

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 June 30, 1999

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 94-3171943  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

350 South Main Street, Suite 307 18901  
Doylestown, Pennsylvania (Zip Code)  
(Address of principal executive offices)

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 August 13, 1999, 9,064,889 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.

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

Consolidated Balance Sheets  
(Unaudited)

	June 30, 1999 ----	December 31, 1998 ----
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 729,000	\$ 1,474,000
Marketable Securities	1,467,000	2,544,000
Stock Subscriptions and other receivables	7,000	
Inventory (Note 1)	575,000	575,000
Prepaid expenses	62,000	203,000
	-----	-----
Total current assets	2,840,000	4,796,000
Property and equipment, net of depreciation	320,000	326,000
Security deposits	18,000	18,000
	-----	-----
	\$ 3,178,000	\$ 5,140,000
	=====	=====
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 1,088,000	\$ 1,088,000
	-----	-----
Commitments		
Stockholders' Equity:		
Preferred stock, \$.001 par value; 5,000,000 shares authorized: Series B convertible; 1,617,505 and 1,946,881 shares issued and outstanding at June 30, 1999 and December 31, 1998, respectively (liquidation preference \$21,836,000 at June 30, 1999)	2,000	2,000
Series C redeemable convertible; 2,039 shares issued and outstanding (liquidation preference \$2,328,000)	2,379,000	2,277,000
Common stock, \$.001 par value; 20,000,000 authorized; 6,743,218 and 5,085,281 shares issued and outstanding at June 30, 1999 and December 31, 1998 respectively	7,000	5,000
Treasury stock (at cost 2,000 and 15,600 shares of common stock at June 30, 1999 and December 31, 1998, respectively)	(5,000)	(39,000)
Additional paid-in capital	30,917,000	29,842,000
Unearned portion of compensatory stock options	(37,000)	(124,000)
Deficit accumulated during the development stage (Note 1)	(31,753,000)	(27,930,000)
Prior period adjustment	575,000	
Accumulated other comprehensive income: unrealized gain on marketable securities available for sale	5,000	19,000
	-----	-----
Total stockholders' equity	2,090,000	4,052,000
	-----	-----
	\$ 3,178,000	\$ 5,140,000
	=====	=====

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

Consolidated Statements of Operations  
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,		May 18, 1993 (Inception) Through June 30,
	1999	1998	1999	1998	1999
	-----	-----	-----	-----	-----
Interest income	\$ 30,000	102,000	\$ 67,000	226,000	\$ 1,379,000
Expenses:					
Write-off of acquired in-process research and development and supplies		8,230,000		8,230,000	13,508,000
Research and development	472,000	1,648,000	1,891,000	3,357,000	11,864,000
General and administrative	686,000	775,000	1,322,000	1,422,000	6,656,000
Interest					11,000
	-----	-----	-----	-----	-----
Total expenses	1,158,000	10,653,000	3,213,000	13,009,000	32,039,000
	-----	-----	-----	-----	-----
	(1,128,000)	(10,551,000)	(3,146,000)	(12,783,000)	(30,660,000)
Minority interest in net loss of subsidiary		0		24,000	26,000
	-----	-----	-----	-----	-----
Net loss	(1,128,000)	(10,551,000)	(3,146,000)	(12,759,000)	(30,634,000)
Other comprehensive income:					
Unrealized gain on marketable securities available for sale	(2,000)	0	(5,000)	0	14,000
	-----	-----	-----	-----	-----
Total comprehensive loss	\$ (1,130,000)	(10,551,000)	\$ (3,151,000)	(12,759,000)	\$(30,620,000)
	=====	=====	=====	=====	=====
Net loss per share - basic and diluted	\$ (0.18)	\$ (3.14)	\$ (0.51)	\$ (3.90)	
	=====	=====	=====	=====	
Weighted average number of common shares outstanding	6,597,000	3,361,000	6,121,000	3,275,000	
	=====	=====	=====	=====	

See notes to financial statements

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

Consolidated Statements of Cash Flows  
(Unaudited)

	Six Months Ended June 30,		May 18, 1993 (Inception) Through June 30, 1999
	1999	1998	
	-----	-----	-----
Cash flows from operating activities:			
Net loss	\$ (3,146,000)	\$ (12,759,000)	\$ (30,634,000)
Adjustments to reconcile net loss to net cash used in operating activities:			
Write-off of acquired in-process research and development and supplies		8,230,000	13,508,000
Write-off of licenses			683,000
Depreciation and amortization	39,000	17,000	168,000
Compensatory stock options	124,000		142,000
Changes in:			
Prepaid expenses and other current assets	135,000	90,000	(37,000)
Accounts payable and accrued expenses	69,000	321,000	951,000
Other assets			(18,000)
Expenses paid on behalf of company			18,000
Expenses paid using treasury stock			51,000
Employee stock compensation			42,000
Reduction of research and development supplies			(161,000)
	-----	-----	-----
Net cash used in operating activities	(2,780,000)	(4,101,000)	(15,287,000)
	-----	-----	-----
Cash flows from investing activities:			
Acquisition of furniture and equipment	(33,000)	(19,000)	(465,000)
Proceeds from disposal of furniture and equipment		25,000	25,000
Acquisition of licenses			(711,000)
Purchase of investments		(732,000)	(20,745,000)
Proceeds from sale or maturity of investments	1,063,000	2,140,000	19,688,000
Net cash payments on merger		(226,000)	(1,670,000)
	-----	-----	-----
Net cash provided by (used in) investing activities	1,030,000	1,188,000	(3,878,000)
	-----	-----	-----
Cash flows from financing activities:			
Proceeds on private placements of units, net of expenses			18,925,000
Purchase of treasury stock	(5,000)		(95,000)
Collections on stock subscriptions and proceeds on exercise of stock options	1,009,000	0	1,064,000
	-----	-----	-----
Net cash (used in) provided by financing activities	1,004,000	0	19,894,000
	-----	-----	-----
Net (decrease) increase in cash and cash equivalents	(745,000)	(2,913,000)	729,000
Cash and cash equivalents - beginning of period	1,474,000	6,297,000	
	-----	-----	-----
Cash and cash equivalents - end of period	\$ 729,000	\$ 3,384,000	\$ 729,000
	=====	=====	=====
Noncash transactions:			
Accrued dividends on ATI preferred stock	\$ 102,000	\$ 102,000	\$ 544,000
Accounts Payable settled using treasury stock	39,000		39,000
Common stock issued to settle payables	30,000		30,000
Preferred Stock issued for inventory			575,000

See notes to financial statements

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## NOTE 1 - THE COMPANY AND BASIS OF PRESENTATION

### The Company

Discovery Laboratories, Inc. (the "Company"), formerly known as Ansan Pharmaceuticals, Inc. ("Ansan"), was incorporated in Delaware on November 6, 1992 and was a wholly owned subsidiary of Titan Pharmaceuticals, Inc. ("Titan"). The Company was formed to license and develop pharmaceutical products to treat a variety of human diseases. In August 1995, Ansan issued its securities in an initial public offering and ceased to be a wholly owned subsidiary of Titan. 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. Pursuant to the Ansan Merger, each outstanding share of Old Discovery's common stock was converted into 1.167471 shares of the Company's common stock and each share of Old Discovery's Series A convertible preferred stock was converted into one share of the Company's Series B preferred stock (the "Ansan Exchange Ratios"). The Company also assumed all outstanding options and warrants to purchase Old Discovery's common stock and Series A preferred stock which became exercisable for the Company's common stock and Series B preferred stock, respectively, based on the Ansan Exchange Ratios. In connection with the Ansan Merger, the Company and Titan entered into arrangements providing for the relinquishment by the Company of rights to certain drug compounds and the transfer of such rights to Titan in exchange for (i) a 2% net royalty payable by Titan to the Company from net sales of such drug compounds and (ii) the cancellation of all Ansan common stock owned by Titan. On consummation of the merger, 13,000 shares of Ansan Series A preferred stock held by Old Discovery were cancelled.

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). The assets and liabilities acquired in the Ansan Merger were recorded at fair value on the date of the merger. The difference between the fair value of the net assets acquired and value of the common stock issued plus merger related costs was attributed to in-process research and development and was recorded as an expense upon acquisition.

In June 1998, ATI Acquisition Corp., a wholly owned subsidiary of the Company, merged with and into a then majority owned subsidiary of the Company, Acute Therapeutics, Inc. ("ATI"), with ATI being the surviving entity (the "ATI Merger"). Pursuant to the ATI Merger, each outstanding share of ATI's common stock was exchanged for 3.90 shares of the Company's common stock (the "ATI Exchange Ratio") and each share of ATI's Series B preferred stock was converted into one share of the Company's Series C preferred stock. All outstanding options to purchase ATI common stock were assumed by the Company and are exercisable for shares of the Company's common stock on the basis of the ATI Exchange Ratio. Pursuant to employment agreements entered into with the Company in connection with the ATI Merger, ATI management was granted, in the aggregate, options to purchase (i) 338,500 shares of the Company's common stock, subject to vesting, and (ii) 335,000 shares of the Company common stock, subject to the achievement of certain corporate milestones. As the options for the 335,000 shares are variable options, the Company will incur a charge at each reporting date until the options are fully vested for the excess, if any of the market price of the Company's common stock over the exercise price of the options. In addition, pursuant to a management agreement entered into between the Company and ATI at the time the merger agreement relating to the ATI Merger was executed, the members of ATI management were granted options to purchase 126,500 shares of the Company's common stock.

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

### Basis of Presentation

The accompanying financial statements include the accounts of the Company and its wholly owned subsidiary, ATI. 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 and six-month periods ended June 30, 1999 are not necessarily indicative of the results that may be expected

for the year ended December 31, 1999. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's 1998 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.

#### Correction of Error and Restatement of Previously Issued Financial Statements

In October 1996, pursuant to a licensing agreement with Johnson & Johnson, Inc.'s ("J&J") wholly owned subsidiary Ortho Pharmaceuticals, Inc., J&J contributed manufacturing equipment and raw material inventory in exchange for 2,039 shares (originally 2,200 shares) of the Company's non-voting Series B preferred stock which had a liquidation preference of \$ 2,039,000. The equipment and inventory was charged to operations as acquired in-process research and development and supplies during the year ended December 31, 1996. However, certain of this raw material inventory, valued at approximately \$ 575,000, which was then located at the vendor and had an alternative future use in that the inventory could be sold to other users and, was in excess of the quantity required for the Company's research and development purposes, and thereby the Company had arranged with the vendor to defer delivery of the product. Previously issued financial statements have been restated to reflect capitalizing such inventory effective December 31, 1996 and a corresponding reduction in deficit accumulated during the development stage.

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

When used in this report, the words "estimate", "project", "intend", "forecast", "anticipate" and similar expressions are intended to identify forward-looking statements. In addition, certain other 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 joint development or licensing arrangements with pharmaceutical companies or others, the research and development of particular compounds and technologies for particular indications and the period of time for which the Company's existing resources will enable the Company to fund its operations and the possibility of contracting with other parties additional licenses to develop, manufacture and market commercially viable products, are forward-looking and based upon the Company's current belief as to the outcome, occurrence and timing of future events or current expectations and plans. All such statements involve significant risks and uncertainties. Many important factors affect the Company's ability to achieve the stated outcomes and to successfully develop and commercialize its product candidates, including, among other things, the ability to obtain substantial additional funds, obtain and maintain all necessary patents or licenses, to demonstrate the safety and efficacy of product candidates at each state of development, to meet applicable regulatory standards and receive required regulatory approvals, to meet obligations and required milestones under its license agreements, to be capable of producing drug candidates in commercial quantities at reasonable costs, to compete successfully against other products and to market products in a profitable manner. Although the Company believes that its assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate and, therefore, there also can be no assurance that these statements included in the report will prove to be accurate. In light of the significant uncertainties inherent in these statements included herein, the inclusion of such information should not be regarded as a representation by the Company or any other person that the objectives and plans of the Company will be achieved; in fact, actual results could differ materially from those contemplated by such forward-looking statements. The Company does not undertake any obligation to publicly release any revisions to these forward-looking statements or to reflect the occurrence of unanticipated events.

## Plan of Operations

Since its inception, the Company has concentrated its efforts and resources in the development and commercialization of pharmaceutical products and technologies. The Company has been unprofitable since its founding and has incurred a cumulative net loss of approximately \$30,634,000 as of June 30, 1999. 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 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 for the treatment of acute respiratory distress syndrome and acute lung injury ("ARDS/ALI"). The Company anticipates that during the next 12 months it will conduct substantial research and development of its compounds.

### SURFAXIN(R) (lucinactant)

#### Meconium Aspiration Syndrome (MAS)

The Company recently finished a Phase 2 clinical trial in MAS in full-term newborns. This 22-patient trial showed an improvement in oxygenation parameters and a three-day savings on mechanical ventilation. Based on the results of this trial, the Company is planning a pivotal Phase 3 trial in MAS. This trial is expected to be a multi-centered, randomized trial versus patients on standard of care since there are no FDA approved therapies available to treat MAS. An Orphan Products Development Grant awarded to the Company by the FDA Office of Orphan Products Development is expected to contribute significantly to the costs of this trial.

#### Respiratory Distress Syndrome (RDS)

The Company is currently planning to commence a Phase 3 clinical trial of Surfaxin(R) for the treatment of RDS in premature infants during 1999. Such trial, and any other clinical trials of the Company's products in development that have not yet commenced, will require the receipt of 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 Respiratory Distress Syndrome/Acute Lung Injury (ARDS/ALI)

A pivotal Phase 2/3 clinical trial of Surfaxin(R) for the treatment of ARDS/ALI was commenced on July 14, 1998. All of the 43 clinical sites identified by the Company for participation in the ARDS/ALI trial have completed all internal review board and other approvals relating to the original protocol for the trial. The protocol was recently amended and the Company is in the process of obtaining internal review board approvals relating to the amended protocol. To date, 14 patients have been enrolled in the ARDS/ALI trial.

### SUPERVENT(TM) (tyloxapol)

#### Cystic Fibrosis (CF)

The Company has completed a Phase 1 trial in normal healthy volunteers and has determined a dose (1.25%) that did not produce significant adverse effects. A Phase 2A trial in CF patients was recently initiated where the intent is to show inhibition of inflammatory pulmonary events in these patients.

#### DSC-103

On December 5, 1997 a Phase 1 clinical study of DSC-103 (formerly known as ST-630) 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. On July 30, 1999 the Company announced that it had completed a licensing deal for DSC-103 with YuYu Industrial Company, Ltd. of Korea. The deal is the first one completed by Discovery for DSC-103. The privately owned YuYu Industrial, Ltd. currently markets the natural hormonal form of vitamin D, calcitriol, in the Korean pharmaceutical market. The sublicense agreement is royalty based and includes small upfront fees and milestones. As part of the agreement, YuYu has agreed to an exclusive supply agreement whereby they will purchase DSC-103 drug



substance from Discovery. It is the Company's present intention to seek to develop DSC-103 through a corporate partnering arrangement rather than directly.

#### Liquidity

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. During March and April, 1999, the Company received proceeds totaling \$1 million from a private equity financing with primarily existing investors. On July 29, the Company completed a second private placement totaling \$2.45 million through a private placement of equity. 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 has eliminated certain positions and taken other steps to reduce its use of cash pending the raising of additional equity capital, which the Company intends to pursue during the first half of 1999. The Company believes that such reduced use of cash will not interfere with the achievement of the Company's major business objectives and, accordingly, that its current resources will permit it to meet its business objectives until the first quarter of 2000. In the event that the Company does not achieve certain financing and/or corporate partnering objectives during the Fall of 1999, the Company intends to further reduce its use of cash so that its cash resources will be sufficient to continue operations into the third quarter of 2000.

#### Year 2000 Compliance

With the new millennium approaching, many institutions around the world are reviewing and modifying their computer systems to ensure that they are Year 2000 compliant. The issue, in general terms, is that many existing computer systems and microprocessors with data functions use only two digits to identify a year in the date field with the assumption that the first two digits are always "19". Consequently, on January 1, 2000, computers that are not Year 2000 compliant may read the year as 1900. Systems that calculate, compare or sort using the incorrect date may malfunction.

The Company is working to resolve the potential impact of the Year 2000 on the ability of its computerized information systems to accurately process date-sensitive information. The systems include database, networking and accounting software licensed by the Company. The Company does not use equipment with embedded chip technology that is date sensitive. Although the Company has not yet completed its assessment of its internal operations, the Company has been advised by the vendors of its office and networking software that the Company will receive vendor certifications confirming that these systems are Year 2000 compliant. The Company has previously been advised that its accounting software package is Year 2000 compliant. If such software does not in fact prove to be Year 2000 compliant, the Company would experience temporary administrative disruptions but such disruptions would not threaten or materially interfere with the Company's drug development activities.

The Company has made inquiries of suppliers and other third parties with whom it has significant business relationships in order to determine whether such third parties have undertaken measures to ensure that their information technology systems will be Year 2000 compliant insofar as the Company is concerned. These third parties include contract manufacturing facilities utilized by the Company to produce Surfaxin(R) and SuperVentTM, contract laboratories at which stability testing of raw drug product is performed, facilities at which the Company's clinical trials are being undertaken and the Company's transfer agent. The Company has confirmed Year 2000 compliant status of all contract manufacturing and contract laboratory facilities utilized by the Company. The status of its clinical trial sites is still under evaluation. The potential consequences of a Year 2000 compliance failure on the part of a hospital or other facility participating in the Company's clinical trials range from the possible need to eliminate data points generated by specific facilities to delay in completion and evaluation of such trials, and could also result in a need for further dialogue with the FDA regarding clinical trial integrity if a significant problem were to emerge.

The Company's Year 2000 project is substantially complete. Assuming that the Company is not required to incur transfer costs as a result of any failure of its vendors to achieve Year 2000 compliance in a timely fashion, the Company anticipates that the cost of implementing its Year 2000 program will be limited to out-of-pocket costs related to making inquiries of, and receiving and reviewing confirmations from, third parties. The Company currently estimates that such costs will not exceed \$10,000.

The Company has purchased back-up electrical generators to ensure that temperature sensitive materials that are critical to the Company's drug development efforts will not be harmed by any power outages at its Doylestown, Pennsylvania facility. Although not purchased with a view toward Year 2000-related risks, these generators are available to address any interruptions in electrical service related to Year 2000 compliance problems experienced by local utilities. The Company has developed contingency plans to address any other Year 2000 compliance risks that are uncovered by its continuing evaluation efforts.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 2. CHANGE IN SECURITIES.

From March 31 through April 7, 1999, the Company sold to certain investors shares of Common Stock and a newly created class of warrants of the Company (the "Class C Warrants") for an aggregate purchase price of \$1,000,000 (the "April Financing"). Investors in the April Financing received, for each \$100,000 invested, 53,192 shares of Common Stock at a purchase price of \$1.88 and 53,192 Class C Warrants, each of which was exercisable for the purchase of a share of Common Stock for an exercise price of \$2.30 at any time prior to the seventh anniversary of the issuance of such warrant. Pursuant to price adjustment provisions extended to investors in the April Financing, as a consequence of the Unit Offering, described below, investors in the April Financing received an aggregate of 294,531 additional shares of Common Stock for no additional consideration and the per share exercise price applicable to the Class C Warrants has been reduced from \$2.30 to \$2.15. The issuance of the securities received by investors in the April Financing was deemed to be exempt from registration under the Act in reliance on Section 4(2) thereof and Regulation D thereunder because such issuance did not involve a public offering. Investors in the April 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 the April 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.

Investors in the April Financing will be entitled to receive additional shares of Common Stock for no additional consideration and to have the exercise price applicable to the Class C Warrants reduced if, within 150 days from the effective dates of the respective purchases pursuant the April Financing, the Company (i) shall sell shares of Common Stock in a private offering at less than \$1.21 per share, or (ii) shall sell, in a private offering, any shares of capital stock or equity derivatives of the Company that are convertible into, or exercisable for, shares of Common Stock at a conversion price or exercise price less than \$1.21 per share. In no event will the effective purchase price of Common Stock sold in the April Financing be reduced below \$0.86 per share, pursuant to the foregoing adjustments.

On July 28, 1999, the Company received \$2.45 million in gross proceeds when it completed a private offering of Units (the "Unit Offering"), at a per Unit price of \$500,000, consisting of (a) a number of shares of the Company's Common Stock, par value \$0.001 per share (the "Common Stock"), equal to \$500,000 divided by \$1.21, which was the average closing bid price of the Common Stock for the five trading days immediately preceding the Closing Date (the "Closing Bid Price"), and (b) an equal number of the Company's Class D Warrants, each of which entitles the holder thereof to purchase a share of Common Stock at any time prior to the close of business on July 27, 2004 at a per share purchase price equal to 110% of the Closing Bid Price. Pursuant to a placement agency agreement with the Company, Paramount Capital, Inc. ("Paramount"), which acted as placement agent with respect to the Unit Offering, received \$171,500 in cash commissions and was reimbursed for certain expenses incurred by Paramount in connection with the Unit Offering. In addition, Paramount received options (the "Placement Options") to acquire 0.49 Units at a per Unit exercise price of \$550,000 as partial compensation for its services in connection with the Unit Offering.

Pursuant to the terms of the subscription agreements entered into with the investors in the Unit Offering, the Company is obligated to file by August 28, 1999 a registration statement covering the shares of Common Stock (i) included in the Units and (ii) subject to the Class D Warrants included in the Units (including, in each case, Units subject to the Placement Options). Pursuant to the terms of the April Financing, investors in the April Financing are entitled to have included in such registration statement the shares of Common Stock received by them in such private placement (including the shares of Common Stock subject to the Class C Warrants issued in such private placement). Certain other holders of piggyback registration rights may elect to include shares of Common Stock in such registration statement.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

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

On June 28, 1999 the Company held its Annual Meeting of Stockholders (the "Annual Meeting"). The following matters (each of which were described in further detail in the Company's Proxy Statement on Schedule 14A relating to the Annual Meeting) were submitted to a vote of the stockholders:

1. Election of Directors

Each of the nine nominees for the Board of Directors was elected:

	For ---	Withheld -----
Robert Capetola, Ph.D.	8,722,526	27,136
Steve H. Kanzer, Esq.	8,722,526	27,136
Max Link, Ph.D.	8,687,502	62,159
Richard Power	8,687,502	62,159
Marvin Rosenthale, Ph.D.	8,722,526	27,136
Herbert McDade, Jr.	8,722,526	27,136
Mark Rogers, M.D.	8,722,526	27,136
David Naveh, Ph.D.	8,722,526	27,136
Richard Sperber	8,687,502	62,159

2. Consideration and approval of an amendment to the Company's 1998 Stock Incentive Plan (the "1998 Plan") that increases the number of shares of Common Stock available under the 1998 Plan from 1,406,024 to 2,200,959 shares.

The stockholders approved the amendment of the Company's 1998 Stock Incentive Plan:

Affirmative Votes -----	Negative Votes -----	Abstentions -----	Broker Non-Votes -----
4,841,087	97,424	7,300	3,803,851

3. Consideration and approval of a proposed Stock Purchase Agreement between the Corporation and Crescent International Limited.

The stockholders approved the proposed Stock Purchase Agreement:

Affirmative Votes -----	Negative Votes -----	Abstentions -----	Broker Non-Votes -----
4,881,087	46,133	17,721	3,803,851

Notwithstanding stockholder approval of such Stock Purchase Agreement, the Company has deferred entering into such Stock Purchase Agreement.

4. Consideration and approval of an amendment to the Corporation's Restated Certificate of Incorporation to increase the number of authorized shares of Common Stock available for issuance by the Corporation from 20 million to 35 million.

The stockholders approved the amendment of the Company's Restated Certificate of Incorporation:

Affirmative Votes -----	Negative Votes -----	Abstentions -----
8,662,727	74,352	12,583

ITEM 5. OTHER INFORMATION.

None

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

(a) Exhibits:

27.1 Financial Data Schedule.

(b) Reports on Form 8-K:

None.

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: August 16, 1999

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

Date: August 16, 1999

/s/ Evan Myriantopoulos  
-----  
Evan Myriantopoulos  
Vice President, Finance  
(Principal Financial Officer)

Date: August 16, 1999

/s/ Cynthia Davis  
-----  
Cynthia Davis  
Controller  
(Principal Accounting Officer)

This schedule contains summary financial information extracted from 10-QSB and is qualified in its entirety by reference to such financial statements.

3-MOS	DEC-31-1999		
	JAN-01-1999		
	JUN-30-1999		
		729,000	
		1,467,000	
		7,000	
		0	
		0	
	2,840,000		
		465,000	
		145,000	
	3,178,000		
1,088,000			
			0
2,379,000			
		2,000	
		7,000	
3,178,000		(298,000)	
			0
		0	
			0
		0	
	1,158,000		
	0		
	0		
	(1,130,000)		
			0
	0		
		0	
		0	
			0
		(130,000)	
		(0.18)	
		(0.18)	