stock acquired, 1998			(31,750)	$(90,000)		
Treasury stock issued in payment for services, 1998			16,150	51,000		
Unrealized gain on marketable securities Available for sale, 1998						
Fair value of options granted, 1998						
Amortization of unearned portion of Compensatory stock options, 1998						
Net loss, Inception through 12/31/98						
Balance - December 31, 1998 (carried forward)	5,084,452	5,000	(15,600)	(39,000)	1,946,881	2,000

	Preferred Stock Series C		Stock Subscriptions Receivable	Additional Paid-in Capital	Unearned Portion of Compensatory Stock Options	Accumulated Other Comprehensive Income (loss)
	Shares	Amount				
Issuance of common shares, May 1993			$(2,000)	$ 1,000		
Issuance of common shares, February 1995			(1,000)	1,000		
Expenses paid on behalf of the Company, 1993			1,000			
Payment on stock subscriptions, 1995			2,000			
Expenses paid on behalf of the Company, 1995				18,000		
Issuance of common shares, March 1996				5,000		
Issuance of private placement units August, October and November 1996				18,933,000		
Issuance of common shares for cash and Compensation, September 1996				42,000		
Exercise of stock options, July and October 1996				7,000		
Private placement expenses, 1997				(11,000)		
Issuance of common shares pursuant to Ansan Merger, November 1997				2,459,000		
Exercise of stock options, July, August						

and October 1997				9,000		
Accumulated dividends on preferred stock, 1997						
Issuance of common shares pursuant to ATI Merger, June 1998				5,037,000		
Fair value of common stock issuable on Exercise of ATI options, 1998				2,966,000		
Series C preferred stock issued pursuant to ATI Merger, June 1998	2,039	$2,039,000				
Accrued dividends payable on Series C Preferred stock at time of ATI Merger, 1998		238,000				
Common stock issued in settlement of Series C preferred stock dividends, 1998		(204,000)		204,000		
Exercise of stock options, July and December 1998				30,000		
Series B preferred stock converted, 1998				(1,000)		
Noncash exercise of private placement warrants, 1998						
Dividends payable on Series C preferred stock, 1998		204,000				
Treasury stock acquired, 1998						
Treasury stock issued in payment for services, 1998						
Unrealized gain on marketable securities Available for sale, 1998						$19,000
Fair value of options granted, 1998				142,000	$(142,000)	
Amortization of unearned portion of Compensatory stock options, 1998					18,000	
Net loss, Inception through 12/31/98						
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Balance - December 31, 1998 (carried forward)	2,039	2,277,000	--	29,842,000	(124,000)	19,000

	Deficit Accumulated During the Development Stage	Total
Issuance of common shares, May 1993		$ --
Issuance of common shares, February 1995		--
Expenses paid on behalf of the Company, 1993		1,000
Payment on stock subscriptions, 1995		2,000
Expenses paid on behalf of the Company, 1995		18,000
Issuance of common shares, March 1996		6,000
Issuance of private placement units August, October and November 1996		18,936,000
Issuance of common shares for cash and Compensation, September 1996		42,000
Exercise of stock options, July and October 1996		7,000
Private placement expenses, 1997		(11,000)
Issuance of common shares pursuant to Ansan Merger, November 1997		2,459,000
Exercise of stock options, July, August and October 1997		9,000
Accumulated dividends on preferred stock, 1997	(238,000)	(238,000)
Issuance of common shares pursuant to ATI Merger, June 1998		5,038,000
Fair value of common stock issuable on Exercise of ATI options, 1998		2,966,000
Series C preferred stock issued pursuant to ATI Merger, June 1998		2,039,000
Accrued dividends payable on Series C Preferred stock at time of ATI Merger, 1998		238,000
Common stock issued in settlement of Series C preferred stock dividends, 1998		--
Exercise of stock options, July and December 1998		30,000
Series B preferred stock converted, 1998		--
Noncash exercise of private placement warrants, 1998		--
Dividends payable on Series C preferred stock, 1998	(204,000)	--
Treasury stock acquired, 1998		(90,000)
Treasury stock issued in payment for services, 1998		51,000
Unrealized gain on marketable securities Available for sale, 1998		19,000
Fair value of options granted, 1998		--
Amortization of unearned portion of Compensatory stock options, 1998		18,000
Net loss, Inception through 12/31/98	$(27,488,000)	(27,488,000)
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Balance - December 31, 1998 (carried forward)	(27,930,000)	4,052,000

See notes to financial statements

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

Consolidated Statements of Changes in Stockholders' Equity
May 18, 1993 (Inception) Through December 31, 2000
(continued)

	Common Stock		Treasury Stock		Preferred Stock Series B	
	Shares	Amount	Shares	Amount	Shares	Amount
(brought forward)						
Balance - December 31, 1998	5,084,452	5,000	(15,600)	(39,000)	1,946,881	2,000
Comprehensive loss:						
Net loss						
Other comprehensive loss - unrealized loss on marketable securities available-for-sale						
Total comprehensive loss						
Common stock and warrants in a private placement offering in March and April 1999	826,447	1,000				
Issuance of private placement units in July and August 1999 (net of offering costs)	2,024,792	2,000				
Exercise of stock options	119,732					
Common stock issued in connection with sublicense agreement	317,164	1,000				
Series B preferred stock converted	1,295,485	1,000			(416,125)	
Treasury stock acquired			(2,000)	(5,000)		
Treasury stock issued in payment for services			15,600	39,000		
Common stock issued in payment for services	21,168					
Amortization of unearned portion of Compensatory stock options						
Compensatory stock options granted						
Dividend payable on Series C preferred stock						
Balance - December 31, 1999	9,689,240	$10,000	(2,000)	$ (5,000)	1,530,756	$ 2,000
Comprehensive loss:						
Net loss						
Other comprehensive income - unrealized gain on marketable securities available-for-sale						
Total comprehensive loss						
Exercise of stock options	532,059		(31,743)	(245,000)		
Common placement warrant conversions	18,232					
Preferred placement warrant conversions	18,511					
Exercise of Class C & D warrant conversions	2,536,911	3,000				
Series B preferred stock conversions	4,765,631	5,000			(1,530,756)	(2,000)
Treasury stock issued in payment for services			7,000	37,000		
Common stock issued in payment for services	9,496					
Compensation charge on vesting of options and warrants						
Compensatory stock options and warrants granted						
Dividends payable on Series C stock						
Series C preferred stock conversions	398,186					
Issuance of private placement units	2,902,846	3,000				
Balance - December 31, 2000	20,871,112	$21,000	(26,743)	$(213,000)	--	$ --

	Preferred Stock Series C		Stock Subscriptions Receivable	Additional Paid-in Capital	Unearned Portion of Compensatory Stock Options	Accumulated Other Comprehensive Income (loss)
	Shares	Amount				
(brought forward)						
Balance - December 31, 1998	2,039	2,277,000	--	29,842,000	(124,000)	19,000
Comprehensive loss:						
Net loss						
Other comprehensive loss - unrealized loss on marketable securities available-for-sale						(19,000)

Total comprehensive loss						
Common stock and warrants in a private placement offering in March and April 1999				999,000		
Issuance of private placement units in July and August 1999 (net of offering costs)				2,231,000		
Exercise of stock options				17,000		
Common stock issued in connection with sublicense agreement				563,000		
Series B preferred stock converted				(1,000)		
Treasury stock acquired						
Treasury stock issued in payment for services				14,000		
Common stock issued in payment for services				47,000		
Amortization of unearned portion of Compensatory stock options					124,000	
Compensatory stock options granted				37,000	(37,000)	
Dividend payable on Series C preferred stock		204,000				
Balance - December 31, 1999	2,039	$ 2,481,000	$ --	$33,749,000	$ (37,000)	$ --
Comprehensive loss:						
Net loss						
Other comprehensive income - unrealized gain on marketable securities available-for-sale						73,000
Total comprehensive loss						
Exercise of stock options				524,000		
Common placement warrant conversions						
Preferred placement warrant conversions						
Exercise of Class C & D warrant conversions				3,792,000		
Series B preferred stock conversions				(3,000)		
Treasury stock issued in payment for services						
Common stock issued in payment for services				47,000		
Compensation charge on vesting of options and warrants				2,330,000		
Compensatory stock options and warrants granted				495,000	(310,000)	
Dividends payable on Series C stock		36,000				
Series C preferred stock conversions	(2,039)	(2,517,000)		2,517,000		
Issuance of private placement units				17,440,000		
Balance - December 31, 2000	--	$ --	$ --	$60,891,000	$(347,000)	$73,000

	Deficit Accumulated During the Development Stage	Total
(brought forward) Balance - December 31, 1998	(27,930,000)	4,052,000
Comprehensive loss:		
Net loss	(4,958,000)	(4,958,000)
Other comprehensive loss - unrealized loss on marketable securities available-for-sale		(19,000)
Total comprehensive loss		(4,977,000)
Common stock and warrants in a private placement offering in March and April 1999		1,000,000
Issuance of private placement units in July and August 1999 (net of offering costs)		2,233,000
Exercise of stock options		17,000
Common stock issued in connection with sublicense agreement		564,000
Series B preferred stock converted		--
Treasury stock acquired		(5,000)
Treasury stock issued in payment for services		53,000
Common stock issued in payment for services		47,000
Amortization of unearned portion of Compensatory stock options		124,000
Compensatory stock options granted		--
Dividend payable on Series C preferred stock	(204,000)	--
Balance - December 31, 1999	$(33,092,000)	$ 3,108,000
Comprehensive loss:		
Net loss	(10,861,000)	(10,861,000)
Other comprehensive income - unrealized gain on marketable securities		

available-for-sale		73,000

Total comprehensive loss		(10,788,000)
Exercise of stock options		279,000
Common placement warrant conversions		--
Preferred placement warrant conversions		--
Exercise of Class C & D warrant conversions		3,795,000
Series B preferred stock conversions		--
Treasury stock issued in payment for services		37,000
Common stock issued in payment for services		47,000
Compensation charge on vesting of options and warrants		2,330,000
Compensatory stock options and warrants granted		185,000
Dividends payable on Series C stock	(36,000)	--
Series C preferred stock conversions		--
Issuance of private placement units		17,443,000
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Balance - December 31, 2000	$(43,989,000)	$ 16,436,000
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See notes to financial statements

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

Consolidated Statements of Cash Flows

	Year Ended December 31, 2000	Year Ended December 31, 1999	May 18, 1993 (Inception) Through, December 31, 2000
Cash flows from operating activities:			
Net loss	$(10,861,000)	$ (4,958,000)	$(43,307,000)
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	123,000	87,000	339,000
Compensatory stock options	2,515,000	124,000	2,657,000
Expenses paid using treasury stock and common stock	84,000	27,000	162,000
Loss on sale of property	4,000	--	4,000
Changes in:			
Prepaid expenses, inventory and other current assets	492,000	137,000	457,000
Accounts payable and accrued expenses	1,957,000	(590,000)	2,249,000
Other assets	15,000	--	(3,000)
Proceeds from R&D collaborative contracts	605,000	1,036,000	1,641,000
Amortization of deferred revenue	(790,000)	--	(790,000)
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	(5,856,000)	(4,137,000)	(22,501,000)
Cash flows from investing activities:			
Purchase of property and equipment	(948,000)	(114,000)	(1,494,000)
Proceeds from sale of property and equipment	550,000	--	575,000
Acquisition of licenses	--	--	(711,000)
Purchase of marketable securities	(11,514,000)	(1,000,000)	(33,259,000)
Proceeds from sale or maturity of marketable securities	--	3,525,000	22,150,000
Net cash payments on merger	--	--	(1,670,000)
Net cash (used in) provided by investing activities	(11,912,000)	2,411,000	(14,409,000)
Cash flows from financing activities:			
Proceeds from issuance of securities, net of expenses	21,517,000	3,814,000	44,311,000
Purchase of treasury stock	--	(5,000)	(95,000)
Principal payments under capital lease obligation	(15,000)	(10,000)	(25,000)
Net cash provided by financing activities	21,502,000	3,799,000	44,191,000
Net increase in cash and cash equivalents	3,734,000	2,073,000	7,281,000
Cash and cash equivalents - beginning of period	3,547,000	1,474,000	--
Cash and cash equivalents - end of period	$ 7,281,000	$ 3,547,000	$ 7,281,000
Supplementary disclosure of cash flows information:			
Interest paid	$ 5,000	$ 2,000	$ 18,000
Noncash transactions:			
Accrued dividends on Series C preferred stock	$ 36,000	$ 204,000	$ 682,000
Series C preferred stock dividends paid using common stock	$ --	$ --	$ 204,000
Preferred stock issued for inventory	$ --	$ --	$ 575,000
Equipment acquired through capitalized lease	$ --	$ 73,000	$ 73,000
Unrealized gain (loss) on marketable securities	$ 73,000	$ (19,000)	$ 73,000

See notes to financial statements

NOTE 1 - THE COMPANY AND BASIS OF PRESENTATION

Discovery Laboratories, Inc. (the "Company"), formerly known as Ansan Pharmaceuticals, Inc. ("Ansan"), was incorporated in Delaware on November 6, 1992 and was formed to license and develop pharmaceutical products to treat a variety of human diseases. In November 1997, Ansan merged (the "Ansan Merger") with Discovery Laboratories, Inc., a former Delaware corporation ("Old Discovery"), and was the surviving corporate entity. Subsequent to the Ansan Merger, Ansan changed its name to Discovery Laboratories, Inc. The Ansan Merger was accounted for as a reverse acquisition with Old Discovery as the acquirer for financial reporting purposes since Old Discovery's stockholders owned approximately 92% of the merged entity on a diluted basis. The consolidated financial statements include the accounts of Ansan from November 25, 1997 (the date of acquisition).

Acute Therapeutics, Inc. ("Old ATI"), was formed in October 1996 upon the Company's investment of $7,500,000 in exchange for 600,000 shares of Old ATI's Series A preferred stock, then representing 75% of the voting securities of Old ATI. In June 1998, ATI Acquisition Corp., a wholly owned subsidiary of the Company, merged with and into Old ATI with Old ATI being the surviving entity (the "Old ATI Merger"). Pursuant to the Old ATI Merger, each outstanding share of Old ATI's common stock was exchanged for 3.90 shares of the Common stock of the Company (the "Old ATI Exchange Ratio"), each share of Old ATI's Series B preferred stock was converted into one share of the Company's Series C preferred stock and all outstanding options to purchase Old ATI common stock were assumed by the Company and are exercisable for shares of the Common stock of the Company on the basis of the Old ATI Exchange Ratio.

In October 1999, Old ATI was merged with and into the Company. Also in October 1999, the Company created a new wholly owned subsidiary, which is currently inactive, called Acute Therapeutics, Inc. ("New ATI").

The value of the common stock of the Company issued to Old ATI's common stockholders plus the assumption of the outstanding Old ATI options and merger related costs has been attributed to in-process research and development upon management's evaluation and has been recorded as an expense upon acquisition.

The cost of the Old ATI Merger is as follows:

Common stock issued to Old ATI stockholders (1,033,500 shares at fair value)*	$ 5,038,000
Fair value of common stock issuable on exercise of options to purchase Old ATI common stock net of exercise proceeds	2,966,000
Transaction costs	216,000
	$ 8,220,000

* No discount from market value was recognized in determining the fair value of the common stock issued. The lack of a discount had no effect on financial position.

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Old ATI (through the date of its merger into the Company) and New ATI (from October 1999). All intercompany balances and transactions have been eliminated.

As reflected in the accompanying consolidated financial statements, since inception, the Company has incurred substantial losses from operations. As a result of the start-up nature of its business, the Company can expect to continue incurring substantial operating losses for at least the next several years and significant additional financing will be required. Continuation of the Company is dependent on its ability to obtain additional financing and, ultimately, on its ability to achieve profitable operations. There is no assurance, however, that such financing will be available or that the Company's efforts will ultimately be successful.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and cash equivalents

The Company considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Available-for-sale marketable securities

The investments are classified as available for sale, and are comprised of commercial paper and shares in mutual funds, which invest in income producing securities. Investments are carried at fair market value. Realized gains are computed using the average cost of securities sold. Any appreciation/depreciation on these investments is recorded as other comprehensive income in the statements of changes in stockholders' equity until realized.

Property and equipment

Furniture and equipment is recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets (five to seven years). Leasehold improvements are amortized over the lower of the (a) term of the lease or (b) useful life of the improvements.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Long-lived assets

In accordance with Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of," the Company records impairment losses on long-lived assets used in operations, including intangible assets, when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts of those assets. No such losses have been recorded.

Research and development

Research and development costs are charged to operations as incurred.

Revenue recognition - research and development collaborative agreements

The Company received nonrefundable fees from companies under license, sublicense and research funding agreements (See Note 6). The Company initially records such funds as deferred revenue and recognizes research and development collaborative contract revenue when the amounts are earned, which occurs over a number of years as the Company performs research and development activities.

Additionally, the Company has been awarded grants from certain third party organizations to help fund research for the drugs that the Company is attempting to bring to full commercial use. Once research and development expenditures qualifying under the grant are incurred, grant reports are periodically completed and submitted to the granting agency for review. If approved, the granting agency will then remit payment to the Company. Such amounts are recorded as revenue upon receipt.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Stock-based compensation

The Company adopted Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123"). The provisions of SFAS No. 123 allow companies to either expense the estimated fair value of employee stock options or to continue to follow the intrinsic value method set forth in Accounting Principles Board Opinion 25, "Accounting for Stock Issued to Employees" ("APB 25") but disclose the pro forma effects on net income (loss) had the fair value of the options been expensed. The Company has elected to continue to apply APB 25 in accounting for its employee stock option incentive plans and to provide the required SFAS No. 123 disclosures - see Note 8.

Net loss per common share

Net loss per common share is computed pursuant to the provisions of Statement of Financial Accounting Standards No. 128, "Earnings per Share", and is based on the weighted average number of common shares outstanding for the periods. Potential common shares not included in the calculation of net loss per share for the years ended December 31, 2000 and 1999, as the effect would be anti-dilutive, are as follows:

	Number of Potential Common Shares	
	2000	1999
Series B convertible preferred stock	--	4,766,000
Series C convertible preferred stock	--	892,000
Placement agent's option to acquire 0.49 unit	405,000	405,000
Stock options	1,653,000	595,000
Class C warrants	57,000	569,000
Class D warrants	--	2,025,000
Placement agent's common warrants (@ $0.64)	56,000	56,000
Series B preferred warrants (@ $3.53)	655,000	--
Other warrants	65,000	--

Reclassifications

Certain prior year amounts have been reclassified to conform to the 2000 presentation.

NOTE 3 - INVESTMENTS

The following is a summary of available-for-sale marketable securities at December 31, 2000:

Cost	$ 11,514,000
Gross Unrealized Gain	240,000
Gross Unrealized Loss	(167,000)
Estimated Fair Value	$ 11,587,000

NOTE 4 - PROPERTY AND EQUIPMENT

At December 31, 2000, property and equipment was comprised of the following:

Leasehold improvements	$ 140,000
Furniture	141,000
Equipment	732,000
	1,013,000
Less accumulated depreciation	316,000
	$ 697,000

The equipment balance includes $73,000 of property under a capital lease. The related accumulated depreciation was $13,000 at December 31, 2000.

NOTE 5 - INCOME TAXES

Since its inception, the Company has never recorded a provision or benefit for Federal and state income taxes.

The reconciliation of the income tax benefit computed at the Federal statutory rates to the Company's recorded tax benefit for the years ended December 31, 2000 and 1999 is as follows:

	2000	1999
Income tax benefit, statutory rates	$ 3,652,000	$ 1,685,000
State taxes on income, net of Federal benefit	836,000	43,000
Research and development tax credit	85,000	136,000
Other	(95,000)	125,000
Income tax benefit	$ 4,478,000	$ 1,989,000
Valuation allowance	(4,478,000)	(1,989,000)
Income tax benefit	--	--

The tax effects of temporary differences that give rise to deferred tax assets and deferred tax liabilities are as follows at December 31, 2000:

Long-term deferred tax assets:	
Net operating loss carryforwards (Federal and state)	$14,771,000
Research and development tax credits	660,000
Capitalized research and development	363,000
Total gross long-term deferred tax assets	15,794,000
Long-term deferred tax liabilities:	
Property and equipment	(49,000)
Net deferred tax assets	15,745,000
Less: valuation allowance	(15,745,000)
	$ --

The difference between the deficit accumulated during the development stage for financial reporting purposes and the net operating loss carryforwards for tax purposes is primarily due to the write-off of the acquired in-process research and development and supplies, which were not deducted for tax purposes. The Company was in a net deferred tax asset position at December 31, 2000 (before the consideration of a valuation allowance). Due to the

NOTE 5 - INCOME TAXES (CONTINUED)

fact that the Company is in the development stage, management believes it is prudent at this time to fully reserve the net deferred tax asset.

At December 31, 2000, the Company had available carryforward net operating losses (for Federal tax purposes) of approximately $36,400,000 and a research and development tax credit carryforward of $660,000. The Federal net operating loss and research and development tax credit carryforwards expire beginning in 2008 and continuing through 2020. Additionally, at December 31, 2000, the Company had available carryforward losses of approximately $23,964,000 for state tax purposes. As a result of the Ansan Merger, the utilization of $9,700,000 of the Federal net operating loss carryforwards is subject to annual limitations in accordance with Section 382 of the Internal Revenue Code. Certain state carryforward net operating losses are also subject to annual limitations.

NOTE 6 - LICENSE, SUBLICENSE AND RESEARCH FUNDING AGREEMENTS

Concurrent with the Company's original investment in Old ATI, Ortho Pharmaceuticals, Inc., a wholly owned subsidiary of Johnson & Johnson, Inc. ("J&J "), and Old ATI entered into an agreement (the "J&J License Agreement") granting an exclusive license of the Surfaxin(R) technology to Old ATI in exchange for certain license fees ($200,000 of which was paid in November 1996), milestone payments aggregating $2,750,000, royalties and 40,000 shares of Old ATI common stock. J&J contributed its Surfaxin(R) raw material inventory and manufacturing equipment to Old ATI in exchange for 2,039 (originally 2,200) shares of nonvoting Series B preferred stock of Old ATI having a $2,039,000 (originally $2,200,000) liquidation preference and a $100 per share cumulative annual dividend. The inventory and equipment were valued at $2,039,000 (the value of the preferred shares issued to J&J). At December 31, 2000, based primarily on the Company's contemplated use of such inventory and equipment in connection with its proposed clinical trials for acute respiratory distress syndrome and idiopathic respiratory distress syndrome, the full amount of the inventory and equipment has been charged to research and development expense. The Scripps Research Institute ("Scripps") received 40,000 shares of common stock of Old ATI in exchange for its consent to the J&J License Agreement.

In October 1999, the Company granted an exclusive license to Laboratorios Del Dr. Esteve S.A. to commercialize and sell Surfaxin(R) within Central and South America, Mexico and certain Southern European countries (with an option to include Italy). The license expires, on a country by country basis, on the later of the expiration of the underlying patents or the fifteenth anniversary from the first commercial sale of Surfaxin(R) within each country. Certain additional terms of the agreement are:

- the Company was paid a nonrefundable license fee of $375,000;
- the Company will be the exclusive supplier (except in certain events) of Surfaxin(R);
- Laboratorios Del Dr. Esteve S.A. agreed to reimburse certain research and development expenditures borne by the Company in conducting certain clinical trials in the above countries. However, costs as defined in the license agreement, incurred in connection with such clinical trials in excess of an agreed upon amount, will not be reimbursed;
- Laboratorios Del Dr. Esteve S.A. paid $375,000 in advance for Surfaxin(R)supplied for clinical trials described above;
- an affiliate of Laboratorios Del Dr. Esteve S.A. invested $850,000 in the Company in exchange for common stock of the Company issued at a 50% premium over the ten day average closing price preceding the closing of the investment. The Company has accounted for the premium as additional license fees amounting to $286,000; and
- an option to an exclusive license for Italy for additional specified payments.

NOTE 6 - LICENSE, SUBLICENSE AND RESEARCH FUNDING AGREEMENTS (CONTINUED)

The Company has accounted for the license fees (including the premium paid for common stock), the reimbursement of research and development expenditures and advance payment for Surfaxin(R) to be used in clinical trials as deferred revenue. Such deferred revenue will be recognized as it is earned.

In 1996, Old ATI entered into a research funding and option agreement with Scripps to provide certain funding of research activities. The agreement was for an initial term of two years with renewal provisions for additional one-year periods. The Company and Scripps are currently finalizing an agreement to extend the term for one year. Pursuant to this agreement, the Company will pay $489,000 per year to fund Scripps' research efforts. The agreement provides that Scripps shall grant an option to the Company to acquire an exclusive license for the application of technology developed from the research program. Pursuant to the agreement, payments to Scripps were $468,000 and $115,000 in 2000 and 1999, respectively.

In 1996, the Company entered into a license agreement with the Charlotte-Mecklenburg Hospital Authority (Charlotte-Mecklenberg) for the use of the active compound in SuperVent(TM), a therapy which the Company is clinically testing. The Company paid a license issue fee of $86,000 and has agreed to pay amounts based on the achievement of certain milestones, royalties on future sales and future patent-related costs. If the Company meets all milestones as defined the agreement, payments paid to Charlotte-Mecklenburg will aggregate $850,000. The license expires upon expiration of the underlying patents.

NOTE 7 - STOCKHOLDERS' EQUITY

2000 private placement

In March 2000, the Company received approximately $17,500,000 in net proceeds from the sale of 37.74 units in a private placement offering. Each unit consisted of 76,923 shares of common stock of the Company and Class E warrants to purchase additional 15,385 shares of common stock of the Company at $7.38 per share. The Class E warrants of the Company are exercisable through March 2005. In connection with this private placement, the placement agent, Paramount Capital, Inc. ("Paramount"), received fees of approximately $1,321,000 and the Company agreed to issue to Paramount warrants to purchase 348,341 shares of common stock of the Company at $8.113 per share.

1999 private placements

During March and April 1999 the Company raised $1.0 million in a private placement offering of 826,447 shares of common stock and 569,026 Class C warrants to purchase common stock of the Company at an exercise price of $2.15 per share (after adjustment to the issue price in accordance with the terms of the offering). The Class C warrants are exercisable through April 2006. As of December 31, 2000, approximately 512,000 Class C warrants have been exercised.

In July 1999, the Company raised approximately $2,231,000 (net of offering costs of approximately $217,000) in a private placement offering of units. Each unit was sold for $500,000 and consisted of 413,223 shares of common stock of the Company and 413,223 Class D warrants to purchase shares of common stock of the Company at an exercise price of $1.33 per share. An aggregate of 2,024,792 shares of common stock of the Company and 2,024,792 Class D warrants were issued. The Class D warrants were exercisable through July 2004. As of December 31, 2000, all of the Class D warrants have been exercised. The placement agent, Paramount, received fees of 7% of the gross proceeds, reimbursement of certain expenses and an option to purchase 0.49 units at a per unit exercise price of $550,000.

NOTE 7 - STOCKHOLDERS' EQUITY (CONTINUED)

1996 private placement

In 1996, in a private placement offering, Old Discovery sold approximately 44 units (each unit consisting of securities converted in the Ansan Merger into 50,000 shares of Series B convertible preferred stock of the Company and 19,458 shares of common stock of the Company). Preferred stockholders had voting rights based upon the number of shares of common stock issuable upon conversion of the preferred shares. Pursuant to the terms of the offering, on December 1, 1998, the conversion rate was adjusted whereby each share of preferred stock is convertible at the option of the holders into 3.11 shares of common stock of the Company. Net proceeds from the private placement approximated $19,000,000. The Company was restricted from declaring dividends or distributions on its common stock without the approval of the holders of at least 66.67% of the outstanding Series B shares as long as there was in excess of 1,100,000 Series B shares outstanding.

The placement agent for the offering received approximately $2,860,000 in cash plus warrants which, pursuant to the merger gave the holders thereof the right to acquire 220,026 shares of Series B preferred stock (which as a result of the conversion of the Series B preferred stock were convertible into 685,000 shares of common stock) at a price of $11 per share, through November 8, 2006, and to acquire 85,625 shares of common stock at a price of $0.64 per share through November 8, 2006. The warrants contain certain anti-dilution provisions and may be exercised on a "net exercise" basis pursuant to a provision that does not require the payment of any cash to the Company.

In February 2000, the Company gave notice to its Series B convertible preferred stockholders of its intention to convert all outstanding shares of Series B preferred stock into common stock of the Company. Pursuant to the notice, all of the Series B shares were converted into 4,766,000 shares of common stock of the Company effective March 14, 2000.

Unit offering

In August 1995, Ansan issued an aggregate of 498,333 units (including 65,000 units pursuant to the underwriter's overallotment option) at $15.00 per unit in an initial public offering (the "Offering"). Each unit consisted of one share of common stock of the Company, one redeemable Class A warrant, and one Class B warrant. Each Class A warrant entitles the holder to purchase one share of common stock of the Company and one Class B warrant at an exercise price of $19.50 per share. Each Class B warrant entitled the holder to purchase one share of common stock of the Company an exercise price of $26.25 per share. All Class A and Class B Warrants remaining unexercised at August 2000 expired by their terms.

In connection with the Offering, the holders of the Ansan's common stock and options to purchase common stock placed, on a pro rata basis, 121,246 common shares (including 115,491 shares held by the Company pending cancellation pursuant to the Ansan Merger (Note 1)) and options to purchase 12,086 shares of common stock into escrow (the "Escrow Shares" and "Escrow Options", respectively). Certain contractual conditions necessary for the release of these escrow shares and escrow options were not met by March 31, 2000, and the Escrow Shares and Escrow Options were cancelled pursuant to their terms.

NOTE 7 - STOCKHOLDERS' EQUITY (CONTINUED)

Common shares reserved for issuance

As of December 31, 2000, the Company has reserved shares of common stock for issuance upon exercise of options and warrants as follows:

(i)	Stock option plan	3,162,000
(ii)	Placement agent:	
	Common stock options	56,000
	Preferred B warrants	655,000
	Unit options	405,000
	Common stock	348,000
(iii)	Class C warrants	57,000
(iv)	Class E warrants	581,000
(v)	Other warrants	65,000

Treasury stock/common stock issued for services

During 1998, the Company's Board of Directors approved a stock repurchase program wherein the Company could buy its own shares from the open market and use such shares to settle indebtedness. Such shares are accounted for as treasury stock.

During 2000, the Company acquired 31,743 shares of common stock of the Company in exchange for option conversions, having a value of $245,000 and issued 7,000 shares of treasury stock in satisfaction of services rendered. In addition, during 2000, the Company issued 9,496 shares of common stock of the Company in lieu of cash payments for services and rent.

During 1999, the Company acquired 2,000 shares of common stock of the Company for approximately $5,000 and issued 15,600 shares of treasury stock in settlement of $39,000 of indebtedness. The fair market value of the 15,600 shares of treasury stock on the date it was issued in 1999 was approximately $53,000 and the difference was charged to expense and credited to paid-in-capital.

Series C preferred stock

The Company's Series C redeemable convertible preferred stock was convertible at the option of the holder into common stock at a conversion price equal to the market price of the common stock, as defined. Such shares were redeemable at liquidation value upon the occurrence of certain events. The liquidation value was payable at the option of the Company in either cash or shares of common stock. Series C stockholders were entitled to dividends of 10% per annum to be paid only upon liquidation or redemption.

On March 3, 2000, the sole shareholder, J&J, elected to convert their Series C preferred stock shares into 398,186 shares of common stock of the Company.

NOTE 8 - STOCK OPTIONS

Ansan's 1993 Stock Option Plan as amended and restated (the "1993 Plan"), provided that incentive stock options may be granted to employees, and nonstatutory stock options may be granted to employees, directors, consultants and affiliates. In May 1995, Ansan adopted the 1995 Stock Option Plan (the "1995 Plan"). No further options will be granted under the 1993 Plan or 1995 Plan.

Options granted under the 1993 Plan and 1995 Plan expire no later than ten years from the date of grant, except when the grantee is a 10% stockholder of the Company or an affiliate company, in which case the maximum term is five years from the date of grant. The exercise price shall be at least 100%, 85% and 110% of the fair value of the stock subject to the option on the grant date, as determined by the Board of Directors, for incentive stock

NOTE 8 - STOCK OPTIONS (CONTINUED)

options, nonstatutory stock options and options granted to 10% stockholders of the Company or an affiliate company, respectively. Options granted under the 1993 Plan are exercisable immediately upon grant, however, the shares issuable upon exercise of the options are subject to repurchase by the Company at the exercise price paid per share. Such repurchase rights lapse as the shares vest over a period of five years from the date of grant.

On consummation of the Ansan Merger, the Company assumed Old Discovery's outstanding options which were exchanged at the Ansan Exchange Ratio for options to purchase the Common stock of the Company - see Note 1.

In March 1998, the Company adopted its 1998 Stock Incentive Plan which includes three equity programs (the "1998 Plan"). Under the Discretionary Option Grant Program, options to acquire shares of the Common stock of the Company may be granted to eligible persons who are employees, nonemployee directors, consultants and other independent advisors. Pursuant to the Stock Issuance Program, such eligible persons may be issued shares of the Common stock of the Company directly, and under the Automatic Option Grant Program, eligible directors will automatically receive option grants at periodic intervals at an exercise price equal to 60% of fair market value per share on the date of the grant. On June 16, 2000, the 1998 Stock Incentive Plan was amended to increase the maximum number of shares of common stock reserved for issuance over the term of the plan from 2,200,959 to 3,000,000.

The pro forma effects of applying SFAS No. 123 and the stock options activity shown below are those of the 1998 Plan, Old Discovery's 1996 Stock Option/Stock Issuance Plan through the date of the Ansan Merger and the 1993 Plan and 1995 Plan after the Ansan Merger as the Ansan Merger was accounted for as a reverse acquisition.

The Company applies APB 25 in accounting for stock options and, accordingly, recognizes compensation expense for the difference between the fair value of the underlying common stock and the exercise price of the option at the date of grant. The effect of applying SFAS No. 123 on pro forma net loss is not necessarily representative of the effects on reported net income or loss for future years due to, among other things, (i) the vesting period of the stock options and (ii) the fair value of additional stock options in future years. Had compensation cost for the Company's stock option plans been determined based upon the fair value of the options at the grant date of awards under the plans consistent with the methodology prescribed under SFAS No. 123, the Company's net loss for each of the years ended December 31, 2000 and 1999 would have been approximately $14,092,000 or $0.75 per share and $5,622,000 or $0.74 per share, respectively. The weighted average fair value of the options granted are estimated at $3.40 and $2.46 per share, respectively, for the years ended December 31, 2000 and 1999, on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions: dividend yield 0%, volatility of 130% and 91%, respectively, risk-free interest rate of 6% and 4.86%, respectively and expected life of three and a half years.

Additional information with respect to the stock option activity is summarized as follows:

	Year Ended December 31,							
	2000				1999			
	Price Per Share	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Price Per Share	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
Options outstanding at Beginning of year	$0.0026 - $4.87	2,475,752	$2.27	7.93 years	$0.0026 - $4.87	1,886,064	$2.23	8.73 years
Options granted	1.66 - 7.00	1,147,000	4.36		0.81 - 4.44	1,108,893	2.18	
Options exercised	0.08 - 4.44	(528,158)	0.98		0.0026 - 0.51	(119,732)	0.11	
Options forfeited	0.32	(39,000)	0.32		0.08 - 4.44	(297,888)	3.56	
Options expired	--	--	--		4.19	(101,585)	4.19	
Options outstanding at end of year	$0.0026 - $7.00	3,055,594	$3.39	8.33 years	$0.0026 - $4.87	2,475,752	$2.42	8.50 years
Options exercisable at end of year	$0.0026 - $7.00	3,055,594	$3.39	8.33 years	$0.0026 - $4.87	2,436,752	2.27	7.93 years

NOTE 8 - STOCK OPTIONS (CONTINUED)

Currently, all outstanding options are immediately exercisable. Any unvested options are subject to repurchase by the Company at the exercise price paid per share.

In accordance with the employment agreements entered into with the Company in connection with the Old ATI Merger, Old ATI management was granted, in the aggregate, options to purchase (i) 338,500 shares of the Common stock of the Company, subject to vesting and (ii) 335,000 shares of the Common stock of the Company subject to the achievement of certain corporate milestones. In April 2000, the milestones related to 154,510 options had been achieved and the related options vested.

In September 1999, management was granted, in the aggregate, options to purchase 500,000 shares of the Common stock of the Company subject to the achievement of certain corporate milestones. In January 2000, 50% of the milestones related to 250,000 options had been achieved and the related options vested. In September 2000, the Board of Directors of the Company accelerated the remaining 50% of the 250,000 milestone options.

In connection with milestones being achieved, the Company incurred non-cash compensation charges amounting to $2,515,000 and $125,000, in 2000 and 1999, respectively, representing the excess of the fair value over the exercise price of the options granted.

Included in the options outstanding at December 31, 2000, are options to purchase 141,600 shares of the Common stock of the Company (at an exercise price of $4.44) granted during 1998 which vest upon the Company achieving specified milestones. On vesting, the Company will incur a charge amounting to the excess, if any, of the fair value over the exercise price. In addition, pursuant to a management agreement entered into between the Company and Old ATI at the time the merger agreement relating to the Old ATI Merger was executed, the members of Old ATI management were granted options to purchase 126,500 shares of the Common stock of the Company.

NOTE 9 - COMMITMENTS

At December 31, 2000, the Company had employment agreements with seven officers providing for an aggregate annual salary of $1,324,000. The agreements expire on various dates through December 2005 and provide for the issuance of annual and milestone bonuses. In addition, the Company had employment agreements with three additional employees providing for an aggregate annual salary of $204,000. The agreements expire on various dates through January 2002 and provide for the issuance of annual bonuses and the granting of options based on management recommendation. In March 2001, the Board of Directors of the Company agreed to renew employment contracts with certain officers, which were due to expire in June 2001, under essentially the same terms.

In July 1998, the Company entered into a seven-year lease agreement to lease office and laboratory space in premises owned by a Company officer/stockholder. In September 2000, the lease agreement was amended to include additional space. Future minimum annual rents for this lease is as follows:

2001	$ 198,000
2002	205,000
2003	212,000
2004	219,000
2005	111,000
	$ 945,000

NOTE 9 - COMMITMENTS (continued)

In June 2000, the Company entered into a lease agreement to lease office space in premises from a law firm that has previously provided legal services to the Company. Future minimum annual rents for this lease is $7,000 through June 2001. Total net rent expense for the years ended December 31, 2000 and 1999 was approximately $181,000 and $144,000, respectively.

In September 1999, the Company entered into a four-year lease agreement to lease laboratory equipment, which is being accounted for as a capital lease. Future minimum lease payments for this lease are as follows:

2001	$ 20,000
2002	20,000
2003	13,000
	53,000
Less interest included	5,000
	$ 48,000

NOTE 10 - RELATED PARTY TRANSACTIONS

The Company currently leases office and laboratory space in premises owned by a Company officer/stockholder. Lease payments made to this party for the years ended December 31, 2000 and 1999 were approximately $170,000 and $142,100, respectively.

The Company, from time to time, engages the spouse of an officer to perform miscellaneous repairs and maintenance and improvements of office and laboratory space. Payments made to this party for the years ended December 31, 2000 and 1999 were approximately $77,900 and $29,300, respectively.

In May 2000, the Company entered into an agreement with Clinical Data Management, Inc. (CDM), to perform duties associated with processing data for clinical trials. CDM is wholly owned by the spouse of the Company's President and Chief Executive Officer. Payments made to CDM and its owner, including payments made prior to the agreement, for the years ended December 31, 2000 and 1999 were approximately $110,700 and $24,500, respectively.

EXHIBIT 23.1

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in the Registration Statement on Form S-8 pertaining to Discovery Laboratories, Inc. Amended and Restated 1998 Stock Incentive Plan of our report dated February 25, 2000, on our audits of the consolidated financial statements as of and for the year ended December 31, 1999 and for the period from May 18, 1993 (inception) through December 31, 1999 (from inception through December 31, 1999 not presented separately therein except for the consolidated statement of changes in stockholders' equity) which report is included in the annual report on Form 10-KSB/A for the year ended December 31, 2000.

/s/ Richard A. Eisner & Company, LLP

New York, New York
January 8, 2002

EXHIBIT 23.2

Consent of Independent Auditors

We consent to the use of our report dated March 27, 2001 included in the annual report on Form 10-KSB of Discovery Laboratories, Inc. for the year ended December 31, 2000, with respect to the consolidated financial statements, as amended, included in this Form 10-KSB/A.

/s/ Ernst & Young LLP

Philadelphia, Pennsylvania
January 8, 2002