U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-KSB

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

For the fiscal year ended December 31, 1998

/ / Transition report under Section 13 or 15(d) of the Securities Exchange Act of 1934 (No fee required)

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 or Organization)	(I.R.S. Employer Identification No.)

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	Class A Warrants	Class B Warrants
(Title of Class)	(Title of Class)	(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 or any amendment to this Form 10-KSB. / /

State issuer's revenues for its most recent fiscal year. $ 0.00

As of April 7, 1999, 4,014,843 shares of the registrant's common stock, par value $0.001 per share, were outstanding (exclusive of shares of such common stock owned by each director and executive officer 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 reference to average bid and asked price of such common equity on the Nasdaq SmallCap Market on April 7, 1999 was $7,527,831. The aggregate market value of all of the registrant's outstanding common stock (6,360,747 shares) and the registrant's 1,712,386 outstanding shares of Series B Convertible Preferred Stock (convertible into 5,331,096 shares of common stock), valued on an as-converted basis and including shares of common stock held by each director and executive officer and each person who beneficially owns 10% or more of the outstanding shares of common stock of the registrant, was $21,922,206 computed by reference to the closing price of such common equity on the Nasdaq SmallCap Market on April 7, 1999. Shares of common stock beneficially owned by each director and executive officer 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 the first two sentence of 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

Unless the context otherwise requires, (i) all references to the "Company" include Discovery Laboratories, Inc. ("Discovery") and its wholly-owned subsidiary, Acute Therapeutics, Inc. ("ATI"), (ii) all references to the Company's activities, results of operations and financial condition prior to November 25, 1997 relate to Discovery Laboratories, Inc., a former Delaware corporation ("Old Discovery"), a predecessor to the Company, insofar as business activities relating to the SuperVentTM, SurfaxinTM and DSC-103 products described herein are concerned and (iii) all references to the Company's common stock, par value $0.001 per share (the "Common Stock") are to the Company's Common Stock after giving effect to a 1-for-3 reverse split of the Common Stock effected on November 25, 1997. See Item 1 and Item 4 in this Annual Report on Form 10-KSB (this "Report").

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 to meet the continuing listing requirements for the quotation of its securities on the Nasdaq SmallCap Market 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.

PART I

ITEM 1. DESCRIPTION OF BUSINESS.

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's two lead drug candidates are directed towards respiratory indications. The Company may also seek to enter into collaborations with corporate partners for manufacturing and marketing of such drugs.

PRODUCTS AND TECHNOLOGIES UNDER DEVELOPMENT

SurfaxinTM

Discovery's lead product is SurfaxinTM, a protein-phospholipid formulation containing the proprietary, synthetic peptide sinapultide, for the treatment of several conditions characterized by insufficient surfactant. Lung surfactants are protein-phospholipid complexes which coat the alveoli (air sacs) of the lungs. Lung surfactants lower surface tension in expiration and raise it during inspiration to prevent the collapse of alveoli. Replacement surfactants are currently approved only for treating idiopathic respiratory distress syndrome ("IRDS"). Infants with this condition, as well as infants born with meconium (a component of the fetal bowel) in their lungs, which can lead to meconium aspiration syndrome ("MAS"), typically suffer from insufficient surfactant that can lead to a life-threatening loss of pulmonary function. Patients with ARDS/ALI, which can result from trauma, smoke inhalation, head injury, pneumonia and a variety of other events, typically suffer from surfactant deficiency as well.

The potential market for synthetic lung surfactants is substantial. The incidence of ARDS/ALI is approximately 240,000 patients per year in the United States. IRDS affects 40,000 to 50,000 infants per year in the United States. Twenty to forty percent of infants with IRDS develop debilitating bronchopulmonary dysplasia requiring extended ventilatory support and hospitalization. MAS affects approximately 26,000 newborn infants per year in the United States.

SurfaxinTM is an aqueous suspension of lipid vesicles containing the novel synthetic peptide sinapultide, which was invented at The Scripps Research Institute ("Scripps"). SurfaxinTM is patterned after human Surfactant Protein B, shown to have the greatest surfactant activity in humans. The product was exclusively licensed by Scripps to Johnson & Johnson, Inc. ("J&J"), which, together with its wholly owned subsidiary, Ortho Pharmaceutical Corporation ("Ortho"), engaged in development activities with respect to sinapultide. ATI acquired the exclusive worldwide sublicense to the sinapultide technology from J&J and Ortho in October 1996.

In July 1992, an investigational new drug application ("IND") submitted by Scripps relating to the use of SurfaxinTM to treat IRDS was approved by the United States Food and Drug Administration (the "FDA"). J&J subsequently completed a multi-center, Phase 2 clinical trial of SurfaxinTM in 47 infants with IRDS. This trial demonstrated safety and efficacy. In September 1994, an IND was submitted by J&J relating to the use of SurfaxinTM to treat ARDS and was subsequently approved by the FDA. Both the IRDS IND and the ARDS IND have been transferred to ATI. ATI subsequently received FDA approval to amend the approved ARDS IND and re-initiate Phase 1 clinical trials of SurfaxinTM for the treatment of ARDS. The ARDS trial commenced on August 15, 1997 at Sharp Memorial Hospital in San Diego, California. ATI amended the existing IRDS IND to permit the initiation of a Phase 2 clinical trial of SurfaxinTM to treat MAS on May 27, 1997 at Thomas Jefferson University Hospital in Philadelphia. This trial was completed and results were announced on February 4, 1999. Discovery also commenced a pivotal Phase 2/3 clinical trial in ARDS/ALI in July 1998. This trial was recently amended to be submitted for IRB approval and is intended to enroll approximately 540 patients and be conducted at up to 43 clinical sites nationwide.

ATI and Scripps were parties to a sponsored research agreement (the "Sponsored Research Agreement") that expired during February 1999 pursuant to which ATI contributed $460,000 to Scripps' SurfaxinTM research efforts per annum. ATI has an option to acquire an exclusive worldwide license to technology developed under the agreement prior to its expiration, which it is required to exercise within 180 days from receipt of notice from Scripps of the development of such technology. ATI has not received any notice of development of technology pursuant to the Sponsored Research Agreement. Scripps will own all technology that it developed pursuant to work performed under the Sponsored Research Agreement. ATI has the right to receive 50% of the net royalty income received by Scripps for inventions jointly developed by ATI and Scripps to the extent ATI does not exercise its option with respect to such inventions.

SuperVentTM

The Company is developing SuperVentTM as a stable, aerosolized, multidimensional therapy for airway diseases such as cystic fibrosis ("CF") and chronic bronchitis, which are characterized by inflammation, injurious oxidation and excessive sputum. CF is a progressive, lethal respiratory disease that afflicts approximately 23,000 patients in the United States and a comparable number in Europe. It is the most common lethal genetic disease among Caucasians. CF results from a genetic defect in the CFTR gene. The CFTR gene codes for a membrane protein responsible for the transport of chloride ions. Because of this genetic defect, CF mucus is excessively viscous and adherent to airway walls. Destruction of the lungs of CF patients occurs gradually as the inability to clear mucus from the lungs leads to blockage of the airways usually beginning in the smaller airways and alveoli. A new therapy which minimizes the pulmonary complications of CF would have a major impact on the length and quality of life of its patients.

SuperVent'sTM active component is tyloxapol, a compound which has been safely used as an emulsifying agent in drug formulations by the United States pharmaceutical industry for over 40 years. Experimental research conducted by consultants to the Company indicates that tyloxapol may possess biological activities beyond its well-recognized emulsification properties. In vitro studies conducted by the inventors demonstrated that tyloxapol has three mechanisms of action: anti-inflammatory activity, anti-oxidant activity and mucoactive activity. This combination of pharmacological activities is not presently found in any single, safe, effective therapy for CF or chronic bronchitis in the United States.

The Company's clinical development plan for SuperVentTM is to focus first on CF. In September 1995, the FDA approved, subject to certain modifications, a physician-sponsored IND to begin a clinical trial of SuperVentTM for use in treating CF. The trial commenced on March 17, 1997 at the University of Utah Health Sciences Center and is designed to determine whether aerosolized SuperVentTM holds promise as a low toxicity, anti-inflammatory, anti-oxidant and mucolytic agent for the treatment of CF. Part A of such clinical trial was completed on March 31, 1998. The results from this clinical trial in normal healthy volunteers have indicated that the compound had no significant effects on any objective measure of safety (although coughing was noted by several subjects at the highest doses tested). The Company is in the process of revising the design of its clinical investigation of SuperVent(TM) for the treatment of CF.

DSC-103

DSC-103 (formerly known as ST-630) is being developed by the Company for use in treating postmenopausal osteoporosis. Postmenopausal osteoporosis is a disease of postmenopausal women characterized by decreased bone mass which leads to reduced bone strength and an increased risk of fractures. DSC-103 is an analog of the active circulating vitamin D hormone, calcitriol, modified to increase its potency and lengthen its circulating half-life. As a class, vitamin D analogs are commonly used therapies in Europe and Japan for osteoporosis. In aggregate, this class of compounds is believed to generate several hundred million dollars in worldwide sales for osteoporosis.

Published studies have confirmed the efficacy of vitamin D analogs in increasing bone mass and decreasing fractures. Vitamin D analogs, however, have not been well accepted in the United States due to certain side effects in the compounds currently marketed. Specifically, prior studies of vitamin D analogs have been associated with hypercalcemia in a percentage of patients. Hypercalcemia is elevated calcium levels in the blood above a generally accepted range. No vitamin D analogs are currently marketed for osteoporosis in the United States.

In November 1997, the Company filed an IND with the FDA to initiate Phase 1 clinical studies of DSC-103 as a once-daily, orally administered drug for the treatment of postmenopausal osteoporosis in the United States. On December 5, 1997, the Company initiated an initial safety and dose-ranging study of DSC-103 in healthy normal volunteers and postmenopausal women either with or without osteoporosis at Covance Clinical Research Unit Inc. in Madison, Wisconsin. The Company completed that clinical study and determined that DSC-103 does not represent a risk of hypercalcemia at any dosage levels that may prove efficacious for treating postmenopausal osteoporosis. The Company has access to preclinical data generated by Sumitomo Pharmaceuticals ("Sumitomo") and Taisho Pharmaceuticals ("Taisho") with respect to DSC-103 pursuant to the terms of the licensing arrangements described herein.

Because DSC-103 does not meet the critical care focus of Discovery, it is the Company's intention to seek a pharmaceutical partner to further develop DSC-103 for metabolic bone diseases.

OTHER TECHNOLOGIES

The Company has previously been involved in the development of additional technologies, including an injectible form of Apafant, a platelet activating factor antagonist, for the treatment of acute pancreatitis ("Apafant Injection") and AN10, a novel analog of butyric acid, for treatment of chemotherapy-induced alopecia (in topical form) and beta-hemoglobinopathies (in intravenous form). The Company's development activities with respect to Apafant Injection and AN10 took place prior to the Company's merger with Old Discovery (see "History; Completion of Merger"). During the fourth quarter of 1998, the Company determined not to proceed with the development of Apafant Injection and AN10 and has returned the rights previously licensed with respect to those drug products to the licensors.

LICENSING ARRANGEMENTS; PATENTS AND PROPRIETARY RIGHTS

J&J License Agreement: SurfaxinTM

ATI has received an exclusive, worldwide sublicense from J&J (the "J&J License Agreement") to commercialize SurfaxinTM for the diagnosis, prevention or treatment of disease. The J&J License Agreement is a sublicense under certain patent rights previously licensed to J&J by Scripps (the "Scripps Patent Rights") and a license under certain other patent rights held by Ortho (the "Ortho Patent Rights"). The Scripps Patent Rights consist of three issued United States patents and two pending United States applications. The three issued patents are United States Patent No. 5,407,914, U.S. Patent No. 5,260,273 and U.S. Patent No. 5,164,369. These patents relate to synthetic pulmonary surfactants (including SurfaxinTM), certain related polypeptides and a method of treating respiratory distress syndrome with these surfactants. The first of these patents will expire in 2009. The two pending United States applications relate to pulmonary surfactants, related polypeptides, liposomal surfactant compositions and methods of treating respiratory distress syndromes with these surfactants and compositions. The Ortho Patent Rights consist of certain pending United States patent applications which relate to methods of manufacturing certain peptides which may be used in the manufacture of SurfaxinTM. J&J is responsible for filing, prosecuting and maintaining the Ortho Patent Rights.

CMHA License Agreement: SuperVentTM/Tyloxapol

The Company has obtained the core technology relating to SuperVentTM pursuant to a license agreement with the Charlotte-Mecklenberg Hospital Authority (the "CMHA License Agreement"). The CMHA License Agreement grants the Company an exclusive worldwide license under two issued United States patents (United States Patent No. 5,474,760 and United States Patent No. 5,512,270) and two pending United States patent applications held by CMHA, and any later-issued United States and any foreign patents based on or issuing from the issued patents and the pending patent applications. The issued United States patents expire in 2013. The United States patents cover methods of using tyloxapol, the active compound in SuperVentTM, to treat cystic fibrosis and methods of treating diseases caused by oxidant species, such as myocardial infarction, stroke and ARDS. The two pending United States patent applications relate to the use of tyloxapol as an anti-inflammatory and anti-oxidant agent.

Tyloxapol, the active compound in SuperVentTM was the subject of an issued United States composition of matter patent which expired in 1965. The patents and patent applications licensed to the Company differ from the expired patent, inter alia, in that one patent application covers proprietary pharmaceutical formulations containing high concentrations of tyloxapol and the other patents and patent applications cover uses of tyloxapol to treat certain diseases. Although the Company believes that high concentration formulations of tyloxapol will represent the most practical means to deliver the active compound, there can be no assurance that any patent application covering this formulation will issue or that the compound will not prove similarly effective in lower concentrations which are not covered by any of the Company's patent applications.

WARF License Agreement: DSC-103

Pursuant to an agreement (the "WARF License Agreement") with the Wisconsin Alumni Research Foundation ("WARF"), the Company has an exclusive license within all countries in the Western hemisphere in the field of prevention, treatment, amelioration or cure of bone disease, under U.S. Patent No. 4,358,406 (the "DSC-103 Patent") covering the compound DSC-103 and U.S. Patent No. 5,571,802 (the "DSC-103 Use Patent") covering a method for treating postmenopausal osteoporosis. In addition, the Company has options to extend the exclusive license to the remaining countries of the world with the exception of Japan. The Company options expire on January 1, 2002.

The DSC-103 Patent will expire in July 2001, which the Company anticipates will be prior to receipt of any marketing approval for DSC-103 in the United States. The DSC-103 Use Patent, which expires in 2014, is limited to claims relating to a method of treating postmenopausal osteoporosis in humans having such disease with an effective dosage of DSC-103. These claims do not include claims relating to the use of DSC-103 to treat other metabolic bone disorders, such as age-related osteoporosis (which occurs in men and women) and renal osteodystrophy. At the Company's request, WARF filed an application to pursue additional claims relating to the use of DSC-103 to treat other metabolic bone diseases. However, there can be no assurance that any patent containing such additional claims will issue in the United States or elsewhere. United States and foreign patents covering certain processes relating to the manufacture of vitamin D analogs, which have been nonexclusively licensed to the Company under the WARF License Agreement, will expire on various dates up to 2005.

Risk of Loss of Technology/Technological Uncertainty and Obsolescence

The Company must satisfy the terms and conditions set forth in the license agreements described above in order to retain its license rights thereunder, including but not limited to diligent pursuit of product development and the timely payment of royalty fees (including, with respect to certain such agreements, minimum royalty payments), milestone payments and other amounts. If the Company fails to comply with such terms and conditions as set forth in such license agreements, its rights thereunder for individual product opportunities could be terminated.

The patent position of firms relying upon biotechnology is highly uncertain and involves complex legal and factual questions. To date, there has emerged no consistent policy regarding the breadth of claims allowed in biotechnology patents or the degree of protection afforded under such patents. The Company's success will depend, in part, on its ability, and the ability of its licensor(s), to obtain protection for its products and technologies under United States and foreign patent laws, to preserve its trade secrets, and to operate without infringing the proprietary rights of third parties. The Company has obtained rights to certain patents and patent applications and may, in the future, seek rights from third parties to additional patents and patent applications. There can be no assurance that patent applications relating to the Company's potential products which have been licensed to date, or that it may license from others in the future, will result in patents being issued, that any issued patents will afford adequate protection to the Company or not be challenged, invalidated, infringed or circumvented, or that any rights granted thereunder will afford additional competitive advantages to the Company. Furthermore, there can be no assurance that others have not independently developed, or will not independently develop, similar products and/or technologies, duplicate any of the Company's products or technologies, or, if patents are issued to, or licensed by, the Company, design around such patents. There also can be no assurance that the validity of any of the patents licensed to the Company, would be upheld if challenged by others in litigation or that the Company's activities would not infringe patents owned by others. The Company could incur substantial costs in defending itself in suits brought against it or any of its licensors, or in suits in which the Company may assert, against others, patents in which the Company has rights. Should the Company's products or technologies be found to infringe patents issued to third parties, the manufacture, use, and sale of the Company's products could be enjoined and the Company could be required to pay substantial damages. In addition, the Company may be required to obtain licenses to patents or other proprietary rights of third parties, in connection with the development and use of its products and technologies. No assurance can be given that any licenses required under any such patents or proprietary rights would be made available on terms acceptable to the Company, if at all.

The Company also relies on trade secrets and proprietary know-how. The Company requires all employees to enter into confidentiality agreements that prohibit the disclosure of confidential information to third parties and require disclosure and assignment to the Company of rights to their ideas, developments, discoveries and inventions. In addition, the Company seeks to obtain such agreements from its consultants, advisors and research collaborators; however, such agreements may not be possible where such persons are employed by universities or other academic institutions that require assignment of employee inventions to them.

THIRD PARTY SUPPLIERS; MANUFACTURING AND MARKETING

To be successful, the Company's products must be manufactured in commercial quantities under good manufacturing practice ("GMP") requirements set by the FDA at acceptable costs. The FDA periodically inspects manufacturing facilities in the United States in order to assure compliance with applicable GMP requirements. Foreign manufacturers also are inspected by the FDA if their drugs are marketed in the United States. Failure of the foreign or domestic suppliers of Discovery's products or failure of the manufacturers of the Company's products to comply with GMP regulations or other FDA regulatory requirements would have a material adverse effect on the Company's business, financial condition and results of operations. The Company does not have any manufacturing capacity of its own but instead intends to rely on outside manufacturers to produce appropriate clinical grade material for its use in clinical studies for certain of its products.

The active compound in SuperVentTM is presently manufactured for several third parties pursuant to GMP standards by an affiliate of Sanofi-Winthrop, Inc. (Sanofi"), a multinational pharmaceutical company. Sanofi is the sole supplier of tyloxapol with GMP standard manufacturing capabilities and there are few alternative non-GMP approved sources of supply. Currently, the Company purchases bulk tyloxapol from Sanofi on an as-needed basis. Although Sanofi has sold a quantity of tyloxapol sufficient for the Company's proposed Phase 1/2 clinical trial of SuperVentTM, the Company does not have an agreement with Sanofi to supply any additional material, either in connection with a Phase 3 clinical trial or, following regulatory approval, for marketing purposes. In addition, the Company does not intend to enter into an agreement for supply of the formulated drug containing tyloxapol unless it plans to initiate a Phase 3 clinical trial of tyloxapol for the treatment of CF. There can be no assurance that the Company will be able to enter into a supply agreement with Sanofi or a supplier of the formulated drug on terms acceptable to the Company, if at all. In such case, the Company would be required to seek alternate manufacturing sources capable of producing tyloxapol and the formulated drug. There can be no assurance that the Company will be able to identify and contract with alternative manufacturers on terms acceptable to it, if at all. Any interruption in the supply of tyloxapol would have a material adverse effect on the Company's business, financial condition and results of operations.

The Company has acquired from J&J experimental compounds, the sinapultide and manufacturing equipment needed to produce and meet its requirements for clinical supplies of SurfaxinTM. In addition, the Company has entered into an agreement with Taylor Pharmaceuticals, Inc. for the manufacture of SurfaxinTM for use in the Company's planned clinical trials.

It is the Company's long-term goal to market SuperVentTM for CF and possibly certain of its other products through a direct sales force (or, in the case of SuperVentTM, possibly through the distribution capabilities of the Cystic Fibrosis Foundation), if and when any necessary regulatory approvals are obtained. The Company currently has no marketing and sales experience and no marketing or sales personnel. Unless a sales force is established, the Company will be dependent on corporate partners or other entities for the marketing and selling of its products. There can be no assurance that the Company will be able to enter into any satisfactory arrangements for the marketing and selling of its products. The inability of the Company to enter into such third party distribution, marketing and selling arrangements for its anticipated products could have a material adverse effect on the Company's business, financial condition and results of operations.

COMPETITION

The Company is engaged in highly competitive fields of pharmaceutical research. Competition from numerous existing companies and others entering the fields in which the Company operates is intense and expected to increase. The Company expects to compete with, among others, conventional pharmaceutical companies. Most of these companies have substantially greater research and development, manufacturing, marketing, financial, technological, personnel and managerial resources than the Company. Acquisitions of competing companies by large pharmaceutical or health care companies could further enhance such competitors' financial, marketing and other resources. Moreover, competitors that are able to complete clinical trials, obtain required regulatory approvals and commence commercial sales of their products before The Company could enjoy a significant competitive advantage. There are also existing therapies that may be expected to compete with the Company's products under development.

Presently, there are no approved drugs that are specifically indicated for MAS or ARDS/ALI. Current therapy consists of general supportive care and mechanical ventilation. Four products are specifically approved for the treatment of IRDS. CurosurfTM, marketed in Europe by Ares-Serono and Chiesi, is a porcine lung extract. ExosurfTM, marketed by Glaxo Wellcome, contains only phospholipids and synthetic organic detergents and no stabilizing protein or peptides. SurvantaTM, which has been shown to be more effective than ExosurfTM in clinical trials, is an extract of bovine lung that contains the cow version of Surfactant Protein B. Recently, Forest Laboratories has obtained an approvable letter from the FDA for its calf lung surfactant, InfasurfTM, for use in IRDS. Although none of the four approved surfactants for IRDS is approved for ARDS, which is a significantly larger market, there are a significant number of other potential therapies in development for the treatment of ARDS that are not surfactant related. Any of these various drugs or devices could significantly impact the commercial opportunity for SurfaxinTM. The Company believes that synthetic surfactants such as SurfaxinTM will be far less expensive to produce than the animal-derived products approved for the treatment of IRDS.

Genentech has marketed PulmozymeTM in the United States and Canada as a CF therapy since early 1994. PulmozymeTM reduces the viscosity of CF mucus by cleaving the DNA released from destroyed inflammatory, epithelial and bacterial cells which collect in mucus and contribute to its abnormal viscosity and adherence. The approximate yearly cost of PulmozymeTM treatment for an average patient is $11,000. The Company believe that the high cost of this treatment may reduce its competitive profile as compared with SuperVentTM.

There are numerous approved therapies for osteoporosis which will compete with DSC-103. Such therapies include estrogen, which is of proven benefit in treating osteoporosis in postmenopausal women, but is associated with significant adverse effects (including increased breast and uterine cancer risk); FosamaxTM (alendronate), a drug of the bisphosphonate class marketed by Merck; EvistaTM a selective estrogen receptor modulator marketed by Eli Lilly; and MiacalcinTM, a nasally administered calcitonin marketed by Sandoz Pharmaceuticals. In addition, there are a number of therapies in development for osteoporosis that potentially will compete with DSC-103.

GOVERNMENT REGULATION

The testing, manufacture, distribution, advertising and marketing of drug products are subject to extensive regulation by governmental authorities in the United States and other countries. Prior to marketing, any pharmaceutical products developed or licensed by the Company must undergo an extensive regulatory approval process required by the FDA and by comparable agencies in other countries. This process, which includes preclinical studies and clinical trials of each pharmaceutical compound to establish its safety and efficacy and confirmation by the FDA that good laboratory, clinical and manufacturing practices were maintained during testing and manufacturing, can take many years, requires the expenditure of substantial resources and gives larger companies with greater financial resources a competitive advantage over the Company. The FDA review process can be lengthy and unpredictable, and the Company may encounter delays or rejections of its applications when submitted. If questions arise during the FDA review process, approval may take a significantly longer period of time. Generally, in order to gain FDA approval, a company first must conduct preclinical studies in a laboratory and in animal models to obtain preliminary information on a compound's efficacy and to identify any safety problems. The results of these studies are submitted as part of an IND application that the FDA must review before human clinical trials of an investigational drug can start.

Clinical trials are normally done in three phases and generally take two to five years or longer to complete. Typically, clinical testing involves a three-phase process. Phase 1 consists of testing the drug product in a small number of humans to determine preliminary safety and tolerable dose range. Phase 2 involves larger studies to evaluate the effectiveness of the drug product in humans having the disease or medical condition for which the product is indicated and to identify possible common adverse effects in a larger group of subjects. Phase 3 consists of additional controlled testing to establish clinical safety and effectiveness in an expanded patient population of geographically dispersed test sites, to evaluate the overall benefit-risk relationship for administering the product and to provide an adequate basis for product labeling.

After completion of clinical trials of a new drug product, FDA and foreign regulatory authority marketing approval must be obtained. A New Drug Application ("NDA") submitted to the FDA generally takes one to three years to obtain approval. If questions arise during the FDA review process, approval may take a significantly longer period of time. The testing and approval processes require substantial time and effort and there can be no assurance that any approval will be granted on a timely basis, if at all. Even if regulatory clearances are obtained, a marketed product is subject to continual review, and later discovery of previously unknown problems or failure to comply with the applicable regulatory requirements may result in restrictions on the marketing of a product or withdrawal of the product from the market as well as possible civil or criminal sanctions. For marketing outside the United States, the Company also will be subject to foreign regulatory requirements governing human clinical trials and marketing approval for pharmaceutical products. The requirements governing the conduct of clinical trials, product licensing, pricing and reimbursement vary widely from country to country. None of the Company's products under development have been approved for marketing in the United States or elsewhere. No assurance can be given that the Company will be able to obtain regulatory approval for any such products under development. Failure to obtain requisite governmental approvals or failure to obtain approvals of the scope requested will delay or preclude the Company or its licensees or marketing partners from marketing their products, or limit the commercial use of the products, and thereby could have a material adverse effect on the Company's business, financial condition and results of operations.

EMPLOYEES

The Company has 16 full-time employees and 1 part-time employee. The Company's future success depends in significant part upon the continued service of its key scientific personnel and executive officers and its continuing ability to attract and retain highly qualified scientific and managerial personnel. Competition for such personnel is intense and there can be no assurance that the Company can retain its key employees or that it can attract, assimilate or retain other highly qualified technical and managerial personnel in the future.

RECENT EVENTS; COMPLETION OF MERGERS

Stock and Warrant Placement

From March 31 through April 7, 1999, the Company sold to certain investors, in transactions exempt from registration under the Securities Act pursuant to Section 4(2) thereof and Regulation D thereunder (the "1999 Financing"), shares of Common Stock and a newly created class of warrants of the Company (the "Class C Warrants") for an aggregate purchase price of $950,000. An additional $50,000 has been subscribed for pursuant to the 1999 Financing. Investors in the 1999 Financing received, for each $100,000 invested, 53,191 shares of Common Stock at a purchase price of $1.88 and 53,191 Class C Warrants, each of which is 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.

Investors in the 1999 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 1999 Financing, the Company (i) shall sell shares of Common Stock in a private offering at less than $1.88 per share, (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 $1.88 per shares or (iii) shall not have either (a) raised at least $2 million through the sale of equity or equity derivatives or (b) entered into any corporate partnering arrangement having a value of at least $10 million. In addition, if the average of the closing prices for the 20 trading days preceding the date that is 150 days from the effective date of a purchase in the 1999 Financing is less than $1.88, the investor will receive a number of additional shares of Common Stock sufficient to reduce such investor's per share purchase price to the average of the lowest three closing prices of the Common Stock during such period and the exercise price applicable to such investor's Class C Warrants will be reduced. In no event will the effective purchase price of Common Stock sold in the 1999 Financing be reduced below $0.86 per share, and in no event will the exercise price applicable to the Class C Warrants be reduced below $2.15, pursuant to any of the foregoing adjustments.

1998 Merger

On June 16, 1998, Discovery completed the acquisition of the then outstanding minority interest in ATI through the merger of a transitory subsidiary of Discovery with and into ATI (the "1998 Merger"). Pursuant to the 1998 Merger, each issued and outstanding share of the Common Stock, par value $0.001 per share, of ATI (the "ATI Common Stock") was converted into 3.90 shares (the "Exchange Ratio") of Discovery's Common Stock and each issued and outstanding share of the Series B Preferred Stock, par value $0.001 per share, of ATI (the "ATI Series B Preferred Stock") was converted into one share of the Series C Preferred Stock, par value $0.001 per share, of Discovery (the "Discovery Series C Preferred Stock"). In addition, Discovery assumed all options to purchase ATI Common Stock outstanding prior to the 1998 Merger. Each such option became exercisable for a number of shares of Common Stock equal to the number of shares of ATI Common Stock for which such option was exercisable prior to the 1998 Merger multiplied by the Exchange Ratio at a per share exercise price equal to the original exercise price divided by the Exchange Ratio.

Upon consummation of 1998 the Merger, (i) Dr. Capetola became the Chief Executive Officer of the Company, (ii) the other members of ATI's management team prior to the 1998 Merger (together with Dr. Capetola, the "ATI Management Members") assumed executive positions with the Company comparable to their present positions with ATI and (iii) the Board of Directors of Discovery was reconstituted to consist of its present members.

Dr. Capetola received a $100,000 bonus upon the closing of the 1998 Merger pursuant to an employment agreement with the Company executed at the Closing of the 1998 Merger (the "Capetola Employment Agreement"). Pursuant to the Capetola Employment Agreement, Dr. Capetola is entitled to a base salary of $247,500 per annum and a $50,000 bonus upon the execution of each partnering or similar arrangement involving SurfaxinTM having a value in excess of $10 million. Upon consummation of the 1998 Merger, options to purchase 338,500 shares of Common Stock were granted pursuant to the employment agreements with Dr. Capetola and the other ATI Management Members. See "Executive Compensation--Employment Agreements".

Pursuant to the terms of the executive employment agreements executed in connection with the 1998 Merger, the ATI Management Members are entitled to the discretionary milestone incentive payments, payable in either cash or equity, as determined in the discretion of the Company's compensation committee. In addition, the ATI Management Members have been issued, in the aggregate, (i) options for the purchase of 175,000 shares of Common Stock which vest at such time as the market capitalization of the Company (based on the average closing price and amount of Common Stock outstanding over a 30-trading-day period) exceeds $75 million and (ii) options for the purchase of 160,000 shares of Common Stock which vest upon consummation of a corporate partnering deal involving any portfolio compound having a total value of at least $20 million (the options described in clauses (i) and (ii) are referred to collectively herein as the "Contingent Milestone Options").

Concurrently with the execution of the merger agreement relating to the 1998 Merger, Discovery and ATI entered into a management agreement (the "Management Agreement") pursuant to which the ATI Management Members managed both Discovery and ATI pending the closing of the 1998 Merger. Pursuant to the Management Agreement, the ATI Management Members were granted options to purchase, in the aggregate, 126,500 shares of Common Stock. Such of the foregoing options as were allocated to Dr. Capetola became fully vested upon the closing of the 1998 Merger and the remaining options vest in three equal installments on the first, second and third anniversaries of the 1998 Merger.

1997 Merger

On November 25, 1997, Old Discovery was merged (the "1997 Merger") with and into the Company. Pursuant to the 1997 Merger, the name of the Company was changed from Ansan Pharmaceuticals, Inc. to Discovery Laboratories, Inc. Immediately following the consummation of the 1997 Merger, the Company effected a 1-for-3 reverse split (the "Reverse Split") of the outstanding Common Stock.

As a consequence of the 1997 Merger and the Reverse Split, (i) each share of the common stock, par value $0.001 per share, of Old Discovery ("Old Discovery Common Stock") was exchanged for 0.389157 shares of Common Stock, (ii) each share of Series A Convertible Preferred Stock, stated value $10.00 per share, of Old Discovery was exchanged for one share of Series B Convertible Preferred Stock, stated value $10.00 per share, of the Company ("Series B Preferred Stock") and (iii) each share of Series B Preferred Stock, which was convertible into 4.6698 shares of Common Stock prior to giving effect to the Reverse Split, became convertible into 1.5566 shares of New Common Stock.

As a consequence of the Reverse Split, (i) each share of Common Stock outstanding immediately prior to the 1997 Merger was exchanged for 1/3 of a share of new Common Stock, (ii) each Class A Warrant of the Company outstanding immediately prior to the 1997 Merger was exchanged for 1/3 of a new Class A Warrant and (iii) each Class B Warrant of the Company outstanding at such time was exchanged for 1/3 of a new Class B Warrant. Accordingly, (a) each presently outstanding Class A Warrant is exercisable for one share of Common Stock and one Class B Warrant at an exercise price of $19.50 per Class A Warrant and (b) each presently outstanding Class B Warrant is exercisable for one share of Common Stock at an exercise price of $26.25 per Class B Warrant.

IMPORTANT FACTORS REGARDING FORWARD-LOOKING STATEMENTS

The following important factors, among others, could cause the Company's actual results, performance, achievements, or industry results to differ materially from those expressed in the Company's forward-looking statements contained herein and presented elsewhere by management from time to time.

Development Stage of the Company; No Developed or Approved Products; Uncertainty of Future Profitability

The Company is a development stage company. The potential products upon which the Company intends to focus its development efforts are in the research and development stage and, accordingly, the Company has not begun to market or generate revenues from the commercialization of any of these products under development. The Company's products under development will require`significant time-consuming and costly research, development, preclinical studies, clinical testing, regulatory approval and significant additional investment prior to their commercialization, which may never occur. Such clinical testing activities, together with resultant increases in general and administrative expenses, are expected to result in significant additional operating losses for the foreseeable future. The Company is not currently profitable and it is expected that the Company will not generate significant product revenues for the foreseeable future, if at all. It is expected that the Company will incur significant increasing operating losses over the next several years. To achieve profitable operations, the Company, alone or with others, must successfully develop and obtain regulatory approval for marketing its products.

The Company's operations will be subject to numerous risks associated with the establishment and development of products based upon innovative or novel technologies. As a result, the Company will be subject to the problems, delays, uncertainties and complications encountered in connection with newly founded development stage life science businesses. Some of these unanticipated problems may include development, regulatory, manufacturing, distribution and marketing difficulties that may be beyond the Company's financial or technical abilities to satisfactorily resolve. In particular, there can be no assurance that the Company's proposed drug products will not cause adverse effects that may prevent them from being marketed, regardless of their efficacy. Although the Company's initial drug candidates have been the subject of certain clinical trials, it is possible that these drug candidates may be shown to have previously undetected adverse effects during the more extensive clinical trials that will be required prior to their becoming candidates for marketing approval by the FDA. There can be no assurance that the research and development activities funded by the Company will be successful, that products under development will prove to be safe and effective, that any of the preclinical or clinical development work will be completed, that the Company will ever achieve any of its NDA filing objectives with the FDA, that FDA approval will be attained for such products, that the anticipated products will be commercially viable or successfully marketed, that third parties do not hold proprietary rights that will preclude the Company from marketing its products, if any, or that, if the products under development are approved by the FDA, the Company will ever achieve significant revenues or profitable operations.

Need for Additional Financing; Issuance of Securities; Future Dilution

The Company will require substantial additional funding to conduct its research and product development activities and to manufacture and market, if approved by the FDA or corresponding foreign regulatory authorities, the products currently under development by the Company and any other products that the Company may develop in the future. The Company intends to seek to raise further funds through collaborative ventures entered into with potential corporate partners and/or additional debt or equity financings. While the Company intends to seek to enter into collaborative ventures with corporate partners to fund some or all of its research and development activities, as well as to manufacture or market any products which may be successfully developed, the Company currently does not have any such arrangements with corporate partners and there can be no assurance that any such arrangements can be obtained. The Company has not entered into arrangements to obtain any additional financing and there can be no assurance that the Company will be able to obtain adequate additional financing on acceptable terms, if at all, or that any such additional financing would not result in significant dilution of stockholders' interests. Failure by the Company to enter into collaborative ventures or to receive additional funding to complete its proposed product development programs would have a material adverse effect on the Company and could ultimately cause the Company to cease to qualify for listing of its securities on the Nasdaq SmallCap Market. See "Possible Delisting From Nasdaq SmallCap Market; Market Illiquidity". If additional financing is not otherwise available, the Company will be required to modify its business development plans or reduce or cease certain or all of its operations.

Extensive Government Regulation; Uncertainty of FDA and Other Governmental Approval of Products Under Development

The testing, manufacture, distribution, advertising and marketing of drug products are subject to extensive regulation by governmental authorities in the United States and other countries. Prior to marketing, any pharmaceutical products developed or licensed by the Company must undergo an extensive regulatory approval process required by the FDA and by comparable agencies in other countries. This process, which includes preclinical studies and clinical trials of each pharmaceutical compound to establish its safety and effectiveness and confirmation by the FDA that good laboratory, clinical and manufacturing practices were maintained during testing and manufacturing, can take many years, requires the expenditure of substantial resources and will give larger companies with greater financial resources a competitive advantage over the Company. The FDA review process can be lengthy, and the Company may encounter delays or rejections of its applications when submitted. If questions arise during the FDA review process, approval may take a significantly longer period of time. Generally, in order to gain FDA approval, a company must conduct preclinical studies in a laboratory and in animal models to obtain preliminary information on a compound's efficacy and to identify any safety problems. The results of these studies are submitted as part of an IND that the FDA must review before human clinical trials of an investigational drug can start. Clinical trials are normally done in three phases and generally take two to five years or longer to complete.

Upon completion of clinical trials of a new drug product, FDA and foreign regulatory authority marketing approval must be obtained before the new drug product can be sold. NDAs submitted to the FDA generally take one to three years to be approved. If questions arise during the FDA review process, approval may take a significantly longer period of time. The testing and approval processes require substantial time and effort and there can be no assurance that any approval will be granted on a timely basis, if at all. Even if regulatory clearances are obtained, a marketed product is subject to continual review, and later discovery of previously unknown problems or failure to comply with the applicable regulatory requirements may result in restrictions on the marketing of a product or withdrawal of the product from the market as well as possible civil or criminal sanctions. For marketing outside the United States, the Company also will be subject to foreign regulatory requirements governing human clinical trials and marketing approval for pharmaceutical products. The requirements governing the conduct of clinical trials, product licensing, pricing and reimbursement vary widely from country to country. None of the Company's products under development have been approved for marketing in the United States or elsewhere (nor has testing been completed). No assurance can be given that the Company will be able to obtain regulatory approval for any such products under development. Failure to obtain requisite governmental approvals or failure to obtain approvals of the scope requested will delay or preclude the Company or its licensees or marketing partners from marketing the Company's products under development, or limit the commercial use of such products, and thereby could have a material adverse effect on the Company's business, financial condition and results of operations.

Dependence on Others for Clinical Development of, Regulatory Approvals for, and Manufacturing and Marketing of Pharmaceutical Products

The Company's strategy has been, and will be, to seek to enter into collaborative agreements with pharmaceutical companies for the research and development, clinical testing, manufacturing, marketing and commercialization of certain of its products. The Company will therefore be dependent upon obtaining such partners and the expertise and dedication of sufficient resources by third parties to develop and commercialize certain of its proposed products. The Company may in the future grant to its collaborative partners, if any, rights to license and commercialize any pharmaceutical products developed under these collaborative agreements and such rights would limit the Company's flexibility in considering alternatives for the commercialization of such products. Under such agreements, the Company expects to rely on its collaborative partners to conduct research and clinical trials, manufacture, market and commercialize certain of its products. Although the Company believes that its collaborative partners may have an economic motivation to commercialize the pharmaceutical products which they may license from the Company, the amount and timing of resources devoted to these activities generally will be controlled by each such individual partner. There can be no assurance that the Company will be successful in establishing any collaborative arrangements, or that, if established, such future partners will be successful in developing and commercializing products or that the Company will derive any revenues from such arrangements. The Company is not a party to any collaborative arrangements with respect to its products under development.

Technological Uncertainty and Obsolescence

The market for biotechnology is characterized by rapidly changing technology and evolving industry standards. The Company's future success will depend upon its ability to develop and commercialize its existing products and to develop new products and applications. There can be no assurance that the Company will successfully complete the development of the Company's current or future products or that such products will achieve market acceptance. Any delay or failure of such products under development or any future product which may develop in achieving market acceptance would adversely affect the Company's business.

The Company's products under development are intended to treat diseases for which other technologies and proposed treatments are rapidly developing. There can be no assurance that any results of the Company's research and product development efforts will not be rendered obsolete by research efforts and technological activities of others, including the efforts and activities of governments, major research facilities and large multinational corporations.

Dependence on Patents, Licenses and Protection of Proprietary Rights; Risk of Loss of Technology

In order to justify the substantial investment of time and expense required to develop and commercialize its products, the Company will seek proprietary protection for its drug candidates so as to prevent others from commercializing equivalent products in substantially less time and at substantially lower expense. The pharmaceutical industry places considerable importance on obtaining patent and trade secret protection for new technologies, products and processes. The Company's success will depend in part on the ability of the Company and its licensors to obtain effective patent protection for the Company's proprietary technologies and products, defend such patents, preserve its trade secrets and operate without infringing upon the proprietary rights of others, both in the United States and in other countries. The patent position of firms relying upon biotechnology is highly uncertain and involves complex legal and factual questions. To date, there has emerged no consistent policy at the United States Patent and Trademark Office ("PTO") regarding the breadth of claims allowed in biotechnology patents or the degree of protection afforded under such patents.

There are various United States and foreign patents and patent applications (including international applications filed under the Patent Cooperation Treaty) that have been issued or filed with respect to the products and technologies under development by the Company. These patents and patent applications have been licensed to the Company. Although the licensors under such licenses have retained control of the patent prosecution process, the Company is responsible for the expenses of prosecuting the patents and patent applications (i.e., the fees of patent counsel and any domestic or foreign filing fees that are applicable). Patent applications may be expected to remain pending for several years before the issuance of a patent, if any, and the prosecution of patent applications with respect to the Company's products may entail considerable expense to the Company.

There can be no assurance that patents will issue as a result of any of the pending patent applications relating to the Company's products and technologies or that the issued patents and any patents resulting from the pending patent applications will be sufficiently broad to afford protection to the Company against competitors with similar products and technologies. In addition, there can be no assurance that such patents will not be challenged, invalidated or circumvented, or that the rights granted thereunder will provide competitive advantages to the Company. The commercial success of the Company will also depend upon its avoidance of infringement of patents issued to competitors. A United States patent application is maintained under conditions of confidentiality while the application is pending, so the Company will not be able to determine the inventions being claimed in pending patent applications filed by third parties. Litigation may be necessary to defend or enforce the Company's patent and license rights or to determine the scope and validity of the proprietary rights of others. Defense and enforcement of patent claims can be expensive and time-consuming, even in those instances in which the outcome is favorable to the Company, and can result in the diversion of substantial resources from the Company's other activities. An adverse outcome could subject the Company to significant liabilities to third parties, require the Company to obtain licenses from third parties, or require the Company to alter its products or processes or cease altogether any related research and development activities or product sales, any of which could have a material adverse effect on the Company's business, financial condition and results of operations.

The Company requires all employees to enter into confidentiality agreements that prohibit the disclosure of confidential information to third parties and require disclosure and assignment to the Company of rights to such employees' ideas, developments, discoveries and inventions while so employed. In addition, the Company seeks to obtain such agreements from its consultants, advisors and research collaborators. To the extent that consultants, key employees or other third parties apply technological information independently developed by them or by others to any of the proposed projects of the Company, disputes may arise as to the proprietary rights to such information which may not be resolved in favor of the Company. In addition, the Company will rely on trade secrets and proprietary know-how that it will seek to protect in part by confidentiality agreements with its employees, consultants, advisors or others. There can be no assurance that these agreements will not be breached, that the Company would obtain adequate remedies for any breach, or that the Company's trade secrets or proprietary know-how and will not otherwise become known or be independently developed by competitors in such a manner that the Company has no legal recourse.

The Company is dependent on licensing arrangements for access to its products under development, and the Company will be required to make certain payments and satisfy certain performance obligations in order to maintain the effectiveness of such licensing arrangements. The Company is responsible pursuant to its licensing agreements for the cost of filing and prosecuting patent applications and maintaining issued patents. If the Company does not meet its due diligence and/or financial obligations under its license agreements in a timely manner, the Company could lose the rights to its proprietary technology, which would have a material adverse effect on the Company.

See also "License Agreements; Patents and Proprietary Rights" in this Item 1.

Dependence on Third Party Suppliers and Manufacturers

The Company does not have any manufacturing capacity of its own and the Company will be required to rely on outside manufacturers, including Taylor Pharmaceuticals, Inc., to produce appropriate clinical grade material for its use in clinical studies for certain of its products. Failure of the foreign or domestic suppliers of the Company's products or failure of the manufacturers of the Company's products to comply with GMP regulations or other FDA regulatory requirements would have a material adverse effect on the Company's business, financial condition and results of operations. See "Third Party Suppliers; Marketing and Manufacturing" in this Item 1.

Lack of Marketing Capability and Experience

The Company currently has no marketing and sales experience and no marketing or sales personnel. Unless a sales force is established, the Company will be dependent on corporate partners or other entities for the marketing and selling of its products. There can be no assurance that the Company will be able to enter into any satisfactory arrangements for the marketing and sale of its products. The inability of the Company to successfully establish a sales force or enter into third party distribution, marketing and selling arrangements for its anticipated products would have a material adverse effect on the Company's business, financial condition and results of operations.

Dependence Upon Key Personnel and Consultants

The Company will be highly dependent upon its officers and directors, as well as its scientific advisory board members, consultants and collaborating scientists. Since competent management personnel and personnel capable of performing the foregoing functions are in great demand, there can be no assurance that the Company will be able to attract and retain such personnel on a timely basis and on terms acceptable to the Company. It is anticipated that the Company's success will depend in large part upon attracting and retaining highly-skilled managerial and other employees.

No Assurance of Additional Products

Although the Company intends to devote substantial resources to the development and commercialization of some or all of the products under development, the Company intends to explore the acquisition and subsequent development and commercialization of additional pharmaceutical products and technologies. There can be no assurance that the Company will be able to identify any additional products or technologies, that it will be able to license any such technologies on acceptable terms or that, even if suitable products or technologies are identified, the Company will have sufficient resources to pursue any such products or technologies to commercialization.

Competition

The Company will be engaged in a highly competitive field. Competition from numerous existing companies and potential new entrants is intense and expected to increase. Many of these companies have substantially greater research and development, manufacturing, marketing, financial, technological, personnel and managerial resources than the Company. There can be no assurance that any products developed by the Company will be more effective than those developed and marketed by its competitors. Colleges, universities, governmental agencies and other public and private research organizations are becoming more active in seeking patent protection and licensing arrangements to collect royalties for use of technology that they have developed, some of which may be directly competitive with the technologies to be developed by the Company. These institutions will also compete with the Company in recruiting highly qualified scientific personnel. It is expected that therapeutic developments in the areas in which the Company will be active may occur at a rapid rate and that competition will intensify as advances in this field are made. Accordingly, the Company will be required to continue to devote substantial resources and efforts to research and development activities. See "Competition" in this Item 1.

Risk of Product Liability; No Insurance Coverage

Should the Company successfully develop any products, the marketing of such products, through third party arrangements or otherwise, may expose the Company to product liability claims in the event that the use or misuse of pharmaceutical products manufactured by, or under license from, the Company results in adverse effects. The Company presently carries product liability insurance relating to its clinical trials of SuperVentTM and its clinical trials of SurfaxinTM in treating ARDS and MAS. The Company may be required to obtain additional product liability insurance coverage prior to initiation of other clinical trials. It is expected that the Company will obtain product liability insurance coverage before commercialization of its proposed products. There can be no assurance that adequate insurance coverage will be available at an acceptable cost, if at all. In addition, there can be no assurance that a product liability claim, even if the Company has insurance coverage, would not materially adversely affect the Company's business, financial condition and results of operations.

Uncertainty of Product Pricing and Reimbursement; Health Care Reform and Related Measures

The levels of revenues and profitability of pharmaceutical and/or biotechnology products and companies may be affected by efforts of governmental and third party payers to contain or reduce the costs of health care through various means. For example, in certain foreign markets, pricing or profitability of prescription pharmaceuticals is subject to government control. In the United States, there have been a number of federal and state proposals to implement similar government control. Presently, the United States Congress is considering a number of legislative and regulatory reforms that may affect companies engaged in the health care industry in the United States. Pricing constraints on the Company's products, if approved, could have a material adverse effect on the Company. While it cannot be predicted whether these proposals will be adopted or what effects such proposals may have on its business, the existence and pendency of such proposals could in general have a material adverse effect on the Company. In addition, the Company's ability to commercialize potential pharmaceutical and/or biotechnology products may be adversely affected to the extent that such proposals have a material adverse effect on other companies that are prospective collaborators with respect to any of the Company's product candidates.

In the United States and elsewhere, successful commercialization of the Company's products will depend in part on the availability of reimbursement to the consumer from third party health care payers, such as government and private insurance plans. There can be no assurance that such reimbursement will be available or will permit price levels sufficient to realize an appropriate return on the Company's investment in product development. Third party health care payers are becoming increasingly cost conscious in determining which pharmaceutical products they will and will not reimburse. If the Company succeeds in bringing one or more products to the market, there can be no assurance that these products will be considered cost effective and that reimbursement to the consumer will be available or will be sufficient to allow the Company to sell its products on a competitive basis.

Control by Current Officers, Directors and Principal Stockholders

The directors, executive officers and principal stockholders of the Company hold approximately 23% of the outstanding voting securities of the Company on an as converted basis. Accordingly, the Company's executive officers, directors, principal stockholders and certain of their affiliates have the ability to exert substantial influence over the election of the Company's Board of Directors and the outcome of issues submitted to the Company's stockholders. Such a concentration of ownership may have the effect of delaying or preventing a change in control of the Company, including transactions in which stockholders might otherwise recover a premium for their shares over their current market prices.

Possible Delisting from Nasdaq SmallCap Market; Market Illiquidity

To meet the current Nasdaq listing requirements for the Company's securities to continue to be listed on the Nasdaq SmallCap Market, the Company will have to maintain (a) (1) at least $2 million in net tangible assets, (2) $35 million in market capitalization, or (3) $500,000 in net income (over two of the last three years), (b) a public float of at least 500,000 shares valued at $1 million or more and (c) a minimum bid price of $1. In addition, the Company's Common Stock will have to be held by at least 300 holders and will have to have at least two active market makers. For purposes of determining compliance with the public float requirement, shares of stock held by officers, directors and 10%-or-greater stockholders are excluded.

If the Company is unable to satisfy the NASD's listing maintenance requirements, the Company's securities may be delisted from the Nasdaq SmallCap Market. In such event, trading, if any, in the Company's securities would thereafter be conducted in the over-the-counter market in the so-called "pink sheets" or on the NASD's "OTC Electronic Bulletin Board." Consequently, the liquidity of the Company's securities could be impaired, not only in the number of securities which could be bought and sold, but also through delays in the timing of the transactions, reduction in securities analysts' and the news media's coverage of the Company, and lower prices for the Company's securities than might otherwise be attained.

Risks of Low-Priced Stock; Possible Effect of "Penny Stock" Rules on Liquidity for the Common Stock

If the Company's securities were to be delisted from the Nasdaq SmallCap Market, they could become subject to Rule 15g-9 under the Exchange Act, which imposes additional sales practice requirements on broker-dealers which sell such securities to persons other than established customers and "accredited investors" (generally, individuals with net worth in excess of $1,000,000 or annual incomes exceeding $200,000, or $300,000 together with their spouses). For transactions covered by this rule, a broker-dealer must make a special suitability determination for the purchaser and have received the purchaser's written consent to the transaction prior to sale. Consequently, the rule may adversely affect the ability of broker-dealers to sell the Company's securities and may adversely affect the ability of purchasers in this offering to sell any of the securities acquired hereby in the secondary market.

The Commission has adopted regulations which define a "penny stock" to be an equity security that has a market price (as therein defined) less than $5.00 per share or with an exercise price of less than $5.00 per share, subject to certain exceptions. For any transaction involving a penny stock, unless exempt, the rules require delivery, prior to any transaction in a penny stock, of a disclosure schedule prepared by the Commission relating to the penny stock market. Disclosure is also required to be made about commissions payable to both the broker-dealer and the registered representative and current quotations for the securities. Finally, monthly statements are required to be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stocks.

The foregoing required penny stock restrictions will not apply to the Company's securities if such securities continue to be listed on the Nasdaq SmallCap Market and have certain price and volume information provided on a current and continuing basis or meet certain minimum net tangible assets or average revenue criteria. There can be no assurance that the Company's securities will qualify for exemption from these restrictions. In any event, even if the Company's securities were exempt from such restrictions, it would remain subject to Section 15(b)(6) of the Exchange Act, which gives the Commission the authority to prohibit any person that is engaged in unlawful conduct while participating in a distribution of a penny stock from associating with a broker-dealer or participating in a distribution of a penny stock, if the Commission finds that such a restriction would be in the public interest. If the Company's securities were subject to the existing or proposed rules on penny stocks, the market liquidity for the Company's securities could be severely adversely affected.

Certain Interlocking Relationships; Potential Conflicts of Interest

Mark Rogers, M.D., a Director of the Company, is the President of Paramount Capital Incorporated ("Paramount Capital"). Steve H. Kanzer, the Chairman of the Board of Directors, was a full-time officer of Paramount Capital and of Paramount Capital Investments, LLC ("Paramount Investments"), an affiliate of Paramount Capital, until March, 1998. Paramount Capital acted as placement agent for Old Discovery in a private equity offering conducted during June through November 1996 (the "Unit Offering") and acted as financial advisor to the Company until October 1998. Paramount Investments is a merchant banking firm specializing in biotechnology companies. In the regular course of its business, Paramount Investments identifies, evaluates and pursues investment opportunities in biomedical and pharmaceutical products, technologies and companies. Paramount Investments is not obligated pursuant to any agreement or understanding with the Company to make any additional products or technologies available to the Company, and there can be no assurance that any biomedical or pharmaceutical product or technology identified by Paramount Investments or any other affiliates of Paramount Capital or Paramount Investments in the future will be made available to the Company.

Certain of the officers, directors, consultants, and advisors to the Company may from time to time serve as officers, directors, consultants or advisors to other biopharmaceutical or biotechnology companies. There can be no assurance that such other companies will not in the future have interests in conflict with those of the Company.

Potential Adverse Effect of Shares Eligible for Future Sale

The Company has outstanding approximately (i) 6,360,747 shares of Common Stock; (ii) 1,712,386 shares of Series B Preferred Stock convertible into 5,331,095 shares of Common Stock; (iii) 735,833 Class A Warrants to purchase an aggregate of 735,833 shares of Common Stock and 735,833 Class B Warrants to purchase an additional 735,833 shares of Common Stock; (iv) 498,333 Class B Warrants to purchase 498,333 shares of Common Stock; (v) 292,553 Class C Warrants to purchase an aggregate of 292,553 shares of Common Stock, (vi) a unit purchase option to purchase an aggregate of 173,333 shares of Common Stock, assuming exercise of the underlying warrants; (vii) outstanding options to purchase 2,301,509 shares of Common Stock; (viii) warrants to purchase 220,026 shares of Series B Preferred Stock; and (ix) warrants to purchase 75,087 shares of Common Stock. In addition 2,039 shares of Series C Preferred Stock, which are convertible into additional shares of Common Stock under certain circumstances based on the liquidation value of the Series C Preferred Stock and the market price of the Common Stock, are presently outstanding. Holders of the Company's warrants and options are likely to exercise them when, in all likelihood, the Company could obtain additional capital on terms more favorable than those provided by warrants and options. Further, while these warrants and options are outstanding, the Company's ability to obtain additional financing on favorable terms may be adversely affected. The holders of the unit purchase options and certain stockholders have certain demand and "piggy-back" registration rights with respect to their securities. Exercise of such rights could involved substantial expense to the Company.

No prediction can be made as to the effect, if any, that the availability of such shares for sale will have on the market prices that may be quoted from time to time on the Nasdaq SmallCap Market. Nevertheless, the possibility that substantial amounts of the Company's Common Stock may be sold in the public market may adversely effect the prevailing market prices for the Company's Common Stock and could impair the Company's ability to raise capital in the future through the sale of equity securities. Actual sales or the prospect of future sales of shares of the Company's Common Stock under Rule 144 or otherwise may have a depressive effect upon the price of the Company's Common Stock and the market therefor.

Antitakeover Effects of Provisions of the Certificate of Incorporation and Delaware Law

The Company's Certificate of Incorporation, as amended, authorizes the issuance of up to 5,000,000 shares of preferred stock, of which 1,714,425 shares are outstanding and of which 220,026 shares are reserved for issuance upon the exercise of warrants. The Board of Directors of the Company will have the authority to fix and determine the relative rights and preferences of preferred shares, as well as the authority to issue such shares, without further stockholder approval. As a result, the Board of Directors of the Company could authorize the issuance of a series of preferred stock which would grant to holders the preferred right to the assets of the Company upon liquidation, the right to receive dividend coupons before dividends would be declared to Common stockholders, and the right to the redemption of such shares, together with a premium, prior to the redemption of the Company's Common Stock. Common stockholders have no redemption rights. In addition, the Board could issue large blocks of preferred stock to fend against unwanted tender offers or hostile takeovers without further stockholder approval.

The Company is subject to Section 203 of the DGCL which, subject to certain exceptions, prohibits a Delaware corporation from engaging in any business combination with any interested stockholder for a period of three years following the date that such stockholder became an interested stockholder. In general, Section 203 defines an interested stockholder as any entity or person beneficially owning 15% or more of the outstanding voting stock of the corporation and any entity or person affiliated with or controlling or controlled by such entity or person. The foregoing provisions could have the effect of discouraging others from making tender offers for the Company's shares and, as a consequence, they also may inhibit fluctuations in the market price of the Company's shares that could result from actual or rumored takeover attempts. Such provisions also may have the effect of preventing changes in the management of the Company.

Dividends Unlikely

The Company has never paid cash dividends on its capital stock and does not anticipate paying any cash dividends for the foreseeable future.

ITEM 2. DESCRIPTION OF PROPERTY.

The Company currently has its executive offices at 350 South Main Street, Suite 307, Doylestown, Pennsylvania 18901. The Company's telephone number is (215) 340-4699 and its facsimile number is (215) 340-3940.

ITEM 3. LEGAL PROCEEDINGS.

The Company is not aware of any pending or threatened legal actions other than disputes arising in the ordinary course of its business that would not, if determined adversely to the Company, have a material adverse effect on the Company.

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

No matters were submitted to a vote of securityholders during the fourth quarter of 1998.

During August 1998, the Board of Directors of Discovery approved the adoption of a shareholder rights plan, contingent upon approval of the plan by holders of a 66.67% of the Series B Convertible Preferred Stock. During September 1998, the Company solicited the written consent of the holders of such preferred stock to the adoption of the rights plan. The Company did not obtain the requisite consents for the implementation of the rights plan and has discontinued such solicitation.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

The Common Stock is traded on the Nasdaq SmallCap Market under the symbol "DSCO." In addition, the Company's units (consisting of Common Stock, Class A Warrants and Class B Warrants), Class A Warrants and Class B Warrants are approved for listing on the Nasdaq SmallCap Market. As of April 7, 1999, the number of stockholders of record of the Common Stock was approximately 130, and the number of beneficial owners of shares of the Common Stock was approximately 956. As of April 7, 1999, there were approximately 6,360,747 shares of Common Stock were issued and outstanding. In addition, as of such date, 1,712,386 shares of Series B Preferred Stock, convertible into 5,331,000 shares of Common Stock, were issued and outstanding and 2,039 shares of Series C Preferred Stock (which are convertible into additional shares of Common Stock under certain circumstances based on the liquidation value of the Series C Preferred Stock and the market price of the Common Stock) were issued and outstanding.

The following table sets forth the quarterly price ranges of the Common Stock for the periods indicated, as reported by Nasdaq. The following price ranges are adjusted for the Reverse Split.

	Low	High
First Quarter 1997	6.38	$ 9.75
Second Quarter 1997	3.75	6.00
Third Quarter 1997	3.56	6.00
Fourth Quarter 1997	3.75	10.31
First Quarter 1998	3.94	9.00
Second Quarter 1998	4.00	5.38
Third Quarter 1998	2.00	4.38
Fourth Quarter 1998	1.69	4.88
First Quarter 1999 (through March 15)	2.13	4.00

The Company has not paid dividends on the Common Stock. It is anticipated that the Company will not pay dividends on the Common Stock in the foreseeable future. Under the terms of the Series B Preferred Stock, so long as 50% of the shares of Series B Preferred Stock is outstanding, the Company may not, without the affirmative vote or consent of the holders of at least 66.67% of all outstanding Series B Preferred Stock voting separately as a class, declare any dividend or distribution on the Common Stock or any other class or series of preferred stock.

In September 1998, the Company issued to a financial advisor shares of Common Stock in satisfaction of certain financial obligations to such financial advisor. The issuance of such Common Stock was deemed to be exempt from registration under the Act in reliance on Section 4(2) thereof because such issuance did not involve a public offering. In addition, such financial advisor represented its intention to acquire the securities for investment and not with a view to or for sale in connection with any distribution thereof and appropriate legends were affixed to the stock certificates issued in such transactions. Such financial advisor had adequate access, through its negotiations with the Company, to information about the Company. Moreover, such financial advisor represented to the Company, and the Company believed, that it was sophisticated and experienced in financial matters.

In November 1998, the Company agreed to issue to a legal advisor shares of Common Stock in satisfaction of certain financial obligations to such legal advisor. The issuance of such Common Stock was deemed to be exempt from registration under the Act in reliance on Section 4(2) thereof because such issuance did not involve a public offering. In addition, such legal advisor represented its 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 are required to be affixed to the stock certificates issued in such transactions. Such legal advisor had adequate access, through its negotiations with the Company, to information about the Company. Moreover, such legal advisor represented to the Company, and the Company believed, that it was sophisticated and experienced in financial matters.

In November 1998, the Company agreed to issue to a consultant shares of Common Stock in satisfaction of certain financial obligations to such consultant. The issuance of such Common Stock was deemed to be exempt from registration under the Act in reliance on Section 4(2) thereof because such issuance did not involve a public offering. In addition, such consultant represented its 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 are required to be affixed to the stock certificates issued in such transactions. Such consultant had adequate access, through its negotiations with the Company, to information about the Company. Moreover, such consultant represented to the Company, and the Company believed, that it was sophisticated and experienced in financial matters.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND PLAN OF OPERATIONS

The following discussion reflects the historical results of Old Discovery as the 1997 Merger was accounted for as a reverse acquisition with Old Discovery as the acquiror for financial reporting purposes.

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 had incurred a cumulative net loss of approximately $28,089,000 as of December 31, 1998. 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 currently engaged in the development and commercialization of drugs for critical care that are intended to be used in a hospital setting. The Company anticipates that during the next 12 months it will conduct substantial research and development of its products under development. A pivotal Phase 2/3 clinical trial of SurfaxinTM for the treatment of acute respiratory distress syndrome/acute lung injury ("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. The Company anticipates that at all participating facilities will have been supplied with drug product by June 1999. To date, 14 patients have been enrolled in the ARDS/ALI trial.

A Phase 2A clinical trial of SurfaxinTM for the treatment of meconium aspiration syndrome ("MAS") was commenced on May 27, 1997. The MAS trial was terminated in October 1998 upon the expiration of the life of the SurfaxinTM drug product used in the trial. The Company intends to analyze the results on the Phase 2A MAS trial and believes that such results will yield sufficient data to support a Phase 2B clinical trial of SurfaxinTM for the treatment of MAS.

A Phase 1/2 clinical trial of SuperVent(TM) for the treatment of cystic fibrosis ("CF") was commenced on March 17, 1997. Part A of such clinical trial was completed on March 31, 1998. The Company is in the process of revising the design of its clinical investigation of SuperVent(TM) for the treatment of CF.

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. It is the Company's present intention to seek to develop DSC103 through a corporate partnering arrangement rather than directly.

The Company is currently planning a Phase 3 clinical trial of SurfaxinTM for the treatment of infant (idiopathic) respiratory distress syndrome 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"). There can be no assurance as to the receipt or the timing of such approvals.

During the fourth quarter of 1998, the Company determined not to proceed with the development of Apafant Injection and AN10 and has returned the rights previously licensed with respect to those drug products to the licensors.

In addition to its clinical research activities, the Company dedicates substantial efforts to the development of manufacturing processes for its SurfaxinTM product. During 1998, Dr. Harry Brittain, the Company's Vice President, Pharmaceutical and Chemical Development, developed a method for reducing the viscosity of the original product formulation which renders the product more efficacious and easier to deliver. The Company has the capability through contract manufacturers to manufacture SurfaxinTM in large quantities for the adult market.

During October 1998, the FDA granted the Company fast track approval status for the ARDS/ALI and MAS indications. Fast track status facilitates the development and expedites the review of new drugs intended for treatment of life-threatening conditions for which there is presently no medical option. The FDA Office of Orphan Products Development (the "OOPD") has designated SurfaxinTM as an orphan drug for the treatment of MAS and ARDS/ALI. During October 1998, the OOPD awarded Discovery a renewable Orphan Products Development Grant, ranging from $194,390 for the first year to $583,170 over three years, to finance the Company's MAS trial.

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 subscriptions for $1 million in new equity financing of which $950,000 has been closed to date. 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 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 Summer 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 second quarter of 2000.

Year 2000 Compliance

With the new millenium 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 SurfaxinTM 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 intends to transfer manufacturing and stability testing activities away from any contract manufacturing facilities or contract laboratories that have not confirmed Year 2000 compliant status by May of 1999. If the contract manufacturing or contract laboratory facilities utilized by the Company fail to achieve Year 2000 compliance, it is unlikely that the Company would be materially affected since in most instances recordkeeping or backup recordkeeping is maintained in hard copy. It is possible, however, that data transmitted electronically to the FDA under such circumstances would be inconsistent with submitted documentation, which in turn could result in the Company receiving a citation from the FDA. 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 expected to be substantially completed by June 30, 1999. The Company believes that completing the program within the time-frame it set for itself will avoid any adverse impact on its operating systems. 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 intends to develop contingency plans to address any other Year 2000 compliance risks that are uncovered by its continuing evaluation efforts.

ITEM 7. FINANCIAL STATEMENTS.

See Index to Consolidated Financial Statements on Page F-1.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

The Company has retained Richard A. Eisner & Company, LLP ("RAE"), as the independent auditors to audit the Company's financial statements for fiscal year 1999. RAE was also retained to audit the Company's financial statements for fiscal year 1998. Prior to the 1997 Merger, RAE served as the independent auditors for Old Discovery. In addition, prior to the 1997 Merger, the Company's executive offices and principal accounting functions were located at the Company's prior executive offices in South San Francisco, California. The Company's annual audits for the years ended December 31, 1995 and 1996, conducted by its independent accountants, Ernst & Young, LLP ("Ernst & Young") were primarily staffed and performed out of Ernst & Young's Palo Alto, California office. As a consequence of the 1997 Merger, the executive offices and principal accounting functions of the Company were relocated to New York City and, as a consequence of the 1998 Merger, were subsequently relocated to Doylestown, Pennsylvania.

The Company believes that, with respect to the years ended December 31, 1995 and 1996 and the subsequent interim period through January 16, 1998, the Company did not have any disagreement on any matter of accounting principals or practices, financial statement disclosure or auditing scope or procedure, which disagreement, if not resolved to the satisfaction of Ernst & Young would have caused it to make reference in connection with its report on the Company's financial statements to the subject matter of the disagreement.

The 1995 and 1996 audit reports issued by Ernst & Young for the Company did not contain an adverse opinion or a disclaimer of opinion, and were not qualified or modified as to uncertainty, audit scope or accounting principles. However, in reissuing its audit report on the Company's 1996 financial statements in connection with the filing by the Company of its registration statement on Form S-4 filed with the Securities and Exchange Commission on August 25, 1997 (and the amendments thereto), Ernst & Young added an explanatory paragraph to such report with respect to the ability of the Company to continue as a going concern. During those years there were no events described in Item 304(a)(1)(iv)(B) of Regulation S-B promulgated under the Act.

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT.

MANAGEMENT

The following table sets forth the names and positions of all the executive officers and directors of the Company as of April 7, 1999.

Discovery

Name	Age	Positions with the Company
Robert J. Capetola, Ph.D.	49	President, Chief Executive Officer and Director
Steve H. Kanzer, C.P.A., Esq.	35	Chairman of the Board of Directors
Harry Brittain, Ph.D.	49	Vice President of Pharmaceutical and Chemical Development
Laurence B. Katz, Ph.D.	44	Vice President of Project Management and Clinical Administration
Lisa Mastroianni	37	Director of Clinical Research
Evan Myrianthopoulos	34	Vice President, Finance and Secretary
Christopher J. Schaber	32	Vice President of Regulatory Affairs and Quality Control
Huei Tsai, Ph.D.	59	Vice President of Biometrics
Thomas E. Wiswell, M.D.	47	Vice President of Clinical Research
Cynthia Davis	30	Controller
Max Link, Ph.D.	55	Director
Herbert H. McDade, Jr.	71	Director
Mark C. Rogers, M.D.	55	Director
Richard Sperber	58	Director
David Naveh, Ph.D.	45	Director
Milton Packer, M.D.	46	Director
Richard G. Power.	68	Director
Marvin E. Rosenthale, Ph.D.	63	Director

Robert J. Capetola, Ph.D. has served as President, Chief Executive Officer and a Director of the Company since the effective time of the 1998 Merger and prior to that time served us Chairman and Chief Executive Officer of ATI from its inception in October 1996. From February 1994 to May 1996, Dr. Capetola was Managing Director of Delta Biotechnology, a subsidiary of Ohmeda Pharmaceutical Products Division, a division of The BOC Group, plc ("Ohmeda"), in the U.K. He also served on the Board of Directors of Delta Biotechnology. From December 1992 to September 1996, Dr. Capetola served as Vice President of Research and Development at Ohmeda. He served on Ohmeda's operating board and was responsible for all aspects of Ohmeda's research and development, including preclinical research and development, clinical development, biometrics and regulatory affairs. From 1977 to 1992, Dr. Capetola held a variety of positions as a drug discovery scientist at Johnson & Johnson Pharmaceutical Research Institute, including Senior Worldwide Director of Experimental Therapeutics. Dr. Capetola received his B.S. from the Philadelphia College of Pharmacy & Science and his Ph.D. in pharmacology from Hahnemann Medical College.

Steve H. Kanzer, C.P.A., Esq. has served as Chairman of the Board of Directors of Discovery Laboratories, Inc. since the effective time of the 1997 Merger. From June 1996 until such time he was the Chairman of the Board of Old Discovery. He has been a Director of ATI since November 1996. Mr. Kanzer is also President and Chief Executive Officer of the Institute for Drug Research, Inc., a specialty pharmaceutical and drug development company headquartered in Budapest, Hungary. Mr. Kanzer is a founder and currently a director of Boston Life Sciences, Inc. and Atlantic Pharmaceuticals, Inc. and is currently a director of Endorex, Inc. He has been a founder and director of several other public and private biotechnology companies including Avigen, Inc., Titan Pharmaceuticals, Inc. and Xenometrix, Inc. Mr. Kanzer was a Senior Managing Director of Paramount Capital Incorporated and Paramount Capital Investments, LLC until March 1998. From October 1991 until January 1995, Mr. Kanzer was General Counsel of The Castle Group Ltd, an affiliate of Paramount Capital. From 1988 to 1991, Mr. Kanzer was an attorney at the law firm of Skadden, Arps, Meagher, Slate, & Flom. Mr. Kanzer received his J.D. from New York University School of Law and a B.B.A. in Accounting from Baruch College. He devotes only a portion of his time to the business of the Company.

Harry G. Brittain, Ph.D., has served as the Vice President for Pharmaceutical and Chemical Development of the Company since the effective time of the 1998 Merger. Prior to such time, he held such position with ATI commencing in November 1996. He is a graduate of Queens College (B.S., 1970; M.S., 1972), and of the City University of New York (Ph.D. in physical chemistry, 1975). He was a postdoctoral fellow at the University of Virginia, and has held faculty positions at Ferrum College and Seton Hall University. Prior to joining ATI, Dr,. Brittain served as Director of Pharmaceutical Development for the Pharmaceutical Products Division of Ohmeda, Inc. Before that, he worked at Bristol-Myers Squibb, where he led a variety of groups within the Analytical R&D department. His research interests include studies of molecular optical activity and chirality, development of pharmaceutical dosage forms, and the physical characterization of pharmaceutical materials. He has authored approximately 195 research publications, and is a member of the editorial boards of numerous journals.

Laurence B. Katz, Ph.D., has served as Vice President of Project Management and Clinical Administration of the Company since the effective time of the 1998 Merger. Prior to such time, he held such position with ATI commencing in November 1996. Prior to joining the Company, Dr. Katz was employed from April 1993 to November 1996 by Ohmeda Pharmaceutical Products Division, a division of The BOC Group, as Senior Director of Project Management and Clinical Administration. At Ohmeda, Dr. Katz was project team leader for the inhaled nitric oxide project and was responsible for the administration of all clinical trials within the company. Previously, Dr. Katz was employed by Ortho Pharmaceutical Corporation and the R.W. Johnson Pharmaceutical Research Institute, divisions of Johnson & Johnson, Inc. ("J&J"). While there he served as Senior Project Manager in the Project Planning & Management department from January 1990 to April 1993, and as a Principal Scientist in the Drug Discovery department from February 1983 to January 1990. Dr. Katz received a B.S. degree in biology from the University of Pennsylvania, his M.S. and Ph.D. degrees in pharmacology form the Philadelphia College of Pharmacy & Science, and was a post-doctoral research fellow at the University of Wisconsin-Madison.

Lisa Mastroianni, R.N., has served as Director of Clinical Research of the Company since the effective time of the 1998 Merger. Prior to such time, she held such position with ATI commencing in January of 1997. Prior to joining the Company, Ms. Mastroianni was employed from November of 1994 to November of 1996 by Ohmeda Pharmaceutical Products Division, a division of The BOC Group as Senior Clinical Research Associate. At Ohmeda, Ms. Mastroianni was responsible for the management and completion of the Phase 2/3 clinical study in acute respiratory distress syndrome, supervision of internal personnel as well as management of a Contract Research Organization, and assisting in the development and management of a Phase 1 clinical study in congestive heart failure. Previously Ms. Mastroianni was employed by Sandoz Pharmaceuticals from March 1992 to November 1994 in their cardiovascular clinical research department and was responsible for monitoring Phase 3 lipid studies and managing and monitoring Phase 1 CHF studies. Ms. Mastroianni has her Bachelors degree in Nursing from Bloomfield College and has worked as a critical care nurse in a number of hospitals in the United States from 1985 to 1992.

Evan Myrianthopoulos has served as Vice President, Finance of the Company since the effective time of the 1998 Merger. He served as Chief Financial Officer of Discovery from December 1997 until June 1998 and as Chief Operating Officer of Discovery from the effective time of the 1997 Merger until June 1998. From June 1996 until November 1997 he served as Chief Operating Officer and Director of Old Discovery. Prior to joining Old Discovery, he was a Technology Associate of Paramount Capital Investments, L.L.C. from December 1995 until January 1987. Before joining Paramount Capital Investments, LLC, Mr. Myrianthopoulos managed a hedge fund for S + M Capital Management in Englewood Cliffs, New Jersey. The fund specialized in syndicate and secondary stock issues and also engaged in arbitrage of municipal and mortgage bonds. Prior to his employment with S + M Capital Management, Mr. Myrianthopoulos was employed at the New York Branch of National Australia Bank where he was Assistant Vice President of Foreign Exchange trading. Mr. Myrianthopoulos received a B.S. in Economics and Psychology from Emory University in 1986.

Christopher J. Schaber has served as Vice President of Regulatory Affairs and Quality Assurance of the Company since the effective time of the 1998 Merger. Prior to such time, he held such position with ATI commencing in November 1996. Prior to joining ATI, Mr. Schaber was employed from October 1994 to November 1996 by Ohmeda Pharmaceutical Products Division, a division of The BOC Group, as Director of Regulatory Affairs. At Ohmeda, Mr. Schaber was directly responsible for all regulatory strategies with the Food and Drug Administration and other Health Authority bodies. From 1989 to 1994, Mr. Schaber held a variety of regulatory positions of increasing importance with The Liposome Company, Inc. and Elkins-Sinn Inc., a division of Wyeth-Ayerst Laboratories. Mr. Schaber received his B.A. from Western Maryland College and his M.S. from Temple University. Mr. Schaber is currently pursuing his Ph.D. in Pharmaceutical Sciences-Regulatory Affairs with the Union Graduate School and is estimated to complete his doctoral program in 1999. In 1994, Mr. Schaber also received his Regulatory Affairs Certification (RAC) from the Regulatory Affairs Professional Society.

Huei Tsai, Ph.D., has served as Vice President of Biometrics of the Company since the effective time of the 1998 Merger. Prior to such time, he held such position with ATI commencing in February 1997. Prior to joining ATI, Dr. Tsai was a statistical consultant after retiring from the position of Director of Biometrics and Clinical Information at Ohmeda Pharmaceutical Products Division, a division of The BOC Group. At Ohmeda, Dr. Tsai was responsible for all statistical, computer operations, database and data coordination. From 1994 to 1995, Dr. Tsai was a statistical consultant to a variety of companies, including Janssen Pharmaceutical Company. For seventeen years prior to that, Dr. Tsai held a variety of biostatistical positions at the Robert Wood Johnson Pharmaceutical Research Institute and Ortho Pharmaceutical Corporation (both wholly-owned subsidiaries of J&J), including Director of Biostatistics for Clinical Pharmacology. Dr. Tsai received a B.A. degree in economics from Tunghai University in 1962 and a Ph.D. in mathematical statistics from Oklahoma State University in 1976.

Thomas E. Wiswell, M.D., has served as Vice President of Clinical Research of the Company since the effective time of the 1998 Merger and, prior to that time, held such position with ATI commencing in April 1997. Since 1993, he has been a Professor of Pediatrics at Jefferson Medical College at Thomas Jefferson University in Philadelphia, Pennsylvania. From 1988 to 1993, he was an Associate Professor of Pediatrics at the F. Edward Herbert School of Medicine in Bethesda, Maryland. He retired as a Lieutenant Colonel from the U.S. Army on June 30, 1993 after twenty years on active duty. Dr. Wiswell is a graduate of the United States Military Academy at West Point and the University of Pennsylvania Medical School.

Cynthia Davis has served as Controller of Discovery since the effective time of the 1998 Merger and was Controller of ATI from October 1996 until such time. Ms. Davis was an office manager with ERD Environmental Group from September 1991 until September 1996. Ms. Davis received her A.A. degree from Lansdale School of Business in May, 1989.

Max Link, Ph.D., has served as a Director of Discovery since the effective time of the 1997 Merger and was a Director of Old Discovery from October 1996 until such time. He has been a Director of ATI since October 1996. Dr. Link has held a number of executive positions with pharmaceutical and health care companies. He currently serves on the Boards of Directors of five publicly-traded life science companies: Alexion Pharmaceuticals, Inc., Protein Design Labs, Inc., Human Genome Sciences, Inc., Cell Therapeutics, Inc., Procept, Inc. and Access Pharmaceuticals, Inc. From May 1993 until June 1994, Dr. Link was Chief Executive Officer of Corange Limited, the parent company of Boehringer Mannheim and DePuy, an orthopedic company. Prior to joining Corange, he served in a number of positions within Sandoz Pharma, Ltd., including Chief Executive Officer from 1987 until April 1992, and Chairman from April 1992 until May 1993.

Herbert H. McDade, Jr. has served as a Director of Discovery since the effective time of the 1997 Merger and was a Director of Old Discovery from June 1996 until such time. Mr. McDade is the Chairman of Access Pharmaceutical and a member of the Boards of Directors of two other publicly-held companies, Cytrx Corporation and Shaman Pharmaceuticals, and Clarion Pharmaceuticals, Inc., which is privately held. Mr. McDade was employed with the Upjohn Company for 20 years and for 14 years as President of Revlon Health Care International.

Mark C. Rogers, M.D. has served as a Director of Discovery since the effective time of the 1997 Merger and was a Director of Old Discovery from June 1996 until such time. Dr. Rogers has been the President of Paramount Capital, Incorporated since June, 1998. From May 1996 until June, 1998, Dr. Rogers was Senior Vice President, Corporate Development and Chief Technology Officer at Perkin-Elmer Corporation. Prior to that time, Dr. Rogers was the Vice Chancellor for Health Affairs, Executive Director and Chief Executive Officer of Duke University Hospital and Health Network from 1992 to 1996. Prior to his employment at Duke, Dr. Rogers was on the faculty of Johns Hopkins University for 15 years where he served as Distinguished Faculty Professor and Chairman of the Department of Anesthesiology and Critical Care Medicine, Associate Dean for Clinical Practice, Director of the Pediatric Intensive Care Unit and Professor of Pediatrics. Dr. Rogers received his M.D. from Upstate Medical Center and his M.B.A. from The Wharton School of Business. He received his B.A. from Columbia University and held a Fulbright Scholarship

Richard Sperber has been a Director of Discovery since May 1994. Mr. Sperber has been President and Chief Executive Officer of The Global Medicines Group Inc., a consulting firm, since 1991. From 1988 to 1991 Mr. Sperber was a Director and Head of Business Development and Strategic Planning for Glaxo Pharmaceuticals U.K. Ltd., a subsidiary of Glaxo Holdings plc. Prior to his employment at Glaxo, Mr. Sperber held a variety of positions including Area Director for Ayerst International, responsible for Southeast Asia, and Director of Marketing for Schering-Plough Corp. responsible for Canada, Japan, Australia and Southeast Asia. Mr. Sperber received his B.S. from the University of Denver and attended graduate school at Columbia University.

David Naveh, Ph.D. has been a Director of Discovery since May 1996. Dr. Naveh is Chief Technical Officer, Bayer Biologics Worldwide. Previously, Dr. Naveh has served as Director of Process Technology and was Director of Process Development of Bayer Corporation beginning in 1992. Dr. Naveh was Director of Biotechnology Operations for Centocor from 1990 to 1992 and was Director of Purification for Centocor from 1989 to 1990. From 1984 to 1988, Dr. Naveh was a manager at Schering-Plough Corp. Dr. Naveh was on the faculty of the University of Wisconsin, Madison as Assistant Professor from 1982 to 1984. He received his B.Sc. and M.S. in 1980 from the Technion, Haifa, Israel and his Ph.D. in 1982 from the University of Minnesota.

Richard G. Power has been a Director of Discovery since the effective time of the 1998 Merger and a Director of ATI since October 1996. Mr. Power is a Principal and Executive Director of The Sage Group, founded in 1994, which specializes in providing strategic and transactional services to the managements and boards of, and investors in, health care companies. He serves on the Board of Directors of The Quantum Group, and Neuromedica, Inc. From 1980 to 1994, Mr. Power served as President of R.G. Power & Associates, Inc., which specializes in worldwide business development and financing strategy for the health care industry. From 1955 to 1980, Mr. Power held senior management positions with several pharmaceutical industry firms, including SmithKline, Searle and as a corporate officer at J&J. Mr. Power received his B.A. from Loras College in 1951, and attended graduate school at the University of Wisconsin.

Marvin E. Rosenthale, Ph.D., has been a Director of Discovery since the effective time of the 1998 Merger and a Director of ATI since October 1996. He has served as President and Chief Executive Officer of Allergan Ligand Retinoid Therapeutics, Inc. ("ALRT") from 1994 until 1997. He joined the ALRT joint venture formed by Allergan and Ligand, the entity through which they combined their resources to pursue the development of retinoid research and development prior to ALRT, in August 1993 as Vice President. Prior to joining ALRT, Dr. Rosenthale served as Vice President, Drug Discovery Worldwide, at R. W. Johnson Pharmaceutical Research Institute from 1990 to 1993. From 1977 to 1990, Dr. Rosenthale served in a variety of positions in drug discovery research for Ortho Pharmaceutical Corporation, including director of the divisions of pharmacology and biological research and executive director of drug discovery research. From 1960 to 1977, he served in various positions with Wyeth Laboratories. Dr. Rosenthale received a Ph.D. in pharmacology from Hahnemann Medical College & Hospital, an M.Sc. in pharmacology from Philadelphia College of Pharmacy and Science and a B.Sc. in pharmacy from Philadelphia College of Pharmacy.

Milton Packer, M.D. has been a Director of Discovery since the effective time of the 1998 Merger and a Director of ATI since October 1996. He has served in a variety of roles since 1992 and currently is the Dickinson W. Richards, Jr. Professor of Medicine, Professor of Pharmacology, Chief of the Division of Circulatory Physiology at the Columbia University College of Physicians and Surgeons, and Director of the Heart Failure Center at the Columbia Presbyterian Hospital. He is also a Clinical Research Scholar at Columbia. Dr. Packer's major research is focused on the pathophysiology and treatment of heart failure. He is on the Executive Committee of both the American Heart Association and the American College of Cardiology. He is a primary consultant to the National Institutes of Health and the Food and Drug Administration on the management of heart failure and on matters related to cardiovascular research and drug development and health care policy. From 1988 to 1992, Dr. Packer was Professor of Medicine at the Mt. Sinai School of Medicine. Dr. Packer received his B.S. degree from the Pennsylvania State University in 1971 and his M.D. degree from the Jefferson Medical College in 1973.

All directors hold office until the next annual meeting of stockholders of Discovery or ATI, as the case may be, or until their successors have been elected and qualified. Officers serve at the discretion of the applicable Board of Directors. The Bylaws of each of Discovery and ATI provide that directors and officers shall be indemnified against liabilities arising from their service as directors or officers to the fullest extent permitted by the laws of the State of Delaware, which generally requires that the individual act in good faith and in a manner he or she reasonably believes to be in or not opposed to the best interests of Discovery or ATI, as the case may be.

Section 16(a) of the Exchange Act requires Discovery's directors, executive officers (including a person performing a principal policy-making function) and persons who own more than 10% of a registered class of Discovery's equity securities ("10% Holders") to file with the SEC initial reports of ownership and reports of changes in ownership of Discovery's Common Stock and other equity securities of Discovery. Directors, officers and 10% Holders are required by SEC regulations to furnish Discovery with copies of all of the Section 16(a) reports they file. Based solely upon a review of the copies of the forms furnished to the Company and the representations made by the reporting persons to Discovery, Discovery believes that during fiscal 1998 its directors, officers and 10% Holders complied with all substantive filing requirements under Section 16(a) of the Exchange Act except that Steve H. Kanzer, Evan Myrianthopoulos, Max Link, Mark Rogers and Herbert McDade did not timely Form 5's relating to certain option grants.

ITEM 10. EXECUTIVE COMPENSATION

The following Summary Compensation Table sets forth the compensation earned by the persons who served as Discovery's chief executive officer during the last completed fiscal year and the four most highly compensated officers of Discovery other than the chief executive officer (the "Named Officers") for services rendered in all capacities to Discovery for each of the last three completed fiscal years. No executive officer who would have otherwise been included in such table resigned or terminated employment during that year.

Summary Compensation Table

		Annual Compensation			Long Term Compensation Awards		
Name and Principal Position	Year	Salary ($)	Bonus ($)	Other Annual Compensation ($)	Restricted Stock Award(s) ($)	Securities Underlying Options/SARs (#)(1)	All Other Compensation ($)
Robert J. Capetola, Ph.D.	1998	$231,094	$160,000(2)	--	--	271,840	--
	1997	$225,000	$ 50,000(3)	--	--	--	--
President, Chief Executive Officer and Director	1996	$56,250	--	--	--	--	--
James S. Kuo, M.D.	1998	$71,094	--	--	--	30,000	87,500 (6)
President, Chief Executive Officer and Director	1997	$175,000	$ 50,000(4)	--	(5)	77,831	--
	1996	$102,708	$ 30,000(4)	--	--	--	--
Harry Brittain	1998	$143,667	$ 40,000	--	--	93,344	--
Vice President	1997	$142,000	$ 5,000	--	--	--	--
	1996	$23,267	--	--	--	--	--
Laurence B. Katz	1998	$143,458	--	--	--	93,344	--
Vice President	1997	$142,000	$ 5,000	--	--	--	--
	1996	$17,750	--	--	--	--	--
Christopher Schaber	1998	$133,333	$ 12,000	--	--	93,344	--
Vice President	1997	$125,000	$ 27,340(7)	--	--	--	--
	1996	$17,548		--	--	--	--
Thomas Wiswell	1998	$200,000	--	--	--	93,344	--
Vice President	1997	$116,667	$ 7,000	--	--	--	--
	1996	--	--	--	--	--	--

(1) Includes Contingent Milestone Options.
(2) $60,000 represents 1997 bonus paid in 1998; $100,000 - represents signing bonus for Discovery contract signed 06/98.
(3) $50,000 represents 1996 signing bonus paid in 1997.
(4) Bonus amounts earned by Dr. Kuo with respect to 1996 and 1997 were paid to Dr. Kuo in 1997 and 1998, respectively.
(5) In May 1996, Old Discovery issued 340,000 shares of Old Common Stock, par value $0.001 per share ("Old Discovery Common Stock") to Dr. Kuo at a purchase price of $0.002. At the time of issuance, there was no market for such shares. Such shares were converted into 132,313 shares of Common Stock as a result of the 1997 Merger and the Reverse Split.
(6) Represents a 50% of a total $175,000 severance payment.
(7) $5,340 represents 1996 bonus paid in 1997.

Option Grants In Last Fiscal Year (1)

The following table contains information concerning the stock option grants (including grants of Contingent Milestone Options) made to the Named Officers for the fiscal year ended December 31, 1998. No stock appreciation rights were granted to these individuals during such year.

Name	Expiration Date	Number of Securities Underlying Options Granted	% of Total Options Granted to Employees in Fiscal Year	Exercise or Base Price ($/sh)(2)
Robert J. Capetola, Ph.D	3/05/08	43,010	3.77%	$4.06
	6/16/08	115,090	10.08%	$4.44
	6/16/08	59,500	5.21%	$4.44
	6/16/08	54,240	4.75%	$4.44
James S. Kuo, M.D.	1/02/08	30,000	2.63%	$3.94
Harry Brittain	3/05/08	14,813	1.30%	$4.06
	6/16/08	39,638	3.47%	$4.44
	6/16/08	20,493	1.79%	$4.44
	6/16/08	18,400	1.61%	$4.44
Laurence B. Katz	3/05/08	14,813	1.30%	$4.06
	6/16/08	39,638	3.47%	$4.44
	6/16/08	20,493	1.79%	$4.44
	6/16/08	18,400	1.61%	$4.44
Christopher Schaber	3/05/08	14,813	1.30%	$4.06
	6/16/08	39,638	3.47%	$4.44
	6/16/08	20,493	1.79%	$4.44
	6/16/08	18,400	1.61%	$4.44
Thomas Wiswell	3/05/08	14,813	1.30%	$4.06
	6/16/08	39,638	3.47%	$4.44
	6/16/08	20,493	1.79%	$4.44
	6/16/08	18,400	1.61%	$4.44

(1) The options granted to Dr. Kuo during 1998 are fully vested.

(2) The exercise price of options issued by Discovery may be paid in cash, in shares of Common Stock valued at the fair market value on the exercise date or through a cashless exercise procedure involving a same-day sale of the purchased shares. Discovery may also finance the exercise of options issued by Discovery by loaning the optionee sufficient funds to pay the exercise price for the purchased shares.

Aggregate Option Exercises In Last Fiscal Year And
Fiscal Year-End Option Values

The following table sets forth information concerning option exercises and option holdings (including Contingent Milestone Options) for the fiscal year ended December 31, 1998 with respect to the Named Officers. No stock appreciation rights were exercised during such year or were outstanding at the end of that year.

Name	Shares Acquired on Exercise(#)	Number of Securities Underlying Unexercised Options at FY-End (#)		Value of Unexercised In The Money Options at FY-End(1)	
		Exercisable	Unexercisable	Exercisable	Unexercisable
Robert J. Capetola, Ph.D	98,280	367,623	113,740	$46,202	--
James S. Kuo, M.D.(3)					
Harry Brittain	--	107,831	--	$165,001	--
Laurence B. Katz	15,600	42,205	66,739	$29,810	$9,937
Christopher Schaber	--	53,905	70,639	$59,621	$19,874
Thomas Wiswell	--	53,905	70,639	$59,621	$19,874
	--	64,630	79,414	$83,187	$40,405

(1) Based on the fair market value of the Common Stock at year-end, $2.63 per share, less the exercise price payable for such shares.

Employment Agreements

Dr. Capetola has been retained as President and Chief Executive Officer of the Company for a four-year period that commenced June 16, 1998. Pursuant to the Capetola Employment Agreement, Dr. Capetola is currently entitled to a base salary of $245,700 per annum and a minimum increase in such base salary of 5% per annum. Dr. Capetola is entitled to a minimum annual bonus equal to 20% of his base salary and received a $100,000 signing bonus upon execution of the Capetola Employment Agreement. Dr. Capetola is also entitled to a $50,000 bonus upon the execution of each partnering or similar arrangement involving Surfaxin having a value to the Company in excess of $10 million and a discretionary bonus, as determined by the Compensation Committee, to be paid in either cash or equity, upon the completion of Phase 2 or 3 clinical trials or the receipt of marketing approval with respect to any portfolio compound of the Company.

The Company has agreed to provide Dr. Capetola with $2 million in life insurance and long-term disability insurance, subject to a combined premium cap of $15,000 per year, during the term of the Capetola Employment Agreement.

The Capetola Employment Agreement has a term of four years expiring June 15, 2002. In the event the Capetola Employment Agreement is terminated prior to such date without cause, Dr. Capetola will be entitled to severance pay equal to 18 months of his base salary, which will not be subject to set-off for any compensation received by Dr. Capetola from subsequent employment. Dr. Capetola has agreed not to engage in certain activities competitive with the business of the Company for a period of 18 months following any termination of his employment with the Company.

Pursuant to employment agreements with the Company executed simultaneously with the closing of the 1998 Merger, each of Harry Brittan, Ph.D., the Company's Vice President of Pharmaceutical and Chemical Development, Christopher J. Schaber, the Company's Vice President of Regulatory Affairs and Quality Control, Laurence B. Katz, the Company's Vice President of Project Management and Clinical Administration, and Thomas Wiswell, the Company's Vice President of Clinical Research, has been retained for a term of three years ending June 15, 2001 at the following respective base salaries currently in effect: $151,410; $153,000; $151,410; and $204,000. Mr. Brittain was paid a $40,000 relocation bonus purusant to the terms of his employment agreement and Mr. Schaber is paid an annual tuition reimbursement payment in the amount of $12,000. Each such officer is entitled to a discretionary year-end cash bonus and a discretionary bonus to be paid in either cash or equity upon the completion of Phase 2 or 3 clinical trials or the receipt of marketing approval with respect to any portfolio compound of the Company, in each case as determined by the Compensation Committee.

In the event Dr. Wiswell's employment agreement is terminated by Dr. Wiswell for good cause, Dr. Wiswell will be entitled to severance pay equal to six months of his base salary, which will not be subject to set-off for any compensation received by Dr. Wiswell from subsequent employment. In the event Dr. Brittain's, Mr. Schaber's or Dr . Katz's employment is terminated by the Company without good cause, such officer will be entitled to severance pay equal to six months of his base salary, which will be subject to set-off for any compensation received from subsequent employment during the severance period. Each of Dr. Brittain, Mr. Schaber, Dr. Katz and Dr. Wiswell has agreed not to engage in activities competitive with the business of the Company for a period of 18 months following any termination of his employment with the Company, provided that in the case of Dr. Wiswell, such agreement will be inapplicable if his employment is terminated by the Company without good cause or by Dr. Wiswell for cause.

Director Compensation

Pursuant to Discovery's 1998 Stock Incentive Plan, non-employee Directors of Discovery are entitled to receive an award of options for the purchase of 20,000 shares of Common Stock upon their election to the Board of Directors of Discovery (the "Discovery Board") and an annual award of options for the purchase of 10,000 shares of Common Stock following each annual meeting of stockholders at which they are reelected provided they have served for at least six months prior to such meeting. Each such option has an exercise price equal to 60% of the fair market value of Common Stock on its date of grant and has a maximum term of ten years, subject to earlier termination should the optionee cease to serve as a Director of the Company. Each option is immediately exercisable for all of the option shares. However, the option shares are subject to repurchase by the Company, at the exercise price paid per share, in the event of the optionee's termination of service prior to vesting in the shares. Director options vest in four equal annual installments commencing six months after the date of grant. In addition, each Discovery Director receives cash compensation in the amount of $1,500 per quarter, $1,000 for each meeting of the Board of Directors attended in person and $500 for each meeting of the Board of Directors attended telephonically. Directors are not precluded from serving the Company in any other capacity and receiving compensation therefor.

Compensation Committee Interlocks and Insider Participation

The Compensation Committee of the Company's Board is comprised of Dr. Rosenthale, Mr. McDade and Mr. Kanzer. Neither Dr. Rosenthale nor Mr. McDade was at any time during the fiscal year ended December 31, 1997, or at any other time, an officer or employee of the Company. Mr. Kanzer serves as Chairman of the Board of Discovery. Neither Dr. Rosenthale, Mr. McDade nor Mr. Kanzer serves as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving as a member of the Company's Board of Directors or Compensation Committee.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The following sets forth certain information, as of April 7, 1999, regarding the beneficial ownership of the Common Stock and Series B Preferred Stock (i) by each of the executive officers and directors of the Company, (ii) by all officers and directors of the Company as a group and (iii) by each person known by the Company to be the beneficial owner of more than five percent of the outstanding shares of the Common Stock or the Series B Preferred Stock.

Name and Address of Beneficial Owner (1)	Title of Stock	Number of Shares Beneficially Owned	Percentage of Class Beneficially Owned
Robert J. Capetola, Ph.D.(2) 350 South Main Street, Suite 307 Doylestown, Pennsylvania 18901	Common Stock	812,703	12.08%
James S. Kuo, M.D. (3) Myriad Genetics, Incorporated 320 Wakara Way Salt Lake City, Utah 84106	Common Stock	240,145	3.71%
Steve H. Kanzer, C.P.A., Esq. (4) Institute for Drug Research, Inc. 787 Seventh Avenue, 48th Floor New York, New York 10019	Common Stock	235,530	3.67%
Evan Myrianthopoulos (5) 350 South Main Street, Suite 307 Doylestown, Pennsylvania 18901	Common Stock	154,040	2.39%
Cynthia Davis (6) 350 South Main Street, Suite 307 Doylestown, Pennsylvania 18901	Common Stock	61,821	1.00%
Lisa Mastroianni (7) 350 South Main Street, Suite 307 Doylestown, Pennsylvania 18901	Common Stock	41,503	*
Thomas Wiswell (8) 350 South Main Street, Suite 307 Doylestown, Pennsylvania 18901	Common Stock	160,751	2.47%
Chris Schaber (9) 350 South Main Street, Suite 307 Doylestown, Pennsylvania 18901	Common Stock	157,351	2.43%
Laurence Katz (10) 350 South Main Street, Suite 307 Doylestown, Pennsylvania 18901	Common Stock	158,351	2.44%
Harry Brittain (11) 350 South Main Street, Suite 307 Doylestown, Pennsylvania 18901	Common Stock	157,851	2.44%
Marvin Rosenthale (12) 14 Burning Tree Road Newport Beach, California 92660	Common Stock	25,600	*

Name and Address of Beneficial Owner (1)	Title of Stock	Number of Shares Beneficially Owned	Percentage of Class Beneficially Owned
Huei Tsai, Ph. D. (13) 350 South Main Street, Suite 307 Doylestown, Pennsylvania 18901	Common Stock	167,851	2.59%
Milton Packer (12) Columbia University. College of Physicians 630 West 168th Street New York, New York 10032	Common Stock	25,600	*
Richard Power (14) The Sage Group 245 Route 22 West, Suite 304 Bridgewater, New Jersey 08807	Common Stock	28,268	*
Herbert McDade (15) 1421 Partridge Place North Boynton Beach, Florida 33436	Common Stock	23,619	*
Max Link, Ph.D. (16) 230 Central Park West, Apt.14A New York, New York 10024	Common Stock	56,819	*
Mark C. Rogers, M.D. (17) Paramount Capital Incorporated 787 Seventh Avenue, 48th Floor New York, New York 10019	Common Stock	59,683	*
Richard Sperber (18) 11 Island Avenue, Suite 403 Miami Beach, Florida 33139	Common Stock	19,274	*
David Naveh, Ph.D. (19) Bayer Corporation 800 Dwight Way P.O. Box 1986 Berkeley, California 94701-1986	Common Stock	21,600	*
All Discovery directors and officers as a group (11 persons)	Common Stock	2,608,360	32.96%

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* Less than 1%.

Principal Stockholders

Name and Address of Beneficial Owner (1)	Title of Stock	Number of Shares Beneficially Owned	Percentage of Class Beneficially Owned
The Aries Master Fund, a Cayman Island Exempted Company (20) c/o Mees Pierson (Cayman) Limited P.O. Box 2003 British American Centre, Phase 3 Dr. Roy's Drive George Town, Grand Cayman	Common Stock	1,053,567	14.40%
	Series B Preferred Stock	173,250	10.03%
Aries Domestic Fund, L.P.(21) 787 Seventh Avenue, 48th Floor New York, NY 10019	Common Stock	448,384	6.62%
RAQ, LLC (22) 787 Seventh Avenue, 48th Floor New York, NY 10019	Common Stock	1,001,739	17.11%

Name and Address of Beneficial Owner (1)	Title of Stock	Number of Shares Beneficially Owned	Percentage of Class Beneficially Owned
Lindsay A. Rosenwald, M.D.(22) 787 Seventh Avenue, 48th Floor New York, NY 10019	Common Stock	2,779,784	36.64%
	Series B Preferred Stock	326,298	17.99%
Paramount Capital Asset Management, Inc. (22) 787 Seventh Avenue, 48th Floor New York, NY 10019	Common Stock	1,501,952	19.44%
	Series B Preferred Stock	247,500	14.27%

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* Represents less than 1%.

(1) Beneficial ownership is determined in accordance with Rule 13d-3 under the Securities Exchange Act of 1934 (the "Exchange Act") and includes voting and investment power with respect to shares of Common Stock and Series B Preferred Stock. Shares of Common Stock and Series B Preferred Stock subject to options or warrants currently exercisable or exercisable within 60 days of the date hereof, are deemed outstanding for computing the percentage ownership of the person holding such options or warrants, but are not deemed outstanding for purposes of computing the percentage ownership of any other person.

(2) Includes 21,793 shares of Common Stock issuable on the exercise of outstanding options granted on April 17, 1997; 43,010 shares of Common Stock issuable on the exercise of outstanding options granted on March 5, 1998; 115,090 shares of Common Stock issuable on the exercise of outstanding options granted on June 16, 1998; and 187,730 shares of Common Stock issuable on the exercise of outstanding options granted on January 1, 1999, all of which are immediately exercisable and fully vested.

Does not include 113,740 shares of Common Stock underlying Contingent Milestone Options.

(3) Includes 77,831 shares of Common Stock issuable on the exercise of outstanding options granted on January 1, 1997 and 30,000 shares of Common Stock issuable on the exercise of outstanding options granted on January 2, 1998, all of which are immediately exercisable and fully vested.

(4) Includes 15,566 shares of Common Stock issuable on the exercise of outstanding options granted on January 1, 1997; 30,000 shares of Common Stock issuable on the exercise of outstanding options granted on January 2, 1998; and 20,000 shares of Common Stock issuable on the exercise of outstanding options granted on January 1, 1999. Shares of Common Stock subject to such options vest twenty five percent at the time of grant with the balance vesting in thirty-six equal monthly installments upon the optionee's successive completion of service with the Company. Unvested shares of Common Stock subject to such options remain subject to the Company's right to repurchase at the exercise price paid per share. Does not include an additional 35,413 shares of Common Stock owned by certain family members of Mr. Kanzer, as to which Mr. Kanzer disclaims beneficial ownership.

(5) Includes 11,675 shares of Common Stock issuable on the exercise of outstanding options granted on January 1, 1997; 30,000 shares of Common Stock issuable on the exercise of outstanding options granted on January 2, 1998; and 40,000 shares of Common Stock issuable on the exercise of outstanding options granted on January 1, 1999, all of which are immediately exercisable. Shares of Common Stock subject to such options vest twenty five percent at the time of grant with the balance vesting in thirty-six equal monthly installments upon the optionee's successive completion of service with the Company. Unvested shares of Common Stock subject to such options remain subject to the Company's right to repurchase at the exercise price paid per share. Does not include an additional 1,906 shares of Common Stock owned by Mr. Myrianthopoulos' brother, as to which Mr. Myrianthopoulos disclaims beneficial ownership.

(6) Includes 1,950 shares of Common Stock issuable on the exercise of outstanding options granted on January 2, 1997; 8,775 shares of Common Stock issuable on the exercise of outstanding options granted on January 1, 1998; 4,428 shares of Common Stock issuable on the exercise of outstanding options granted on March 5, 1998; 11,848 shares of Common Stock issuable on the exercise of outstanding options granted on June 16, 1998; and 28,270 shares of Common Stock issuable on the exercise of outstanding options granted on January 1, 1999, all of which are immediately exercisable. Shares of Common Stock subject to the options granted on March 5, 1998 vest in three equal annual installments, the first installment of which will vest on the first year anniversary of June 16, 1998. Shares of Common Stock subject to the remaining options vest twenty five percent at the time of grant with the balance vesting in thirty-six equal monthly installments upon the optionee's successive completion of service with the Company. Unvested shares of Common Stock subject to all of the foregoing options remain subject to the Company's right to repurchase at the exercise price paid per share.

Does not include 13,785 shares of Common Stock underlying Contingent Milestone Options.

(7) Includes 7,800 shares of Common Stock issuable on the exercise of outstanding options granted on January 2, 1997; 4,326 shares of Common Stock issuable on the exercise of outstanding options granted on March 5, 1998; 11,577 shares of Common Stock issuable on the exercise of outstanding options granted on June 16, 1998; and 10,000 shares of Common Stock issuable on the exercise of outstanding options granted on January 1, 1999, all of which are immediately exercisable. Shares of Common Stock subject to the options granted on March 5, 1998 vest in three equal annual installments, the first installment of which will vest on the first year anniversary of June 16, 1998. Shares of Common Stock subject to the remaining options vest twenty five percent at the time of grant with the balance vesting in thirty-six equal monthly installments upon the optionee's successive completion of service with the Company. Unvested shares of Common Stock subject to all of the foregoing options remain subject to the Company's right to repurchase at the exercise price paid per share.

Does not include 11,137 shares of Common Stock underlying Contingent Milestone Options.

(8) Includes 3,900 shares of Common Stock issuable on the exercise of outstanding options granted on April 17, 1997; 46,800 shares of Common Stock issuable on the exercise of outstanding options granted on June 2, 1997; 14,813 shares of Common Stock issuable on the exercise of outstanding options granted on March 5, 1998; 39,638 shares of Common Stock issuable on the exercise of outstanding options granted on June 16, 1998; and 40,000 shares of Common Stock issuable on the exercise of outstanding options granted on January 1, 1999, all of which are immediately exercisable. Shares of Common Stock subject to the options granted on March 5, 1998 vest in three equal annual installments, the first installment of which will vest on the first year anniversary of June 16, 1998. Shares of Common Stock subject to the remaining options vest twenty five percent at the time of grant with the balance vesting in thirty-six equal monthly installments upon the optionee's successive completion of service with the Company. Unvested shares of Common Stock subject to all of the foregoing options remain subject to the Company's right to repurchase at the exercise price paid per share.

Does not include 38,893 shares of Common Stock underlying Contingent Milestone Options.

(9) Includes 31,200 shares of Common Stock issuable on the exercise of outstanding options granted on October 28, 1996; 14,813 shares of Common Stock issuable on the exercise of outstanding options granted on March 5, 1998; 39,638 shares of Common Stock issuable on the exercise of outstanding options granted on June 16, 1998; and 40,000 shares of Common Stock issuable on the exercise of outstanding options granted on January 1, 1999, all of which are immediately exercisable. Shares of Common Stock subject to the options granted on March 5, 1998 vest in three equal annual installments, the first installment of which will vest on the first year anniversary of June 16, 1998. Shares of Common Stock subject to the remaining options vest twenty five percent at the time of grant with the balance vesting in thirty-six equal monthly installments upon the optionee's successive completion of service with the Company. Unvested shares of Common Stock subject to all of the foregoing options remain subject to the Company's right to repurchase at the exercise price paid per share.

Does not include 38,893 shares of Common Stock underlying Contingent Milestone Options.

(10) Includes 31,200 shares of Common Stock issuable on the exercise of outstanding options granted on October 28, 1996; 14,813 shares of Common Stock issuable on the exercise of outstanding options granted on March 5, 1998; 39,638 shares of Common Stock issuable on the exercise of outstanding options granted on June 16, 1998; and 40,000 shares of Common Stock issuable on the exercise of outstanding options granted on January 1, 1999, all of which are immediately exercisable. Shares of Common Stock subject to the options granted on March 5, 1998 vest in three equal annual installments, the first installment of which will vest on the first year anniversary of June 16, 1998. Shares of Common Stock subject to the remaining options vest twenty five percent at the time of grant with the balance vesting in thirty-six equal monthly installments upon the optionee's successive completion of service with the Company. Unvested shares of Common Stock subject to all of the foregoing options remain subject to the Company's right to repurchase at the exercise price paid per share.

Does not include 38,893 shares of Common Stock underlying Contingent Milestone Options.

(11) Includes 15,600 shares of Common Stock issuable on the exercise of outstanding options granted on October 28, 1996; 14,813 shares of Common Stock issuable on the exercise of outstanding options granted on March 5, 1998; 39,638 shares of Common Stock issuable on the exercise of outstanding options granted on June 16, 1998; and 40,000 shares of Common Stock issuable on the exercise of outstanding options granted on January 1, 1999, all of which are immediately exercisable. Shares of Common Stock subject to the options granted on March 5, 1998 vest in three equal annual installments, the first installment of which will vest on the first year anniversary of June 16, 1998. Shares of Common Stock subject to the remaining options vest twenty five percent at the time of grant with the balance vesting in thirty-six equal monthly installments upon the optionee's successive completion of service with the Company. Unvested shares of Common Stock subject to all of the foregoing options remain subject to the Company's right to repurchase at the exercise price paid per share.

Does not include 38,893 shares of Common Stock underlying Contingent Milestone Options.

(12) Consists of 7,800 shares of Common Stock issuable on the exercise of outstanding options granted on November 1, 1996; 7,800 shares of Common Stock issuable on the exercise of outstanding options granted on January 30, 1998; and 10,000 shares of Common Stock issuable on the exercise of outstanding options granted on June 16, 1998, all of which are immediately exercisable. Shares of Common Stock subject to the options granted on June 16, 1998 vest in four successive equal annual installments over the optionee's period of service, beginning six months after the option grant date. Shares of Common Stock subject to the remaining options vest twenty five percent at the time of grant with the balance vesting in three equal annual installments upon the optionee's successive completion of service with the Company. Unvested shares of Common Stock subject to all of the foregoing options remain subject to the Company's right to repurchase at the exercise price paid per share.

(13) Includes 31,200 shares of Common Stock issuable on the exercise of outstanding options granted on February 16, 1997; 14,183 shares of Common Stock issuable on the exercise of outstanding options granted on March 5, 1998; 39,638 shares of Common Stock issuable on the exercise of outstanding options granted on June 16, 1998; and 40,000 shares of Common Stock issuable on the exercise of outstanding options granted on January 1, 1999, all of which are immediately exercisable. Shares of Common Stock subject to the options granted on March 5, 1998 vest in three equal annual installments, the first installment of which will vest on the first year anniversary of June 16, 1998. Shares of Common Stock subject to the remaining options vest twenty five percent at the time of grant with the balance vesting in thirty-six equal monthly installments upon the optionee's successive completion of service with the Company. Unvested shares of Common Stock subject to all of the foregoing options remain subject to the Company's right to repurchase at the exercise price paid per share.

Does not include 38,893 shares of Common Stock underlying Contingent Milestone Options.

(14) Includes 4,368 shares of Common Stock issuable on the exercise of outstanding options granted on October 10, 1996 and 10,000 shares of Common Stock issuable on the exercise of outstanding options granted on June 16, 1998, all of which are immediately exercisable. Shares of Common Stock subject to the options granted on June 16, 1998 vest in four successive equal annual installments over the optionee's period of service, beginning six months after the option grant date. Shares of Common Stock subject to the remaining options vest twenty five percent at the time of grant with the balance vesting in three equal annual installments upon the optionee's successive completion of service with the Company. Unvested shares of Common Stock subject to all of the foregoing options remain subject to the Company's right to repurchase at the exercise price paid per share.

(15) Includes 13,619 shares of Common Stock issuable on the exercise of outstanding options, all of which are immediately exercisable and fully vested.

Also includes 10,000 shares of Common Stock issuable on the exercise of outstanding options granted on June 16, 1998, all of which are immediately exercisable and which vest in four successive equal annual installments over the optionee's period of service, beginning six months after the option grant date. Unvested shares of Common Stock subject to the foregoing options remain subject to the Company's right to repurchase at the exercise price paid per share.

(16) Includes 23,400 shares of Common Stock issuable on the exercise of outstanding options granted on October 28, 1996 and 3,891 shares of Common Stock issuable on the exercise of outstanding options granted on September 1, 1996, all of which are immediately exercisable. Shares of Common Stock subject to the foregoing options vest twenty five percent at the time of grant with the balance vesting in three equal annual installments upon the optionee's successive completion of service with the Company. Unvested shares of Common Stock subject to the foregoing options remain subject to the Company's right to repurchase at the exercise price paid per share.

Also includes 10,000 shares of Common Stock which vest in four successive equal annual installments over the optionee's period of service, beginning six months after June 16, 1998. Unvested shares of such Common Stock remain subject to the Company's right to repurchase such shares at the exercise price paid per share.

(17) Includes 13,619 shares of Common Stock issuable on the exercise of outstanding options, all of which are immediately exercisable and fully vested.

Also includes 10,000 shares of Common Stock issuable on the exercise of outstanding options granted on June 16, 1998, all of which are immediately exercisable and which vest in four successive equal annual installments over the optionee's period of service, beginning six months after the option grant date and 31,200 shares of Common Stock issuable on the exercise of outstanding options granted on October 28, 1996 which vest twenty five percent at the time of grant with the balance vesting in three equal annual installments upon the optionee's successive completion of service with the Company, all of which are also immediately exercisable. Unvested shares of Common Stock subject to all of the foregoing options remain subject to the Company's right to repurchase at the exercise price paid per share.

(18) Includes 9,274 shares of Common Stock issuable on the exercise of outstanding options, all of which are immediately exercisable and fully vested.

Also includes 10,000 shares of Common Stock which vest in four successive equal annual installments over the optionee's period of service, beginning six months after June 16, 1998. Unvested shares of such Common Stock remain subject to the Company's right to repurchase such shares at the exercise price paid per share.

(19) Includes 7,600 shares of Common Stock issuable on the exercise of outstanding options, all of which are immediately exercisable and fully vested.

Also includes 10,000 shares of Common Stock which vest in four successive equal annual installments over the optionee's period of service, beginning six months after June 16, 1998. Unvested shares of such Common Stock remain subject to the Company's right to repurchase such shares at the exercise price paid per share.

(20) Beneficial ownership of Common Stock includes (i) 490,338 shares issuable on the conversion of Series B Preferred Stock, (ii) 6,129 shares issuable upon exercise of warrants, all of which are exercisable within 60 days of the date hereof, (iii) 49,034 shares issuable on the conversion of Series B Preferred Stock issuable on the exercise of warrants, all of which are exercisable within 60 days of the date hereof and (iv) 204,787 shares issuable upon exercise of Series C Warrants issued in the 1999 Financing, all of which are exercisable within 60 days of the date hereof.

Beneficial ownership of Series B Preferred Stock includes 15,750 shares issuable on the exercise of warrants, all of which are exercisable within 60 days of the date hereof.

(21) Beneficial ownership of Common Stock includes (i) 210,245 shares issuable on the conversion of Series B Preferred Stock, (ii) 2,626 shares issuable upon exercise of warrants, all of which are exercisable within 60 days of the date hereof, (iii) 21,014 shares issuable on the conversion of Series B Preferred Stock issuable on the exercise of warrants, all of which are exercisable within 60 days of the date hereof and (iv) 87,766 shares issuable upon exercise of Series C Warrants issued in the 1999 Financing, all of which are exercisable within 60 days of the date hereof.

(22) Dr. Rosenwald is Chairman, President and sole stockholder of Paramount Capital Asset Management, Inc. ("PCAM"). PCAM is the general partner of Aries Domestic Fund, L.P. ("Aries Domestic") and the investment manager of The Aries Master Fund, a Cayman Island Exempted Company ("Aries Fund" and, together with Aries Domestic, "Aries"). As a consequence of these relationships, each of Dr. Rosenwald and PCAM may be deemed to share beneficial ownership of the Common Stock and Series B Preferred Stock beneficially owned by Aries. Dr. Rosenwald is also the Managing Member of RAQ, LLC and, accordingly, may be deemed to have beneficial ownership of the Common Stock beneficially owned by RAQ, LLC. Dr. Rosenwald disclaims beneficial ownership of any securities issuable upon exercise of warrants granted to employees of Paramount Capital, Incorporated ("Paramount Capital").

PCAM's and Dr. Rosenwald's beneficial ownership of Common Stock includes (i) 700,483 shares issuable upon conversion of Series B Preferred Stock held by Aries, (ii) 8,755 shares issuable upon exercise of warrants exercisable for Common Stock held by Aries, all of which are exercisable within 60 days of the date hereof, (iii) 70,048 shares issuable upon exercise of warrants exercisable for Series B Preferred Stock held by Aries, all of which are exercisable within 60 days of the date hereof and (iv) 292,553 shares issuable upon exercise of Series C Warrants issued in the 1999 Financing, all of which are exercisable within 60 days of the date hereof. Dr. Rosenwald's beneficial ownership also includes (v) 111 shares issuable upon exercise of outstanding options held by Dr. Rosenwald, (vi) 30,664 shares issuable upon exercise of warrants exercisable for Common Stock held by Dr. Rosenwald and (vii) 245,318 shares issuable upon exercise of warrants exercisable for Series B Preferred Stock, all of which are exercisable within 60 days of the date hereof.

PCAM's and Dr. Rosenwald's beneficial ownership of Series B Preferred Stock includes 22,500 shares issuable upon exercise of warrants exercisable for Series B Preferred Stock held by Aries, all of which are exercisable within 60 days of the date hereof. Dr. Rosenwald's beneficial ownership also includes 78,798 shares issuable upon exercise of warrants exercisable for Series B Preferred Stock held by Dr. Rosenwald.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

In March and April 1999, the Company placed $1,000,000 in Common Stock and Class C Warrants with investors that included Aries Domestic Fund, L.P. and The Aries Master Fund, each of which was, or was affiliated with, a 5%-or-greater beneficial owner of the Common Stock. See "Recent Events; Completion of Mergers" in Item 1 of this Report.

The Company leases its principal executive offices from Huei Tsai, Ph.D., the Vice President of Biometrics of the Company. Pursuant to such lease, the Company pays Dr. Tsai base rent of $186,200 per annum (subject to escalation in subsequent years) and is liable for its proportionate share of real estate taxes levied and certain operation and maintenance expenses incurred with respect to the building in which the Company's offices are located. The Company believes that the terms of its lease with Dr. Tsai are comparable to the terms that would be obtained form an unrelated third party lessor. The space leased by the Company was renovated in part by a construction company owned by the spouse of Cynthia Davis, the Controller of the Company. The cost of such portion of the renovations was approximately $60,000, of which $25,000 was paid by Dr. Tsai pursuant to the terms of the Company's space lease.

In October 1996, ATI entered into a consulting agreement with The Sage Group pursuant to which The Sage Group was paid a monthly consulting fee of $7,500 through March 1998. The Company's consulting arrangement with The Sage Group was modified in April 1998 to provide for a monthly payment of $4,000, and to make such agreement terminable at any time upon 30 days' notice by the Company. In October 1998, such consulting agreement was further modified to provide that twice the amount of the reduced portion of the consulting fee (i.e., $3,500 per month commencing with October 1998) would be paid to The Sage Group upon consummation of a corporate partnering transaction.

In November 1997, ATI entered into a second agreement with The Sage Group relating to the provision of introductions to and the negotiation of partnering transactions with potential strategic partners. Upon the consummation of any strategic partnering transaction with an entity introduced by The Sage Group. The Sage Group will be entitled to receive options for the purchase of 19,000 shares of Common Stock at fair market value. Richard Power, a director of ATI, is a principal and the executive director of The Sage Group.

Simultaneously with and as a condition to the closing of the 1997 Merger, the Company repaid to Titan Pharmaceuticals, Inc. ("Titan"), which was a 32% stockholder of Discovery at such time, all outstanding indebtedness of Discovery to Titan (including indebtedness under a convertible debenture in the original principal amount of $1 million purchased by Titan in March 1997) pursuant to agreements (the "Titan Agreements") reached between Discovery and Titan at the time the merger agreement relating to the 1997 Merger was executed. Such indebtedness aggregated approximately $1,200,000. Also pursuant to the Titan Agreements, upon effectiveness of the 1997 Merger, (i) all of the capital stock of Discovery owned by Titan was surrendered to Discovery for cancellation (other than certain shares of capital stock currently held in escrow which will be cancelled upon their release from escrow) and (ii) Discovery's rights pursuant to the a license underlying certain drug products that had been subject to development efforts by Discovery prior to the 1997 Merger were transferred to Titan in exchange for Titan's agreement to pay a 2% royalty to Discovery on any sales of such drug products. Discovery's development efforts with respect to such drug products have since been abandoned.

From Discovery's inception until the closing of the 1997 Merger, Titan provided certain executive, administrative, financial, business development and regulatory services to Discovery. During the year ended December 31, 1997, Discovery incurred expenses in the aggregate of approximately $35,400 pursuant to the services arrangement. Discovery has in the past used certain facilities and equipment leased by Titan and reimbursed Titan for the expenses incurred by Titan with respect to such use, in addition to having entered an assignment and sublease with Titan, along with the other subsidiaries of Titan, under such equipment lease. Discovery's liability with respect to such equipment lease has been terminated.

Pursuant to a private equity offering conducted during June through November 1996 (the "Unit Offering") in which Paramount Capital acted as placement agent for Old Discovery, Old Discovery raised aggregate gross proceeds of approximately $22,002,000. In connection with services rendered by Paramount Capital as placement agent for the Unit Offering, and pursuant to a placement agency agreement (the "Placement Agency Agreement") entered into by Old Discovery and Paramount Capital, Old Discovery paid Paramount Capital cash commissions of approximately $1,980,000 and a non-accountable expense allowance of approximately $880,000. In addition, Old Discovery issued placement warrants to Paramount Capital that were assumed by the Company in the 1997 Merger and are currently exercisable for 220,026 shares of Series B Convertible Preferred Stock at an exercise price of $11 per share and 85,624 shares of Common Stock at an exercise price of $0.64 per share. Pursuant to the Placement Agency Agreement, on November 7, 1996, Old Discovery and Paramount Capital entered into a financial advisory agreement (the "Financial Advisory Agreement"), pursuant to which Paramount Capital received a monthly retainer of $4,000 per month through December 1998 (all of which was pre-paid by Discovery), plus expenses and success fees. The Financial Advisory Agreement was assumed by Discovery in the 1997 Merger.

Dr. Lindsay Rosenwald, M.D. is the sole stockholder of PCAM (which in turn is the general partner of the Aries Domestic Fund, L.P. ("Aries Domestic") and the investment manager of The Aries Fund, a Cayman Island Trust ("Aries Fund" and, together with Aries Domestic, "Aries")) and the Chairman of the Board of Directors, Chief Executive Officer, President and sole stockholder of Paramount Capital. Dr. Rosenwald is also a director of Titan and, prior to the 1997 Merger, was a director of Discovery.

Mark Rogers, M.D., a Director of the Company, is the President of Paramount Capital. Steve H. Kanzer, the Chairman of the Board of Directors, was a full-time officer of Paramount Capital and of Paramount Capital Investments, LLC ("Paramount Investments"), an affiliate of Paramount Capital, until March 1998.

Discovery has agreed pursuant to its charter documents to indemnify its Directors to the maximum extent permissible under the General Corporation Law of the State of Delaware.

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

(a) 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.

(b) Reports On Form 8-K

Two reports on Form 8-K were filed by the Company during the three months ended December 31, 1998. One report was filed on November 13, 1998, relating to publishing an interim report to shareholders. The second report was filed on December 11, 1998, relating to an adjustment to the conversion price of the Series B Preferred Stock effected in accordance with its terms.

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

Contents

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheet of Discovery Laboratories, Inc. and subsidiary (a development stage company) as of December 31, 1998, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for each of the years in the two-year period ended December 31, 1998, and the period from May 18, 1993 (inception) through December 31, 1998. 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.

We conducted our audits in accordance with generally accepted auditing standards. 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 financial position of Discovery Laboratories, Inc. and subsidiary as of December 31, 1998 and the consolidated results of their operations and their consolidated cash flows for each of the years in the two-year period ended December 31, 1998, and the period from May 18, 1993 (inception) through December 31, 1998, in conformity with generally accepted accounting principles.

Richard A. Eisner & Company, LLP

New York, New York
February 24, 1999

With respect to the last paragraph of Note A,
April 7, 1999

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

Consolidated Balance Sheet
December 31, 1998

ASSETS

Current assets:	
Cash and cash equivalents	$ 1,474,000
Marketable securities	2,544,000
Prepaid expenses and other current assets	203,000
Total current assets	4,221,000
Property and equipment, net of depreciation	326,000
Security deposits	18,000
	$ 4,565,000
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	
Accounts payable and accrued expenses	$ 1,088,000
Commitments (Notes E and H)	
Stockholders' equity:	
Preferred stock, $.001 par value; 5,000,000 shares authorized:	
Series B convertible; 1,946,881 shares issued and outstanding (liquidation preference $26,282,000)	2,000
Series C redeemable convertible; 2,039 shares issued and outstanding (liquidation preference $2,277,000)	2,277,000
Common stock, $.001 par value; 20,000,000 authorized; 5,085,281 shares issued	5,000
Treasury stock (15,600 shares of common stock at cost)	(39,000)
Additional paid-in capital	29,842,000
Unearned portion of compensatory stock options	(124,000)
Deficit accumulated during the development stage	(28,505,000)
Accumulated other comprehensive income: unrealized gain on marketable securities available for sale	19,000
Total stockholders' equity	3,477,000
	$ 4,565,000

See notes to financial statements

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

Consolidated Statements of Operations

	Year Ended December 31,		May 18, 1993 (Inception) Through December 31,
	1998	1997	1998
Interest income	$ 394,000	$ 713,000	$ 1,312,000
Expenses:			
Write-off of acquired in-process research and development and supplies	8,220,000	3,663,000	14,083,000
Research and development	5,055,000	4,378,000	9,973,000
General and administrative	2,788,000	1,836,000	5,334,000
Interest			11,000
Total expenses	16,063,000	9,877,000	29,401,000
	(15,669,000)	(9,164,000)	(28,089,000)
Minority interest in net loss of subsidiary	24,000		26,000
Net loss	(15,645,000)	(9,164,000)	(28,063,000)
Other comprehensive income:			
Unrealized gain on marketable securities available for sale	19,000		19,000
Total comprehensive loss	$(15,626,000)	$(9,164,000)	$ (28,044,000)
Net loss per share - basic and diluted (Note B[9])	$(4.02)	$(3.42)	
Weighted average number of common shares outstanding	3,896,000	2,679,000	

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, 1998

	Common Stock		Treasury Stock	
	Shares	Amount	Shares	Amount
Issuance of common shares, May 1993	440,720	$ 1,000		
Net loss				
Expenses paid on behalf of the Company				
Balance - December 31, 1993	440,720	1,000		
Net loss				
Balance - December 31, 1994	440,720	1,000		
Issuance of common shares, February 1995	143,016			
Net loss				
Payment on stock subscriptions				
Expenses paid on behalf of the Company				
Balance - December 31, 1995	583,736	1,000		
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		
Issuance of common shares for cash and compensation, September 1996	82,502			
Exercise of stock options, July and October 1996	19,458			
Net loss				
Balance - December 31, 1996	2,612,009	3,000		
Private placement expenses				
Issuance of common shares pursuant to Ansan Merger	546,433			
Exercise of stock options, July, August and October 1997	17,513			
Accumulated dividends on preferred stock				
Net loss				
Balance - December 31, 1997	3,175,955	3,000		
Issuance of common shares pursuant to ATI Merger	1,033,500	1,000		
Fair value of common stock issuable on exercise of ATI options				
Series C preferred stock issued pursuant to ATI Merger				
Accrued dividends payable on Series C preferred stock at time of ATI Merger				
Common stock issued in settlement of Series C preferred stock dividends	49,846			
Exercise of stock options, July and December 1998	131,676			
Series B preferred stock converted	685,103	1,000		
Noncash exercise of private placement warrants	9,201			
Dividends payable on Series C preferred stock				
Treasury stock acquired			(31,750)	$ (90,000)
Treasury stock issued in payment for services			16,150	51,000
Unrealized gain on marketable securities available for sale				
Fair value of options granted				
Amortization of unearned portion of compensatory stock options				
Net loss				
Balance - December 31, 1998	5,085,281	$ 5,000	(15,600)	$ (39,000)

[RESTUB]

	Preferred Stock					
	Series B		Series C		Stock Subscriptions Receivable	Additional Paid-in Capital
	Shares	Amount	Shares	Amount		
Issuance of common shares, May 1993					$ (2,000)	$ 1,000
Net loss						
Expenses paid on behalf of the Company					1,000	
Balance - December 31, 1993					(1,000)	1,000
Net loss						
Balance - December 31, 1994					(1,000)	1,000
Issuance of common shares, February 1995					(1,000)	1,000
Net loss						
Payment on stock subscriptions					2,000	
Expenses paid on behalf of the Company						18,000
Balance - December 31, 1995					0	20,000
Issuance of common shares, March 1996						5,000
Issuance of private placement units August, October and November 1996	2,200,256	$ 2,000				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
Net loss						
Balance - December 31, 1996	2,200,256	2,000			0	19,007,000
Private placement expenses						(11,000)
Issuance of common shares pursuant to Ansan Merger						2,459,000
Exercise of stock options, July, August and October 1997						9,000
Accumulated dividends on preferred stock						
Net loss						
Balance - December 31, 1997	2,200,256	2,000			0	21,464,000
Issuance of common shares pursuant to ATI Merger						5,037,000
Fair value of common stock issuable on exercise of ATI options						2,966,000
Series C preferred stock issued pursuant to ATI Merger			2,039	$ 2,039,000		
Accrued dividends payable on Series C preferred stock at time of ATI Merger				238,000		
Common stock issued in settlement of Series C preferred stock dividends				(204,000)		204,000
Exercise of stock options, July and December 1998						30,000
Series B preferred stock converted	(253,375)					(1,000)
Noncash exercise of private placement warrants						
Dividends payable on Series C preferred stock				204,000		
Treasury stock acquired						
Treasury stock issued in payment for services						
Unrealized gain on marketable securities available for sale						
Fair value of options granted						142,000
Amortization of unearned portion of compensatory stock options						
Net loss						
Balance - December 31, 1998	1,946,881	$ 2,000	2,039	$ 2,277,000	$ 0	$ 29,842,000

[RESTUB]

	Unearned Portion of Compensatory Stock Options	Accumulated Other Comprehensive Income	Deficit Accumulated During the Development Stage	Total
Issuance of common shares, May 1993				$ 0
Net loss			$ (1,000)	(1,000)
Expenses paid on behalf of the Company				1,000
Balance - December 31, 1993			(1,000)	0
Net loss				0
Balance - December 31, 1994			(1,000)	0
Issuance of common shares, February 1995				0
Net loss			(17,000)	(17,000)
Payment on stock subscriptions				2,000
Expenses paid on behalf of the Company				18,000
Balance - December 31, 1995			(18,000)	3,000
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
Net loss			(3,236,000)	(3,236,000)
Balance - December 31, 1996			(3,254,000)	15,758,000
Private placement expenses				(11,000)
Issuance of common shares pursuant to Ansan Merger				2,459,000
Exercise of stock options, July, August and October 1997				9,000
Accumulated dividends on preferred stock			(238,000)	(238,000)
Net loss			(9,164,000)	(9,164,000)
Balance - December 31, 1997			(12,656,000)	8,813,000
Issuance of common shares pursuant to ATI Merger				5,038,000
Fair value of common stock issuable on exercise of ATI options				2,966,000
Series C preferred stock issued pursuant to ATI Merger				2,039,000
Accrued dividends payable on Series C preferred stock at time of ATI Merger				238,000
Common stock issued in settlement of Series C preferred stock dividends				0
Exercise of stock options, July and December 1998				30,000
Series B preferred stock converted				0
Noncash exercise of private placement warrants				0
Dividends payable on Series C preferred stock			(204,000)	0
Treasury stock acquired				(90,000)
Treasury stock issued in payment for services				51,000
Unrealized gain on marketable securities available for sale		$19,000		19,000
Fair value of options granted	$ (142,000)			0
Amortization of unearned portion of compensatory stock options	18,000			18,000
Net loss			(15,645,000)	(15,645,000)
Balance - December 31, 1998	$ (124,000)	$19,000	$ (28,505,000)	$ 3,477,000

See notes to financial statements

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

Consolidated Statements of Cash Flows

	Year Ended December 31,		May 18, 1993 (Inception) Through December 31,
	1998	1997	1998
Cash flows from operating activities:			
Net loss	$(15,645,000)	$(9,164,000)	$ (28,063,000)
Adjustments to reconcile net loss to net cash used in operating activities:			
Write-off of acquired in-process research and development and supplies	8,220,000	3,663,000	14,083,000
Write-off of licenses		683,000	683,000
Depreciation and amortization	65,000	40,000	129,000
Compensatory stock options	18,000		18,000
Changes in:			
Prepaid expenses and other current assets	(13,000)	(141,000)	(172,000)
Accounts payable and accrued expenses	523,000	129,000	882,000
Other assets	12,000	(30,000)	(18,000)
Expenses paid on behalf of company			18,000
Expenses paid using treasury stock	51,000		51,000
Employee stock compensation			42,000
Reduction of research and development supplies		(161,000)	(161,000)
Net cash used in operating activities	(6,769,000)	(4,981,000)	(12,508,000)
Cash flows from investing activities:			
Acquisition of property and equipment	(235,000)	(114,000)	(432,000)
Proceeds from disposal of property and equipment	25,000		25,000
Acquisition of licenses			(711,000)
Purchase of marketable securities	(142,000)	(7,539,000)	(20,745,000)
Proceeds from sale or maturity of marketable securities	2,574,000	16,051,000	18,625,000
Net cash payments on merger	(216,000)	(1,454,000)	(1,670,000)
Net cash provided by (used in) investing activities	2,006,000	6,944,000	(4,908,000)
Cash flows from financing activities:			
Proceeds on private placements of units, net of expenses		(11,000)	18,925,000
Purchase of treasury stock	(90,000)		(90,000)
Collections on stock subscriptions and proceeds on exercise of stock options	30,000	9,000	55,000
Net cash (used in) provided by financing activities	(60,000)	(2,000)	18,890,000
Net (decrease) increase in cash and cash equivalents	(4,823,000)	1,961,000	1,474,000
Cash and cash equivalents - beginning of period	6,297,000	4,336,000	
Cash and cash equivalents - end of period	$ 1,474,000	$ 6,297,000	$ 1,474,000
Noncash transactions:			
Accrued dividends on Series C preferred stock	$ 204,000	$ 238,000	$ 442,000
Series C preferred stock dividends paid using common stock	$ 204,000		$ 204,000

See notes to financial statements

NOTE A - 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 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.

The following assets were acquired and the costs of the acquisition were as follows:

Assets acquired:	
Cash	$ 281,000
Investments	400,000
Prepaid expenses	31,000
Furniture and equipment	25,000
In-process research and development	3,663,000
	$4,400,000
Acquisition costs:	
Assumption of accounts payable and accrued expenses	$ 206,000
Ansan Series A preferred stock (purchased by Old Discovery in July 1997 and cancelled upon completion of the Ansan Merger)	1,300,000
Common stock issued to Ansan stockholders, 546,433 shares, at fair value	2,459,000
Transaction costs	435,000
	$4,400,000

NOTE A - THE COMPANY AND BASIS OF PRESENTATION (CONTINUED)

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"). ATI had been formed in October 1996 upon the Company's investment of $7,500,000 in exchange for 600,000 shares of ATI Series A preferred stock, representing 75% of the voting securities of ATI. 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's 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 management's evaluation and has been recorded as an expense upon acquisition.

The cost of the ATI Merger is as follows:

Common stock issued to ATI stockholders (1,033,500 shares at fair value)*	$5,038,000
Fair value of common stock issuable on exercise of options to purchase 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 following pro forma unaudited statement of operations gives effect to the mergers as if they had occurred at the beginning of the respective periods. A nonrecurring charge of $3,663,000 related to the Ansan Merger and $8,220,000 related to the ATI Merger for in-process research and development has not been considered in the pro forma results.

	Year Ended December 31,	
	1998	1997
Net loss	$(7,431,000)	$(7,145,000)
Net loss per common share - basic and diluted	$(1.70)	$(1.70)
Weighted average number of common shares outstanding	4,370,000	4,198,000

NOTE A - THE COMPANY AND BASIS OF PRESENTATION (CONTINUED)

The accompanying financial statements include the accounts of the Company and its wholly owned subsidiary, ATI. All intercompany balances and transactions have been eliminated. No allocation of ATI's net loss for the year ended December 31, 1997 had been attributed to the minority interest since the accumulated losses exceed the minority's common equity interest.

As reflected in the accompanying 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. The Company currently is exploring alternate ways to raise financing to fund its continued research and development activities. From March 31, 1999 through April 7, 1999, the Company received $950,000 from the sale of 505,320 shares of common stock and warrants to purchase an additional 505,320 shares of common stock at $2.30 per share. An additional 26,596 shares of common stock and 26,596 warrants to purchase common stock have been subscribed for $50,000. Additional shares of common stock may be issued and the exercise price of warrants may be adjusted under certain circumstances as specified in the respective stock purchase agreements. In addition, management of the Company has taken steps to reduce the Company's uses of cash and may take such further action, as may be necessary, if it is unsuccessful in raising additional equity capital. 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 B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

[1] Cash and cash equivalents:

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

[2] Marketable securities:

The investments are classified as available for sale, and are comprised of United States government obligations and shares in a mutual fund which invests in income producing securities. Investments are carried at fair or market value. Any appreciation/depreciation on these investments is recorded as a separate component of stockholders' equity until realized.

[3] 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 (a) term of the lease or (b) useful life of the improvements.

[4] Licenses:

Through March 1997, licenses were capitalized and were being amortized on a straight-line basis over their respective terms of 15 to 17 years. During the quarter ended June 30, 1997, the Company determined that since they will not pursue any alternative uses for the licenses, that all license costs would be written off as research and development costs.

[5] Research and development:

Research and development costs are charged to operations as incurred. Certain of the Company's research and development efforts are funded by a grant awarded to the Company by the Food and Drug Administration. Draw downs of the grant are accounted for as a reduction to research and development expense. In 1998, the amount funded was approximately $27,000.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[6] Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities 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.

[7] 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.

[8] 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. See Note G to the financial statements for further information.

[9] Net loss per share:

Net loss per 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 and common shares issuable for little or no cash consideration. Potential common shares not included in the calculation of net loss per share for the years ended December 31, 1998 and 1997, as the effect would be anti-dilutive, are as follows (Notes G and F):

	Number of Potential Common Shares	
	1998	1997
Series B convertible preferred stock	6,061,000	6,850,000*
Series C convertible preferred stock	932,000	
Placement agent's warrants to acquire Series B convertible preferred stock	685,000	685,000*
Stock options	1,886,000	372,000

* Adjusted for conversion rate reset

[10] Comprehensive income:

During 1998, the Company adopted Statement of Financial accounting Standards No. 130 "Reporting Comprehensive Income", which establishes standards for reporting and display of comprehensive income and its components. Accordingly, the Company revised the format of its consolidated statements of operations to include total comprehensive income. The adoption of this statement had no effect on the Company's results of operations.

NOTE C - PROPERTY AND EQUIPMENT

At December 31, 1997 property and equipment comprised of the following:

Leasehold improvements	$ 64,000
Furniture	53,000
Equipment	315,000
	432,000
Less accumulated depreciation	(106,000)
	$ 326,000

NOTE D - INCOME TAXES

At December 31, 1998, the Company has available for federal income tax purposes net operating loss carryforwards of approximately $23,000,000 expiring through 2018, that may be used to offset future taxable income. As a result of the ownership change pursuant to the Ansan Merger, Ansan's portion of the net operating loss carryforward of approximately $9,500,000 through November 1997, is limited in accordance with Section 382 of the Internal Revenue Code. Pursuant to Section 382 of the Internal Revenue Code, the utilization of these carryforwards may become further limited if certain ownership changes occur. The Company has research and development credit carryforwards of approximately $566,000 which expire in 2018. Ansan's portion of these credits of approximately $179,000 are also subject to a Section 382 limitation. There will be an annual amount available to offset future taxable income.

The principal difference between the deficit accumulated during the development stage for financial reporting purposes and the net operating loss carryforward for tax purposes is primarily due to the write-off of the acquired in-process research and development and supplies and certain research and development expenses which were not deducted for tax purposes. The Company has provided a valuation reserve against the full amount of the deferred tax asset of $9,278,000 since realization of this benefit is not certain. The components of the deferred tax assets are net operating loss carryforwards of approximately $8,362,000, research and development expenses of approximately $350,000 and research and development credits of approximately $566,000. The valuation reserve increased by approximately $1,924,000 and $6,124,000 for the years ended December 31, 1998 and 1997, respectively. The difference between the statutory federal income tax rate of 34% and the Company's effective tax rate of 0% is due to the increase in the valuation allowance.

NOTE E - LICENSE AGREEMENTS

[1] Concurrent with the Company's original investment in ATI, Johnson & Johnson, Inc. ("J&J"), Ortho Pharmaceuticals, Inc. (a wholly owned subsidiary of J&J), and ATI entered into an agreement (the "J&J License Agreement") granting an exclusive license of Surfaxin(TM) technology to New 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 ATI common stock. J&J contributed its Surfaxin(TM) raw material inventory and manufacturing equipment to ATI in exchange for 2,200 shares of nonvoting Series B preferred stock of New ATI having a $2.2 million liquidation preference and a $100 per share cumulative annual dividend. The inventory and equipment were valued at $2,200,000 (the value of the preferred shares issued to J&J) and were charged to expense as their intended use is for research and development activities. The Scripps Research Institute ("Scripps") received 40,000 shares of common stock of New ATI in exchange for its consent to the J&J License Agreement.

NOTE E - LICENSE AGREEMENTS (CONTINUED)

[1] (continued)

In 1997, ATI and J&J determined that certain of the raw material inventory to be received pursuant to the J&J License Agreement was not available. ATI negotiated with J&J a price adjustment and proportionate reduction of the liquidation preference of the Series B preferred stock issued of approximately $161,000 and a corresponding reduction of 161 Series B preferred shares held by J&J. The price adjustment has been accounted as a credit to research and development expense in 1997.

[2] 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 agreement provides for Scripps to grant an option to ATI to acquire an exclusive license for the application of technology developed from the research program. Pursuant to the agreement, New ATI paid Scripps $460,000 in 1997 and 1998.

[3] In 1996, the Company entered into a license agreement with the Charlotte-Mecklenburg Hospital Authority for the use of the active compound in SuperVent, a therapy which the Company is clinically testing. The Company paid a license issue fee of $86,400 and has agreed to pay royalties on future sales and to pay future patent-related costs. The license expires upon expiration of the underlying patents.

[4] In 1996, the Company entered into a license agreement with the Wisconsin Alumni Research Foundation ("WARF") for the use of the patented compound ST-630 (now known as DSC 103) in the treatment of post-menopausal osteoporosis. The Company paid WARF an option fee of $25,000 in June 1996 and a license issue fee of $400,000 in October 1996 and is obligated to make future milestones payments aggregating $3,095,000 and pay royalties on future sales. The license expires upon expiration of the underlying patents. The Company is currently seeking a development partner with respect to this compound.

NOTE F - STOCKHOLDERS' EQUITY

Private placement:

In 1996, pursuant to 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 and 19,458 shares of common stock of the Company). Preferred stockholders have 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 now 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 is 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 is 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 give the holders thereof the right to acquire 220,026 shares of Series B preferred 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.

NOTE F - STOCKHOLDERS' EQUITY (CONTINUED)

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, one redeemable Class A warrant, and one Class B warrant. Each Class A warrant entitles the holder to purchase one share of common stock and one Class B warrant at an exercise price of $19.50 per share. Each Class B warrant entitles the holder to purchase one share of common stock an exercise price of $26.25 per share.

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 shares (including 115,491 shares held by the Company pending cancellation pursuant to the Ansan Merger (Note A)) and options to purchase 12,086 shares of common stock into escrow (the "Escrow Shares" and "Escrow Options", respectively). The Escrow Shares and Escrow Options are not transferable or assignable; however, the Escrow Shares may be voted. Holders of Escrow Options may exercise their options prior to their release from escrow; however, the shares issuable upon any such exercise will continue to be held in escrow. The Escrow Shares and Escrow Options will be released from escrow if, and only if, certain earnings or market price criteria have been met. If the conditions are not met by March 31, 2000, the Escrow Shares and Escrow Options will be cancelled and contributed to the Company's capital.

The release of Escrow Shares and Escrow Options held by employees, officers, directors, consultants and their relatives will be deemed compensatory. Accordingly, the Company will recognize as compensation expense, during the period in which the earnings or market price targets are met, a one-time charge to reflect the then fair market value of the shares released from escrow. Such charges could substantially reduce the Company's net income or increase the net loss. The amount of compensation expense recognized by the Company will not affect the total stockholders' equity.

Common shares reserved for issuance:

The Company has reserved shares of common stock for issuance upon conversion of preferred stock and exercise of options as follows:

(i)	Series B preferred stock	6,061,000
(ii)	Series C preferred stock	932,000
(iii)	Stock option plan	1,886,000
(iv)	Placement agent warrants:	
	Conversion of preferred stock	685,000
	Common stock	75,000
(v)	Class A warrants	736,000
(vi)	Class B warrants	1,234,000
(vii)	Underwriter's option	173,000

Treasury stock/common stock issued for services:

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

During 1998, the Company acquired 31,750 shares of common stock for approximately $90,000 and issued 16,150 of such shares (market value on date of issue $51,000) in settlement of $51,000 of services rendered. Further, the Company agreed to issue 22,400 shares of treasury stock in settlement of $38,500 of indebtedness. The remaining 6,800 shares required to settle such indebtedness will be new common shares issued.

NOTE F - STOCKHOLDERS' EQUITY (CONTINUED)

Series C preferred stock:

The Company's Series C redeemable convertible preferred stock is 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 are redeemable at liquidation value upon the occurrence of certain events. The liquidation value is payable at the option of the Company in either cash or shares of common stock. Series C stockholders are entitled to dividends of 10% per annum to be paid only upon liquidation or redemption.

NOTE G - STOCK OPTIONS

Ansan's 1993 Stock Option Plan which was 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 options, nonstatutory stock options and options granted to 10% stockholders of the Company or 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. 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 Company's common stock (Note A).

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 Company's common stock 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 Company's common stock 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. The maximum number of shares of common stock initially reserved for issuance over the term of the plan shall not exceed 1,400,959.

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.

NOTE G - STOCK OPTIONS (CONTINUED)

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, 1998 and 1997 would have been approximately $16,371,000 or $4.20 per share and $9,219,000 or $3.44 per share, respectively. The weighted average fair value of the options granted are estimated at $2.63 and $0.24 per share, respectively, for the years ended December 31, 1998 and 1997, on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions: dividend yield 0%, volatility of 40% and 0%, risk-free interest rate of 5.53% for 1998 and 6.53% for 1997, and expected life of ten years.

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

	Year Ended December 31,							
	1998				1997			
	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
Outstanding beginning of year	$0.18-$4.50	371,993	$1.67		$0.26-$0.51	19,458	$0.26	
Options granted	$0.19-$4.87	1,027,400	4.18		$0.51	257,589	0.51	
Options exercised	$0.0026-$2.66	(131,676)	0.23		$0.51	(17,514)	0.51	
Options forfeited					$0.51	(5,999)	0.51	
Ansan options outstanding					$0.18-$4.50	118,459	4.19	
ATI options assumed	$0.0026-$0.32	618,345	0.43					
Options outstanding at end of year	$0.0026-$4.87	1,886,062	$2.23	8.73 years	$0.18-$4.50	371,993	$1.67	6.61 years
Options exercisable at end of year	$0.0026-$4.87	1,512,062	$2.28	8.76 years	$0.18-$4.50	252,912	$1.80	6.49 years

NOTE H - COMMITMENTS

[1] In June 1998, the Company entered into employment agreements with nine officers providing for an aggregate annual salary of $1,230,000. The agreements expire on various dates through June 2002 and provide for the issuance of annual and milestone bonuses and the granting of options on the Company's achieving certain milestones.

[2] In December 1997, the Company entered into an agreement with a clinical research institute for clinical studies to be performed on behalf of the Company. The agreement specifies payments to be made by the Company on the successful completion of certain phases of the study that aggregate to approximately $394,000, $250,000 and $50,000 of which was paid and charged to expense in 1998 and 1997, respectively.

NOTE H - COMMITMENTS (CONTINUED)

[3] 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. Future minimum annual rents for this lease is as follows:

1999	$ 128,000
2000	130,000
2001	133,000
2002	137,000
2003	142,000
2004	146,000
2005	100,000
	$ 916,000

The Company also leases additional office space pursuant to a three year lease entered into in May 1997. Such office space is currently being subleased at substantially the same terms and for the remaining period of the Company's commitment.

Total net rent expense for the years ended December 31, 1998 and 1997 was approximately $175,000 and $164,000, respectively.

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: April 7, 1999 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	April 7, 1999
/s/ Evan Myrianthopoulos	Evan Myrianthopoulos Vice President, Finance	April 7, 1999
/s/ Cynthia Davis	Cynthia Davis Controller (Principal Accounting Officer)	April 7, 1999
/s/ Steve Kanzer	Steve H. Kanzer, C.P.A., Esq. Chairman of the Board	April 7, 1999
	Milton Packer Director	April 7, 1999
/s/ Richard Power	Richard Power Director	April 7, 1999
/s/ Marvin Rosenthale	Marvin Rosenthale Director	April 7, 1999
/s/ Mark Rogers	Mark C. Rogers, M.D. Director	April 7, 1999
/s/ Herbert McDade, Jr.	Herbert McDade, Jr. Director	April 7, 1999

Signature	Name & Title	Date
/s/ M. Link - ----------	Max Link, Ph.D. Director	April 7, 1999
/s/ David Naveh - ----------	David Naveh, Ph.D. Director	April 7, 1999
/s/ Richard Sperber - ----------	Richard Sperber Director	April 7, 1999

EXHIBIT INDEX

EXHIBIT NO.	DESCRIPTION
2.1*	Agreement and Plan of Merger dated as of March 5, 1998 among Discovery, ATI Acquisition Corp. and ATI.
2.2**	Agreement and Plan of Reorganization and Merger, dated as of July 16, 1997, by and between Discovery and Old Discovery.
3.1*	Restated Certificate of Incorporation of Discovery.
3.2	Certificate of Designation of Series C Preferred Stock.
4.1	Form of Class C Warrant.
3.3oo	By-laws of Discovery.
10.1	Reference is made to Exhibits 2.1 and 2.2.
10.2oo	Warrant Agreement, dated as of August 8, 1995 among Discovery, Continental Stock Transfer & Trust Company and D.H. Blair Investment Banking Corp.
10.3oo	Form of Escrow Agreement by and between Discovery, Continental Stock Transfer & Trust Company and certain securityholders of Discovery.
10.4oo	Form of Indemnification Agreement.
10.5***	Investor Rights Agreement dated March 20, 1996, between Old Discovery and RAQ, LLC.
10.6***	Registration Rights Agreement dated October 28, 1996, between ATI, JJDC, and Scripps.
10.7***+	Inventory Transfer/Stock Purchase Agreement dated October 28, 1996, among ATI, Johnson & Johnson Development Corporation ("JJDC"), The R.W. Johnson Pharmaceutical Research Institute and Ortho.
10.8***+	Sublicense Agreement dated October 28, 1996 between ATI, Johnson & Johnson, Inc. and Ortho.
10.9***+	License Agreement between Discovery and The Charlotte-Mecklenburg Hospital Authority dated March 20, 1996.

10.10***+	License Agreement dated September 6, 1996, between Discovery and WARF, as amended on October 31, 1996.
10.11*+	License Agreement between Discovery and Bar-Ilan dated November 25, 1997.
10.12oo	Restated 1993 Stock Option Plan of Discovery.
10.13oo	1995 Stock Option Plan of Discovery.
10.14****	1998 Stock Incentive Plan of Discovery.
10.15*	Management Agreement between Discovery Laboratories, Inc. and Acute Therapeutics, Inc. dated as of March 5, 1998.
10.16*	Lease Agreement between Discovery and Newmark and Company Real Estate, Inc., dated May 29, 1997, for professional offices at 509 Madison Avenue, New York, New York.
10.17	Sublease dated as of August 25, 1998 among the Company, Milan Entertainment, Inc. and Entertainment Management Group, Inc.
10.18	Indenture of Lease dated as of July 1, 1998 between SLTI1, LLC and Acute Therapeutics, Inc.
10.19+	Pharmaceutical Services Contract dated August 15, 1997 between McKesson BioServices and the Company, as amended.
10.20+	Agreement dated as of August 16, 1998 between the Company and Pharmalytic, Inc.
10.21	Agreement dated November 25, 1998 between the Company and Brobeck, Phleger & Harrison LLP.
10.22	Letter Agreement dated September 15, 1998 between the Company and Lehman Brothers.
10.23	Letter Agreement dated November 18, 1998 between the Company and Charles Cochrane.
10.24	Letter Agreement dated January 4, 1999 between the Company and Yi, Tuan & Brunstein.
10.25	Agreement dated January 12, 1999 between the Company and KCSA Worldwide.

10.26	Independent Contractor Agreement dated as of November 19, 1997 between ATI and The Sage Group.
10.27+	Development Agreement dated as of March 30, 1998 between ATI and Taylor Pharmaceuticals, Inc.
10.28	Registration Rights Agreement dated as of June 16, 1998 among the Company, Johnson & Johnson Development Corporation ("JJDC") and Scripps.
10.29	Stock Exchange Agreement dated as of June 16, 1998 between the Company and JJDC.
10.30	Letter Agreement dated July 28, 1998 between the Company and Robinson Lerer Montgomery.
10.31+	Letter Agreement dated April 27, 1998 between the Company and KPMG Peat Marwick LLP, as amended.
10.32***+	Research Funding and Option Agreement dated October 28, 1996, between Scripps and ATI, as amended by letter agreement dated February 26, 1997.
10.33+	Amendment No 1 to Research Funding and Option Agreement dated March 1, 1998.
10.34***+	Clinical Testing Agreement dated as of February 24, 1997 between Discovery and the University of Utah.
10.35*+	Clinical Development Services Agreement dated as of December 1, 1997 between Discovery and Covance Clinical Research Unit.
10.36*+	Supply Agreement between ATI and Polypeptides Laboratories, Inc., dated December 10, 1997, for the processing of peptides.
10.37*	Letter Agreement between ATI and Lehman Brothers dated November 10, 1997.
10.38***+	Clinical Product Development Agreement dated January 29, 1997, between Discovery and Cook Imaging Corporation.
10.39***+	Clinical Product Development Agreement dated January 3, 1997, between ATI and Cook Imaging Corporation.

10.40*	First Amendment to the Clinical Product Development Agreement, effective January 3, 1997, between ATI and Cook Imaging Corporation, dated January 16, 1998.
10.41	Employment Agreement dated October 1, 1996 between ATI and Robert J. Capetola, Ph.D.
10.42	Employment Agreement between Discovery and Harry G. Brittain, Ph.D., dated June 16, 1998
10.43	Employment Agreement between Discovery and Laurence B. Katz, Ph.D., dated June 16, 1998
10.44	Employment Agreement between Discovery and Lisa Mastroianni, R.N., dated June 16, 1998
10.45	Employment Agreement between Discovery and Christopher J. Schaber, R.A.C., dated June 16, 1998
10.46	Employment Agreement dated as of June 16, 1998 between Discovery and Huei Tsai, PH.D.
10.47	Employment Agreement dated as of June 16, 1998 between Discovery and Thomas E. Wiswell, M.D.
10.48	Employment Agreement dated as of June 16, 1998 between the Company and Evan Myrianthopoulos.
10.49	Employment Agreement dated as of June 16, 1998 between the Company and Cynthia Davis.
10.50	Form of Intellectual Property and Confidential Information Agreement.
10.51***	Management Agreement dated June 1, 1996 by and between Discovery and Steve Kanzer.
10.52***+	Consulting Agreement dated December 9, 1996 between ATI and Dr. Charles Cochrane.
10.53***+	Consulting Agreement dated December 9, 1996 between ATI and Susan Revak.
10.54***	Consulting Agreement dated October 28, 1996 between ATI and The Sage Group.

10.55	Amendment No. 1 to Letter Agreement dated as of April 30, 1998 to Consulting Agreement dated October 28, 1996 between ATI and The Sage Group.
10.56	Letter amendment dated October 7, 1998 to Consulting Agreement dated October 28, 1996 between ATI and The Sage Group.
10.57	Form of Stock Purchase Agreement.
16.1*****	Letter dated January 28, 1998 from Ernst & Young LLP to the Securities and Exchange Commission.
21.1*	Subsidiaries of Discovery.
23.1	Consent of Richard A. Eisner & Company, LLP
27.1	Financial Data Schedule.

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*	Incorporated by reference to Discovery's Annual Report on Form 10-KSB for the year ending December 31, 1997.
**	Incorporated by reference to Discovery's Registration Statement on Form S-4 (File No. 333- 34337).
***	Incorporated by reference to Discovery's Registration Statement on Form SB-2 (File No. 333-19375).
****	Incorporated by reference to Discovery's Proxy Statement on Schedule 14A dated May 6, 1998.
*****	Incorporated by reference to Discovery's Current Report on form 8-K/A dated January 16, 1998.
o	Incorporated by reference to Discovery's Annual Report on Form 10-K-SB for the year ending December 31, 1995.
oo	Incorporated by reference to Discovery's Registration Statement on Form SB-2 (File No. 33-92-886).
+	Confidential treatment requested as to certain portions of these exhibits. Such portions have been redacted and filed separately with the Commission.

EXHIBIT 3.2

CERTIFICATE OF DESIGNATION

of

SERIES C PREFERRED STOCK

of

DISCOVERY LABORATORIES, INC.

Pursuant to Section 151 of the
General Corporation Law of the State of Delaware

DISCOVERY LABORATORIES, INC., a corporation organized and existing under the laws of the State of Delaware (the "Corporation"), does hereby certify that, pursuant to the authority conferred on the Board of Directors of the Corporation by the Certificate of Incorporation of the Corporation and in accordance with Section 151 of the General Corporation Law of the State of Delaware, the Board of Directors of the Corporation adopted the following resolution establishing a series of 2,039 shares of Preferred Stock of the Corporation designated as "Series C Preferred Stock":

RESOLVED, that pursuant to the authority conferred on the Board of Directors of this Corporation by the Certificate of Incorporation a series of Preferred Stock, par value $0.001 per share, of the Corporation is hereby established and created, and that the designation and number of shares thereof and the voting and other powers, preferences and relative, participating, optional or other rights of the shares of such series and the qualifications, limitations and restrictions thereof are as follows:

The Series C Preferred Stock shall have the following rights, preferences, powers, privileges and restrictions, qualifications and limitations.

1. Dividends.

The holders of shares of Series C Preferred Stock shall be entitled to receive, out of funds legally available therefor, dividends at the rate of $100 per share per annum (subject to appropriate adjustment in the event of any stock dividend, stock split, combination or other similar recapitalization affecting such shares) prior to and in preference to any declaration or payment of any dividend on the Junior Stock (as defined below). Such dividends shall be cumulative from the Original Issue Date (as defined in Section 4(a) below) and shall accrue annually; provided, however, that such dividends (i) shall be due and payable only upon and in the event of (A) a liquidation, dissolution or winding up of the Corporation under Section 2(a) hereof, or (B) the redemption of the Series C Preferred Stock pursuant to Section 5 hereof and (ii) shall be convertible into Common Stock in accordance with Section 4 hereof.

2. Liquidation, Dissolution or Winding Up; Certain Mergers, Consolidations and Asset Sales.

(a) In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Corporation, the holders of shares of Series C Preferred Stock then outstanding shall be entitled to be paid out of the assets of the Corporation available for distribution to its stockholders after and subject to the payment in full of all amounts required to be distributed to the holders of any other class or series of stock of the Corporation ranking on liquidation prior and in preference to the Series C Preferred Stock (collectively referred to as "Senior Preferred Stock"), but before any payment shall be made to the holders of Common Stock, the Series A Preferred Stock, the Series B Preferred Stock, or any other class or series of stock ranking on liquidation junior to the Series C Preferred Stock (the Common Stock, the Series A Preferred Stock, the Series B Preferred Stock and any other class or series of stock ranking on liquidation junior to the Series C Preferred Stock being collectively referred to as the "Junior Stock") by reason of their ownership thereof, an amount equal to $1000 per share (subject to appropriate adjustment in the event of any stock dividend, stock split, combination or other similar recapitalization affecting such shares)(the "Liquidation Value"), plus any dividends declared or accrued but unpaid thereon. If upon any such liquidation, dissolution or winding up of the Corporation the remaining assets of the Corporation available for distribution to its stockholders shall be insufficient to pay the holders of shares of Series C Preferred Stock the full amount to which they shall be entitled, the holders of shares of Series C Preferred Stock and any class or series of stock ranking on liquidation on a parity with the Series C Preferred Stock shall share ratably in any distribution of the remaining assets and funds of the Corporation in proportion to the respective amounts which would otherwise be payable in respect of the shares held by them upon such distribution if all amounts payable on or with respect to such shares were paid in full.

(b) After the payment of all preferential amounts required to be paid to the holders of Senior Preferred Stock, Series C Preferred Stock and any other class or series of stock of the Corporation ranking on liquidation on a parity with the Series C Preferred Stock, upon the dissolution, liquidation or

winding up of the Corporation, the holders of shares of Junior Stock then outstanding shall be entitled to receive the remaining assets and funds of the Corporation available for distribution to its stockholders.

(c) The consolidation or merger of the Corporation into or with any other entity or entities or the consummation of any transaction or series of transactions which results in either (i) the exchange by the holders of outstanding shares of the Corporation of 50% or more of either (x) the then outstanding shares of Common Stock or (y) the combined voting power of the Corporation's then outstanding securities entitled to vote generally in the election of directors or other general matters, (ii) the holders of outstanding shares of the Corporation immediately prior to the consummation of such transaction or transactions holding less than 50% of the outstanding securities of the resulting entity entitled to vote generally in the election of directors or other general matters (either of (i) and (ii) being hereinafter referred to as a "Change-in-Control Event") or (iii) the sale or transfer by the Corporation of all or substantially all its assets (a "Consolidation Event"), shall be deemed to be a liquidation, dissolution or winding up of the Corporation within the meaning of the provisions of this Section 2. The consolidation or merger of the Corporation into or with any entity or entities which results in the exchange of outstanding shares of the Corporation for securities or other consideration issued or paid or caused to be issued or paid by any such entity or affiliate thereof which does not result in a Change-of-Control Event or a Consolidation Event shall not be deemed to be a liquidation, dissolution or winding up of the Corporation within the meaning of the provisions of this Section 2.

3. Voting. Each holder of outstanding shares of Series C Preferred Stock shall be entitled to one vote per share of Series C Preferred Stock, at each meeting of stockholders of the Corporation (and written actions of stockholders in lieu of meetings), with respect to any and all matters presented to the stockholders of the Corporation for their action or consideration. Except as provided by law, or by the provisions establishing any other series of Preferred Stock, holders of Series C Preferred Stock shall vote together with the holders of Common Stock as a single class.

4. Conversion. The holders of the Series C Preferred Stock shall have conversion rights as follows (the "Conversion Rights"):

(a) Right to Convert. Each share of Series C Preferred Stock shall be convertible, at the option of the holder thereof, into shares of Common Stock of the Corporation, in accordance with the provisions of this Section 4, (i) at any time prior to the first anniversary of the first date on which a share of Series C Preferred Stock is issued by the Corporation (the "Original Issue Date"), if the Market Price (as defined below) of a share of Common Stock is (or, at any time since the Original Issue Date, has been) equal to or greater than two times the Market Price of a share of Common Stock on the Original Issue Date, provided that no more than 50% of the shares of Series C Preferred Stock issued on the Original Issue Date may be converted under this clause (i); and (ii) at any time on or after the first anniversary of the Original Issue Date. The number of shares of Common Stock into which each share of Series C Preferred Stock is convertible at any time and from time to time (the "Conversion Ratio") shall be equal to (A) divided by (B), where (A) is the Liquidation Value of a

share of Series C Preferred Stock on such date, plus any dividends declared or accrued but unpaid on all such shares being converted, and (B) is the Market Price of a share of Common Stock of the Corporation determined as of the date on which a holder of Series C Preferred Stock gives notice to the Corporation of its intent to convert all or a portion of such shares (the "Conversion Notice Date"). The "Market Price" of a share of Common Stock shall mean the average of the closing prices of the Common Stock for the twenty (20) consecutive trading day period ending on the trading day prior to the date of determination (whether or not a sale of the Corporation's Common Stock was reported on any trading day). The closing prices shall be the last reported sales price regular way, in each case on the principal national securities exchange or the Nasdaq National Market on which the shares of the Corporation's Common Stock are listed or admitted to trading, or if not listed or admitted to trading thereon, the average of the closing bid and asked prices of the Common Stock in the over-the-counter market as reported by Nasdaq or any comparable system, or if the Common Stock is not listed on Nasdaq or a comparable system, the average of the closing bid and asked prices on such day in the domestic over-the-counter market as reported in the Nasdaq Small Cap Market or the NASD Electronic Bulletin Board, or, if not reported thereon, in the "pink sheets" published by the National Quotation Bureau, Incorporated. The Conversion Ratio shall be subject to adjustment as provided below.

In the event of a liquidation of the Corporation, the Conversion Rights shall terminate at the close of business on the day preceding the date fixed for the payment of any amounts distributable on liquidation to the holders of Series C Preferred Stock.

(b) Fractional Shares. No fractional shares of Common Stock shall be issued upon conversion of the Series C Preferred Stock. In lieu of any fractional shares to which the holder would otherwise be entitled, the Corporation shall pay cash equal to such fraction multiplied by the Market Price of a share of Common Stock determined as of the Conversion Notice Date.

(c) Mechanics of Conversion.

(i) In order for a holder of Series C Preferred Stock to convert shares of Series C Preferred Stock into shares of Common Stock, such holder shall surrender the certificate or certificates for such shares of Series C Preferred Stock, at the office of the transfer agent for the Series C Preferred Stock (or at the principal office of the Corporation if the Corporation serves as its own transfer agent), together with written notice that such holder elects to convert all or any number of the shares of the Series C Preferred Stock represented by such certificate or certificates. Such notice shall state such holder's name or the names of the nominees in which such holder wishes the certificate or certificates for shares of Common Stock to be issued. If required by the Corporation, certificates surrendered for conversion shall be endorsed or accompanied by a written instrument or instruments of transfer, in form satisfactory to the Corporation, duly executed by the registered holder or his, her or its attorney duly authorized in writing. The date of receipt of such certificates and notice by the transfer agent (or by the Corporation if the Corporation serves as its own transfer agent) shall be the conversion date ("Conversion Date"). The Corporation shall, as soon as practicable after the Conversion Date, issue and deliver at such office to such holder of Series C Preferred Stock, or to his, her or its nominees, a certificate or certificates for the number of shares of Common Stock to which such holder shall be entitled, together with cash in lieu of any fraction of a share.

(ii) The Corporation shall at all times when the Series C Preferred Stock shall be outstanding, reserve and keep available out of its authorized but unissued stock, for the purpose of effecting the conversion of the Series C Preferred Stock, such number of its duly authorized shares of Common Stock as shall from time to time be sufficient to effect the conversion of all outstanding Series C Preferred Stock.

(iii) All shares of Series C Preferred Stock which shall have been surrendered for conversion as herein provided shall no longer be deemed to be outstanding and all rights with respect to such shares, including the rights, if any, to receive notices and to vote, shall immediately cease and terminate on the Conversion Date, except only the right of the holders thereof to receive shares of Common Stock in exchange therefor. Any shares of Series C Preferred Stock so converted shall be retired and cancelled and shall not be reissued, and the Corporation (without the need for stockholder actions) may from time to time take such appropriate action as may be necessary to reduce the authorized Series C Preferred Stock accordingly.

(iv) The Corporation shall pay any and all issue and other taxes that may be payable in respect of any issuance or delivery of shares of Common Stock upon conversion of shares of Series C Preferred Stock pursuant to this Section 4. The Corporation shall not, however, be required to pay any tax which may be payable in respect of any transfer involved in the issuance and delivery of shares of Common Stock in a name other than that in which the shares of Series C Preferred Stock so converted were registered, and no such issuance or delivery shall be made unless and until the person or entity requesting such issuance has paid to the Corporation the amount of any such tax or has established, to the satisfaction of the Corporation, that such tax has been paid.

(d) Adjustment for Reclassification, Exchange or Substitution. If the Common Stock issuable upon the conversion of the Series C Preferred Stock shall be changed into the same or a different number of shares of any class or classes of stock, whether by capital reorganization, reclassification, or otherwise (other than a subdivision or combination of shares or stock dividend), then and in each such event the holders of Series C Preferred Stock shall have the right thereafter to convert such share into the kind and amount of shares of stock and other securities and property receivable upon such reorganization, reclassification, or other change, by holders of the number of shares of Common Stock into which such shares of Series C Preferred Stock might have been converted immediately prior to such reorganization, reclassification, or change, all subject to further adjustment as provided herein.

(e) Adjustment for Merger or Reorganization, etc. In case of any consolidation or merger of the Corporation with or into another corporation or the sale of all or substantially all of the assets of the Corporation to another corporation (other than a consolidation, merger or sale which is covered by Subsection 2(c)), each share of Series C Preferred Stock shall thereafter be convertible (or shall be converted into a security which shall be convertible) into the kind and amount of shares of stock or other securities or property to which a holder of the number of shares of Common Stock of the Corporation

deliverable upon conversion of such Series C Preferred Stock would have been entitled upon such consolidation, merger or sale; and, in such case, appropriate adjustment (as determined in good faith by the Board of Directors) shall be made in the application of the provisions in this Section 4 set forth with respect to the rights and interest thereafter of the holders of the Series C Preferred Stock, to the end that the provisions set forth in this Section 4 (including provisions with respect to changes in and other adjustments of the Conversion Ratio) shall thereafter be applicable, as nearly as reasonably may be, in relation to any shares of stock or other property thereafter deliverable upon the conversion of the Series C Preferred Stock.

5. Mandatory Redemption

(a) The Corporation shall, at the option of each holder of Series C Preferred Stock, upon the first to occur of (i) the approval of the United States Food and Drug Administration (the "FDA") of the first New Drug Application filed by the Corporation relating to or incorporating the Corporation's product under development which carries the trademark Surfaxin(TM) or (ii) eighteen (18) months from the Original Issue Date (the "Mandatory Redemption Date"), redeem from each holder of shares of Series C Preferred Stock, at a price (the "Mandatory Redemption Price") equal to the Liquidation Value per share, plus any dividends declared or accrued but unpaid thereon, subject to appropriate adjustment in the event of any stock dividend, stock split, combination or other similar recapitalization affecting such shares, all of the outstanding shares of Series C Preferred Stock held by such holder on the applicable Mandatory Redemption Date payable, at the option of the Corporation, either in cash or in shares of Common Stock valued at the Market Price determined as of the Mandatory Redemption Date, or in a combination of cash and shares of Common Stock valued at the Market Price determined as of the Mandatory Redemption Date.

(b) If the funds of the Corporation legally available for redemption of Series C Preferred Stock on any Mandatory Redemption Date are insufficient to redeem the number of shares of Series C Preferred Stock required under this Section 5 to be redeemed on such date, those funds which are legally available will be used to redeem the maximum possible number of such shares of Series C Preferred Stock ratably on the basis of the number of shares of Series C Preferred Stock which would be redeemed on such date if the funds of the Corporation legally available therefor had been sufficient to redeem all shares of Series C Preferred Stock required to be redeemed on such date. At any time thereafter when additional funds of the Corporation become legally available for the redemption of Series C Preferred Stock, such funds will be used, at the end of the next succeeding fiscal quarter, to redeem the balance of the shares which the Corporation was theretofore obligated to redeem, ratably on the basis set forth in the preceding sentence.

(c) The Corporation shall provide notice of any redemption of Series C Preferred Stock pursuant to this Section 5 specifying the time and place of redemption and the Mandatory Redemption Price, by first class or registered mail, postage prepaid, to each holder of record of Series C Preferred Stock at the address for such holder last shown on the records of the transfer agent therefor (or the records of the Corporation, if it serves as its own transfer agent), not more than 60 nor less than 30 days prior to the date on which such redemption is to be made. If less than all Series C Preferred Stock owned by

such holder is then to be redeemed, the notice will also specify the number of shares which are to be redeemed. Upon mailing any such notice of redemption, the Corporation will become obligated to redeem at the time of redemption specified therein all Series C Preferred Stock specified therein.

(d) Unless there shall have been a default in payment of the Mandatory Redemption Price, no share of Series C Preferred Stock shall be entitled to any dividends declared after its Mandatory Redemption Date, and on such Mandatory Redemption Date all rights of the holder of such share as a stockholder of the Corporation by reason of the ownership of such share will cease, except the right to receive the Mandatory Redemption Price of such share, without interest, upon presentation and surrender of the certificate representing such share, and such share will not from and after such Mandatory Redemption Date be deemed to be outstanding.

(e) Any Series C Preferred Stock redeemed pursuant to this Section 5 will be cancelled and will not under any circumstances be reissued, sold or transferred and the Corporation may from time to time take such appropriate action as may be necessary to reduce the authorized Series C Preferred Stock accordingly.

6. No Reissuance of Series C Preferred Stock. No share or shares of Series C Preferred Stock acquired by the Corporation by reason of conversion, redemption, purchase or otherwise shall be reissued, and all such shares shall be cancelled, retired and eliminated from the shares which the Corporation shall be authorized to issue.

7. Preemptive Rights. The Series C Preferred Stock is not entitled to any preemptive or subscription rights in respect of any securities of the Corporation.

8. Notice of Record Date. In the event of any taking by the Corporation of a record of the holders of any class of securities for the purpose of determining the holder thereof who are entitled to receive any dividend or other distribution, any right to subscribe for, purchase or otherwise acquire any shares of stock of any class or any other securities or property, or to receive any other right, the Corporation shall mail to each holder of Series C Preferred Stock, at least twenty (20) days prior to the date specified therein, a notice specifying the date on which any such record is to be taken for the purpose of such dividend, distribution or right, and the amount and character of any dividend (other than a cash dividend) or other distribution, any right to such dividend, distribution or right.

9. No Amendment or Impairment. The Corporation shall not amend its Certificate of Incorporation or participate in any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, for the purpose of avoiding or seeking to avoid the observance or performance of any of the terms to be observed or performed hereunder by the Corporation, but will at all times in good faith assist in carrying out all such action as may be reasonably necessary or appropriate in order to protect the conversion rights of the holders of the Series C Preferred Stock against impairment.

10. Protective Provisions. So long as any shares of Series C Preferred Stock are outstanding, the Corporation shall not, without first obtaining the approval (by vote or written consent, as provided by law) by majority vote of

the Board of Directors and of the holders of at least a majority of the outstanding shares of the Series C Preferred Stock:

(a) amend or repeal any provisions of the Corporation's Certificate of Incorporation or Bylaws which in any manner adversely affects the holders of Series C Preferred Stock; or

(b) alter or change the designations, powers, rights, preferences or privileges, or the qualifications, limitations or restrictions of the Series C Preferred Stock; or

(c) increase the authorized number of shares of Series C Preferred Stock; or

(d) Authorize, create or issue any class or series of stock or any other securities convertible into equity securities of the corporation having a preference over, or being on a parity with, the Series C Preferred Stock with respect to dividends, redemption or upon liquidation or dissolution of the Corporation; or

(e) Reclassify the shares of Common Stock or any other shares of any class or series of capital stock hereafter created junior to the Series C Preferred Stock into shares of any class or series of capital stock (i) ranking either as to payment of dividends, distributions of assets or redemptions, prior to or on parity with the Series C Preferred Stock, or (ii) which in any manner adversely affects the holders of Series C Preferred Stock.

11. Severability of Provisions. Whenever possible, each provision hereof shall be interpreted in a manner as to be effective and valid under applicable law, but if any provision hereof is held to be prohibited by or invalid under applicable law, such provision shall be ineffective only to the extent of such prohibition or invalidity, without invalidating or otherwise adversely affecting the remaining provisions hereof. If a court of competent jurisdiction should determine that a provision hereof would be valid or enforceable if a period of time were extended or shortened or a particular percentage were increased or decreased, then such court may make such change as shall be necessary to render the provision in question effective and valid under applicable law.

IN WITNESS WHEREOF, Discovery Laboratories, Inc. has caused this certificate to be signed on its behalf by Robert J. Capetola, its President and Chief Executive Office, this 16 day of June, 1998.

DISCOVERY LABORATORIES, INC.

By: /s/ Robert J. Capetola

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

EXHIBIT 4.1

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

DISCOVERY LABORATORIES, INC.

Class C Warrant for the Purchase
of Shares of Common Stock

FOR VALUE RECEIVED, DISCOVERY LABORATORIES, INC., a Delaware corporation (the "Company"), hereby certifies that [8] (the "Holder"), its designee or its permitted assigns is entitled to purchase from the Company, at any time or from time to time commencing on March 31, 1999 and prior to 5:00 P.M., New York City time, on March 31, 2006 up to [8] ([8]) fully paid and non-assessable shares of common stock (subject to adjustment), $.001 par value per share, of the Company for the lower of (i) $2.30 per share and (ii) such exercise price as may be in effect as the result of any adjustment thereof pursuant to Section 2 of the Stock and Warrant Purchase Agreement dated as of March 31, 1999 among the Holder and the Company (the "Purchase Agreement") (in each case subject to adjustment as provided herein) and an aggregate purchase price of $[5]. (Hereinafter, (i) said common stock, $.001 par value per share, of the Company, is referred to as the "Common Stock," (ii) the shares of the Common Stock purchasable hereunder or under any other Warrant (as hereinafter defined) are referred to as the "Warrant Shares," (iii) the aggregate purchase price payable for the Warrant Shares purchasable hereunder is referred to as the "Aggregate Warrant Price," (iv) the price payable (initially $2.30 per share, subject to adjustment) for each of the Warrant Shares is referred to as the "Per Share Warrant Price," (v) this Warrant, all similar Warrants issued on the date hereof and all warrants hereafter issued in exchange or substitution for this Warrant or such similar Warrants are referred to as the "Warrants," and (vi) the holder of this Warrant is referred to as the "Holder" and the holder of this Warrant and all other Warrants and Warrant Shares are referred to as the "Holders" and Holders of more than 50% of the outstanding Warrants and Warrant Shares are referred to as the "Majority of the Holders"). The Aggregate Warrant Price is not subject to adjustment.

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

1. Exercise of Warrant. (a) This Warrant may be exercised in whole at any time, or in part from time to time, commencing on March 31, 1999 and prior to 5:00 P.M., Eastern Standard Time, on March 31, 2006 by the Holder by the surrender of this Warrant (with the subscription form at the end hereof duly executed) at the address set forth in Section 9(a) hereof, together with proper payment of the Aggregate Warrant Price, or the proportionate part thereof if this Warrant is exercised in part, with payment for the Warrant Shares made by certified or official bank check payable to the order of the Company; or

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

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

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

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

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

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

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

(e) In case of any capital reorganization or reclassification, or any consolidation or merger to which the Company is a party other than a merger or consolidation in which the Company is the continuing corporation, or in case of any sale or conveyance to another entity of the property of the Company as an entirety or substantially as a entirety, or in the case of any statutory exchange of securities with another corporation (including any exchange effected in connection with a merger of a third corporation into the Company), the Holder of this Warrant shall have the right thereafter to

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

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

(g) Whenever the Per Share Warrant Price is adjusted as provided in this Section 3 and upon any modification of the rights of a Holder of Warrants in accordance with this Section 3, the Company shall promptly prepare a brief statement of the facts requiring such adjustment or modification and the manner of computing the same and cause copies of such certificate to be mailed to the Holders of the Warrants. The Company may, but shall not be obligated to unless requested by a Majority of the Holders, obtain, at its expense, a certificate of a firm of independent public accountants of recognized standing selected by the board of directors (who may be the regular auditors of the Company) setting forth the Per Share Warrant Price and the number of Warrant Shares in effect after such adjustment or the effect of such modification, a brief statement of the facts requiring such adjustment or modification and the manner of computing the same and cause copies of such certificate to be mailed to the Holders of the Warrants.

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

(i) If, as a result of an adjustment made pursuant to this Section 3, the Holder of any Warrant thereafter surrendered for exercise shall become entitled to receive shares of two or more classes of capital stock or shares of Common Stock and other capital stock of

the Company, the board of directors (whose determination shall be conclusive and shall be described in a written notice to the Holder of any Warrant promptly after such adjustment) shall determine the allocation of the adjusted Per Share Warrant Price between or among shares or such classes of capital stock or shares of Common Stock and other capital stock.

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

(l) In case any event shall occur as to which the other provisions of this Section 3 are not strictly applicable but as to which the failure to make any adjustment would not fairly protect the purchase rights represented by this Warrant in accordance with the essential intent and principles hereof then, in each such case, the Board of Directors of the Company shall in good faith determine the adjustment, if any, on a basis consistent with the essential intent and principles established herein, necessary to preserve the purchase rights represented by the Warrants. Upon such determination, the Company will promptly mail a copy thereof to the Holder of this Warrant and shall make the adjustments described therein.

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

5. Registration Under Securities Act of 1933. (a) The Holder shall have the right to participate in the registration rights granted to Holders of Registrable Securities (as defined in the Purchase Agreement) with respect to the Warrant Shares, as adjusted, pursuant to Section 7 of the Purchase Agreement. By acceptance of this Warrant, the Holder agrees to comply with the provisions of Section 7 of the Purchase Agreement to the same extent as if it were a party thereto.

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

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

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

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

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

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

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

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

7. Optional Redemption. In the event that the closing bid price for any 20 consecutive Trading Days is at least 300% of the Per Share Warrant Price, the Company shall be entitled to redeem the Warrants, or any of them, by 30 business days' written notice to the Holder. Upon the expiration of such 30 business day period, all Warrants noticed for redemption that have not theretofore been exercised by the Holder shall, upon payment of the aggregate redemption price therefore, cease to represent the right to purchase any shares of Common Stock and shall be deemed cancelled without any further act or deed on the part of the Company. The Holder undertakes to return the certificate representing any redeemed Warrants to the Company upon their redemption any to indemnify the Company with respect to any losses, claims, damages or liabilities arising from the Holder's failure to return such certificate. In the event the certificate so returned represents a number of Warrants in excess of the number being redeemed, the Company shall as promptly as practicable issue to the Holder a new certificate for the number of unredeemed Warrants.

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

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

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

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

(b) the Holder at [ ], Attn: [ ] or other such address as the Holder has designated in writing to the Company.

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

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

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

IN WITNESS WHEREOF, the Company has caused this Warrant to be executed this [3] day of [3], 1999.

DISCOVERY LABORATORIES, INC.

By:_____
Name:
Title:

SUBSCRIPTION

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

Dated:_____ Signature:_____

Address:_____

ASSIGNMENT

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

Dated:_____ Signature:_____

Address:_____

PARTIAL ASSIGNMENT

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

Dated:_____ Signature:_____

Address:_____

EXHIBIT 10.17

EXECUTION COPY

SUBLEASE

THIS SUBLEASE, dated as of August 25, 1998, is made by and between DISCOVERY LABORATORIES, INC., a corporation having an address at 3359 Durham Road, Doylestown, Pennsylvania 18901, as sublessor ("Sublessor") and MILAN ENTERTAINMENT, INC., a corporation having an address at 1540 Broadway, New York, New York 10036, ENTERTAINMENT MANAGEMENT GROUP, INC., having an address at 405 Park Avenue, Suite 1905, New York, New York 10022 and TOBIAS PIENIEK P.C. having an address at 1540 Broadway, New York, New York 10036, as sublessees (collectively, the "Sublessees" and each a "Sublessee").

WHEREAS, Sublessor is presently the tenant under an Agreement of Lease dated as of May 29, 1997 (the "Master Lease," Sublessor represents that a true copy of the Master Lease is attached hereto as Exhibit A) between 509 Madison Avenue Associates, a California limited partnership, as landlord (the "Lessor") and Sublessor in connection with the space located at 509 Madison Avenue, Suite 1406, New York, New York (the "Premises").

WHEREAS, Sublessor desires to lease the Premises to Sublessees and Sublessees desire to lease the Premises from the Sublessor in accordance with the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the foregoing and the representations, warranties, covenants and conditions set forth herein, the parties agree as follows:

SECTION 1. LEASE OF THE PREMISES. Subject to the consent of the Lessor and the terms and conditions set forth in this Sublease, Sublessor hereby agrees to sublease the Premises as is to Sublessees on the terms and conditions set forth in this Sublease and Sublessees each hereby agrees to sublease from the Sublessor the Premises as is.

SECTION 2. TERM. The Term of this Sublease shall commence on September 1, 1998 (the "Commencement Date") and end on June 30, 2000 ("Termination Date"), unless otherwise sooner terminated in accordance with the provisions of this Sublease. Possession of the Premises, vacant, broom-clean and free of Sublessor's property, shall be delivered to Sublessees on the commencement of the Term. In the event the Term

commences on a date other than the Commencement Date, Sublessor and Sublessees shall execute a memorandum setting forth the actual date of commencement of the Term. Possession of the Premises ("Possession") shall be delivered to Sublessees on the commencement of the Term. If for any reason Sublessor does not deliver Possession to Sublessees on the commencement of the Term, Sublessor shall not be subject to any liability for such failure, the Termination Date shall not be extended by the delay, and the validity of this Sublease shall not be impaired, but Rent shall abate until delivery of Possession. Notwithstanding the foregoing, if Sublessor has not delivered Possession to Sublessees within sixty (60) days after the Commencement Date, then at any time thereafter and before delivery of Possession, Sublessees may give written notice to Sublessor of Sublessees' intention to cancel this Sublease. Said notice shall set forth an effective date for such cancellation which shall be at least ten (10) days after delivery of said notice to Sublessor. If Sublessor delivers Possession to Sublessees on or before such effective date, this Sublease shall remain in full force and effect. If Sublessor fails to deliver Possession to Sublessees on or before such effective date, this Sublease shall be cancelled, in which case all consideration previously paid by Sublessees to Sublessor on account of this Sublease shall be returned to Sublessee, this Sublease shall thereafter be of no further force or effect, and Sublessor shall have no further liability to Sublessees on account of such delay or cancellation. If Sublessor permits Sublessees to take Possession prior to the commencement of the Term, such early Possession shall not advance the Termination Date and shall be subject to the provisions of this Sublease, including without limitation the payment of Rent (as such term is defined below).

SECTION 3. AGREEMENT OF SUBLESSOR. Sublessor represents, warrants, covenants and conditions to Sublessees the following:

(a) Sublessor represents and warrants that it is a corporation duly organized and validly existing under the laws of the State of Delaware, with full power and authority to consummate the transactions contemplated herein.

(b) Sublessor represents and warrants that there are no actions, suits or proceedings pending or, to the knowledge of Sublessor, threatened against or affecting it, before or by any governmental authority which if adversely determined would materially and adversely affect the Sublessor or impair the ability of Sublessor to execute, deliver and perform its obligations under this Sublease. Sublessor further represents and warrants that it is not in default with respect to any order, writ, injunction, decree or demand of any court or any governmental authority.

(c) Sublessor represents and warrants that it is not a party to, or bound by, any agreement (oral or written) that restricts or interferes with its ability to enter into and fully perform its obligations under this Sublease.

(d) Sublessor warrants and represents to Sublessees that the Master Lease has not been amended or modified, that Sublessor is not now, and as of the commencement of the Term hereof will not be, in default or breach of any of the provisions of the Master Lease, that Sublessor has no knowledge of any claim by Lessor that Sublessor is in default or breach of any of the

provisions of the Master Lease; and that Sublessor is not aware of any default by Lessor under the Master Lease.

(e) Subject to the terms and conditions of this Sublease and the Master Lease and so long as no Sublessee shall be in default or in breach of the Sublease beyond any applicable notice and/or cure period, neither Sublessor nor anyone claiming by or through Sublessor shall interfere with Sublessees' quiet enjoyment and use of the Premises during the term of this Sublease.

(f) Subject to the terms and conditions of the Master Lease and so long as no Sublessee shall be in default or in breach of the Sublease beyond any applicable notice and/or cure period, Sublessor shall not commit any actions to restrict Sublessees' right to use and occupy the Premises twenty four hours a day, seven days a week.

(g) Subject to the terms and conditions of the Master Lease and so long as no Sublessee shall be in default or in breach of the Sublease beyond any applicable notice and/or cure period, Sublessor shall use reasonable efforts to cause the Lessor to provide the building directory listings to the benefit of Sublessees in accordance with Section 66 of the Master Lease.

SECTION 4. AGREEMENT OF SUBLESSEES. Each Sublessee represents, warrants, covenants and conditions to Sublessor as to itself the following:

(a) Each Sublessee represents and warrants as to itself that it is a corporation duly organized and validly existing under the laws of the jurisdiction of its incorporation, with full power and authority to consummate the transactions contemplated herein.

(b) Each Sublessee represents and warrants as to itself that there are no actions, suits or proceedings pending or, to the knowledge of such Sublessee, threatened against or affecting it, before or by any governmental authority which if adversely determined would materially and adversely affect such Sublessee or impair the ability of such Sublessee to execute, deliver and perform its obligations under this Sublease. Each Sublessee further represents and warrants as to itself that it is not in default with respect to any order, writ, injunction, decree or demand of any court or any governmental authority.

(c) Each Sublessee represents and warrants as to itself that it is not a party to, or bound by, any agreement (oral or written) that restricts or interferes with its ability to enter into and fully perform its obligations under this Sublease.

(d) Each Sublessee represents and warrants as to itself that it has reviewed the Master Lease and is familiar with all of the terms and conditions set

forth therein. Each Sublessee agrees and acknowledges that all applicable terms and conditions of the Master Lease are incorporated into and made a part of this Sublease as if the Sublessees were the lessee thereunder except for Sections 24, 37, 38, the second paragraph of Article 40, 42 (except as otherwise set forth in this Sublease), 43, 49, 70, 73 and 74.

(e) The obligations of Sublessees to pay Rent hereunder will be a direct and unconditional, joint and several general obligation of each Sublessee, and will rank in right of payment at least pari passu with all unsecured and unsubordinated debt of each Sublessee, whether now or hereafter outstanding, subject to any bankruptcy, insolvency, reorganization or similar law.

(f) In the event of a default under the Master Lease of all or any portion of the Premises which results in the termination of the Master Lease, or if the Lessor under the Master Lease shall exercise any right to cancel or terminate such underlying lease, each Sublessee shall, at the option of the Lessor under the Master Lease, attorn to and recognize such lessor as "landlord" hereunder and shall, promptly upon the Lessor's request, execute and deliver all instruments necessary or appropriate to confirm such attornment and recognition. Each Sublessee hereunder hereby waives all rights under present or future law to elect, by reason of the termination of the Master Lease, to terminate this Sublease or surrender possession of the premises demised hereby. If the Lessor does not exercise the aforesaid option, the term of this Sublease shall terminate simultaneously with the term of the Master Lease and each Sublessee hereby agrees to vacate the premises subleased on or before the effective date of termination of the Master Lease.

SECTION 5. RENT.

(a) The annual base rent is as follows: (x) Eighty Nine Thousand Two Hundred Seventy Seven and 50/100 Dollars ($89,277.50) for the period commencing on the Commencement Date and ending twelve months following the Commencement Date; provided that the first month's payment shall be waived as set forth in Section 5(e) hereinbelow; (y) Seventy Six Thousand Six Hundred Twenty Nine and 85/100 Dollars ($76,629.85) for the period commencing on the first anniversary date of the Commencement Date and ending on the Termination Date. The base rent shall be defined herein as the "Base Rent." Base Rent is payable in equal monthly installments on the first day of each month.

(b) If the Commencement Date is not the first day of a calendar month, the next monthly installment of Base Rent due hereunder shall be prorated to the end of the calendar month next following the month in which said Commencement Date occurred, so that subsequent monthly installments of Base Rent will be due on the first days of calendar months throughout the term of this Sublease, except that the last monthly installment will be similarly prorated.

(c) For the purposes of clarification, the term "Rent" shall mean the Base Rent and all other amounts to be paid by Sublessees to Sublessor as set forth in the terms and provisions of this Sublease.

(d) Payment of Rent shall be sent to the Sublessor's address as set forth in Section 10(a) herein.

(e) If and so long as no Sublessee is in default under this Sublease on the Commencement Date, Sublessees shall be entitled to a rent credit in the amount of Seven Thousand Four Hundred Thirty Nine and 79/100 Dollars ($7,439.79) to be applied against the September 1998 monthly installment of Base Rent.

SECTION 6. ELECTRICITY. The annual charge for electricity shall be Eight Thousand Two Hundred Forty One Dollars ($8,241.00) commencing on the Commencement Date and continuing throughout the term of the Lease. The annual charge for electricity is payable in equal, monthly installments of Six Hundred Eighty Six and 75/100 Dollars ($686.75) on the first day of each month.

SECTION 7. RENT ESCALATIONS. Sublessee shall be responsible for any rent escalations to be payable under Section 42 of the Master Lease; provided that Sublessee shall only be liable for any amounts owing wherein the term "Base Tax Year" shall mean the fiscal year ending June 30, 1999. Any difference between the amount calculated under Section 42 of the Master Lease, and Sublessee's responsibility under this Section 7 shall be paid by Sublessor.

SECTION 8. SECURITY DEPOSIT. Sublessees shall pay to Sublessor as a security deposit upon execution of this Sublease an amount equal to Fourteen Thousand Eight Hundred Seventy Nine and 58/100 Dollars ($14,879.58) as security for Sublessees' faithful performance of Sublessees' obligations hereunder (the "Security Deposit"). If Sublessees fail to pay Rent hereunder or to pay any other sums due or to perform any of the other terms and provisions of this Sublease or is otherwise in default or in breach hereunder, in each case after expiration of applicable notice and/or cure periods, Sublessor may use, apply or retain all or any portion of the Security Deposit in partial payment for sums it may in its discretion advance as a result of a default or breach by any Sublessee, or to apply toward losses or expenses Sublessor may suffer or incur as a result of any Sublessee's default or breach hereunder. If Sublessor uses or applies all or any portion of such Security Deposit, such application shall not be deemed a cure of any default or breach, and Sublessees shall within five (5) business days after written demand therefor deposit with Sublessor in cash an amount sufficient to restore the Security Deposit to its original sum of Fourteen Thousand Eight Hundred Seventy Nine and 58/100 Dollars ($14,879.58), and the failure of Sublessees to do so, after any applicable notice and cure period, shall be a material breach of this Sublease by Sublessees. Sublessor shall not be required to keep the Security Deposit separate from general accounts and shall have no

obligation or liability for payment of interest on the Security Deposit. In the event that Sublessor assigns its interest in the Sublease, Sublessor shall deliver to its assignee so much of the Security Deposit as is then held by Sublessor. Within ten (10) business days after the Term has expired and no Sublessees is then in default of any of its obligations hereunder, the Security Deposit, or so much thereof as had not theretofore been applied by Sublessor, shall be returned to Sublessees or to the last assignee, if any, of Sublessees' interest hereunder.

SECTION 9. NO SET-OFF, DEDUCTIONS. Each Sublessee acknowledges and agrees that each Sublessee's obligations hereunder, including, without limitation, its obligations to pay all Rent payable hereunder, shall be absolute and unconditional under any and all circumstances and shall be paid without notice or demand and without any abatement, reduction, diminution, setoff, withholding, defense, counterclaim or recoupment whatsoever, including, without limitation, any of the foregoing due or alleged to be due to, or by reason of, any past, present or future claims which such Sublessee may have against Sublessor, the Lessor, or any other person or entity for any reason whatsoever; nor, except as otherwise expressly provided herein or in the Master Lease, shall this Sublease terminate, or the obligations of such Sublessee be otherwise affected, by reason of any interference with such use, operation or possession by any person or entity, or by reason of any failure by Sublessor to perform any of its obligations herein contained or by reason of any other indebtedness or liability, howsoever and whenever arising, of Sublessor, or of such Sublessee to any other Person, or by reason of any insolvency, bankruptcy or similar proceedings by or against Sublessor, or such Sublessee, or for any other reason whatsoever, whether similar or dissimilar to any of the foregoing, any present or future law to the contrary notwithstanding; it being the intention of the parties hereto that the Rent payable by Sublessee hereunder shall continue to be payable in all events and in the manner and at the times herein provided and as set forth in the Master Lease, without notice or demand, unless the obligation to pay the same shall be terminated pursuant to the express provisions of this Sublease; provided, that notwithstanding anything herein to the contrary, each Sublessee shall be permitted to make the appropriate abatement, reduction, diminution, setoff, withholding, defense, counterclaim or recoupment, in the event and only to the extent that (i) Sublessor shall be in default under the Master Lease or this Sublease and in each case after expiration of applicable notice and/or cure periods and (ii) to the extent that Sublessor shall be entitled to a rent abatement or offset under the Master Lease after the Commencement Date, then Sublessees shall be entitled to a corresponding abatement or offset to the payment of Rent.

SECTION 10. NOTICES. All notices and other communications hereunder shall be in writing. All notices and other communication hereunder shall be deemed to be given on the date of receipt if sent by hand delivery, or five (5) Business Days after mailing if sent by certified mail, return receipt requested. All such notices and other communications to a party hereto shall be addressed to such party at the following addresses, or such other addresses as the parties may designate in writing in a notice to the other party given in accordance with this Section 10:

a. Notice to Sublessor:

Discovery Laboratories, Inc.
3359 Durham Road
Doylestown, Pennsylvania 18901

Attention: Mr. Evan Myrianthopoulos
Vice President, Finance
Telephone: 215-794-3064

b. Notice to Sublessees:

Milan Entertainment, Inc.
Entertainment Management Group, Inc.
Tobias Pieniek, P.C.
509 Madison Avenue, Suite 1406
New York, New York

Attention: Tobias Pieniek
Telephone: [ ]

with a copy to

Kane Kessler, P.C.
1350 Avenue of the Americas
New York, New York 10019

Attention: Eric P. Gonchar, Esq.

SECTION 11. EFFECT OF THIS LEASE. This Sublease shall become binding and effective when it shall have been executed by each of Sublessor and each Sublessee and consented to by Lessor.

SECTION 12. GOVERNING LAW AND CONSENT TO JURISDICTION. THIS SUBLEASE SHALL IN ALL RESPECTS BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK, UNITED STATES OF AMERICA, INCLUDING ALL MATTERS OF CONSTRUCTION, VALIDITY AND PERFORMANCE, WITHOUT GIVING EFFECT TO THE CONFLICT OF LAWS PROVISIONS THEREOF. Each party hereby irrevocably consents that any legal action or proceeding against it or any of its assets with respect to this Sublease may be brought in any jurisdiction where such party or any of its assets may be found, or in any court of the State of New York or any Federal court of the United States of America located in New York, New York, United States of America, or both, as the party bringing the action may elect, and by execution and delivery of this Sublease, each party hereby irrevocably submits to and accepts with regard to any such

action or proceeding, for itself and in respect of its assets, generally and unconditionally, the jurisdiction of the aforesaid courts. Each party irrevocably consents to the service of process out of any of the aforementioned courts in any such action or proceeding by the mailing of copies thereof by registered or certified first class mail, postage prepaid, to such party at its address set forth in Section 10 hereof. The foregoing, however, shall not limit the rights of the party bringing the action to serve process in any other manner permitted by law or to bring any legal action or proceeding or to obtain execution of judgment in any jurisdiction. Each party further agrees that final judgment against such party in any action or proceeding in connection with this Sublease shall be conclusive and may be enforced in any other jurisdiction within or outside the United States of America by suit on the judgment, a certified or exemplified copy of which shall be conclusive evidence of the fact and the amount of such party's indebtedness. Each party hereby irrevocably waives, to the fullest extent permitted by law, any objection which such party may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to this Sublease brought in the County of New York, State of New York, and hereby further irrevocably waives any claim that any such suit, action or proceeding brought in the County of New York, State of New York has been brought in an inconvenient forum.

SECTION 13. MISCELLANEOUS. Any provision of this Sublease which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating or diminishing Sublessor's rights under the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction. To the extent permitted by applicable law, each Sublessee hereby waives any provision of law which renders any provision of this Sublease prohibited or unenforceable in any respect. No term or provision of this Sublease may be amended, altered, waived, discharged or terminated orally, but only by an instrument in writing signed by a duly authorized officer of the party against which the enforcement of the amendment, alteration, waiver, discharge or termination is sought. A waiver on any one occasion shall not be construed as a waiver on a future occasion. All of the covenants, conditions and obligations contained in this Sublease shall be binding upon and shall inure to the benefit of the respective successors and permitted assigns of Sublessor and Sublessees. The obligations of the Sublessees under this Sublease are the joint and several obligations of each Sublessee. This Sublease, the Master Lease and each related instrument, document, agreement and certificate collectively constitute the entire agreement of Sublessor and Sublessees with respect to the sublease of the Premises, and cancel and supersede any and all prior oral or written understandings with respect thereto. This Sublease may be executed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto were upon the same instrument.

SECTION 14. SURVIVAL. The representations, warranties, covenants, agreements and indemnities of Sublessees set forth in this Sublease, and Sublessees' obligations hereunder, shall survive the expiration or other termination of this Sublease to the extent required for full performance and satisfaction thereof.

SECTION 15. BROKERS. Each party represents that with respect to the sublease of the Premises neither Sublessees nor Sublessor have dealt or negotiated with any broker whatsoever except CB COMMERCIAL and COLLIERS ABR, INC. (collectively, the "Brokers"). Each party agrees to indemnify and hold the other party free and harmless from any expenses resulting from any claim made by any other broker claiming to have been retained by such party in connection with the transactions contemplated in this transaction. Sublessor shall pay the brokerage commission earned by the Brokers pursuant to a separate agreement. This provision shall survive the termination of this Sublease.

SECTION 16. ASSIGNMENT. This Sublease may not be assigned or the sublet premises further sublet, in whole or in part, without the prior written consent of the Lessor under the Master Lease.

SECTION 17. WAIVER OF JURY TRIAL. EACH SUBLESSEE AND THE SUBLESSOR HEREBY WAIVE TRIAL BY JURY IN ANY JUDICIAL PROCEEDING TO WHICH THEY ARE BOTH PARTIES INVOLVING, DIRECTLY OR INDIRECTLY, ANY MATTER (WHETHER SOUNDING IN TORT, CONTRACT OR OTHERWISE) IN ANY WAY ARISING OUT OF, RELATED TO, OR CONNECTED WITH THIS SUBLEASE OR THE RELATIONSHIP ESTABLISHED HEREUNDER.

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IN WITNESS WHEREOF, the parties hereto have caused this Sublease to be duly executed by their duly authorized representatives as of the date first written above.

DISCOVERY LABORATORIES, INC.

By: /s/ Evan Myrianthopoulos

Name: Evan Myrianthopoulos
Title: VP Finance

MILAN ENTERTAINMENT, INC.

By: /s/ Tobias Pienek

Name: Tobias Peniek
Title: Secretary

ENTERTAINMENT GROUP, INC.

By: /s/ Steven Flanders

Name: Steven Flanders
Title: President

TOBIAS PIENIEK, P.C.

By: /s/ Tobias Peniek

Name: Tobias Peniek
Title: President

LESSOR'S CONSENT TO SUBLEASE

The undersigned ("Lessor"), lessor under the Master Lease, hereby consents to the foregoing Sublease without waiver of any restriction in the Master Lease concerning further assignment or subletting. Lessor certifies that, as of the date of Lessor's execution hereof, Sublessor is not in default or breach of any of the provisions of the Master Lease, and that the Master Lease has not been amended or modified except as expressly set forth in the forgoing Sublease.

509 MADISON AVENUE ASSOCIATES

By:

Name:
Title:
Date:

EXHIBIT 10.18

LEASE AGREEMENT

THIS INDENTURE OF LEASE, made this 1st day of July 1998, by SLT1, LLC, a New Jersey Limited Liability Corporation, with an address at 53 Worths Mill Lane, Princeton, NJ 08540 (hereinafter called "Landlord") and ACUTE THERAPEUTICS, INC., a corporation, with an address at 3359 Durham Road, Doylestown, Pennsylvania 18901 (hereinafter called "Tenant").

WITNESSETH:

ARTICLE I
LEASED PREMISES

SECTION 1.01. Landlord hereby leases to Tenant and Tenant hereby rents from Landlord, certain office space (hereinafter called "Premises", "Leased Premises" or "Demised Premises"), on the four (4) floors consisting of approximately thirteen thousand three hundred (13,300) square feet as shown on the floor plan attached hereto as Exhibit "A", in the building (hereinafter called "Building") known as Suites 305 and 307, Penn's Court Condominium, as now erected, situate at 350 South Main Street in Doylestown Borough, Bucks County, Pennsylvania (hereinafter called "Complex" or "Office Complex") and comprising the area designated in Exhibit "A", subject, however, to the terms and conditions of this Lease and to the Rules and Regulations of the Penn's Court Condominium Association (hereinafter called "Association") as the same may be amended from time to time (hereinafter collectively referred to as the "Lease"). Notwithstanding any terms of this Lease to the contrary, Tenant's duties and obligations are limited in all respects to the space reflected by Tenant's Proportionate Share. Landlord represents and warrants to Tenant that Landlord will have sufficient title to lease the Demised Premises to Tenant as of the Commencement Date.

ARTICLE II
TERM

SECTION 2.01. The term of this Lease shall be for a period of seven (7) years beginning on the date of delivery of possession to the space designated for immediate possession by Tenant consisting of approximately nine thousand two hundred (9,200) square feet of the thirteen thousand, three hundred (13,300) square feet as shown on Exhibit A ("Immediate Space"), and ending seven (7) years subsequent at 12:00 noon.

ARTICLE III
MINIMUM RENT

SECTION 3.01. The fixed minimum annual rent for the Leased Premises during the first two (2) years of the term of this Lease shall be fourteen dollars ($14.00) per square foot of space possessed by Tenant, payable in monthly installments.

Commencing on the first day of the third (3rd) year of the term of this Lease and on the first day of each year thereafter during the term of this Lease the fixed minimum annual rent for the Leased Premises shall be increased as follows:

3rd year	. . .	$14.25 per square foot
4th year	. . .	$14.75 per square foot
5th year	. . .	$15.25 per square foot
6th year	. . .	$15.75 per square foot
7th year	. . .	$16.25 per square foot

payable in monthly installments. All such monthly installments of the fixed minimum annual rent shall be payable to Landlord, in advance, without previous notice or demand therefor, with the first monthly installment to be due and payable upon the execution of this Lease, and each subsequent monthly installment to be due and payable on the first day of each and every month following the first month after the date of commencement of this Lease. If the date of commencement of this Lease is a date other than the first day of a month, rent for the period commencing with and including the first day of the term of this Lease until the first day of the following month shall be prorated at the per diem rate of one-thirtieth (1/30th) of the fixed monthly rent.

ARTICLE IV
USE OF PREMISES

SECTION 4.01. Tenant shall use and occupy the Leased Premises, subject to the provisions of the Lease, as executive and administrative offices for conducting the business of pharmaceutical product development and marketing and any and all other uses consistent with all applicable zoning and land use requirements of governmental agencies.

ARTICLE V
PROPORTIONATE SHARE

SECTION 5.01. For all purposes of this Lease, the Tenant's Proportionate Share attributable to the Demised Premises shall be deemed to be the square footage actually possessed by Tenant divided by the square footage of the Demised Premises.

ARTICLE VI
POSSESSION

SECTION 6.01. Initial Possession. Landlord shall give possession of the Immediate Space in the Premises on the date fixed for the beginning of the term of this Lease but in no event later than, _____, 1998. Landlord shall provide Tenant written notice of availability of Immediate Space fourteen (14) days prior thereto. However, if such possession is not delivered because of the holding-over or retention of possession of any tenant, undertenant or occupants, or because any alteration or construction now or hereafter being carried on either to the Demised Premises or to the Building of which they are a part (unless such alterations are being done by Tenant or Tenant's contractor, in which event there shall be no suspensions or proration of minimum rent or

other sums due as rent) or because of the fact that a certificate of occupancy has not been procured or for any other reason, Landlord shall not be subject to any liability for failure to give possession on said date and the validity of the Lease shall not be impaired under such circumstances, nor shall the same be construed in any way to extend the term of this Lease, but all rent payable hereunder shall be abated (provided Tenant is not responsible for the inability to obtain possession) to the extent only of undelivered possession measured in square feet of space until such time as Landlord shall have given Tenant written notice that the premises are ready for Tenant's occupancy. In the event Tenant has not received full possession of Immediate Space on or before October 1, 1998 Tenant may terminate its rights and responsibilities under this Lease and quit possession of the Leased Premises at any time thereafter, unless and until such full possession is delivered.

SECTION 6.02. Full Possession. Landlord shall deliver and Tenant shall accept and pay rent at the rates provided herein for remaining space in the Premises, after delivery of possession of Immediate Space as provided in 6.01, from time to time when first available by reason of termination of current Leases and/or Leases created subsequent hereto; printed, however, that Tenant may defer such possession upon payment of two (2) months rent to Landlord if such space is unoccupied and vacant during such deferral months and one-half (1/2) of the next two (2) months if not re-leased during such deferral period. Any re-lease by reason of such deferral shall have a term not exceeding eighteen (18) months, nor less than six (6) months, and Landlord shall have the right to re-lease immediately upon Tenant's exercise of deferral right hereunder.

ARTICLE VII
ADDITIONAL RENT

SECTION 7.01. Additional Rent.

(a) Real Estate Taxes and Excess Operating and Maintenance Costs. Tenant covenants to pay to Landlord, as additional rent, its Proportionate Share of all real estate taxes which shall be levied, charged, assessed, imposed upon, or grow and become due and payable out of or in respect of the Condominium Units comprising said Premises and the appurtenances thereto, including without limitation the assessment for common expenses by the Penn's Court Condominium Association. Tenant also covenants to pay to Landlord, as additional rent, its Proportionate Share of all direct and indirect operating and maintenance costs incurred in the operation and maintenance of the Demised Premises, including water and sewer rents, the cost of utility services, and all other costs, constituting direct or indirect operating and maintenance costs. Landlord shall give notice to Tenant of the amount of additional rent due and owing from Tenant to Landlord as soon as practicable.

All additional rent shall be payable in equal monthly installments, said payments to be made at the same time as the payment of the fixed minimum rent.

SECTION 7.02. Any terms or provisions herein before set forth to the contrary notwithstanding, Tenant's possessed premises are separately metered for electricity, and Tenant shall have the sole responsibility for payment of all electric bills directly to the provider of such services, and all accounts for electric service for Tenant's demised premises shall be opened in the name of

Tenant. Landlord shall have no responsibility whatsoever, for the payment of any electric bills, and the parties hereto hereby acknowledge that the additional rent does not include the payment for electrical service.

SECTION 7.03. Other Charges Due as Rent. The Tenant shall pay as additional rent any and all sums of money or charges required to be paid by Tenant under this Lease, whether or not the same be designated "additional rent", except for structural and mechanical repair costs incurred for reasons other than Tenant's negligence and/or abuse. Tenant shall also pay as additional rent any and all sums which may become due by reason of the failure of Tenant to comply with each and every covenant, term or condition of this Lease, and any and all damages, costs and expense which Landlord may suffer or incur by reason of any default by Tenant or failure on Tenant's part to comply with the terms, covenants and conditions of this Lease or with any obligation under law. If such amounts or charges are not paid when due, they shall, nevertheless, be collectible as additional rent with any installment of rent thereafter falling due.

ARTICLE VIII
CONDITION OF THE PREMISES AND COMMON AREAS

SECTION 8.01. Premises "As Is". Tenant has examined the premises herein demised and hereby agrees to accept them in "as is" condition at the commencement of the term hereof, and Tenant further agrees that neither Landlord nor its agents have made any representations as to the present or future condition of said premises, nor as to what items the prior occupant of such premises is required to or may leave in the premises prior to the commencement date of this Lease; provided, however, that Landlord shall provide Tenant a Twenty-five Thousand ($25,000.00) Dollar credit on Lease rents due and payable after the first month minimum rent as a contribution toward Tenant renovation of the Demised Premises.

SECTION 8.02. Parking Areas and Facilities. All parking areas and facilities in or near the Building, including employee parking areas, pedestrian sidewalks, corridors, ramps, landscaped areas, stairways, and other areas and improvements are common areas and facilities not within the leased premises, which Tenant may be permitted to use and occupy under and pursuant to the rights of Landlord as a Unit Owner in Penn's Court Condominium and the rules and regulations of the Association and if any such permission be revoked, or if the amount or number of such areas be diminished, Landlord shall not be subject to any liability nor shall Tenant be entitled to any compensation or diminution or abatement of rent, nor shall such revocation or diminution of such areas be deemed a constructive or actual eviction; provided such diminishment is not the fault of Landlord.

ARTICLE IX
USE OF PREMISES BY TENANT

SECTION 9.01. Use of Premises. Tenant shall use and occupy the demised premises solely for the purpose permitted by this Indenture of Lease, and Tenant shall not suffer or permit the demised premises or any part thereof to be used by others for any purpose whatsoever.

SECTION 9.02. Prohibited Uses. Tenant shall not use or occupy, or suffer or permit the use or occupancy of, the demised premises or any part thereof in any

manner or by anything, in any way, in the sole judgment of Landlord which would: (a) violate any laws or requirements of public authorities having jurisdiction over the Building; or (b) make void or voidable or adversely affect the rate of any insurance policy then in force with respect to the Buildings or (c) cause or tend to cause physical damage to the Building or any part thereof; or (d) constitute a public or private nuisance; or (e) impair the appearance, character or reputation of the Building; or (f) cause the discharge of objectionable fumes, vapors or odors into the Building or any mechanical facilities thereof; or (g) tend to impair or interfere with any of the Building services including the furnishing of electrical energy, air-conditioning and heat; or (h) tend to impair or interfere with the use of any of the other areas of the Building or result in discomfort or annoyance or inconvenience to Landlord or any of the other tenants or occupants of the Building; or (i) cause Tenant to default in any of its other obligations under this Lease.

ARTICLE X
ALTERATIONS

SECTION 10.01. Alterations. No alterations, additions, repairs or improvements shall be made in the demised premises except in accordance with detailed plans and specifications approved in advance and in writing by Landlord, which approval shall not be unreasonably withheld or delayed. Tenant shall, before making any alterations, additions or improvements, at its expense, obtain all permits, approvals and certificates required by any governmental body or regulatory authority and immediately upon completion shall obtain certificates of final approval thereof and shall promptly deliver duplicates of all such permits, approvals and certificates to Landlord. All such alterations, additions, repairs or improvements made by Tenant and all fixtures attached to the demised premises shall become the property of Landlord and remain at the premises or, at Landlord's option, after written notice to Tenant, any or all of the foregoing which may be designated by Landlord shall be removed at the cost of the Tenant before the expiration or sooner termination of this Lease and in such event Tenant shall restore the premises to the condition existing prior to installation thereof and repair all damage to the demised premises caused by the installation and removal. All property permitted or required to be removed by Tenant at the end of the term remaining in the demised premises after Tenant's removal shall be deemed abandoned and may, at the election of Landlord, either be retained as Landlord's property or may be removed from the premises by Landlord at Tenant's expense. Tenant shall not erect or place or cause or allow to be erected or placed, any sign, advertising matter, lettering, stand, booth, showcase or other article or matter in or upon the doorsteps, vestibules, lobbies, passages, outside walls, windows or sidewalks of the Building in which the demised premises are located. Landlord approves Tenant alteration/addition/repair/improvement plan attached as Exhibit "B", and exempts construction pursuant to such plan from the above-noted obligations of Tenant to restore to the pre-existing condition.

SECTION 10.02. Tenant Shall Discharge All Liens. Tenant shall promptly pay all contractors and materialmen performing Tenant's initial work in the demised premises or any alterations, additions or improvements therein. Tenant shall obtain and deliver to Landlord, prior to the commencement of any construction in the demised premises, written and unconditional waivers of mechanic's liens upon the property in which the demised premises are located, for all work, labor and services to be performed and materials to be furnished in connection with such

work, signed by all contractors, sub-contractors, materialmen and laborers to become involved in such work, such waivers to have been filed with and receipted by the Prothonotary or other appropriate official of the county in which the Building is located. Upon completion of such work, Tenant shall deliver to Landlord releases of liens signed by all contractors, sub-contractors and materialmen so involved. Should any lien be made or filed, Tenant shall bond against or discharge the same within fifteen (15) days after written request by Landlord, and in the event that Tenant shall fail to do so, Landlord may discharge the lien by payment of the amount secured thereby, and any amount so paid by Landlord, along with any attorney's fees or other costs relating to the discharge of such lien, shall be deemed additional rent and shall be immediately payable by Tenant to Landlord. Landlord represents to Tenant that at the date hereof the only mortgage lien against the demised premises is a first mortgage lien in favor of Wilmington Trust.

ARTICLE XI
MAINTENANCE AND REPAIRS

SECTION 11.01. Maintenance by Landlord and Tenant. Landlord, through the Penn's Court Condominium Association, if applicable, shall be responsible for non-routine maintenance and major repair of the structural elements and major mechanical systems of the Building, including the roof and roof membrane, foundations, appurtenances, heating, ventilation and air conditioning equipment, electrical systems, plumbing systems, lighting, storm drainage and other mechanical systems of the Building serving the Demised Premises, exterior walls and windows of the Building affecting the Demised Premises and utility and sewer pipes serving the Building and the Demised Premises. Landlord shall be responsible for repairing any damage to the Demises Premises caused by leaks in the roof, bursting pipes (by freezing or otherwise) or by defects in the Building not otherwise the result of Tenant's negligence. Tenant shall, throughout the term of this Lease, take good care of the demised premises and the fixtures and appurtenances therein and, upon the expiration or other termination of this Lease shall deliver the premises in good order and condition, reasonable wear and tear excepted. Notwithstanding the foregoing, all damage or injury to the demised premises or to any other part of the Building, or to its fixtures, equipment and appurtenances, whether requiring structural or non-structural repairs, caused by or resulting from carelessness, omission, neglect or improper conduct of Tenant, its servants, employees, invitees or licensees, shall be repaired promptly by Tenant at its sole cost and expense, to the reasonable satisfaction of Landlord. Tenant shall also repair all damage to the Building and the demised premises caused by the installation and removal of Tenant's fixtures, furniture or equipment. All the aforesaid repairs shall be of quality or class equal to the original work or construction. If, within ten (10) days after notice, Tenant fails to proceed with due diligence to make repairs required to be made by Tenant, the same may be made by the Landlord at the expense of Tenant and the expenses thereof incurred by Landlord shall be collectible as additional rent after rendition of a bill or statement therefor. Tenant shall give Landlord prompt notice of any defective condition in any plumbing, heating or air-conditioning system or electrical lines located in, servicing or passing through the demised premises. There shall be no liability on the party of Landlord by reason of inconvenience, annoyance or injury to business arising from Landlord. Tenant or others making or failing to make any repairs, alterations, additions or improvements in or to any portion of the Building or the fixtures, appurtenances or equipment thereof, and except as otherwise provided in Article XVI, there shall be no abatement of rent due hereunder.

ARTICLE XII
INDEMNITY AND INSURANCE

SECTION 12.01. Indemnification of Landlord. Tenant shall not do anything or permit or suffer anything to be done in or about the demised premises which will expose or subject Landlord to any liability or responsibility for injury to any person or property by reason of any activity being conducted in the demised premises and Tenant will indemnify Landlord and Agent and save them harmless from and against any and all claims, actions, damages, liability and expense in connection with loss of life, personal injury or damage to property arising from or out of, any occurrence in, upon or at the leased premises or the occupancy or use by Tenant of the leased premises or any part thereof, or occasioned wholly or in part by any act or omission of Tenant, its agents, contractors, employees, servants, lessees or invitees. In case Landlord or Agent shall be made a party to any litigation commenced by or against Tenant, then Tenant shall protect and hold Landlord and Agent harmless and shall pay all costs, expenses and reasonable attorney's fees incurred or paid by Landlord or Agent in connection with such litigation. Tenant shall also pay all costs, expenses and reasonable attorney's fees that may be incurred or paid by Landlord or Agent in enforcing the covenants and agreements in this Lease.

SECTION 12.02. Increase of Insurance. Tenant will not do, omit to do, or suffer to be done, or keep or suffer to be kept anything in, upon or about the leased premises which will violate the provisions of Penn's Court Condominium Association's policies insuring against loss or damage by fire or other hazards (including, but not limited to, public liability), or which will adversely affect such fire or liability insurance premium rating. If anything done, omitted to be done or suffered to be done by Tenant, or kept or suffered by Tenant to be kept in, upon or about the premises, by itself or in combination with other circumstances existing at or in the Building, shall cause the premium rate of fire or other insurance on the leased premises or other property of the Building, to be increased beyond the established rate fixed by the appropriate underwriters from time to time applicable to the premises or to the Building or the use or uses made thereof, Tenant will pay the amount of such increase as reflected by special assessment or in the event that other circumstances existing at the Building shall have contributed to such increase, an equitable portion of such increase as reasonable determined by Landlord, promptly upon Landlord's demand and thereafter will pay the amount of such increase, as the same may vary from time to time, with respect to every premium relating to coverage of the demised premises during a period falling within the term of this Lease until such increase is eliminated. In addition, Landlord may at its option rectify the condition existing on the demised premises which caused or was a contributing cause of the increased premium rate in the event that the Tenant shall fail to do so and may charge the cost of such action to Tenant as additional rent, payable on demand. In determining whether increased premiums are the result of Tenant's use of the leased premises, a schedule, issued by the organization making the insurance rate on the leased premises, setting forth in the various components of such rates, shall be conclusive evidence of the several items and charges which make up the fire insurance rate on the leased premises.

SECTION 12.03. Insurance Certificates. Landlord has delivered Certificates of Penn's Court Condominium Insurance coverage to attorney for Tenant, receipt of which is hereby acknowledged.

ARTICLE XIII
BUILDING SERVICES

SECTION 13.01. Services to be Provided by Landlord. As long as Tenant is not in default under any of the covenants of this Lease, the Association shall provide services to the common elements of the Condominium as required by the Condominium Documents.

SECTION 13.02. Interruption of Services. In case of accident, strikes, inability to obtain supplies, breakdowns, repairs, renewals or improvements to the Building or replacement of machinery therein or other cause pertaining to the Building deemed sufficient by Landlord, the providing of services, as above set forth, may be modified or entirely suspended for the period of such occurrence. Landlord shall not be responsible or liable in any way for any cessation, failure, interruption or inadequacy in the quantity or quality of the heat, air-conditioning, cleaning service, electricity and elevator service, and any other services, where caused by war, civil commotion, governmental regulations or restrictions, prohibitions or other regulations, strikes, labor disturbances, inability to obtain adequate supplies or materials, casualties, repairs, replacements, or other causes whether similar or dissimilar to the foregoing.

ARTICLE XIV
SUBORDINATION

SECTION 14.01. Subordination. This Agreement of Lease and all its terms, covenants and provisions and all of Tenant's rights hereunder are and each of them is subject and subordinate to the Declaration of Penn's Court Condominium, and the rules and regulations of the Association. This section shall be self-operative and no further instrument of subordination shall be required by any mortgagee or other party herein above referred to.

SECTION 14.02. Attorney-In-Fact. Tenant, upon request of any party in interest, shall execute promptly such instruments or certificates to carry out the intent of this Article as shall be requested by the Landlord. The Tenant hereby irrevocably appoints the Landlord as attorney-in-fact for the Tenant with full power and authority to execute and deliver in the name of the Tenant any such instruments or certificates. If within fifteen (15) days after the date of a written request by Landlord to execute any such instrument the Tenant shall not have executed the same, the Landlord may, at its option, cancel this Lease without incurring any liability on account thereof, and the term hereby granted is expressly limited accordingly.

SECTION 14.03. Non-disturbance and Attornment. If the leased premises or any of the common areas are subject to any mortgage, ground or underlying lease or judgment against Landlord on the date of execution of this Lease, Landlord shall obtain and deliver to tenant an agreement from each holder of such mortgage, ground lease or judgment that neither it nor its successors or assigns will take any action to disturb the possession of tenant, its successors or assigns of the leased premises so long as tenant is not in default under this Lease. This Lease shall not be subject or subordinate to any mortgage, ground or underlying Lease hereafter created unless and until Landlord provides tenant with a duly executed

and binding Agreement from the holder of any such mortgage or Landlord with respect to any such ground or underlying Lease, which Agreement shall be in recordable form and state that neither it nor its successors or assigns will take any action to disturb the possession of the tenant, its successors or assigns of the leased premises so long as tenant is not in default under this Lease.

ARTICLE XV
ASSIGNMENT AND SUBLETTING

SECTION 15.01. Consent Required. Tenant shall not assign this Lease in whole or in part, nor sublet all or any part of the leased premises, without the prior written consent of Landlord in each instance which consent shall not be unreasonably withheld or delayed, except that Landlord shall retain the right to reject on the basis of financial strength of the proposed Sub-Tenant. Consent by Landlord to any assignment or subletting shall not constitute a waiver of the necessity for such consent to any subsequent assignment or subletting. This prohibition against assigning or subletting shall be construed to include a prohibition against any assignment or subletting by operation of law. If this Lease be assigned, or if the leased premises or any part thereof be underlet or occupied by anybody other than Tenant, Landlord may collect rent from the assignee, under-tenant or occupant and apply the net amount collected to the rent herein reserved, but no such assignment, undersetting, occupancy or collection shall be deemed a waiver of this covenant or the acceptance of the assignee, under-tenant or occupant as Tenant, or a release of Tenant from the further performance by Tenant of covenants on the part of Tenant herein contained. In the event of any sublease of all or any portion of the demised premises where the rental reserved in the sublease exceeds the rental or pro rata portion of the rental, as the case may be, for such space reserved in this Lease, Tenant shall pay the Landlord monthly, as additional rent, the excess of the rental reserved in the sublease over the rental reserved in this Lease applicable to the subleased space. Notwithstanding any assignment or sublease, Tenant shall remain full liable on this Lease and shall not be released from performing any of the terms, covenants, and conditions of this Lease. Tenant agrees that in the event the demised premises or any part thereof are sublet by him or for his account, or if Tenant's rights under this Lease shall be assigned, the Agent shall have the exclusive right to act as agent of the Tenant for such subletting or assigning and shall be entitled to the usual commission for its services.

ARTICLE XVI
FIRE OR OTHER CASUALTY

SECTION 16.01. Fire Damages. If the demised premises or any part thereof shall be damaged by fire or other casualty, Tenant shall give immediate notice thereof to Landlord and this Lease shall continue in full force and effect except as hereinafter set forth.

SECTION 16.02. Partial Destruction. If the demised premises are partially damaged or rendered partially unusable by fire or other casualty, the damages thereto shall be promptly repaired by and at the expense of Landlord to the extent of Landlord's original work and only to the extent of Landlord's recovery of insurance proceeds equitably allocable to the demised premises, and the rent, until such repair shall be substantially completed, shall be apportioned from the day following the casualty according to the part of the premises which is usable. In no event shall such repairs take longer than six (6) months from the

date of partial destruction, unless such delay is due to insurance company refusal to pay required benefits. If repairs require more than six (6) months to complete, as extended, Tenant shall have the right on written notice to Landlord to terminate this Lease.

SECTION 16.03. Total Destruction. If the demised premises are totally damaged or rendered wholly unusable by fire or other casualty, then the rent shall be proportionately paid up to the time of the casualty and thenceforth shall cease until the date when the premise shall have been repaired and restored by Landlord, subject to Landlord's right to elect not to restore the same as hereinafter provided.

SECTION 16.04. Landlord's Election. If the demised premises are rendered unusable by fire or other casualty or (whether or not the demised premises are damaged in whole or in part) if the building shall be damaged to the extent that Landlord shall decide to demolish it, then, in either of such events, Landlord may elect to terminate this Lease by written notice to Tenant given within 90 days after such fire or casualty specifying a date for the expiration of the Lease, which date shall not be more than 60 days after the giving of such notice, and upon the date specified in such notice the term of this Lease shall expire as fully and completely as if such date were the date set forth above for the termination of this Lease and Tenant shall forthwith quit, surrender and vacate the premises without prejudice, however, to Landlord's rights and remedies against Tenant under the Lease with respect to the period prior to such termination. Any payments of rent made by Tenant which were on account of any period subsequent to such termination date shall be returned to Tenant. Unless Landlord shall serve a termination notice as provided for herein, Landlord shall make the repairs and restorations to the extent provided in Section 16.02 hereof, with all reasonable expedition subject to delays due to adjustment of insurance claims, labor troubles and causes beyond Landlord's control.

SECTION 16.05. Tenant's Liability. Nothing contained herein above shall relieve Tenant from liability that may exist as a result of damage from fire or other casualty. Notwithstanding the foregoing, however, each party shall look first to any insurance in its favor before making any claim against the other party for recovery for loss or damage resulting from fire or other casualty, and to the extent that such insurance is in force and collectible and to the extent permitted by law, Landlord and Tenant each hereby releases and waives all right of recovery against the other or any one claiming through or under each of them by way of subrogation or otherwise. The foregoing release and waiver shall be in force only if both releasors' insurance policies contain a clause providing that such a release or waiver shall not invalidate the insurance and also provided that such a policy can be obtained without additional premium.

ARTICLE XVII
EMINENT DOMAIN

SECTION 17.01. Condemnation. In the event that the demised premises or any part thereof is taken or condemned for a public or quasi-public use, this Lease shall terminate as to the part so taken as of the date when possession is surrendered to the condemning authority, and thereafter, the rent shall abate proportionately to the square feet of leased space taken or condemned, or shall cease if the entire premises be so taken. In any such event, Tenant waives all claims against Landlord or the condemning authority for leasehold damages and for the value of any unexpired term of this Lease.

SECTION 17.02. Condemnation of Parking Area. If any part of the parking area in the Office Complex shall be acquired or condemned by eminent domain for any quasi-public use or purpose and if, as the result of such partial taking, the size, layout or location of the remaining parking facilities will violate the requirements of the applicable zoning or similar law (or any permitted variance thereof or exception thereto) regulating same, then the Landlord shall have the right and power to declare the term of this Lease at an end as of the date on which possession of the condemned property is required to be surrendered to the condemning authority. In any event, Tenant shall have no claim against Landlord nor the condemning authority for the value of any unexpired term of this Lease.

ARTICLE XVIII
DEFAULT OF THE TENANT

SECTION 18.01. Right to Re-Enter. Tenant agrees that if any rent or any charges herein included as rent shall remain unpaid on any day on which the same ought to be paid, then Landlord upon five (5) days written notice of opportunity to cure to Tenant, or any person acting under Landlord, may enter the premises and without further demand proceed by distress and sale of the goods there found to levy the rent and all other charges herein payable as rent, and all costs and officers' commissions, including watchmen's wages, and further including a sum equal to five percent (5%) of the amount of the levy as commissions to the constable or other person making the levy, shall be paid by the Tenant, and that, in such case, all costs, officers', commissions and other charges shall immediately attach and become a part of the claim of said Landlord for rent and any tender of rent without said costs, commissions and charges made after the issue of a warrant of distress shall not be sufficient to satisfy the claim of said Landlord. Tenant hereby expressly waives the benefit of all laws now made or that may hereafter be made regarding any limitation as to the goods upon which, or the time within which distress is to be made after removal of goods, and further relieves the Landlord of the obligation of proving or identifying or appraising such goods and said Tenant hereby agrees to leave no goods of any kind for use on the demised premises with the understanding that such goods shall be exempt from levy for rent and other charges herein reserved as rent, it being the purpose and intent of this provision that all goods of Tenant, whether upon the demised premises or not, shall be liable to distress for rent. Tenant

waives in favor of Landlord all rights under the Landlord and Tenant Act of 1951, and all supplements and amendments thereto that have been or may hereafter be passed, and authorizes the sale of any goods distrained for rent at any time after five (5) days from said distraint without any appraisement and/or condemnation thereof. Tenant further waives the right to issue a Write of Replevin under the laws of the Commonwealth of Pennsylvania, now in force or which may hereafter enacted, for the recovery of any articles and goods seized under a distress for rent or levy upon execution for rent, damages or otherwise, and all waivers mentioned herein are hereby extended to apply to any such action. In addition to the foregoing, Landlord shall have the immediate right of re-entry and may remove all persons and property from the leased premises, using as much force as necessary, and such property may be removed and stored in a public warehouse at the cost of and for the account of Tenant, all without service of notice or resort to legal process and without being deemed guilty of trespass or becoming liable for any loss or damage which may be occasioned thereby.

SECTION 18.02. Right to Relet; Damages for Breach. Should Landlord elect to re-enter the demised premises as provided in this Lease, or should it take possession pursuant to legal proceedings or pursuant to any notice provided for by law, it may either terminate this Lease or it may from time to time without terminating this Lease make such alterations and repairs as may be necessary in order to relet the premises and relet said premises or any part thereof for such term or terms (which may be for a term extending beyond the term of this Lease) and at such rental or rentals and upon such other terms and conditions as Landlord in its sole discretion may deem advisable; upon each such reletting all rentals received by the Landlord from such reletting shall be applied, first the payment of any indebtedness other than rent due hereunder from Tenant to Landlord; second, to the payment of any costs and expenses of such reletting, including brokerage fees and attorney's fees and of costs of such alterations and repairs; third, to the payment of rent due and unpaid hereunder and the residue, if any, shall be held by Landlord and applied in payment of future rent as the same may become due and payable hereunder. If such rentals received from such reletting during any month be less than that to be paid during that month by Tenant hereunder, Tenant shall pay any such deficiency to Landlord. Such deficiency shall be calculated and paid monthly. No such re-entry or taking possession of said premises by Landlord shall be construed as an election on its part to terminate this Lease unless a written notice of such intention be given to Tenant or unless the termination thereof be decreed by a court of competent jurisdiction. Notwithstanding any such reletting without termination, Landlord may at any time thereafter elect to terminate this Lease for such previous breach.

SECTION 18.03. Right to Terminate; Damages. Tenant further agrees and it is hereby made a condition of this Lease, or any extension thereof, that (a) if the Tenant shall fail or omit to pay any rent, additional rent or charges herein reserved as rent on the days and at the place where the same were made payable, or (b) if Tenant shall fail in the performance or observance of any of the other agreements, conditions and terms herein contained on its part to be performed or observed, and if such failure shall continue for fifteen (15) days after service of written notice by Landlord, or in case the failure be of such nature that it cannot be cured within said period of fifteen (15) days, then if Tenant shall fail within said period of fifteen (15) days to commence the cure of such failure and thereafter to complete such cure within thirty (30) days of service of notice, or surety of this Lease involuntary petition in bankruptcy or for reorganization or arrangement under any federal or state law now or hereafter in force is filed against the Tenant which is not withdrawn within sixty (60) days, or if such a petition is filed voluntarily by the Tenant, or (d) if the Tenant

or any guarantor or surety of this Lease shall make a general assignment for the benefit of creditors, or voluntarily enter into an arrangement with creditors, or (e) if a permanent or temporary trustee or receiver shall be appointed for Tenant or Tenant's property or for any guarantor or surety of this Lease or the property of such guarantor or surety and shall not be discharged within sixty (60) days from the date of appointment, or (f) if this Lease or Tenant's estate or any of Tenant's interest herein shall (except as herein before expressly permitted) be transferred or pass to or devolve, by operation of law or otherwise, upon any one other than Tenant herein named, or (g) in the event of any such attempted transfer or revolution, or (h) in the event of the abandonment of the premises by the Tenant, or the removal or the attempt to remove Tenant's goods or property therefrom other-than in the ordinary course of business without having first paid to Landlord all rent due and to become due, then and in any of such events of default, Landlord, at its option may serve upon Tenant notice that this Lease and the then unexpired term hereof shall cease and expire and become absolutely void on a date specified in such notice, to be not less than five (5) days after the date of such notice, and thereupon, upon the expiration of the time limited in such notice, this Lease and the term herein granted, as well as all of the right, title and interest of the Tenant hereunder, shall wholly cease and expire and become void in the same manner and with the same force and effect (except as to Tenant's liability) as if the date fixed in such notice were the date herein originally specified for the expiration of the term herein demised; and Tenant shall then immediately quit surrender to Landlord the demised premises, including any and all buildings and improvements thereon, and Landlord may enter into and repossess the demised premises by summary proceedings, detainer, ejectment or otherwise and remove all occupants thereof and, at Landlord's option, any property thereon without being liable to indictment, prosecution or damage therefor.

Should Landlord at any time terminate this Lease for any breach, in addition to any other remedies it may have, it may recover from Tenant all damages it may incur by reason of such breach, including the cost of recovering the leased premises, reasonable attorney's fees and the amount of rent and charges equivalent to rent reserved in this Lease for the remainder of the stated term, all of which amounts shall be immediately due and payable from Tenant to Landlord and Landlord shall thereafter pay to Tenant, at such time or times as Landlord shall be in receipt of the same, the rent for the leased premises for the remainder of the stated term collected from tenants thereafter using the premises, up to the amount of the rent reserved which has theretofore been collected from Tenant, less costs of reletting. In determining the rent payable by Tenant hereunder subsequent to default, the annual rent for each year of the unexpired number of years remaining in the balance of the term multiplied by the additional rent theretofore paid or payable by the Tenant for the three (3) lease years last preceding such default or, if three (3) lease years have not then elapsed, the annual average of the other additional rent theretofore paid or payable by Tenant.

SECTION 18.04. Waiver of Notice. If Landlord shall commence to recover possession by legal process either at the end of the term or the sooner termination of this Lease, or for non-payment of rent or otherwise, Tenant expressly waives all rights to legal notice (by statute or common law) and agrees that in either or any such case five (5) days' notice shall be sufficient. Without limitation of the foregoing, the Tenant hereby waives any and all demands, notices of intention and notices of action or proceedings which may be required by law to be given or taken prior to any re-entry or re-entry by Landlord by summary proceedings, ejectment or otherwise, except as herein before expressly provided with respect to the five (5) days', notice; provided, however, that this shall not be construed as a waiver by Tenant of any notices to which this Lease expressly provides Tenant is entitled.

SECTION 18.05. Legal services. In case suit shall be brought for recovery of possession of the leased premises, for the recovery of rent or any other amount due under the provisions of this Lease, or because of the breach of any other covenant herein contained on the part of Tenant to be kept or performed, and a breach shall be established, Tenant shall pay to Landlord all expenses incurred therefor, including a reasonable attorney's fee.

SECTION 18.06. Waiver of Jury Trial. The parties hereto shall and they hereby do waive trial by jury in any action, proceeding or counterclaim brought by either of the parties hereto against the other on any matters whatsoever arising out of or in any way connected with this Lease, the relationship of Landlord and Tenant, Tenant's use and occupancy of the leased premises and/or any claim of injury or damage.

SECTION 18.07. Waiver of Rights of Redemption. Tenant hereby expressly waives any and all rights of redemption granted by or under any present or future laws in the event of Tenant being evicted or dispossessed for any cause, or in the event of Landlord obtaining possession of the leased premises by reason of the violation by Tenant of any of the covenants or conditions of this Lease, or otherwise.

SECTION 18.08. Acceleration of Rent. In the event of any default hereunder, Tenant agrees that thereupon and in such event the whole rent reserved for the balance of the term and all other sums payable hereunder as rent for the balance of the term or any part shall become due and payable as if by the terms of this Lease it were payable in advance, and Landlord may immediately proceed to distrain, collect or bring action for the said whole rent or such part thereof as aforesaid, as rent being in arrears, or may enter judgment therefor in an amicable action as herein elsewhere provided for in case of rent in arrears, or may file a proof of claim in any bankruptcy or insolvency proceedings for such rent, or Landlord may institute any other proceedings, whether similar to the foregoing or not, to enforce payment thereof.

For the purposes of this Lease, the rent reserved for the balance of the term as used herein shall be deemed to be the aggregate of the fixed minimum rent reserved for the balance of the term remaining after such default or breach by the Tenant, plus the number of years remaining in the balance of the term multiplied by the annual average of all other additional rent theretofore paid or payable by the Tenant for the three (3) lease years last preceding such breach or default or, if three (3) lease years have not then elapsed, the annual average of all other additional rent theretofore paid-or payable-by the Tenant.

SECTION 18.09. Entry of Judgment. In the event of any default by Tenant either in the payments of rent or any other charge herein reserved, or in the performance of any of the terms, conditions, promises and covenants herein set forth, either during the original term of this Lease or any extension thereof or after the expiration of the lease term or sooner termination thereof, Tenant hereby empowers any Prothonotary or attorney of any court of record to appear for Tenant in any and all actions which may be brought for rent or the charges, payments, costs and expenses reserved as rent, or agreed to be paid by the Tenant, and to sign for Tenant an agreement for entering in any competent Court

an amicable action or actions for the recovery of rent or other charges or expenses, and in said suits or in said amicable action or actions to confess judgment against Tenant for all or any part of the rent specified in this Lease and then unpaid including, at Landlord's option, the rent for the entire unexpired balance of the term of this Lease and other charges, payments, costs and expenses reserved as rent or agreed to be paid by the Tenant, and for interest and costs together with an attorney's commission of five percent (5%), but without deduction therefrom for the fair rental value of the premises. Such authority shall not be exhausted by one exercise thereof, but judgment may be confessed as aforesaid from time to time and as often as any of said rent or other charges reserved as rent shall fall due or be in arrears, and such powers may be exercised during the original term, during any extension or renewal term, or after the expiration of any such term.

In the event that, and when, the Lease shall be determined by term, covenant, limitation or condition broken, as aforesaid, either during the original term of this Lease, or any extension thereof, and also when and as soon as the term hereby created, or any extension thereof shall have expired, it shall be lawful for any attorney or attorneys for Tenant, including any Prothonotary or attorney of any court of record who might be empowered to appear for Tenant in any action brought for rent, to sign an agreement for entering in any competent court an amicable action and judgment in ejectment, without any stay of execution or appeal against Tenant and all persons claiming under Tenant for the recovery by Landlord of possession of the herein demised premises, without any liability on the part of the said attorney, for which this shall be a sufficient warrant; whereupon, if Landlord so desires, a writ of possession may issue forthwith without any prior writ or proceedings whatsoever. And provided that if for any reason after such action has been commenced the same shall be determined and the possession of the premises hereby demised remain in or be restored to Tenant, the Landlord shall have the right in any subsequent default, or defaults, to bring one or more further amicable actions in the manner and form herein before set forth to recover possession of said premises for such subsequent default. No such determination of this Lease nor taking, nor recovering possession of the premises shall deprive Landlord of any remedies or action against Tenant for rent or for damages due or to become due for the breach of any condition or covenant herein contained, nor shall the bringing of any such action for rent, or breach of covenant or condition nor the resort to any other remedy herein provided for the recovery of rent or damages for such breach be construed as a waiver of the right to insist upon the forfeiture and to obtain possession in the manner herein provided.

In any amicable action of ejectment or for rent in arrears, Landlord shall first cause to be filed in such action an affidavit made by it or someone acting for it setting forth the facts necessary to authorize the entry of judgment, of which facts such affidavit shall be conclusive evidence, and, if a true copy of this Lease be filed in such action, it shall be necessary to file the original as a warrant of attorney, any rule of court, custom or practice to the contrary notwithstanding.

Tenant expressly agrees that any judgment, order or decree entered against it by or in any Court or Magistrate by virtue of the powers of attorney contained in this Lease or otherwise shall be final, and that it will not take an appeal, certiorari, writ of error, exception or objection to same nor file a motion or rule to strike off or open or stay execution of the same, and that it hereby releases to Landlord and to any and all attorneys who may appear for Tenant all errors in the said proceedings. Tenant expressly waives the benefits

of laws, now or hereafter in force, exempting any goods on the demised premises or elsewhere from distraint, levy or sale in any legal proceedings taken by the Landlord to enforce any rights under this Lease. Tenant further waives the right to inquisition on any real estate that may be levied upon to collect any amount which may become due under the terms and conditions of this Lease, and does hereby voluntarily condemn the same and authorize the Prothonotary to enter a writ of execution or other process upon Tenant's voluntary condemnation, and further agrees that the said real estate may be sold on a writ of execution or other process.

SECTION 18.10. Default Prior to Possession. In the event Tenant breaches or threatens to breach this Lease prior to possession, in addition to any other rights accruing to Landlord by operation of law and/or equity, by or under any legal proceedings or by the provisions of this Lease, Landlord may cancel this Lease by giving Tenant five (5) days written notice of its intent to do so whereupon all security deposits will be retained by Landlord as liquidated damages and Landlord, at its option, may proceed to relet the demised premises with no liability or obligation to Tenant whatsoever. This section shall be self-operative and no further instrument of cancellation shall be required of Tenant and Landlord.

SECTION 18.11. Cumulative Remedies. It is further agreed that in the event of a breach or threatened breach by Tenant of any of the agreements, conditions, covenants or terms hereof, Landlord shall have the right to injunctive relief to restrain the Tenant and the right to invoke any remedy allowed by law or in equity whether or not other remedies, indemnity or reimbursements are herein provided. It is further agreed that the rights and remedies given to Landlord in this Lease are distinct, separate and cumulative remedies, and that no one of them, whether or not exercised by Landlord, shall be deemed to be in exclusion of any of the others.

ARTICLE XIX
ACCESS BY LANDLORD

SECTION 19.01. Right of Entry. Landlord or Landlord's agents shall have the right to enter the demised premises at reasonable times on reasonable notice to examine the same and to show them to prospective purchasers, mortgagees or lessee of the building or the demised premises and to make such repairs, alterations, improvements and additions to the demised premises or the Building of which the demised premises are a part or adjoining same as Landlord may deem necessary or desirable. Landlord shall be allowed to take into and upon said premises all material that may be required therefor without the same constituting an eviction of Tenant in whole or in part, and the rent reserved shall not abate in whole or in part while said repairs, alterations, improvements or additions are being made, by reason of loss or interruption of business of Tenant or otherwise, and Landlord will not be liable to Tenant for any damage, decrease or lessening of Tenant's business at any of the times herein above stated including after said repairs, alterations, improvements or additions are made. During the six (6) months prior to the expiration of the term of this Lease or any renewal term, Landlord may exhibit the premises to prospective tenants or purchasers and place upon the premises the usual notices "For Rent" or "For Sale", which notices Tenant shall permit to remain without molestation. If Tenant shall not be personally present to open and permit an

entry into said premises at any time when for any reason an entry therein shall be necessary or permissible, Landlord or Landlord's agents may enter the same by a master key or may forcibly enter the same, without rendering Landlord or such agents liable therefor and without in any manner affecting the obligations and covenants of this Lease. Nothing herein contained, however, shall be deemed or construed to impose upon Landlord any obligation, responsibility or liability whatsoever for the care, maintenance or repair of the Building or any part thereof, except as otherwise herein specifically provided.

ARTICLE XX
TENANT'S PROPERTY

SECTION 20.01. Taxes on Leasehold. Tenant shall be responsible for and shall pay before delinquency all municipal, county or state taxes assessed during the term of this Lease against any leasehold interest or personal property of any kind owned by the Tenant or placed in, upon or about the leased premises by the Tenant, whether such taxes shall be assessed against and billed to Tenant or shall be incorporated into the tax base upon which taxes of Landlord shall be calculated.

SECTION 20.02. Waiver as to Loss and Damage. Neither Landlord nor Agent shall be liable for any damage to property of Tenant or of others located on the leased premises, nor for the loss of or damage to any property of Tenant or of others by theft or otherwise. Neither Landlord nor Agent shall be liable for any injury or damage to persons or property resulting from fire, explosion, collapse, falling plaster, steam, gas, electricity, water, rain or snow or leaks from any part of the leased premises or of the Building or from the pipes, sprinklers, appliances or plumbing works or from the roof, street or subsurface or from any other place or by dampness or from any other cause of whatsoever nature. Neither Landlord nor Agent shall be liable for any such damaged caused by other tenants or persons in the Building or occupants of adjacent property, of the Office Complex, or the public, or caused by operations in construction of any private, public or quasi-public work. Neither Landlord nor Agent shall be liable for any latent defect in the leased premises or in the Building of which they form a part. All property of Tenant kept or stored on the leased premises shall be so kept or stored at the risk of Tenant only and Tenant shall hold Landlord and Agent harmless from any claims arising out of damage to the same, including subrogation claims by Tenant's insurance carriers, except if (in the absence of a waiver of subrogation by Tenant's insurer) such damage shall be caused by the willful misconduct or gross negligence of Landlord or agent occurring after the commencement of the term hereof. Except as specifically provided herein to the contrary, this section and the waiver herein contained shall pertain to matters existing before as well as after the execution of this Lease and the commencement of the term hereof.

ARTICLE XXI
SUCCESSORS

SECTION 21.01. Successors. All rights and liabilities herein given to, or imposed upon, the respective parties hereto shall extend to and bind the several respective heirs, executors, administrators successors and assigns of the said parties; and if there shall be more than one tenant, they shall all be bound jointly and severally by the terms, covenants and agreements herein. No rights, however, shall inure to the benefit of any assignee of Tenant unless the assignment to such assignee has been approved by Landlord in writing as provided in Section 15.01 hereof.

ARTICLE XXII
QUIET ENJOYMENT

SECTION 22.01. Landlords Covenant. Upon payment by the Tenant of the rents herein provided, and upon the observance and performance of all the covenants, terms and conditions on Tenant's part to be observed and performed, Tenant shall peaceably and quietly hold and enjoy the leased premises for the terms hereby demised without hinderance or interruption by Landlord or any other person or persons lawfully or equitable claiming by, through or under the Landlord, subject, nevertheless, to the terms and conditions of this Lease.

ARTICLE XXIII
MISCELLANEOUS

SECTION 23.01. Rules and Regulations. Tenant, its servants, employees, agents, visitors, invitees and licensees shall faithfully observe and strictly comply with, and shall not permit violation of, the Rules and Regulations and such reasonable changes therein (whether by modification, elimination or addition) as Association hereafter may make and communicate in writing to Tenant. In case of any conflict or inconsistency between the provisions of this Lease and any Rules and Regulations, the provisions of this Lease shall control. A copy of the Rules and Regulations are attached hereto and made a part hereof as Exhibit "C" .

SECTION 23.02. Waiver. The waiver by Landlord of any breach of any term, covenant or condition herein contained shall not be deemed to be a waiver of such term, covenant or condition or any subsequent breach of the same or any term, covenant or condition herein contained. The subsequent acceptance of rent hereunder by Landlord shall not be deemed to be a waiver of any preceding breach by Tenant of any term, covenant or condition of this Lease, other than the failure of Tenant to pay the particular rental so accepted, regardless of Landlord's knowledge of such preceding breach at the time of acceptance of such rent. No covenant, term or condition of this Lease shall be deemed to have been waived by Landlord, unless such waiver be in writing by Landlord. Landlord's failure or refusal to enforce any Rule or Regulation or any term, covenant or condition of any other lease against any other tenant or occupant of the Building shall not constitute a waiver of or otherwise affect Landlord's right to enforce the same against Tenant and shall not constitute an actual or constructive eviction, in whole or in part, or entitle Tenant to any abatement or diminution of rent, or relieve Tenant from any of its obligations under this Lease, or impose any liability upon Landlord or Landlord's agents.

SECTION. 23.03. Accord and Satisfaction. No payment by Tenant or receipt by Landlord of a lesser amount than the monthly rent herein stipulated shall be deemed to be other than on account of the earliest minimum rent due, nor shall any endorsement or statement on any check or any letter accompanying any check or payment as rent be deemed an accord and satisfaction, and Landlord may accept such check or payment without prejudice to Landlord's right to recover the balance of such rent or pursue any other remedy in this Lease provided.

SECTION 23.04. Entire Agreement. This Lease and the Exhibits attached hereto and forming a part hereof set forth all the covenants, promises, agreements, conditions and understandings between Landlord and Tenant concerning the leased

premises and there are no covenants, promises agreements, conditions or understandings, either oral or written, between them other than those herein set forth. Except as herein otherwise provided, no subsequent alteration, amendment, change or addition to this Lease shall be binding upon Landlord or Tenant unless reduced to writing and signed by them.

SECTION 23.05. Governmental Regulations. Tenant shall, at Tenant's sole cost and expense, without notice or demand from Landlord, comply with and faithfully observe all requirements of all municipal, county, state, federal and other governmental authorities having jurisdiction now in force or which may hereafter be in force pertaining to the leased premises, or use thereof.

8ECTION 23.06. Notices. Any notice by either party to the other must be served by certified or registered mail, postage prepaid, addressed to such party at the address herein below set forth or at such other address as such party may designate by written notice from time to time.

To the Landlord at:	To the Tenant at:
SLT1, LLC	ACUTE THERAPEUTICS, INC.
53 Worths Mill Lane	3359 Durham Road
Princeton, NJ 08540	Doylestown, PA 18901
Copy to:	Copy to:
Derek J. Reid, Esquire	Edward M. Wild, Esquire
EASTBURN AND GRAY, P.C.	BENNER AND WILD
60 East Court Street	174 West State Street
Doylestown, PA 18901	Doylestown, PA 18901

SECTION 23.07. Captions. The captions, section numbers, article numbers and index appearing in this Lease are inserted only as a matter of convenience and in no way define, limit, construe or describe the scope or intent of such sections or articles or this Lease nor in any way affect this Lease.

SECTION 23.08. Tenant Defined, Use of Pronoun. The word "Tenant" shall be deemed and taken to mean each and every person or party mentioned as a Tenant herein, be the same one or more; and if there shall be more than one Tenant, any notice required or permitted by the terms of this Lease may be given by or to any one thereof, and shall have the same force and effect as if given by or to all thereof. The use of the neuter singular pronoun to refer to Landlord or Tenant shall be deemed a proper reference even though Landlord or Tenant may be an individual, a partnership, a corporation or a group of two or more individuals or corporations. The necessary grammatical changes required to make the

provisions of this Lease apply in the plural sense where there is more than one Landlord or Tenant and to either corporations, associations, partnerships, or individuals, males or females, shall in all instances be assumed as though in each case fully expressed.

SECTION 23.09. No options. The submission of this Lease for examination does not constitute a reservation of or option for the leased premises and this Lease becomes effective as a Lease only upon execution and delivery thereof by Landlord and Tenant.

SECTION 23.10. Recording. Tenant shall not record this Lease without the written consent of Landlord.

SECTION 23.11. Custom and Usage. Any law, usage or custom to the contrary notwithstanding, Landlord shall have the right at all times to enforce the covenants and conditions of this Lease in strict accordance with the terms hereof, notwithstanding any conduct or custom on the part of the Landlord in refraining from so doing at any time or times with respect to the Tenant hereunder or with respect to the other tenants of the Building. The failure of Landlord at any time or times to enforce its rights under said covenants and provisions strictly in accordance with the same shall not be construed as having created a custom in any way or manner contrary to the specific terms, provisions and covenants of this Lease or as having in any way or manner modified the same.

SECTION 23.12. Agent. Landlord and Tenant represent and warrant, each to the other, that no agent has been contacted or involved in the entry into this Lease Agreement.

SECTION 23.13. Performance of Tenant's Covenants. Tenant covenants and agrees that it will perform all agreements herein expressed on its part to be performed and that it will promptly, upon receipt of written notice specifying action desired by Landlord in connection with any such covenant, comply with such notice; and further, that if Tenant shall not comply with any such notice to the satisfaction of Landlord within forty-eight (48) hours after delivery thereof, then Landlord may enter upon the premises and do the things specified in said notice. Landlord shall have no liability to Tenant for any loss or damage resulting in any way from such action and Tenant agrees to pay promptly upon demand any expense incurred by Landlord in taking such action.

SECTION 23.14. Notice of Termination. Unless otherwise provided herein, either party hereto may terminate this Lease at the end of the stated term hereof by giving to the other party written notice at least one hundred twenty (120) days prior thereto, but, in default of such notice, this Lease shall continue upon the same terms and conditions in force immediately prior to the expiration of the term hereof as are herein contained for a further period of one (1) year and so on from year to year unless and until terminated by either party hereto giving the other written notice of termination at least one hundred twenty (120) days prior to the expiration of the then-current term; provided, however, that if this Lease is continued for a further period under the terms herein above mentioned, any allowances on the rent given Tenant during the initial term shall not extend beyond such initial term, and further provided however that if, prior to the expiration of any term hereby created, Landlord shall have given written

notice of its intention to change the terms and conditions of this Lease and Tenant shall not within ten (10) days from such notice notify Landlord of Tenant's intention to vacate the demised premises at the end of the then-current term, Tenant shall be considered as tenant under the terms and conditions mentioned in such notice for a further term as above provided, or for such further term as may be stated in such notice. In the event that Tenant shall give notice, as stipulated in this Lease, of intention to vacate the demised premises at the end of the present term, or any renewal or extension thereof, and shall fail or refuse so to vacate the same on the date designated by such notice, then it is expressly agreed that Landlord shall have the option either: (a) to disregard the notice so given and treat it as having no effect, in which case all the terms and conditions of this Lease shall continue thereafter with full force precisely as if such notice had not been given, or (b) Landlord may, at any time after the present term or any renewal or extension thereof, as aforesaid, give the Tenant ten (10) days' notice of its intention to terminate the said Lease; whereupon the Tenant expressly agrees to vacate said premises at the expiration of the said period of ten (10) days specified in said notice, and Tenant shall be liable to Landlord for all damages and loss to Landlord, direct or consequential, arising out of Tenant's failure to vacate the demised premises on the date designated in Tenant's original notice of termination to Landlord. All powers granted to Landlord by this Lease may be exercised and all obligations imposed upon Tenant by this Lease shall be performed by Tenant as well during any extension of the original term of this Lease or during the original term itself. Except as stated in this section, Tenant shall have no right or option to continue or extend the term of this Lease.

SECTION 23.15. Time and Place of Payment. Tenant will promptly pay all rentals and other charges herein prescribed at the office of Landlord, or to such other person or corporation and at such other place as shall be designated by Landlord in writing at least ten (10) days prior to the next ensuing rent payment date.

SECTION 23.16. Late Payments. Tenant covenants that if any payment of the fixed minimum annual rent and additional rent to be paid under this Lease becomes overdue for a period of five (5) days (said payments being due on the first day of each and every month) Tenant agrees to pay forthwith an additional charge to defray the costs incident to handling of the delinquent payments in the amount of five hundred ($500.00) dollars. SECTION 23.17. Force Majoure. In the event that either party hereto shall be delayed or hindered in or prevented from the performance of any act required hereunder by reason of strikes, lock-outs, labor troubles, inability to procure materials, failure of power, restrictive governmental laws or regulations, riots, insurrection, war or other reasons of a like nature not the fault of the party delayed in performing work or doing acts required under the terms of this Lease, then performance of such act shall be excused for the period of the delay and the period for the performance of any such act shall be extended for a period equivalent to the period of such delay. The provisions of this Section 23.17 shall not excuse Tenant from the prompt payment of rent, additional rent or any other payments required by the terms of this Lease.

SECTION 23.18. Broker's Commission. Each of the parties represents and warrants that there are no claims for brokerage commission or finder's fees in connection with the execution of this Lease, and each of the parties agree to indemnify the other against, and hold the other harmless from, all liabilities arising from any such claim (including, without limitation, the cost of counsel fees in connection therewith).

SECTION 23.19. Partial Invalidity. If any term, covenant or condition of this Lease or the application thereof to any person or circumstance shall, to any extent, be invalid or unenforceable, the remainder of this Lease, or the application of such term, covenant or condition to persons or circumstances other than those as to which it is held invalid or unenforceable, shall not be affected thereby and each term, covenant or condition of this Lease shall be valid and be enforced to the fullest extent permitted by law.

SECTION 23.20. Effect of Governmental Limitations on Rents and Other Charges. In the event that any law, decision, rule or regulation of any governmental body having jurisdiction shall have the effect of limiting for any period of time the amount of rent or other charges payable by Tenant to any amount less than that otherwise provided pursuant to this Lease, the following amounts shall nevertheless be payable by Tenant: (a) throughout such period of limitation, Tenant shall remain liable for the maximum amount of rent and other charges which are legally payable (without regard to any limitation on the amount thereof expressed in this Lease except that all amounts payable by reason of this Section 25.20 shall not in the aggregate exceed the total of all amounts which would otherwise be payable by Tenant pursuant to the terms of this Lease for the period of limitation), (b) at the termination of such period of limitation, Tenant shall pay to Landlord, on demand but only to the extent legally collectible by Landlord, any amounts which would have been due from the Tenant during the period of limitation but which were not paid because of such limiting law, decision, rule or regulation, and (c) for the remaining term of this Lease following the period of limitation, Tenant shall pay to

Landlord all amounts due for such portion of the term of this Lease in accordance with the terms hereof calculated as though there had been no intervening period of limitation.

SECTION 23.21. Contractors and Labor. To avoid labor disputes which would interfere with the construction, completion, maintenance or operation of the Building or of the Office Complex or with any other work being carried on therein, in connection with any work done upon the demised premises, Landlord, Agent and Tenant shall employ only such persons or engage the services of only such contractors or sub-contractors as will work in harmony with each other, with those of Landlord and with any others then working in the Office Complex.

IN WITNESS WHEREOF, the parties hereto, intending to be legally bound hereby, have hereunto set their hands and seals the day and year first above written.

LANDLORD:

ATTEST: SLT1, LLC

/s/ Cynthia Davis By /s/ H. Tsai (SEAL)

LESSEE:

ATTEST: ACUTE THERAPEUTICS, INC.

/s/ Cynthia Davis By /s/ Robert J. Capetola (SEAL)

EXHIBIT 10.19

PHARMACEUTICAL SERVICES CONTRACT

1. GENERAL. This Contract, dated August 15, 1997, is entered into by McKesson BioServices, a Virginia Corporation, and Discovery Laboratories, Inc. (client) for the period of performance August 15, 1997 through August 31, 1998.

2. STATEMENT OF WORK. McKesson BioServices agrees to use its best efforts to provide the desired repository and distribution services in a manner that meets the contract specifications and the regulatory requirements of pertinent Government agencies, including the US Food and Drug Administration (FDA), the Occupational Safety and Health Administration (OSHA), the Environmental Protection Agency (EPA), the US Department of Transportation (DOT), and other applicable laws and regulations. Except as herein specified, McKesson BioServices will furnish the necessary facilities, labor, materials, and other resources, and will devote the time and attention as is reasonably required to accomplish the Statement of Work, Attachment I.

3. WARRANTY. McKesson BioServices will use its best efforts to accomplish the Statement of Work satisfactorily in a timely manner, and will notify client promptly upon identifying any inability to perform the required services within the specified time periods. McKesson BioServices will store, handle, and ship client's products consistent with client's directives and in accordance with normal scientific procedures applicable to similar types of products. McKesson BioServices will inform the client when it has reason to believe that a storage, handling, or shipping method or procedure specified by the client is not consistent with preservation of the product or its integrity or is in violation of the requirements of such pertinent agencies or applicable laws or regulations. However, McKesson BioServices is not liable for loss, damage, or deterioration to the product caused solely by its adhering to a method of storage, handling, or shipping specified by the client.

4. INSURANCE. Each of McKesson BioServices and the client shall maintain, with insurers or underwriters of good repute, such insurance relating to its business as is normally maintained by comparable businesses and incorporating those terms and provisions which are customary and reasonable for its circumstances, including coverage against product liability claims and other risks described in Paragraph 8. McKesson BioServices will take reasonable precautions to preserve and protect the client's products while in its possession, consistent with prudent scientific and business judgement, and will continue to maintain insurance coverage on the property of third parties, including the client's products that are stored with McKesson BioServices. The client hereby certifies that the total value of its products to be held by McKesson BioServices under this contract will not exceed $500,000 without McKesson BioServices' written acknowledgment and acceptance. McKesson BioServices reserves the right to make this acceptance contingent upon the payment by client of additional charges (not reflected in attached Price Schedule) to cover the cost of extra and/or special insurance on client's products.

5. FACILITY. McKesson BioServices represents that it possesses all requisite licenses and permits enabling it to operate a facility to conduct repository and distribution services for drug, biological, and ancillary products. The facility is protected by a continuously monitored peripheral security system, and by a temperature-monitoring system for controlled temperature areas (refrigerators, freezers, etc.). In order to further protect the interests of clients and their products, McKesson BioServices considers all contents of its repository and distribution facility to be confidential. Therefore, this contract does not convey the right of access to the product storage areas of said facility to any of client's officers, employees, agents, subcontractors, or other representatives, except as permitted by McKesson BioServices for scheduled visits by client Quality Assurance representatives or other personnel solely for the performance of technical inspection tasks associated with the storage, handling, and/or distribution of client's products. Such access will be limited so as to protect other clients' products or information. McKesson BioServices agrees to similarly restrict access to the product storage areas of its repository and distribution facility by any other client and/or potential client.

6. PROJECT MANAGEMENT. The client's project manager/technical director for this contract is David Crockford. McKesson BioServices is authorized to accept guidance and directives from this individual within the accompanying Statement of Work, and to provide information regarding operational and technical issues to this individual. The client may change/add to the individual designated as project manager/technical director only by providing written notice to McKesson BioServices. McKesson BioServices is not authorized, under any circumstances, to perform tasks: (i) requested by any party not so designated in writing, or (ii) not covered in the Statement of Work. Such actions require a modification to this contract, duly signed by the parties hereto.

7. PRICES AND PAYMENT. In consideration for the services specified above, the client agrees to compensate McKesson BioServices in accordance with the Price Schedule in Attachment II. These prices are firm from the commencement of the contract through April 28, 1997. McKesson BioServices will invoice client on or before the 15th day of each month for services performed during the previous month. Client will make full payment within 30 days of receiving a proper invoice, or notify McKesson BioServices within seven days if it believes an invoice to be improper or erroneous. Payments shall be sent to:

McKesson BioServices
PO Box 630669
Baltimore, MD 21263-0669

McKesson BioServices will send invoices to the following address:

Discovery Laboratories, Inc.
509 Madison Avenue
New York, NY 10022
Attn: David Crockford

8. INDEMNIFICATION. McKesson BioServices will indemnify and hold client harmless for any damages caused by, or claims arising from, concerning, or relating to

the sole negligence of McKesson BioServices in the performance of storage and distribution tasks pursuant to this contract. McKesson BioServices further agrees to notify client within two business days of any information coming to the attention of McKesson BioServices regarding errors or omissions in performance of receipt, storage, distribution, and record-keeping activities under this agreement; threat of litigation; potential claims; damage to goods; or other matters adversely affecting client's interests. Client will indemnify and hold McKesson BioServices harmless for any damage caused by, or claims arising from, concerning, or relating to the use of the client's products. These obligations shall survive the termination of this contract. It is expressly understood that the prices set forth in Attachment II bear no relationship to the market value or replacement cost of client's product(s), and were derived without knowledge or consideration of its (their) use, potential for misuse (either intentional or unintentional), or possible harmful effects of its (their) use or misuse. Therefore, the parties agree that McKesson BioServices' liability for any act, error, or omission shall, in no event, exceed the total price paid by client to McKesson BioServices hereunder. The client additionally agrees to carry product liability insurance, covering all products in the custody of McKesson BioServices, in an amount not less than $1,000,000 and naming McKesson BioServices as an additional insured under the policy.

9. USE OF INFORMATION. The parties agree that all information, documents, agreements, data, procedures, processes, know-how, technology, and other similar items and materials that are received from or learned about the other party, its products or services, as a result of or in connection with performance under this contract, will be considered confidential and will be used only for purposes of performance under this contract. Such information will not be used in any manner that is detrimental to either party, its officers, employees, agents, clients, or customers. Such information will not be used for purposes of competing or bidding against the other party or for assisting others to compete or bid against the other party. This restriction will survive the termination of this contract by five years.

10. ADDITIONAL PROVISIONS. The following additional provisions are incorporated into this contract by attachment hereto:

ATTACHMENT NO.	TITLE
I	Statement of Work
II	Price List

11. ENTIRE AGREEMENT. It is expressly understood and agreed by the parties hereto that this contract represents their entire agreement, wholly superseding any and all prior agreements made by them, their agents, and employees concerning the storage and/or distribution of client's product(s) as designated in Attachment I hereto. This contract may not be altered, amended, or modified, except by a written instrument signed by the duly authorized representatives of both parties. This contract is to be interpreted under laws of the State of Maryland.

12. TERMINATION. This agreement may be terminated by either party at any time upon sixty days written notice to the other party, except that McKesson BioServices may terminate immediately upon notice to the client in the event of non-payment of invoices pursuant to Paragraph 7. Upon notification, McKesson BioServices will proceed in an orderly fashion to limit or terminate any outstanding commitments, to conclude the work, and to deliver all of client's products and documents then in its possession back to client or other designee, at client expense. If, at the end of the designated contract performance period, neither party has provided notice of its intent to terminate this agreement, and client has not directed that its product(s) be removed from McKesson BioServices' facility, McKesson BioServices may (but is not required to) continue performance hereunder on a month-to-month basis, in which case both parties shall remain bound by the terms, conditions, and prices specified herein.

ACCEPTED FOR:

Discovery Laboratories, Inc.	McKesson BioServices
/s/ James S. Kuo - ----------	/s/ K. Paul Thadikonda ---------- K. Paul Thadikonda, PhD Senior Vice President Pharmaceutical Services Division
Date: 8/29/97 ----------	Date: 8/15/97 ----------

ATTACHMENT I

STATEMENT OF WORK
Prepared for: Discovery Laboratories, Inc.
to operate Drug Distribution Center and Package Clinical Supplies

All Pharmaceutical Services Division
(PSD) operations are performed in
compliance with current Good
Manufacturing Practice (cGMP) and
McKesson BioServices
Standard Operating Procedures (SOPs).

- ---

- Receive clinical study products and bulk drug substances from manufacturers and perform receiving inspections,
- store study products at specified storage temperature conditions,
- maintain clinical study product inventory management system,
- ship product to clinical trial centers within the United States in accordance with shipping instructions provided by Discovery Laboratories, Inc.,
- provide clinical study product packaging and labeling services on an as needed basis,
- perform bulk drug dispensing on an as needed basis,
- recall expired product from clinical sites,
- receive, reconcile, and dispose returned study product from clinical sties, and
- provide monthly receiving, shipping, inventory, return drug activity, and site specific reports.

ATTACHMENT II

PRICE LIST

Prepared for: Discovery Laboratories, Inc.
to operate Drug Distribution Center and Package Clinical Supplies

In order to prepare for total program costs or to better evaluate the individual costs for the project execution, the following is an extension of pricing based on the requirements presented.

- ---

Initial Set-up Charge (one time only): [***]

Set-up charges will allow for the client to be entered into the automated tracking system and will also cover one-time client specific database set-up.

Monthly Program Management and Administration: [***]

Charges will cover the following services: monthly report of activity, computer support charges, protocol review, expiration date monitoring.

Monthly Storage Center*:

Charge is per cubic foot per month.

[***]	[***]
[***]	[***]
[***]	[***]
[***]	[***]

* Billings will be based on maximum cubic footage utilized during the month with minimum charge of [***] cubic feet, except for [***] storage. When minimum billing is applicable, it will be calculated at the highest price at which material are stored.

Receipt Processing Charge (per lot): [***]

Additional hourly rate (technician) will apply for patient specific receipts.

Shipping Charges (FedEx, based upon use of McKesson BioServices stock supplies):

Domestic [***] - second business day delivery, for up to [***] pounds

Small box	$35.00
Large box	$39.00
Each additional pound above [***] lbs.	$1.50

[***] Confidential Treatment Requested. Omitted portions have been filed separately with the Commission.

PRICE LIST

Domestic [***] - next business day delivery, for up to [***] pounds	
Small box	$48.00
Large box	$51.00
Each additional pound from [***] lbs. to [***] lbs.	$4.50
Each additional pound above [***] lbs.	$1.50
Domestic [***] - next business day delivery, for up to [***] pounds	
Small box	$95.00
Large box	$110.00
Each additional pound above [***] lbs.	$1.50
Saturday Delivery [Domestic - charge added to standard shipping rate)	$13.00
International Shipments	Priced separately
Drug Recall Letter and Follow-up (per site):	[***]
Return Drugs (clinical site is responsible for shipping charges):	
Storage Included in monthly charge	
Receipt/Processing, per site return	[***]
Additional technician's hourly rate will apply for patient specific returns	[***]
Disposal, per [***] cubic feet ([***] pounds maximum per container)	[***]
Bulk Drug Weighing (per agent):	[***]
Labeling:	
[***]	[***]
[***]	[***]
[***]	[***]
[***]	[***]
[***]	[***]
[***]	[***]
Custom Label Design (for refrigerated/frozen samples and bar-code label): Priced separately	
Repackaging (includes all supplies):	
[***]	[***]
Minimum charges	[***]
Line changeover charges	[***]

[***] Confidential Treatment Requested. Omitted portions have been filed separately with the Commission.

ATTACHMENT II - Continued
PRICE LIST

Subject Randomization:	Price separately
Purchase of Supplies and Outside Services:	[***]
Travel Expenses:	[***]
Professional Services (not included above, charge/hour):	[***]
Senior Technical Specialist	[***]
Laboratory Director/Computer Scientists/Pharmacist	[***]
Repository Director/Computer Programmer	[***]
Administrative Support	[***]
Repository Technician	[***]

[***] Confidential Treatment Requested. Omitted portions have been filed separately with the Commission

CONTRACT AMENDMENT

Whereas McKesson BioServices (MBS) and Discovery Laboratories, Inc. (Client) previously entered into an Agreement, dated August 15, 1997, covering the provision of repository services by MBS for Client, said Agreement (including all Amendments thereto) containing an expiration date of August 31, 1998; and

Whereas the two parties desire to extend said Agreement from September 1, 1998, through August 31, 1999.

The parties, therefore, agree as follows:

- The first sentence of Paragraph 12 is hereby deleted and replaced with the following:

  "This agreement may be terminated by either party at any time upon thirty days written notice to the other party, except that McKesson BioServices may terminate immediately upon notice to the client in the event of non-payment of invoices pursuant to Paragraph 7."

- Attachment II (Price List) to said Agreement is hereby deleted and replaced by the accompanying (new) Attachment II (Pharmaceutical Price List) for the period September 1, 1998, through August 31, 1999.

- All other terms and conditions, of said Agreement (as amended) will remain unchanged and in full force and effect until August 31, 1999.

This Amendment, effective as of September 1, 1998, has been executed by the parties on the dates set forth below.

Discovery Laboratories, Inc.	McKesson BioServices
/s/ Robert J. Capetola	/s/ Patricia L. Shifflett
President/CEO	Patricia L. Shifflett Senior Vice President Finance and Administration
Date: 9/4/98	Date:

EXHIBIT 10.20

Discovery Laboratories Agreement

This Agreement, having an effective date of August 16, 1998 ("Effective Date"), is entered into by and between Discovery Laboratories, Inc. ("Discovery") located in Doylestown, PA. and Pharmalytic, Inc. ("Pharmalytic"), 435 Creamery Way, Exton, PA. 19341.

WHEREAS, Pharmalytic engages in the business of contract analytical testing, conducting and analyzing stability studies, developing and validating analytical methods and managing and performing associated studies for the pharmaceutical industry;

WHEREAS, Discovery desires to utilize the services of Pharmalytic to conduct stability studies on various Discovery compounds and to perform method development, validation and release testing on said compounds as per Discovery's direction;

NOW THEREFORE, in consideration of the foregoing and the covenants and promises contained in this Agreement, the parties agree as follows:

1. Study: Pharmalytic will use reasonable best efforts, using no less than commonly accepted professional standards of workmanship to conduct for Discovery studies (collectively, the "Study") relating to the stability, release testing and, where required, development and/or validation of associated stability indicating and/or release methods of the KL4 Surfactant (Surfaxin(TM)) as defined in the individual proposals attached in Appendix A.

Pharmalytic shall initiate studies only upon written request of Discovery and receipt by Pharmalytic of approved protocols, timelines and technical procedures from Discovery. Pharmalytic may prepare such protocols, timelines and procedures but must obtain approval from Discovery prior to initiation of associated work. During the term of this Agreement, Discovery may, from time to time, modify the Study in writing. A material change in the Study may result in a corresponding change in the cost of the Study, as agreed by the parties in writing. Pharmalytic shall consult with Discovery regarding all methods, reagents and protocols and the like and Discovery shall have final approval authority over all aspects of the study. Pharmalytic will provide appropriate reports and updates for all Discovery studies as follows:

a. Stability studies: Written interim reports including, where appropriate, trend analysis for each method will be provided within one week of sample analysis. A final stability report will be provided by Pharmalytic within two weeks of the Study completion. Pharmalytic will provide both technical and Quality Assurance review on all stability reports.

b. All development work will be communicated by conference call to Discovery on a schedule mutually agreed upon by the two parties. A development report will be available within a specified period of time following completion of the work.

c. Validation work will be reported in a validation report having the format required by Discovery. Pharmalytic will provide both technical and Quality Assurance review on all validation reports.

d. Product release testing will be reported through the submission of a complete technical report and associated Certificate of Analysis for each lot tested. Pharmalytic will provide both technical and Quality Assurance review on all product release reports and Certificates of Analysis.

2. Price and Payment: As consideration for Pharmalytic conducting the Study, Discovery shall pay to Pharmalytic the amount specified within each approved study proposal as follows:

a. Approved proposals shall be attached in Appendix A of this agreement.

b. For studies initiated by Pharmalytic following approval by Discovery, Pharmalytic shall provide Discovery with an invoice of completed work.

c. Discovery shall pay all invoices in U.S. currency within thirty (30) days of receipt of the invoice

d. For stability studies, Pharmalytic will invoice Discovery following completion of testing at each time pull.

e. For development work Pharmalytic will invoice Discovery following the completion of mutually agreed upon phases of the work.

f. For validation studies, Pharmalytic will invoice Discovery following completion of the validation report.

g. For release testing, Pharmalytic will invoice Discovery following completion of the report and Certificate of Analysis.

h. Discovery shall pay to Pharmalytic, within thirty (30) days, the agreed upon amount following receipt of the invoice for said work completed in sections 2d, 2e, 2f and 2g.

3. Raw Materials: Discovery shall deliver or have delivered to Pharmalytic, at Discovery's sole expense, for use by Pharmalytic in the Study reasonable quantities of Surfaxin(TM) and all associated drug substances or drug products unique to Discovery's drug development and marketing programs. Discovery shall supply to Pharmalytic, the appropriate drug in container/closure systems required by each Study. Pharmalytic shall be responsible for procurement, preparation, proper quality and documentation of the quality of all other raw materials, reagents and instrumentation used in this study. The remaining portions of any Discovery compound will remain the sole property of Discovery and will be returned to Discovery or disposed of according to Discovery's instructions in writing.

4. Records: Pharmalytic shall prepare and maintain detailed written records of the Study. Pharmalytic shall deliver to Discovery a detailed report describing the results and conclusions of each study as described in section 2. Discovery shall own and be free to disclose and use for any purpose all data, information and reports resulting from the Study hereunder. Discovery may audit such records during Pharmalytic's normal business hours.

5. Errors: If there is an error committed by Pharmalytic in regard to its obligations to Discovery under this Agreement, and, if the error committed thereby invalidates the Study in whole or in part, then Pharmalytic will repeat those portions of the Study to correct for such error in a timely fashion without additional cost to Discovery.

6. Confidentiality: All information received from Discovery or obtained as a result of Pharmalytic's performance hereunder, including but not limited to results, data, reports, laboratory worksheets, information and the like resulting from Pharmalytic's performance hereunder ("Information"), shall be the sole property of Discovery. Pharmalytic shall maintain as confidential all Information and shall limit access to Surfaxin(TM) and Information to only those persons who under direct Pharmalytic control, will be engaged in employing Surfaxin(TM) and Information for the purposes of fulfilling Pharmalytic's obligations under this Agreement. At no time shall Surfaxin(TM) or Information be enplaned for any purpose other than as described herein or disclosed or provided to any third party without the prior written consent of Discovery. The foregoing obligation shall not apply to Information (a) which was known to Pharmalytic prior to this Agreement as evidenced by its written records except Information which was known to Pharmalytic as a result of prior confidential disclosures to Pharmalytic by Discovery or work performed by Pharmalytic for Discovery, (b) which is or becomes generally available for public use; (c) which is disclosed to Pharmalytic by a third party who has the legal right to disclose Information. If Pharmalytic is required by law to disclose Information to an authorized government agency or to any other party, Pharmalytic shall immediately notify Discovery of all details of the request prior to any disclosure.

7. Property Ownership: Pharmalytic agrees that all Surfaxin(TM) and samples containing Surfaxin(TM) and derivatives and impurities thereof (including but not limited to controls, standards, mixtures, etc.) shall be the sole property of Discovery. Discovery's intent as the retention return or disposal of said materials is to be supplied to Pharmalytic in writing by Discovery.

8. Intellectual Property: Pharmalytic agrees that all reports, information, discoveries, inventions or improvements whether patentable, copyrightable, or not, arising from Pharmalytic's performance under this Agreement shall promptly be made known to Discovery and shall be the sole property of Discovery. All reports, information, discoveries, inventions or improvements relative to Surfaxin(TM) shall be assigned to Discovery.

9. Term and Termination: This Agreement shall be effective on the Effective Date and unless earlier terminated, shall continue until the performance of each party under this Agreement is complete. Upon written notice to Pharmalytic, Discovery shall have the right at any time to terminate this Agreement in whole or in part, prior to completion. Such termination by Discovery shall not relieve Discovery of its obligations under this Agreement to pay Pharmalytic for all work completed and costs incurred by Pharmalytic for Discovery prior to termination and invoiced to Discovery.

10. Assignment: Neither this Agreement nor any interest hereunder shall be assignable by either party without the prior written consent of the other party except to a successor by merger or sale of substantially all of its business to which this Agreement relates.

11. Waiver: No provision of this Agreement shall be waived by any act, omission or knowledge of a party or its agents or employees except by an instrument in writing expressly waiving such provision and signed by a duly authorized officer of the waiving party.

12. Severability: Whenever possible, each provision of this Agreement will be interpreted in such a manner as to be effective and valid under applicable law. If any provision of this Agreement is held to be prohibited by or invalid under applicable law, such provision will be ineffective only to the extent of such prohibition or invalidity without invalidating the remainder of this Agreement.

13. Independent Contractors: The relationship between Discovery and Pharmalytic created by this Agreement is one of independent contractors and neither party shall have the power or authority to bind or obligate the other except as expressly set forth in this Agreement. Pharmalytic shall use its discretion and shall have complete and authoritative control over its employees and the details of performing its obligations under this Agreement.

14. Governing Law: This agreement shall be governed by the law of Pennsylvania.

15. Names: Both parties agree that they will not use the name of the other party or any of its personnel without the written permission of the other party.

16. Headings: The descriptive headings of this Agreement are for convenience only and shall be of no force or effect in construing or interpretting any of the provisions of this Agreement.

17. Merger: This Agreement is the entire agreement between Discovery and Pharmalytic regarding the subject matter hereof, and it shall be agreed that no modifications of this Agreement shall be effective unless agreed to in writing by authorized representatives of both parties. This Agreement becomes effective and binding on both parties when signed by each party below.

Discovery Laboratories, Inc.	Pharmalytic, Inc.
By: /s/ Robert J. Capetola	By:
Name: Robert J. Capetola	Name:
Title: President/CEO	Title:

APPENDIX A

[***][***]

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[***] Confidential Treatment Requested. Omitted portions have been filed separately with the Commission

EXHIBIT 10.21

AGREEMENT dated as of November 25, 1998 between Brobeck, Phleger & Harrison LLP ("Brobeck") and Discovery Laboratories, Inc. ("Discovery")

In consideration of the mutual promises contained herein, the parties hereto agree as follows:

SECTION 1. Payment of Account; Issuance of Shares. (a) Discovery shall pay in full, on or prior to December 29, 1998, all outstanding invoices for legal services rendered by Brobeck, provided that $20,763.82 of the amount outstanding under such invoices (the "Converted Amount") shall be satisfied by the delivery to Brobeck of (i) 14,000 shares of Discovery's Common Stock, par value $0.001 per share ("Common Stock"), on or prior to December 29, 1998 (the "Base Shares") and (ii) such number of additional shares of Common Stock as Brobeck may be entitled to pursuant to Section 1(b) on or prior to January 15, 1998.

(b) In the event the product obtained by multiplying (i) the average of the midpoint between the closing bid and ask prices for the Common Stock over the ten consecutive trading days through and including December 31, 1998 by (ii) 0.75 (the product of clauses (i) and (ii) being hereinafter referred to as the "Discounted Year-End FMV") by (iii) 14,000 is less than the Converted Amount (any such difference being hereinafter referred to as the "Shortfall Amount"), Brobeck shall be entitled to receive, in addition to the Base Shares, shares of Common Stock having an aggregate value, based on the Discounted Year-End FMV, equal to the Shortfall Amount (collectively, together with the Base Shares, the "Shares").

SECTION 2. Piggyback Registration Rights. (a) At least 10 business days prior to the filing of any registration statement under the Securities Act of 1933, as amended (the "Securities Act"), to register the sale of Common Stock for the account of Discovery or any other person (including a registration statement with respect to an underwritten public offering but excluding a registration statement on Form S-4 or S-8 (or any successor forms under the Securities Act) or other registrations relating solely to employee benefit plans or any transaction governed by Rule 145 of the Securities Act), Discovery shall give written notice of such proposed filing and of the proposed date thereof to Brobeck and if, on or before the twentieth day following the date on which such notice is given, Discovery shall receive a written request from Brobeck requesting that Discovery include among the securities covered by such registration statement any Shares, Discovery shall include such Shares in such registration statement so as to permit such Shares to be sold or disposed of in the manner and on the terms of the offering thereof. Such registration shall hereinafter be called a "Piggyback Registration".

(b) Terms and Conditions of Registration or Qualification. In connection with any registration statement filed pursuant to Section 2(a), the following provisions shall apply:

(i) Brobeck shall, if requested by the managing underwriter, agree not to sell publicly any Shares held by it (other than the Shares so registered) for such period of time following the effective date of the registration statement relating to

such offering, but in no event in excess of 180 days, as the managing underwriter may require and Discovery shall agree, provided that in no event shall Brobeck be required to refrain from publicly selling such Shares for a longer period than any executive officer or any 5%-or-greater stockholder (provided that such stockholder or an affiliated or associated person of such stockholder is a member of the Board of Directors of Discovery) agrees to refrain from publicly selling additional shares of Common Stock in connection with such registration.

(ii) If the managing underwriter advises that the inclusion in such registration of the Shares sought to be registered, together with the other shares of Common Stock being registered, exceeds the number of shares of Common Stock (the "Saleable Number") that can be sold in an orderly fashion within a price range acceptable to Discovery, then the number of Shares offered shall be limited as follows: first, such number of shares (up to the entire Saleable Number) as Discovery desires to offer for its account shall be allocated to Discovery; second, such number of shares (up to the remainder of the Saleable Number) as holders of registration rights having minimum inclusion rights or other preferential rights to be included in such registration on an incidental basis are entitled to include; and third, such number of shares (up to the remainder of the Saleable number) as Brobeck and any other holders of registration rights participating in such registration desire to include in such registration pro rata in accordance with the number of shares of Common Stock offered by Brobeck and such other holders of registration rights.

(iii) Brobeck will promptly provide Discovery with such information as Discovery shall reasonably request in order to prepare such registration statement and, upon Discovery's request, Brobeck shall provide such information in writing and signed by Brobeck and stated to be specifically for inclusion in the registration statement. In the event that the distribution of the Common Stock covered by the registration statement shall be effected pursuant to an underwritten offering, the inclusion in such registration of the Shares shall be conditioned on Brobeck's execution and delivery of a customary underwriting agreement with respect thereto.

(iv) All expenses in connection with the preparation of any registration statement filed pursuant to Section 2(a) hereof (other than underwriting fees, discounts or commissions with respect to Shares or fees and disbursements of counsel for Brobeck) shall be borne solely by Discovery.

(v) Following the effective date of such registration statement, Discovery shall, upon the request of Brobeck, forthwith supply such number of prospectuses (including preliminary prospectuses and amendments and supplements thereto) meeting the requirements of the Securities Act or such other

securities laws where the registration statement or prospectus has been filed and such other documents as are referred to in the registration statement as shall be requested by Brobeck to permit it to make a public distribution of its Shares, provided that Brobeck furnishes Discovery with such appropriate information relating to Brobeck's intentions in connection therewith as Discovery shall reasonably request in writing.

(vi) Discovery shall prepare and file such amendments and supplements to such registration statement as may be necessary to keep such registration statement effective and to comply with the provisions of the Securities Act or such other securities laws where the registration statement has been filed with the respect to the offer and sale or other disposition of the shares covered by such registration statement during the period required for distribution of the shares, which period shall not be in excess of three months from the effective date of such registration statement.

(vii) Discovery shall use its best efforts to register or qualify the Shares covered by any such registration statement under such securities or Blue Sky laws in such jurisdictions as Brobeck may request, provided that Discovery shall not be required to execute a general consent to service of process or to qualify to do business as a foreign corporation in any jurisdiction where it is not so qualified in order to comply with such request.

(viii) In connection with any registration pursuant to Section 2(a), Discovery will as expeditiously as possible:

A. cause the Shares covered by such registration statement to be registered with or approved by such other governmental agencies or authorities as may be necessary by virtue of the business and operations of Discovery to enable Brobeck to consummate the disposition of such Shares;

B. notify Brobeck at any time when a prospectus relating thereto is required to be delivered under the Securities Act, of the happening of any event as a result of which the prospectus included in such registration statement contains an untrue statement of a material fact or omits to state any material fact required to be stated therein or necessary to make the statements therein not misleading, and Discovery will prepare a supplement or amendment to such prospectus will not contain an untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading;

C. cause all Shares covered by the registration statement to be listed on each securities exchange on which the Common Stock is then listed, and,

unless the same already exists, provide a transfer agent, registrar and CUSIP number for all such Shares not later than the effective date of the registration statement;

D. enter into such customary agreements (including an underwriting agreement (in customary form) and take all such other actions as Brobeck or the underwriters of the offering, if any, reasonably request in order to expedite or facilitate the disposition of such Shares;

E. make available for inspection by Brobeck, any underwriter participating in any disposition pursuant to such registration statement, and any attorney, accountant or other agent retained by Brobeck or any such underwriter (collectively, the "Inspectors"), all financial and other records, pertinent corporate documents and properties of Discovery as shall be necessary to enable them to exercise their due diligence responsibility, and cause Discovery's officers, directors and employees to supply all information requested by any such Inspector in connection with such registration statement;

F. obtain "cold comfort" letters and updates thereof from Discovery's independent public accountants and an opinion from Discovery's counsel in customary form and covering such matters of the type customarily covered by "cold comfort" letters and opinions of counsel, respectively, as Brobeck shall request; and

G. otherwise comply with all applicable rules and regulations of the Securities and Exchange Commission, and make available to its security holders, as soon as reasonably practicable, an earnings statement covering a period of 12 months, beginning within three months after the effective date of the registration statement, which earnings statement shall satisfy the provisions of Section 11(a) of the Securities Act and Rule 158 thereunder.

(ix) Brobeck agrees that, upon receipt of any notice from Discovery of the happening of any event of the kind described in Section 2.1(b)(viii)(B), Brobeck will forthwith discontinue disposition of its Shares pursuant to the registration statement covering such Shares until Brobeck's receipt of the copies of the supplemented or amended prospectus covering such Shares current at the time of receipt of such notice.

(x) Discovery shall not be required to register any Shares that may be sold without registration under Rule 144(k).

(c) Indemnification.

(i) In the event of the registration or qualification of any Shares under the Securities Act or any other applicable securities laws pursuant to the provisions of this Section 2, Discovery agrees to indemnify and hold harmless Brobeck and each underwriter, broker or dealer, if any, of such Shares, and each other person, if any, who controls Brobeck or any such underwriter, broker or dealer within the meaning of the Securities Act or any other applicable securities, from and against any and all losses, claims, damages or liabilities (or actions in respect thereof), joint or several, to which Brobeck or such underwriter, broker or dealer within the meaning of the Securities Act or any other applicable securities, from and against any and all losses, claims, damages or liabilities (or actions in respect thereof), joint or several, to which Brobeck or such underwriter, broker or dealer or controlling person may become subject under the Securities act or any other applicable securities laws or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of any material fact contained in any registration statement under which such Shares were registered or qualified under the Securities Act or any other applicable securities laws, any preliminary prospectus or final prospectus relating to such Shares, or any amendment or supplement thereto, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, or any violation by Discovery of any rule or regulation under the Securities Act or any other applicable securities laws applicable to Discovery or relating to any action or inaction required by Discovery in connection with any such registration or qualification and will reimburse Brobeck and each such underwriter, broker or dealer and each such controlling person for any legal or other expenses reasonably incurred by Brobeck or such underwriter, broker or dealer or controlling person in connection with investigating or defending any such loss, claim, damage, liability or action, provided that Discovery will not be liable in any such case to the extent that any such loss, claim, damage or liability arises out of or is based upon an untrue statement or omission made in such registration statement, such preliminary prospectus, such final prospectus or such amendment or supplement thereto in reliance upon and in conformity with written information furnished to Discovery by Brobeck or such underwriter, broker, dealer or controlling person specifically and expressly for use in the preparation thereof.

(ii) In the event of the registration or qualification of any Shares under the Securities Act or any other applicable securities laws for sale pursuant to the provisions hereof, Brobeck, each underwriter, broker and dealer, if any, of such Shares, and each other person, if any, who controls Brobeck or any such underwriter, broker or dealer within the meaning of the Securities Act, agrees severally, and not jointly, to indemnify and hold harmless Discovery, each person who controls Discovery within the meaning of the Securities Act, and each officer and director of Discovery from and against any losses, claims, damages or liabilities, joint or several, to which Discovery, such controlling person or any such officer or director may become subject under the Securities Act or any other applicable securities laws or otherwise, insofar as such losses, claims,

damages or liabilities (or actions in respect thereof) arise out of or are based upon any untrue statement of any material fact contained in any registration statement under which such Shares were registered or qualified under the Securities Act or any other applicable securities laws, any preliminary prospectus or final prospectus relating to such Shares, or any amendment or supplement thereto, or arise out of or are based upon an untrue statement or the omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, which untrue statement or omission was made therein in reliance upon and in conformity with written information furnished to Discovery by Brobeck or such underwriter, broker, dealer or controlling person specifically for use in connection with the preparation thereof, and will reimburse Discovery, such controlling person and each such officer or director of any legal or any other expenses reasonably incurred by them in connection with investigating or defending any such loss, claim, damage, liability, or action, provided, that in no event shall Brobeck be liable for any amount in excess of the net proceeds from the Shares sold by it.

(iii) Promptly after receipt by a person entitled to indemnification under this Section 2(c) (an "indemnified party") of notice of the commencement of any action or claim relating to any registration statement filed under Section 2(a) or as to which indemnity may be sought hereunder, such indemnified party of its election so to assume the defense thereof, the indemnifying party to such indemnified party of its election so to assume the defense thereof, the indemnifying party will not be liable to such indemnified party for any legal or other expenses subsequently incurred by such indemnified party in connection with the defense thereof, other than the reasonable cost of investigation, provided that no indemnifying party shall enter into any settlement without the prior written consent of the indemnified party unless such indemnified party is fully released and discharged from any such liability. Notwithstanding the foregoing, the indemnified party shall have the right to employ its own counsel in any such case, but the fees and expenses of such counsel shall be at the expense of such indemnified party unless (A) the employment of such counsel shall have been authorized in writing by the indemnifying party in connection with the defense of such suit, action, claim or proceeding, (B) the indemnifying party shall not have employed counsel (reasonably satisfactory to the indemnified party) to take charge of the defense of such action, suit, claim or proceeding, or (C) such indemnified party shall have reasonably concluded, based upon the advice of counsel, that there may be defenses available to it which are different from or additional to those available to the indemnifying party which, if the indemnifying party and the indemnified party were to be represented by the same counsel, could result in a conflict of interest for such counsel or materially prejudice the prosecution of the defenses available to such counsel or materially prejudice the prosecution of the defenses available to such indemnified party. If any of the event specified in clauses (A), (B) or (C) of the preceding sentence shall have occurred or shall otherwise be applicable, then the fees and expenses of one counsel or firm of counsel selected by a majority in interest of the indemnified parties (and reasonably acceptable to the indemnifying party) shall be borne by the indemnifying party. If, in any such case, the indemnified party employs separate counsel, the indemnifying party shall not have the right to direct the defense of such action, suit, claim or proceeding on behalf of the indemnified party and the indemnified party shall assume such defense and/or settle such action; provided, however, that, an indemnifying party shall not be liable for the settlement

of any action, suit, claim or proceeding effected without its prior written consent, which consent shall not be unreasonably withheld.

SECTION 3. Representations and Warranties of Brobeck. Brobeck hereby represents and warrants to Discovery and covenants with Discovery as follows:

a. Brobeck has received and carefully reviewed a copy of Discovery's Annual Report on Form 10-KSB for the year ended December 31, 1997 (including without limitation the section thereof entitled "Important Considerations Regarding Forward-Looking Statements"), Discovery's Quarterly Report on Form 10-QSB for quarter ended September 30, 1998 and Discovery's current reports on Form 8-K dated November 13 and December 1, 1998, has been afforded the opportunity to ask questions of and receive answers from duly authorized officers or other representatives of Discovery concerning the terms and conditions of the transactions contemplated by this Agreement and has received any additional information regarding Discovery and the Shares which Brobeck has requested.

b. Brobeck's agreement to accept the Shares in satisfaction of the Converted Amount was not obtained by means of any form of general solicitation or general advertising, and in connection therewith Brobeck did not: (A) receive or review any advertisement, article, notice or other communication published in a newspaper or magazine or similar media or broadcast over television or radio whether closed circuit, or generally available; or (B) attend any seminar meeting or industry investor conference whose attendees were invited by any general solicitation or general advertising.

c. Brobeck is an accredited investor within the meaning of Rule 501 under the Securities Act of 1933, as amended (the "Securities Act"), and Brobeck was not formed for the purpose of receiving the Shares. Brobeck, either by reason of Brobeck's business or financial experience or the business or financial experience of Brobeck's purchaser representative (within the meaning of Rule 501 under the Securities Act), which purchaser representative, if any, is unaffiliated with and is not compensated by Discovery or any affiliate of Discovery, directly or indirectly, has the capacity to protect Brobeck's interests in connection with this Agreement. d. Brobeck recognizes that the acquisition of the Shares involves a high degree of risk in that (i) an investment in Discovery is highly speculative and (ii) Brobeck could sustain the loss of Brobeck's entire investment.

e. Brobeck hereby acknowledges that the issuance of the Shares to Brobeck has not been registered under the Securities Act and is intended to be exempt from the registration requirements of Section 5 of the Securities Act pursuant to Sections 4(2) of the Securities Act and Regulation D promulgated thereunder. Brobeck agrees that Brobeck will not sell or otherwise transfer the Shares unless (i) such

sale or transfer is registered under the Securities Act or (ii) in the opinion of counsel reasonably acceptable to Discovery, such sale or transfer is otherwise exempt from registration under the Securities Act.

SECTION 4. Securities Act Legends; Stop Transfer Instructions. Brobeck agrees that each certificate representing the Shares shall bear a legend substantially similar to the following:

> THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR ANY STATE SECURITIES LAWS, AND MAY NOT BE SOLD, PLEDGED, HYPOTHECATED OR OTHERWISE TRANSFERRED ABSENT SUCH REGISTRATION UNLESS EVIDENCE SATISFACTORY TO COUNSEL FOR THE COMPANY THAT AN EXEMPTION FROM SUCH REGISTRATION IS AVAILABLE HAS BEEN DELIVERED TO THE COMPANY.

and that such certificates may also have such additional legends, if any, as may be required in order to comply with the "blue sky" laws of any jurisdiction. Brobeck further agrees to the issuance by Discovery to its transfer agent of stop transfer instructions with respect to any sale or other transfer of the Shares by Brobeck absent registration under the Securities Act or the establishment by Brobeck of an exemption therefrom in accordance with this Agreement.

SECTION 5. Rule 144 Undertaking. For so long as and to the extent necessary to permit Brobeck to sell the Shares pursuant to Rule 144 under the Securities Act, Discovery shall use reasonable efforts to file, on a timely basis, all reports and data required to be filed with the Securities and Exchange commission by Discovery pursuant to Section 13 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Discovery has filed all repots required to be so filed by it during the preceding 12 months.

SECTION 6. Miscellaneous. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. This Agreement constitutes the entire agreement among the parties hereto with respect to its subject matter and supersedes all prior agreements, whether written or oral, with respect to the subject matter hereof. This Agreement shall be governed by and

construed in accordance with the laws of the State of New York (without regard to conflicts of law principles). All representations and warranties made herein by Brobeck shall survive the execution and delivery of this Agreement.

BROBECK, PHLEGER & HARRISON LLP:

By /s/ Ellen Corenswet

Name:
Title:

DISCOVERY LABORATORIES, INC.

By /s/ Evan Myrianthopoulos

Name: Evan Myrianthopoulos
Title: VP Finance

DISCOVERY LABORATORIES, INC.

September 15, 1998

Lehman Brothers
World Financial Center
New York, New York 10285

Gentlemen:

This will confirm our agreement that the $50,000 payable to Lehman Brothers on or about August, 30 & November, 30 1998 pursuant to the financial advisory agreement dated as of November 10, 1997 between you and us will be satisfied by Discovery's delivery to you of 16,150 shares (the "shares") of Discovery's Common Stock, par value $0.001 per share. In connection with such transaction, you acknowledge that:

(a) the shares have not be registered under the Securities Act of 1933, as amended (the "Securities Act"), or under any state securities laws, and will bear a restrictive legend to the effect that they cannot be resold or transferred unless either (i) they are registered under the Securities Act and all applicable state securities laws or (ii) such sale or transfer is exempt from registration under the Securities Act and applicable state securities laws;

(b) the shares are being acquired for your own account and not with a view to their resale or distribution in a manner that would violate any applicable Federal or state securities or other law;

(c) you have the prior investment experience, including investment in non-listed and unregistered securities, necessary to evaluate the merits of, and the consequences and risks, of, an investment in the shares; and

(d) you have been access to such information concerning Discovery and the shares as you have deemed necessary in connection with this transaction and have relied solely on Discovery's public filings in determining to accept the shares pursuant thereto.

Please execute this letter where indicated below to indicate your agreement with the foregoing.

DISCOVERY LABORATORIES, INC.

By /s/ Frederick Frank

Name:
Title: Vice Chairman

AGREED:

LEHMAN BROTHERS

By /s/ Frederick Frank

Name:
Title: Vice Chairman

DISCOVERY LABORATORIES, INC.

November 18, 1998

Dr. Charles Cochrane
The Scripps Research Institute
10550 North Torrey Pines Road
La Jolla, California 92037

Dear Charlie:

This will confirm our agreement that the $17,500 payable to you and Monica on November 1, 1998 pursuant to our consulting agreement between you and us will be satisfied by Discovery's delivery to you of 8,400 shares (the "shares") of Discovery's Common Stock, par value $0.001 per share. In connection with such transaction, you acknowledge that:

(a) the shares have not be registered under the Securities Act of 1933, as amended (the "Securities Act"), or under any state securities laws, and will bear a restrictive legend to the effect that they cannot be resold or transferred unless either (i) they are registered under the Securities Act and all applicable state securities laws or (ii) such sale or transfer is exempt from registration under the Securities Act and applicable state securities laws;

(b) the shares are being acquired for your own account and not with a view to their resale or distribution in a manner that would violate any applicable Federal or state securities or other law;

(c) you have the prior investment experience, including investment in non-listed and unregistered securities, necessary to evaluate the merits of, and the consequences and risks, of, an investment in the shares; and

(d) you have been access to such information concerning Discovery and the Shares as you have deemed necessary in connection with this transaction and have relied solely on Discovery's public filings in determining to accept the Shares pursuant thereto.

Please execute this letter where indicated below to indicate your agreement with the foregoing.

DISCOVERY LABORATORIES, INC.

By /s/ Evan Myrianthopoulos

Name: Evan Myrianthopoulos
Title: VP Finance

AGREED:

Charles, G. Cochrane, M.D.

By /s/ Charles G. Cochrane

Name:

DISCOVERY LABORATORIES, INC.

January 4, 1999

Han Tuan, Esq.
Yi, Tuan & Brunstein
350 Fifth Avenue, Suite 307
New York, NY 10118

Dear Han:

This will confirm our agreement that the $6,120.96 for rent through January 31, 1999 payable to Yi, Tuan and Brunstein on January 4, 1999 pursuant to our office rental agreement between you and us will be satisfied by Discovery's delivery to you of 2,500 shares (the "shares") of Discovery's Common Stock, par value $0.001 per share. In connection with such transaction, you acknowledge that:

(a) the shares have not be registered under the Securities Act of 1933, as amended (the "Securities Act"), or under any state securities laws, and will bear a restrictive legend to the effect that they cannot be resold or transferred unless either (i) they are registered under the Securities Act and all applicable state securities laws or (ii) such sale or transfer is exempt from registration under the Securities Act and applicable state securities laws;

(b) the shares are being acquired for your own account and not with a view to their resale or distribution in a manner that would violate any applicable Federal or state securities or other law;

(c) you have the prior investment experience, including investment in non-listed and unregistered securities, necessary to evaluate the merits of, and the consequences and risks of, an investment in the shares; and

(d) you have been access to such information concerning Discovery and the Shares as you have deemed necessary in connection with this transaction and have relied solely on Discovery's public filings in determining to accept the Shares pursuant thereto.

Please execute this letter where indicated below to indicate your agreement with the foregoing.

DISCOVERY LABORATORIES, INC.

By /s/ Evan Myrianthopoulos

Name: Evan Myrianthopoulos
Title: VP Finance

AGREED:

Yi, Tuan & Brunstein

By /s/ Han Tuan

Name: Han Hsiu Tuan

EXHIBIT 10.25

January 12, 1999

Mr. Evan Myrianthopoulos
Vice President of Finance
Discovery Laboratories, Inc.
350 South Main Street, Suite 307
Doylestown, PA 18901

Dear Evan:

This letter, when signed by you, will confirm that Discovery Laboratories has retained KCSA Worldwide as investor relations counsel for a period of six months commencing January 15, 1999.

For our investor relation services, which excludes financial publicity, our monthly fee will be $5,000 which will entitle Discovery Laboratories to 40 hours of professional services. All excess hours estimated in advance and with client approval only - will be billed at the rate of $165 an hour. The agreement will be for a period of six months and unless terminated 30 days prior to the end of this period, in writing, it will continue with a 30-day written notice of cancellation in effect. The first month's fee is payable with the return of this signed agreement and future monthly fees will be billed on the first of each month and are payable in thirty days.

Discovery Laboratories agrees to increase its monthly fee to $10,000 at the conclusion of the six month period on June 15, 1999. At that time, KCSA will also be responsible for publicity in financial media for Discovery Laboratories.

It is mutually agreed that any third party out-of-pocket expenses such as photography, printing, BusinessWire distribution, messengers, air courier, clipping service, offset and mass mailings will be rebilled to you with the standard agency charge of 20%. Telephone, Xerox, postage, travel and editorial lunches will be rebilled without markup. All individual expenditures above $500.00 will be expended only after client approval.

You agree to indemnify and hold harmless KCSA Worldwide from and against all losses, claims, damages, expenses or liabilities which we may incur based on information, representations, reports or data you furnish us, to the extent that such material is furnished, prepared, approved and/or just used by us.

We agree to indemnify and hold harmless Discovery Laboratories, from and against all losses, claims, damages, expenses or liabilities which Discovery Laboratories may incur based on information, representations, reports or data we furnish to you, to the extent that such material is furnished, prepared, approved and/or just used by you.

We are pleased to have the opportunity to serve you, and you have the assurance of our very best efforts.

Cordially,

KCSA WORLDWIDE

AGREED AND ACCEPTED
Discovery Laboratories, Inc.

By: /s/ Evan Myrianthopoulos

Mr. Evan Myrianthopoulos
Vice President of Finance

By: /s/ Adam Friedman

Adam I. Friedman
Managing Partner

EXHIBIT 10.26

Execution Copy

INDEPENDENT CONTRACTOR AGREEMENT

THIS INDEPENDENT CONTRACTOR AGREEMENT (this "Agreement") is entered into as of November 19, 1997 (the "Effective Date") by and between ACUTE THERAPEUTICS, INC., a Delaware corporation ("Corporation"), and THE SAGE GROUP, a New Jersey partnership ("Contractor").

WHEREAS, Corporation develops and commercializes novel, proprietary pharmaceuticals intended for use in the acute care setting, including for use in the treatment of Infant Respiratory Distress Syndrome ("IRDS"), Adult Respiratory Distress Syndrome ("ARDS") and Meconium Aspiration Syndrome ("MAS");

WHEREAS, Contractor is an independent contractor in the business of assisting companies like Corporation in identifying, structuring and negotiating strategic partnering relationships in the pharmaceutical industry and has considerable knowledge, experience and expertise in such area;

WHEREAS, Corporation and Contractor have entered into a letter agreement dated October 28, 1996, pursuant to which Contractor provides certain consulting services to Corporation (the "Consulting Agreement"); and

WHEREAS, Corporation desires to obtain the services of Contractor as provided in this Agreement, and Contractor desires to furnish services to Corporation upon the terms and conditions set forth in this Agreement, which such services shall be in addition to services provided by Contractor to Corporation pursuant to the Consulting Agreement.

NOW, THEREFORE, Corporation and Contractor agree as follows:

1. Term and Termination of Agreement. Corporation hereby retains the services of Contractor and Contractor hereby agrees to render services as a consultant for Corporation for a twelve (12)-month period commencing on the Effective Date (the "Initial Term"). Following the Initial Term, the services of Contractor may be terminated by either Contractor or Corporation at any time, for any reason, by providing ten (10) days' prior written notice to the other party; provided, however, that in the event Corporation enters into a Strategic Partnering Transaction (as hereinafter defined) with any entity within one (1) year of the date of termination of this Agreement, where Contractor introduced Corporation to such entity, and bona fide negotiations took place relating to a Strategic Partnering Transaction, during the term of this Agreement, Contractor shall be entitled to options (which hereinafter shall sometimes be referred to as "Transaction Options") as compensation for Strategic Partnering Transactions pursuant to Section 3 hereof.

2. Contractor's Duties and Obligations. For the term of this Agreement, Contractor shall act as a consultant to Corporation, to identify and introduce Corporation to potential strategic partners (the "Strategic Partners") for the further development, clinical and regulatory activities related to, and commercialization of Corporation's technologies for the treatment of human disease, including but not limited to IRDS, ARDS and MAS (each such treatment to be referred to as an "Indication") (the "Strategic Partnering Transactions"). Further, Contractor shall, if requested by Corporation, participate in the structuring and negotiating of the Strategic Partnering Transactions.

3. Compensation.

a. Transaction Options. As consideration for the services to be performed by Contractor pursuant to the terms of this Agreement, the Corporation shall issue to Contractor, upon the consummation, if it occurs, of a Strategic Partnering Transaction with a Strategic Partner: (A) for an Indication in any of the three territories of Westem Europe, North America or Japan, an option to purchase Five Thousand (5,000) shares of Common Stock at an exercise price per share equal to the fair market value of the Corporation's Common Stock on the day of the consummation of the Strategic Partnering Transaction ("Fair Market Value") (subject to adjustment) and (B) for either, but not both of: (i) an additional Indication in any of the three territories of Western Europe, North America or Japan, or (ii) the same Indication (in clause (A) above) in one of the other remaining two territories, an additional option to purchase Five Thousand (5,000) shares of Common Stock at an exercise price per share equal to the Fair Market Value. Any Transaction Options issued under this Section 3(a) shall be issued in five equal parts to each partner of Contractor, namely R. Douglas Hulse, Wayne Pambianchi, Richard G. Power, Gordon Ramseier and Daniel Tripodi. Each Transaction Option shall be immediately exercisable in full upon issuance and shall expire five (5) years from the date of issuance. If the Company's Common Stock is publicly traded, Fair Market Value shall equal the average of the closing prices of a share of Common Stock as reported by its primary national securities exchange or the automatic quotation system of the Nasdaq Stock Market for the thirty business days ending the day before the consummation of the Corporate Partnering Transaction.

b. Sole Consideration. The issuance of the Transaction Options shall constitute the sole consideration to be received by Contractor in connection with the performance of Contractor's services under this Agreement.

4. Confidentiality. Prior to its commencement of services to Corporation under this Agreement, Contractor shall execute Corporation's form of Proprietary Information, Inventions, Non-Competition and Non-Solicitation Agreement substantially in the form as attached hereto as Exhibit A.

5. Independent Contractor Relationship. With respect to the services to be performed by Contractor under this Agreement, it is mutually understood and agreed that Contractor is at all times acting and performing as an independent contractor, and not an employee, of Corporation. Corporation and Contractor agree that Contractor enters into this association with Corporation on a non-exclusive basis and is free to conduct other business separate and apart from its services to Corporation, provided that such business does not conflict or otherwise interfere with Contractor's duties under this Agreement. Corporation shall neither have nor exercise any control or direction over the

specific methods by which Contractor shall perform its services hereunder. Contractor shall have no claim under this Agreement or otherwise against Corporation for worker's compensation or any other employee benefits, all of which shall be the sole responsibility of Contractor. Corporation shall not withhold on behalf of Contractor, pursuant to this Agreement, any sums for income tax or otherwise pursuant to any law or requirement of any government agency, and all such withholding, if any is required, shall be the sole responsibility of Contractor. Contractor acknowledges that it is neither an agent nor an employee of Corporation for any purpose whatsoever and shall have no authority to enter into agreements for or on behalf of Corporation, or to otherwise legally obligate or bind Corporation for any purpose whatsoever. Further, Contractor represents that it has not entered into, and agrees not to enter into, any agreement either written or oral in conflict herewith or in conflict with its consulting relationship with Corporation, including its obligations to Corporation pursuant to the Consulting Agreement.

6. Indemnification.

a. Contractor shall indemnify and hold harmless Corporation and its directors, officers, employees and agents from any and all losses, claims, damages, liabilities or costs (including reasonable attorneys' fees and expenses) which arise out of Contractor's performance of its duties under Section 2 hereof or the gross negligence or willful misconduct of Contractor hereunder.

b. Corporation shall indemnify and hold harmless Contractor and its directors, officers, employees and agents from any and all losses, claims, damages, liabilities or costs (including reasonable attorneys' fees and expenses) which arise out of Contractor's performance of its duties under Section 2 hereof or the gross negligence or willful misconduct of Corporation hereunder.

c. This Section 6 shall survive the termination of this Agreement.

7. Miscellaneous.

a. Governing Law. This Agreement shall be interpreted, construed, governed and enforced according to the laws of the Commonwealth of Pennsylvania.

b. Expenses. Contractor agrees that it shall be responsible for all expenses, including without limitation travel expenses, incurred by it in the performance of this Agreement and shall not be entitled to reimbursement from Corporation.

c. Arbitration. Any controversy between the parties hereto involving the construction or application of any terms, covenants or conditions of this Agreement, or any claim arising out of or relating to this Agreement, will be submitted to and be settled by final and binding arbitration in New York, New York or such other place as the parties may mutually agree, in accordance with the rules of the American Arbitration Association then in effect, and judgment upon the award rendered by the arbitrators may be entered in any court having jurisdiction thereof.

d. Notices. All notices, requests, demands, and other communications under this Agreement shall be in writing and shall be deemed to have been duly given on the date of service if served personally on the party to whom notice is to be given, on the date of transmittal of services via telecopy to the party to whom notice is to be given, or on the third day after mailing if mailed to the party to whom notice is to be given, by first class mail, registered or certified, postage prepaid, at the address set forth under such party's name on the signature page hereof; Any party by giving written notice to the other in the manner provided above may change its address for purposes hereof.

e. Amendment. No amendment or modification of the terms or conditions of this Agreement shall be valid unless in writing and signed by the parties hereto.

f. Severability. If one or more provisions of this Agreement are held to be unenforceable under applicable law, such provision shall be construed, if possible, so as to be enforceable under applicable law, else, such provision shall be excluded from this Agreement and the balance of the Agreement shall be interpreted as if such provision were so excluded and shall be enforceable in accordance with its terms.

g. Successors and Assigns. The rights and obligations of the company under this Agreement shall inure to the benefit of and shall be binding upon the successors and assigns of Corporation. Consultant shall not be entitled to assign any of his rights or obligations under this Agreement.

h. Further Assurances. Each party agrees to perform any further acts and execute and deliver any further documents which may be reasonably necessary to carry out the provisions of this Agreement.

i. Entire Agreement. This Agreement, including Exhibit A attached hereto, and the Letter Agreement dated October 28, 1996 constitute the entire agreement between the parties with respect to the engagement of Contractor.

[remainder of page intentionally left blank]

IN WITNESS WHEREOF, the undersigned have hereunto set their hands as of the day and year first above written.

ACUTE THERAPEUTICS, INC.
a Delaware corporation

By: /s/ Robert J. Capetola

Name: Robert J. Capetola
Title: President and Chief Executive Officer
Address: 3359 Durham Road
Doylestown, PA 18901
Fax: (215) 794-3241

THE SAGE GROUP

By: /s/ Richard G. Power

Name: Richard G. Power
Title: Partner
Address: 245 Route 22 West
Suite 304
Bridgewater, NJ 08807

Fax: (908) 231-9692

EXHIBIT 10.27

DEVELOPMENT AGREEMENT

This Development Agreement ("Agreement") is entered into as of March 30, 1998, by and between TAYLOR PHARMACEUTICALS, INC. ("Taylor") and ACUTE THERAPEUTICS INC. ("ACUTE"), with respect to the following:

RECITALS

A. WHEREAS, ACUTE desires to retain the services of Taylor to manufacture Product as defined herein for use by ACUTE in performing clinical trials preliminary to the submission by ACUTE to the Federal (U.S.) Food and Drug Administration ("FDA") of a new drug application ("NDA") and

B. WHEREAS, Taylor desires to manufacture Product as defined herein for use by ACUTE in performing clinical trials preliminary to the submission by ACUTE to the Federal (U.S.) Food and Drug Administration ("FDA") of a new drug application ("NDA").

NOW THEREFORE, in consideration of the mutual covenants set forth herein, and other good and valuable consideration, the receipt and legal sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

ARTICLE 1
DEFINITIONS

1.1 "Product Transfer Program" or "PTP" shall mean, in the aggregate, all work conducted by Taylor for ACUTE hereunder, towards the transfer and validation of the injectable formulation for the Product. In connection with the PTP, it shall be the responsibility of ACUTE to provide all new material and components for the Development of the Product except as outlined in the Project Outline.

1.2 "Product" shall mean KL4 Surfactant.

1.3 "Project Outline" shall mean the written description, as described in Exhibit "A", all the terms and conditions incorporated herein by reference, of all activities, data, validation and other documents to be conducted or prepared by Taylor in connection with the Product Transfer Program.

1.4 "Clinical Trial Supplies" shall mean the material manufactured by Taylor as described in Exhibit "A", according to the specifications provided by Acute Therapeutics.

ARTICLE 2
PRODUCT TRANSFER

2.1 Scope. Taylor shall undertake a Product Transfer Program, as follows:

(a) In connection with providing ACUTE with its required Clinical Trial Supplies, Taylor will undertake the following pursuant to the Project Outline:

(i) Special Equipment Needs & Facility Modifications
(ii) Testing Methods Transfer
(iii) Production Process Developmental Batch Manufacturing
(iv) Production Process Validations
(v) Clinical Supply Manufacturing
(vi) Production Process Validations
(vii) Regulatory Support (if required)

2.2 Facilities/Personnel. All facilities, general equipment and personnel necessary to permit Taylor to perform its obligations hereunder will be provided by Taylor at its expense, and under their responsibility.

2.3 Cooperation. ACUTE agrees to cooperate with Taylor and in connection with Taylor's performance hereunder and further agrees to provide Taylor with all information, know-how methodology, and other technical information regarding the Product. ACUTE will have a representative in the plant to observe and participate in each phase of the project.

ARTICLE 3
REMUNERATION

3.1 Payment: Amount and Timing. ACUTE agrees to pay Taylor in accordance with' the payment and terms as outlined on page two of the attached Exhibit "A", all the terms and conditions incorporated herein by reference.

ARTICLE 4
MANUFACTURING FOR CLINICAL TRIALS

4.1 Manufacturing. Taylor agrees to manufacture the Product according to current good Manufacturing Practices (cGMPs), pursuant to the Project Outline and the specifications set forth therein, which such specifications have been provided by ACUTE. ALL OTHER EXPRESS OR IMPLIED WARRANTIES, INCLUDING WITHOUT LIMITATION THE IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE ARE DISCLAIMED.

4.2 Manufacturing Compliance. Taylor shall advise ACUTE immediately if an authorized agent of any regulatory body visits Taylor's manufacturing facility and makes any inquiry regarding Taylor's method of manufacture of the Product for ACUTE.

4.3 Shipping. Product provided by Taylor to ACUTE hereunder shall be FOB Taylor's Facility in Decatur, Illinois.

ARTICLE 5
PRESERVATION OF TRADE SECRETS AND REGULATORY SUBMISSION INFORMATION

5.1 Confidentiality. The Parties hereto acknowledge and agree that some information disclosed to and/or received from each other pursuant to this Agreement may be confidential and may contain trade secrets and other information proprietary to the disclosing party. It is therefore agreed that any information received by either party from the other pursuant to or in furtherance of the performance or this Agreement, clearly designated in writing as CONFIDENTIAL (hereinafter referred to as "Information") shall not be disclosed by the receiving party to any third party and shall not be used by the receiving party for the purposes other than those contemplated by this Agreement for a period ending seven (7) years after the date of termination of this Agreement or for so long as the Information remains a trade secret, whichever is longer.

5.2 Exceptions. The obligations of confidentiality set forth in this Agreement shall not apply to the extent that (a) either party is required to disclose information by order or regulation of a governmental agency or a court of competent jurisdiction, or (b) the recipient can demonstrate that (i) the disclosed information is in the public domain other than as a result of the actions of the recipient, its employees, consultants, agents or subcontractors in violation of this Agreement, (ii) the disclosed information was already rightfully known to the recipient (as shown by its written records) prior to the date of disclosure to the recipient in connection with the negotiation or performance of this Agreement, or (iii) the disclosed information was received by the recipient on an unrestricted basis from a source unrelated to any party of this Agreement and not under a duty of confidentiality to the other party, or (c) disclosure is made to the FDA as part of the FDA's product approval process (or to an equivalent agency of a foreign country as part of such country's product approval process), or (d) is independently developed by the Recipient without reference to the Proprietary Information of the Disclosing Party.

ARTICLE 6
MISCELLANEOUS

6.1 Binding. This Agreement shall inure to the benefit of, and shall be binding upon, the Parties hereto, their heirs, personal representatives, successors, or assigns.

6.2 Governing Law. This Agreement shall be governed in all respects, whether as to validity, construction, capacity, performance or otherwise, by the

laws of the State of Illinois. Additionally, Jurisdiction and Venue over any controversy, claim or remedy, arising out of, or relating to, this Agreement or any breach hereof, shall be the Circuit Court located in Macon County, Illinois.

6.3 Notice. All notices under this Agreement must be in writing and must be given (a) by depositing such notice in the United States Mail, postage prepaid, certified or registered, return receipt requested, (b) by prepaid telegram, or (c) by delivering Such notice in person or by commercial messenger. For purposes of notice, the addresses of the Parties shall be as set forth below each Party's signatures below. Notices made in accordance with the foregoing shall be effective when received. Any Party may designate to all other Parties hereto, pursuant to the notice provisions hereof, a different address to which notices shall thereafter be directed by written notice.

6.4 Severability. If any provision herein is declared invalid, it shall be considered deleted from this Agreement and shall not invalidate the remaining provisions hereof; unless such would materially alter the underlying intent of the Parties hereto in which case the entire Agreement shall be deemed null and void.

6.5 Entire Subject Matter/No Prior Agreements. This document and those other documents expressly referenced herein and made a part hereto as Exhibits, constitute the entire agreement of the Parties, and supersede any and all prior agreements whether in writing or verbal, and neither of the Parties is relying upon any warranties, representations, or inducements not expressly set forth herein.

6.6 Amendments. The provisions of this Agreement may be waived, altered, amended or repealed, in whole or in part, only by an instrument in writing signed by both Parties.

6.7 No Third-Party Rights. Nothing in this Agreement, whether express or implied, is intended to or does confer any rights or remedies on any persons other than the parties, hereto.

6.8 Counsel. Notwithstanding that Fleming & Allen, LLP, counsel to Taylor Pharmaceuticals, Inc., drafted this Agreement, the terms and provisions hereof have been negotiated between the Parties and the parties agree that this Agreement shall not be construed against the party whose counsel drafted this Agreement.

6.9 Relationship of Parties. Taylor is an Independent Contractor for ACUTE and the Parties are not partners or joint venturers.

6.10 Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, and all of which together constitute one and the same instrument.

6.11 Assignment. This Agreement shall not be assignable or delegated by either party without the written consent of the other.

6.12 Mutual Exclusivity. Taylor agrees to manufacture the Product exclusively for ACUTE. ACUTE agrees to use Taylor as its exclusive manufacturer for the Product as long as capacity requirements can be met by Taylor, as mutually agreed by the Parties and any changes to the cost structure as outlined in Exhibit "A", all the terms and conditions incorporated herein by reference, are mutually agreed to by the Parties in writing.

6.13 Term. The obligation of the parties hereunder shall effectively commence on the execution of the Agreement by each of the parties and continue for four (4) Annual Periods; provided the Agreement will automatically be extended for one (1) Annual Period unless either party notifies the other party in writing twelve (12) months prior to the end of the term of its desire not to extend the Agreement. Thereafter, the Agreement will be automatically extended for consecutive one (1) year terms unless either party notifies the other party in writing twelve (12) months in advance of its desire not to extend the Agreement.

The Parties hereto have caused this Agreement to be executed on the dates set forth opposite the signature of each of the Parties below.

Dated: April 7, 1998

ACUTE, INC.

By: /s/ Robert J. Capetola

(Print Name)

Title: President/CEO
Acute Therapeutics, Inc.
Doylestown, Pa 18901

Dated: April 16, 1998

TAYLOR PHARMACEUTICALS,
an Illinois corporation

By: /s/ Floyd Benjamin

FLOYD BENJAMIN
President
150 S. Wyckles Road
Decatur, Illinois 62525

EXHIBIT A

DEVELOPMENT PROJECT FOR KL4 - SURFACTANT
PROPOSAL NO.: 1020-ATI-03 (03/31/98)

The following sections define the individual components to be carried out under the proposed in support of the clinical supply of KL4 - Surfactant. This proposal covers Taylor Pharmaceuticals' understanding of the requested Scope of Work. This proposal incorporates the following work:

TIMING (See Attached)

RAW MATERIALS, COMPONENTS AND FILTERS
* Cost of these goods incorporated into the per batch price

SPECIAL EQUIPMENT NEEDS	[***]
FACILITY MODIFICATIONS/POST-MODIFY VALIDATIONS	[***]
PHASE I:	
Methods and Process Transfer and Validation	
A. Testing Methods Transfer	[***]
1. Analyical	
2. Microbiology	
B. Production Process Validations	
1. Vessel/TFE Validations	[***]
2. Autoclave Cycle Development/Validations for KL4 Support Equipment	[***]
3. Media Fills (x3)	[***]
4. Mixing Validation	[***]
5. Container/Closure Integrity	[***]
C. Production Process Development Batch Manufacturing	
1. Master Batch Record Development (for Development Batch)	[***]
2. Production Process Development Batch Manufacture and Testing	
o Option 1 [***]	[***]
o Option 2 [***]	[***]
PHASE II:	
Provide ATI with its required Clinical Trial Supplies	
A. Clinical Supply Manufacturing	
1. Master Batch Record Development (for Clinical Batch)	[***]
2. Clinical Batch Manufacturing and Testing	
o Option 1 [***]	[***]
o Option 2 [***]	[***]
3. Shipping: F.O.B. Decatur	[***]

- ----------
[***]Confidential Treatment Requested. Omitted portions have been filed separately with the Commission.

B. Production Process Validations for Full Scale Batches
1. Scaled Up Batch Mixing Validation [***] [***]
2. Semi-Automated Inspection Validation [***] [***]

C. Regulatory Support for the CMC Section
1. Special Equipment Purchases [***] 50% Due Upon Project Agreement
and Facility Modification/Validation 50 Due Upon Install/Valid Complete

2. Phase I
a. Option 1 [***] [***] 50% Will be Invoiced upon project agreement. Half of the invoiced amount will be due upon receipt of invoice, the balance of the invoice will be due 60 days thereafter.
b. Option 2 [***] [***] 25% Due Upon Media Fill Complete
25% Due Upon Batch Complete

3. Phase II.A.
a. Option 1 [***] [***] 25% Due Upon Fill Scheduling
b. Option 2 [***] [***] 50% Due Upon Fill Complete
25% Due Upon Batch Release

4. Phase II.B. & C. [***] [***]
[***]
[***]
[***]
[***]
[***] Due Upon Regulatory Submission

5. Additional Clinical Batches
a. Option 1 [***] [***] 25% Due Upon Fill Scheduling
b. Option 2 [***] [***] 50% Due Upon Fill Complete
25% Due Upon Batch Release

- ----------

[***]Confidential Treatment Requested. Omitted portions have been filed separately with the Commission.

RAW MATERIALS, COMPONENTS AND FILTERS:

A. Proposed Raw Materials:	Source:	Concentration:	Provided By:
[***]	[***]	[***]	[***]

B. Components:

[***]

C. Filters (Quantity per batch):

[***]

- -----------

[***]Confidential Treatment Requested. Omitted portions have been filed separately with the Commission.

SPECIAL EQUIPMENT NEEDS/FACILITY MODIFICATIONS:

A. Equipment Requirements:

[***]

B. TP Facility Modifications (Expense Incurred by ATI):

[***]

PHASE I:

Methods and Process Transfer and Validation:

A. Methods Transfer:

[***]

B. Production Process Validations:

[***]

2. Autoclave Cycle Development/Validation for KL4 specific support equipment:

[***]

3. Media Fills:

[***]

4. Mixing Validation [***]

5. Container/Closure Integrity Testing [***]

C. Production Process Development Batch:

[***]

- --------
[***]Confidential Treatment Requested. Omitted portions have been filed separately with the Commission.

PHASE II:

Provide ATI with its required Clinical Trial Supplies:

A. Phase I Clinical Supply Manufacturing:

1. Master batch records will be developed by TP and approved by TP and ATI based on the development batch manufacturing processes performed at TP for the KL4- Surfactant products.

[***]

2. Clinical Batch Manufacturing and Testing:

a. [***]

b. In-Process Testing will be performed as follows:

[***]

c. The product will be filled and stoppered [***]

d. Finished product testing will be performed as follows:

[***]

e. Inspection: [***]

f. Labeling: The vials will be individually labeled using computer generated labels. Provided by TP based on label text provided by ATI

g. Packaging: Bulk Packaged with labels computer generated by TP

3. Shipping: Finished product will be shipped to ATI under a controlled and regulated refrigerated temperature. Shipping charges to be reimbursed to TP by ATI.

B. Scaled Up Product Validations:

1. Mixing Validation [***]. The validation will consist of:

[***]

2. Inspection Validation to Semi-Automated Process: [***]

- ------------
[***]Confidential Treatment Requested. Omitted portions have been filed separately with the Commission.

C. Regulatory support in assembling the CMC Section for the IND submissions.

TP will copy and provide documentation to ATI for support of their IND submissions.

EXHIBIT 10.28

EXECUTION COPY

REGISTRATION RIGHTS AGREEMENT

THIS REGISTRATION RIGHTS AGREEMENT is made as of the 16th day of June, 1998, by and among DISCOVERY LABORATORIES, INC., a Delaware corporation, (the "Company"), JOHNSON & JOHNSON DEVELOPMENT CORPORATION, a New Jersey Corporation ("J&J") and THE SCRIPPS RESEARCH INSTITUTE, a California not-for-profit organization ("Scripps") (J&J and Scripps are herein collectively referred to as the "Stockholders").

RECITALS

WHEREAS, Acute Therapeutics, Inc. ("ATT") and Scripps are parties to the Scripps Stock Purchase Agreement dated as of October 28, 1996 (the "Scripps Agreement"), pursuant to which Scripps acquired 40,000 shares of common stock, $0.001 par value per share of ATI (the "ATI Common Stock");

WHEREAS, J&J, its affiliate, Ortho Pharmaceutical Corporation and ATI are parties to the Inventory Transfer/Stock Purchase Agreement dated as of October 28, 1996, as amended (the "Inventory Transfer Agreement"), pursuant to which ATI issued to J&J 2,039 shares of its Non-Voting Series B Preferred Stock, $0.001 par value per share (the "ATI Series B Preferred Stock") and 40,000 shares of ATI Common Stock;

WHEREAS, ATI, Scripps and J&J are parties to a Registration Rights Agreement dated as of October 28, 1996 (the "ATI Registration Rights Agreement") pursuant to which Scripps and J&J were granted certain registration rights;

WHEREAS, the Company and ATI are parties to an Agreement and Plan of Merger, dated March 5, 1998, as amended on May 1, 1998, whereby a newly-formed subsidiary of the Company will merge with and into ATI and ATI will become a wholly-owned subsidiary of the Company (the "Merger Agreement");

WHEREAS, pursuant to the Merger Agreement, each of the issued and outstanding shares of ATI Common Stock shall be automatically converted into 3.91 shares of Common Stock of the Company, $0.001 par value per share ("the Common Stock");

WHEREAS, the Company and J&J are parties to the Stock Exchange Agreement of even date herewith pursuant to which J&J will exchange its ATI Series B Preferred Stock for 2,039 shares of Series C Preferred Stock, $0.001 par value per share, of the Company ("Series C Preferred Stock") and pursuant to which the Company will issue J&J shares of Common Stock (the "Dividend Shares") in lieu of the accrued but unpaid dividend accrued through the date of the Merger on its shares of ATI Series B Preferred Stock (the "Stock Exchange Agreement");

WHEREAS, the Stockholders and the Company hereby agree that this Registration Rights Agreement (the "Agreement") shall govern the rights of the Stockholders to cause the Company to register the shares of Common Stock held by the Stockholders;

NOW, THEREFORE, THE PARTIES HEREBY AGREE AS FOLLOWS:

1. Registration Rights. The Company covenants and agrees as follows:

1.1 Definitions. For purposes of this Section 1:

(a) The term "Act" means the Securities Act of 1933, as amended.

(b) The term "Holder" means any person owning or having the right to acquire Registrable Securities or any assignee thereof in accordance with Section 1.8 hereof.

(c) The term "1934 Act" shall mean the Securities Exchange Act of 1934, as amended

(d) The term "register", "registered," and "registration" refer to a registration effected by preparing and filing a registration statement or similar document in compliance with the Act, and the declaration or ordering of effectiveness of such registration statement or document.

(e) The term "Registrable Securities" means (i) the Common Stock issued by the Company pursuant to the Merger Agreement in exchange for the shares of ATI Common Stock originally issued to Scripps pursuant to the Scripps Purchase Agreement, (ii) the Common Stock issued by the Company pursuant to the Merger Agreement in exchange for the shares of ATI Common Stock originally issued to J&J pursuant to the Inventory Transfer Agreement, (iii) any Common Stock issued to J&J upon conversion or redemption of the Series C Preferred Stock, (iv) the Dividend Shares and (v) any Common Stock of the Company issued as (or issuable upon the conversion or exercise of any warrant, right or other security which is issued as) a dividend or other distribution with respect to, or in exchange for or in replacement of the shares referenced in (i)-(iv) above, that cannot be publicly resold by the holder thereof without registration under the Act or sold in a single transaction exempt from the registration and prospectus delivery requirement of the Act pursuant to Rule 144 thereunder, it being understood, for the purposes of this Agreement, that Registrable Securities shall cease to be Registrable Securities when (1) a registration statement covering such Registrable Securities has been declared effective and they have been disposed of pursuant to such effective registration statement, (2) they are transferred on the open market pursuant to any available exemption under the Act, (3) they have been otherwise transferred and the Company has delivered new certificates or other evidences of ownership for them not subject to any stop transfer order or other restriction on transfer and not bearing any legend restricting transfer in the absence of an effective registration or an exemption from the registration requirements the Act, (4) they have been sold, assigned, pledged, hypothecated or otherwise disposed of by the Holder in a transaction in which the Holder's rights under this Agreement are not assigned or assignable, or (5) the rights of the Holder under Section 1.2 have terminated pursuant to Section 1.9.

(f) The number of shares of "Registrable Securities then outstanding" shall be determined by the number of shares of Common Stock outstanding which are Registrable Securities.

(g) The term "SEC" shall mean the Securities and Exchange Commission.

1.2 Company Registration.

(a) If (but without any obligation to do so) the Company proposes to register (including for this purpose a registration effected by the Company for stockholders other than the Holders) any of its stock or other securities under the Act in connection with the public offering of such securities solely for cash (other than a registration relating solely to the sale of securities to participants in a Company stock plan, a registration on any form which does not include substantially the same information as would be required to be included in a registration statement coveting the sale of the Registrable Securities or a registration in which the only Common Stock being registered is Common Stock issuable upon conversion of debt securities which are also being registered), the Company shall, at such time, promptly give each Holder written notice of such registration. Upon the written request of each Holder given within twenty (20) days after mailing of such notice by the Company in accordance with Section 2.5, the Company shall cause to be registered under the Act all of the Registrable Securities that each such Holder has requested to be registered.

(b) Notwithstanding any other provision of this Section 1.2, if the managing underwriter of an underwritten distribution advises in writing the Company and the Holders of the Registrable Securities requesting participation in such registration that in its good faith judgment the number of shares of Registrable Securities and the other securities requested to be registered under this Section 1.2 exceeds the number of shares of Registrable Securities and other securities which can be sold in such offering, then (i) the number of shares of Registrable Securities and other securities so requested to be included in the offering shall be reduced to that number of shares which in the good faith judgment of the managing underwriter can be sold in such offering (except for shares to be issued by the Company, which shall have priority over the Registrable Securities), and (ii) such reduced number of shares shall be allocated among all participating Holders of Registrable Securities and holders of other securities in proportion, as nearly as practicable, to the respective number of shares of Registrable Securities and other securities held by such Holders at the time of filing the registration statement; provided, however, that a minimum of thirty percent (30%) of the shares to be underwritten shall be allocated, on a pro rata basis, to the Holders requesting inclusion in such offering (the "selling stockholders"). For purposes of clause (ii) above concerning apportionment, for any selling stockholder which is a holder of Registrable Securities and which is a partnership or corporation, the affiliates (as defined in the rules and regulations promulgated under the Act), partners, retired partners and stockholders of such holder, or the estates and family members of any such partners and retired partners and any trusts for the benefit of any of the foregoing persons shall be deemed to be a single "selling stockholder", and any pro-rata reduction with respect to such "selling stockholder" shall be based upon the aggregate amount of shares carrying registration rights owned by all entities and individuals included in such "selling stockholder", as defined in this sentence.

1.3 Obligations of the Company. Whenever required under this Section 1 to effect the registration of any Registrable Securities, the Company shall, as expeditiously as reasonably possible:

(a) Prepare and file with the SEC a registration statement with respect to such Registrable Securities and use its best efforts to cause such registration statement to become effective, and, upon the request of the Holders of a majority of the Registrable Securities registered thereunder, keep such registration statement effective for a period of up to one hundred twenty (120) days or until the distribution contemplated in the Registration Statement has been completed; provided, however, that (i) such 120-day period shall be extended for a period of time equal to the period the Holder refrains from selling any securities included in such registration at the request of an underwriter of Common Stock (or other securities) of the Company; and (ii) in the case of any registration of Registrable Securities on Form S-3 which are intended to be offered on a continuous or delayed basis, such 120-day period shall be extended, if necessary, to keep the registration statement effective until all such Registrable Securities are sold, provided that Rule 415, or any successor rule under the Act, permits an offering on a continuous or delayed basis, and provided further that applicable rules under the Act governing the obligation to file a post-effective amendment permit, in lieu of filing a post-effective amendment which (I) includes any prospectus required by Section 10(a)(3) of the Act or (II) reflects facts or events representing a material or fundamental change in the information set forth in the registration statement, the incorporation by reference of information required to be included in (I) and (II) above to be contained in periodic reports filed pursuant to Section 13 or 15(d) of the 1934 Act In the registration statement.

(b) Prepare and file with the SEC such amendments and supplements to such registration statement and the prospectus used in connection with such registration statement as may be necessary to comply with the provisions of the Act with respect to the disposition of all securities covered by such registration statement.

(c) Furnish to the Holders such numbers of copies of a prospectus, including a preliminary prospectus, in conformity with the requirements of the Act, and such other documents as they may reasonably request in order to facilitate the disposition of Registrable Securities owned by them.

(d) Use its best efforts to register and qualify the securities covered by such registration statement under such other securities or Blue Sky laws of such jurisdictions as shall be reasonably requested by the Holders; provided that the Company shall not be required in connection therewith or as a condition thereto to qualify to do business or to file a general consent to service of process in any such states or jurisdictions, unless the Company is already subject to service in such jurisdiction and except as may be required by the Act.

(e) In the event of any underwritten public offering, enter into and perform its obligations under an underwriting agreement, in usual and customary form, with the managing underwriter of such offering. Each Holder participating in such underwriting shall also enter into and perform its obligations under such an agreement.

(f) Cause all such Registrable Securities registered pursuant hereunder to be listed on each securities exchange on which similar securities issued by the Company are then listed.

(g) Provide a transfer agent and registrar for all Registrable Securities registered pursuant hereunder and a CUSIP number for all such Registrable Securities, in each case not later than the effective date of such registration.

(h) Notify the participating Holders at any time when a prospectus relating to any Registrable Securities covered by such registration statement is required to be delivered under the Act, of the happening of any event as a result of which the prospectus included in such registration statement, as then in effect, includes an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading in light of the circumstances then existing and promptly file such amendments and supplements as may be necessary so that, as thereafter delivered to such Holders of such Registrable Securities, such prospectus shall not include an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading in light of the circumstances then existing and use its best efforts to cause each such amendment and supplement to become effective.

(i) Furnish on the closing date of an underwritten public offering (i) an opinion, dated such date, of the counsel representing the Company, for purposes of such registration, in form and substance as is customarily given by company counsel to the underwriters in an underwritten public offering, addressed to the underwriters, and (ii) a letter dated such date, from the independent certified public accountants of the Company, in form and substance as is customarily given by independent certified public accountants to underwriters in an underwritten public offering, addressed to the underwriters.

1.4 Furnish Information. It shall be a condition precedent to the obligations of the Company to take any action pursuant to this Section 1 with respect to the Registrable Securities of any selling Holder that such Holder shall furnish to the Company such information regarding itself, the Registrable Securities held by it, and the intended method of disposition of such securities as shall be required to effect the registration of such Holder's Registrable Securities.

1.5 Expenses of Companv Registration. The Company shall bear and pay all expenses incurred in connection with any registration, filing or qualification of Registrable Securities with respect to the registrations pursuant to Section 1.2 for each Holder (which right may be assigned as provided in Section 1.8), including (without limitation) all federal and state registration, filing, qualification fees, printers and accounting fees relating or apportionable thereto and reasonable fees and disbursements of one counsel for the participating Holders together, but excluding underwriting discounts and commissions relating to Registrable Securities.

1.6 Delay of Registration. No Holder shall have any right to obtain or seek an injunction restraining or otherwise delaying any such registration as the result of any controversy that might arise with respect to the interpretation or implementation of this Section 1.

1.7 Indemnification. In the event any Registrable Securities are included in a registration statement under this Section 1:

(a) To the extent permitted by law, the Company will indemnify and hold harmless each Holder, any underwriter (as defined in the Act) for such Holder and each person, if any, who controls such Holder or underwriter within the meaning of the Act or the 1934 Act, and each officer, director, employee and agent thereof against any losses, claims, damages, or liabilities (joint or several) to which they may become subject under the Act, or the 1934 Act or other federal or state law, insofar as such losses, claims, damages, or liabilities (or actions in respect thereof) arise out of or are based upon any of the following statements, omissions or violations (collectively a "Violation"): (i) any untrue statement or alleged untrue statement of a material fact contained in such registration statement, including any preliminary prospectus or final prospectus contained therein or any amendments or supplements thereto, (ii) the omission or alleged omission to state therein a material fact required to be stated therein, or necessary to make the statements therein not misleading, or (iii) any violation or alleged violation by the Company of the Act, the 1934 Act, any state securities law or any rule or regulation promulgated under the Act, or the 1934 Act or any state securities law; and the Company will pay to each such Holder, underwriter or controlling person, and each officer, director, employee and agent thereof as incurred, any legal or other expenses reasonably incurred by them in connection with investigating or defending any such loss, claim, damage, liability, or action; provided, however, that the indemnity agreement contained in this subsection 1.7(a) shall not apply to amounts paid in settlement of any such loss, claim, damage, liability, or action if such settlement is effected without the consent of the Company (which consent shall not be unreasonably withheld), nor shall the Company be liable in any such case for any such loss, claim, damage, liability, or action to the extent that it arises out of or is based upon a Violation which occurs in reliance upon and in conformity with written information furnished expressly for use in connection with such registration by any such Holder, underwriter or controlling person.

(b) To the extent permitted by law, each selling Holder (severally and not jointly) will indemnify and hold harmless the Company, each of its directors, each of its officers who has signed the registration statement, each person, if any, who controls the Company within the meaning of the Act, any underwriter, any other Holder selling securities in such registration statement and any controlling person of any such underwriter or other Holder, against any losses, claims, damages, or liabilities (joint or several) to which any of the foregoing persons may become subject, under the Act, or the 1934 Act or other federal or state law, insofar as such losses, claims, damages, or liabilities (or actions in respect thereto) arise out of or are based upon any Violation, in each case to the extent (and only to the extent) that such Violation occurs in reliance upon and in conformity with written information furnished by such Holder expressly for use in connection with such registration; and each such Holder will pay, as incurred, any legal or other expenses reasonably incurred by any person intended to be indemnified pursuant to this subsection 1.7(a), in connection with investigating or defending any such loss, claim, damage, liability, or action; provided, however, that the indemnity agreement contained in this subsection 1.7(a) shall not apply to amounts paid in settlement of any such loss, claim, damage, liability or action if such settlement is effected without the consent of the Holder, which consent shall not be unreasonably withheld; provided, that, in no event shall any indemnity under this subsection l.l0(b) exceed the gross proceeds from the offering received by such Holder.

(c) Promptly after receipt by an indemnified party under this Section 1.7 of notice of the commencement of any action (including any governmental action), such indemnified party will, if a claim in respect thereof is to be made against any indemnifying party under this Section 1.7, deliver to the indemnifying party a written notice of the commencement thereof and the indemnifying party shall have the right to participate in, and, to the extent the indemnifying parry so desires, jointly with any other indemnifying party similarly noticed, to assume the defense thereof with counsel mutually satisfactory to the parties; provided, however, that an indemnified party (together with all other indemnified parties which may be represented without conflict by one counsel) shall have the right to retain one separate counsel, with the fees and expenses to be paid by the indemnifying party, if representation of such indemnified party by the counsel retained by the indemnifying party would be inappropriate due to actual or potential differing interests between such indemnified party and any other party represented by such counsel in such proceeding. The failure to deliver written notice to the indemnifying party within a reasonable time of the commencement of any such action, if prejudicial to its ability to defend such action, shall relieve such indemnifying party of any liability to the indemnified party under this Section 1.7, but the omission so to deliver written notice to the indemnifying party will not relieve it of any liability that it may have to any indemnified party otherwise than under this Section 1.7.

(d) If the indemnification provided for in this Section 1.7 is held by a court of competent jurisdiction to be unavailable to an indemnified party with respect to any loss, liability, claim, damage, or expense referred to therein, then the indemnifying party, in lieu of indemnifying such indemnified party hereunder, shall contribute to the amount paid or payable by such indemnified party as a result of such loss, liability, claim, damage, or expense in such proportion as is appropriate to reflect the relative fault of the indemnifying party on the one hand and of the indemnified party on the other in connection with the statements or omissions that resulted in such loss, liability, claim, damage, or expense as well as any other relevant equitable considerations. The relative fault of the indemnifying party and of the indemnified party shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission to state a material fact relates to information supplied by the indemnifying party or by the indemnified party and the parties' relative intent, knowledge, access to information, and opportunity to correct or prevent such statement or omission.

(e) Notwithstanding the foregoing, to the extent that the provisions on indemnification and contribution contained in the underwriting agreement entered into in connection with the underwritten public offering are in conflict with the foregoing provisions, the provisions in the underwriting agreement shall control.

(f) The obligations of the Company and Holders under this Section 1.7 shall survive the completion of any offering of Registrable Securities in a registration statement under this Section 1, and otherwise.

1.8 Assignment of Registration Rights. The rights to cause the Company to register Registrable Securities pursuant to this Section 1 may be assigned (but only with all related obligations) by a Holder to a transferee or assignee of such securities, provided: (a) the Company is, within a reasonable time after such transfer, furnished with written notice of the name and address of such transferee or assignee and the securities with respect to which such registration rights are being assigned; (b) such transferee or assignee agrees in writing to be bound by and subject to the terms and conditions of this Agreement; and (c) such assignment shall be effective only if immediately following such transfer the further disposition of such securities by the transferee or assignee is restricted under the Act.

1.9 Termination of Registration Rights. No Holder shall be entitled to exercise any right provided for in this Section 1 after the fifth anniversary of the date of this Agreement.

1.10 Reports Under 1934 Act. With a view to making available to the Holders the benefits of Rule 144 promulgated under the Act and any other rule or regulation of the SEC that may at any time permit a Holder to sell Registrable Securities to the public without registration, the Company agrees to:

(a) make and keep available public information, as those terms are understood and defined in Rule 144;

(b) file with the SEC in a timely manner all reports and other documents required of the Company nuder the Act and the 1934 Act; and

(c) furnish to a Holder owning any Registrable Securities upon request (i) a written statement by the Company that it has complied with the reporting requirements of Rule 144 (at any time after 90 days after the effective date of the first registration statement filed by the Company for an offering of its securities to the general public), the Act and the 1934 Act (at any time after the Company has become subject to the reporting requirements of the 1934 Act), (ii) a copy of the most recent annual or quarterly report of the company and such other reports and documents so filed by the Company, and (iii) such other information as may be reasonably required in availing any Holder of Registrable Securities of any rule or regulation of the SEC which permits the selling of any such Registrable Securities without registration or pursuant to such form (at any time after the company has become subject to the reporting requirements of the 1934 Act).

1.11 Granting of Registration Rights. The Company shall not, without the prior written consent of the Holders of at least 50.1% of the Registrable Securities then outstanding, grant any rights to any persons to register any shares of capital stock or other securities of the Company that would limit the Holders' proportional rights under Section 1.2(b). The grant of registration rights to any person that would entitle such person to participate on a pro rata basis in an offering under Section 1.2(b) shall not be deemed a limitation to the Holders' proportional rights under Section 1.2(b), pursuant to this Section 1.11; provided that in no circumstance will fewer than ten percent (10%) of the shares to be underwritten pursuant to Section 1.2(b) be allocated to the Holders, regardless of any subsequent registration rights granted by the Company.

2. Miscellaneous.

2.1 Successors and Assigns. Except as otherwise provided herein, the terms and conditions of this Agreement shall inure to the benefit of and be binding upon the respective successors and assigns of the patties (including transferees of any shares of Registrable Securities). Nothing in this Agreement, express or implied, is intended to confer upon any party other than the parties hereto or their respective successors and assigns any rights, remedies, obligations, or liabilities under or by reason of this Agreement, except as expressly provided in this Agreement.

2.2 Governing Law. This Agreement shall be governed by and construed under the laws of the Commonwealth of Pennsylvania without regard to its conflict of laws principles.

2.3 Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

2.4 Titles and Subtitles. The titles and subtitles used in this Agreement are used for convenience only and are not to be considered in construing or interpreting this Agreement.

2.5 Notices. Unless otherwise provided, any notice required or permitted under this Agreement shall be given in writing and shall be deemed effectively given upon personal delivery to the party to be notified or upon deposit with the United States Post Office, by registered or certified mail, postage prepaid and addressed to the party to be notified at the address indicated for such party on the signature page hereof, or at such other address as such party may designate by ten (10) days' advance written notice to the other parties.

2.6 Expenses. If any action at law or in equity is necessary to enforce or interpret the terms of this Agreement, the prevailing party shall be entitled to reasonable attorneys' fees, costs and necessary disbursements in addition to any other relief to which such party may be entitled.

2.7 Amendments and Waivers. Any term of this Agreement may be amended and the observance of any term of this Agreement may be waived (either generally or in a particular instance and either retroactively or prospectively), only with the written consent of the Company and the holders of a majority of the Registrable Securities then outstanding. Any amendment or waiver effected in accordance with this paragraph shall be binding upon each holder of any Registrable Securities then outstanding, each future holder of all such Registrable Securities, and the Company.

2.8 Severability. If one or more provisions of this Agreement are held to be unenforceable under applicable law, such provision shall be excluded from this Agreement and the balance of the Agreement shall be interpreted as if such provision were so excluded and shall be enforceable in accordance with its terms.

2.9 Aggregation of Stock. All shares of Registrable Securities held or acquired by affiliated entities or persons shall be aggregated together for the purpose of determining the availability of any rights under this Agreement.

2.10 Entire Agreement; Amendment; Waiver; No Further Rights. This Agreement (including the Exhibits hereto, if any) constitutes the full and entire understanding and agreement between the parties with regard to the subjects hereof and thereof. The Stockholders hereby agree that they have no further rights under the ATI Registration Rights Agreement.

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IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

DISCOVERY LABORATORIES, INC.

By: /s/ Robert J. Capetola

Robert J. Capetola, Ph.D.
President

Address:

Stockholders:

JOHNSON & JOHNSON DEVELOPMENT CORPORATION

By: /s/ Blair M. Flicker

Blair M. Flicker

Address: One Johnson & Johnson Plaza

New Brunswick, NJ 08933

THE SCRIPPS RESEARCH INSTITUTE

By: /s/ Arnold LaGuardia

Address: 10550 N. Torrey Pines Road, TPC-16

LaJolla, CA 92037

EXHIBIT 10.29

EXECUTION COPY

STOCK EXCHANGE AGREEMENT

THIS AGREEMENT is made this 16th day of June, 1998, by and between DISCOVERY LABORATORIES, INC., a Delaware corporation (the "Company"), and JOHNSON & JOHNSON DEVELOPMENT CORPORATION, a New Jersey corporation ("JJDC").

WHEREAS, the Company and Acute Therapeutics, Inc. ("ATI") have entered into an agreement dated as of March 5, 1998, amended as of May 1, 1998, whereby a newly-formed subsidiary of the Company will merge with and into ATI (the "Merger") and ATI will become a wholly-owned subsidiary of the Company (the "Merger Agreement");

WHEREAS, JJDC owns 2,039 shares of Series B Preferred Stock, $0.001 par value per share of ATI (the "Series B ATI Preferred Shares"); and

WHEREAS, it is a condition to the consummation of the Merger contemplated by the Merger Agreement that the Company and JJDC enter into an agreement pursuant to which JJDC will exchange its shares of Series B ATI Preferred Shares for 2,039 shares of Series C Preferred Stock, $0.001 par value per share, of the Company (the "Discovery Series C Preferred Shares").

WHEREAS, pursuant to the terms of the Certificate of Designation of the Series B ATI Preferred Shares, JJDC is entitled to receive a dividend (the "Series B Dividend") accrued but unpaid through the date of the consummation of the Merger (the "Merger Date") on its Series B ATI Preferred Shares.

WHEREAS, the Company has agreed to issue to JJDC a certain number of shares (the "Dividend Shares") of common stock of the Company, $0.001 par value per share (the "Common Stock") equal to $203,900 divided by the "current market price" (as defined in Section 3 below) of the Common Stock in lieu of the Series B Dividend, which shares shall be issued on the 21st business day after the date of the Merger.

NOW, THEREFORE, in consideration of the mutual promises hereinafter set forth and other good and valuable consideration, the receipt of which is hereby acknowledged, the parties hereby agree as follows:

1. Authorization of Discovery Series C Preferred Shares. On or before the effective time of the Merger (the "Effective Time"), the Company (a) shall authorize the Discovery Series C Preferred Shares, having the rights, preferences and privileges set forth in the Certificate of Designation attached hereto as Exhibit A (the "Certificate of Designation") and (b) shall file with the Secretary of State of Delaware such Certificate of Designation.

2. Exchange of Series B ATI Preferred Shares. At the Effective Time, each issued and outstanding Series B ATI Preferred Share shall be exchangeable for, and shall be deemed to represent, one Discovery Series C Preferred Share. On or after the Effective Time, JJDC shall deliver to the Company the certificate representing its Series B ATI Preferred Shares, duly endorsed in blank for transfer or with duly executed blank stock powers attached.

3. Issuance of Shares. Upon surrender by JJDC of its stock certificate for the 2,039 shares of Series B ATI Preferred Shares to the Company, the Company shall issue two duly executed stock certificates to JJDC. One stock certificate shall be registered in the name of JJDC for the Discovery Series C Preferred Shares and shall be issued on the date of the Merger. The second stock certificate shall be registered in the name of JJDC for the number of shares of Common Stock representing the Dividend Shares and shall be issued on the 21st business day following the date of the Merger. The Discovery Series C Preferred Shares and the Dividend Shares are herein collectively referred to as the "Shares."

For purposes of this Agreement, the "current market price" of the Company's Common Stock shall mean the average of the closing price of the Company's Common Stock for the twenty (20) consecutive trading days commencing on the Effective Date of the Merger (as defined in the Merger Agreement) (whether or not a sale of the Common Stock was reported on any such business day). The closing price shall be the reported sales price regular way, in each case on the principal national securities exchange or the Nasdaq National Market on which the shares of the Company's Common Stock are listed or admitted to trading, or if not listed or admitted to trading thereon, the average of the closing bid and asked prices of the Common Stock in the over-the-counter market as reported by Nasdaq or any comparable system, or if the Common Stock is not listed on Nasdaq or a comparable system, the average of the closing bid and asked prices on such day in the domestic over-the-counter market as reported on the NASD Electronic Bulletin Board, or, if not reported on such bulletin board, in the "pink sheets" published by the National Quotation Bureau, Incorporated.

4. Representations and Warranties of the Company. On the date of this Agreement and at the Effective Time (except with respect to changes in capitalization as contemplated in Section 4.e. below), the Company hereby represents and warrants to JJDC that:

a. Organization, Good Standing and Qualification. The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware and has all requisite corporate power and authority to carry on its business as now conducted and as proposed to be conducted. The Company is duly qualified to transact business and is in good standing in each jurisdiction in which the failure to so qualify would have a material adverse effect on its business or properties.

b. Authorization. The Company has full corporate power and authority to execute, deliver and perform its obligations under this Agreement and the Registration Rights Agreement attached as Exhibit B hereto (the "Registration Rights Agreement"). All corporate action on the part of the Company, its officers, directors and stockholders necessary for the authorization, execution and delivery of the Agreement and the Registration Rights Agreement, the performance of all obligations of the Company hereunder and thereunder, and the authorization, issuance (or reservation for issuance), sale and delivery of the Shares and the shares of Common Stock to be issued upon conversion and, in certain cases, redemption of the Discovery Series C Preferred Shares (the "Underlying Common Shares") has been taken. The Agreement and the Registration Rights Agreement have been duly executed and delivered by the Company and constitute valid and legally binding obligations of the Company, enforceable in accordance with their respective terms, except (i) as limited by applicable bankruptcy, insolvency, reorganization, moratorium, and other laws of general application affecting enforcement of creditors' rights generally and (ii) as limited by laws relating to the availability of specific performance, injunctive relief, or other equitable remedies and (iii) as limited by the indemnification provisions set forth in Section 1.7 of the Registration Rights Agreement.

c. Valid Issuance of the Shares. The Shares, when issued, sold and delivered in accordance with the terms of this Agreement, and any Underlying Common Shares, when issued upon conversion of the Discovery Series C Preferred Shares, will be duly and validly issued and outstanding, fully paid, and nonassessable, free of any liens, encumbrances, preemptive rights or rights of first refusal and will be issued in compliance with all applicable federal and state securities laws and will be free of restrictions on transfer other than restrictions on transfer under this Agreement and under applicable state and federal securities laws. The terms of the Discovery Series C Preferred Shares are set forth in the Certificate of Designation.

d. Capitalization. The authorized capital stock of the Company consists of 20,000,000 shares of Common Stock, par value $0.001 per share, and 5,000,000 shares of Preferred Stock, par value $0.001 per share, of which 2,420,282 are designated Series B Convertible Preferred Stock (the "Discovery Series B Preferred Stock"). As of December 31, 1997, (i) 3,176,065 shares of Common Stock were issued and outstanding, (ii) 2,200,256 shares of Discovery Series B Preferred Stock were issued and outstanding and were convertible into 3,424,980 shares of Common Stock, (iii) 115,491 shares of Common Stock were held in the treasury of the Company, (iv) 253,535 shares of Common Stock were reserved for issuance upon exercise of outstanding options issued under the 1996 Stock Option Plan of Discovery Laboratories, Inc., a former Delaware corporation ("Old Discovery") and outside such plan and assumed by the Company, (v) an aggregate of 116,162 shares of Common Stock were reserved for issuance under stock options issued (or issuable) under the Company's 1993 and 1995 Stock Option Plans (the "Discovery Option Plans"), (vi) an aggregate of 2,297 shares of Common Stock were reserved for issuance under stock options issued (or issuable) by the Company outside the Discovery Option Plans, (vii) an aggregate of 2,055,624 shares of Common Stock were reserved for issuance under outstanding warrants, (viii) 342,499 shares of Common Stock were reserved for issuance upon conversion of the 220,026 shares of Discovery Series B Preferred Stock issuable upon the exercise of outstanding warrants, and (ix) 173,333 shares of Common Stock were reserved for issuance upon exercise of the Company's outstanding unit purchase option (including warrants issuable upon the exercise of such unit purchase option). Except as set forth in this Section 4.d, there are no other options, warrants or other rights, convertible debt, agreements, arrangements or commitments of any character obligating the Company to issue or sell any shares of capital stock of or other equity interests in the Company. The Company is not obligated to redeem, repurchase or otherwise reacquire any of its capital stock or other securities.

e. Absence of Certain Changes. Since December 31, 1997, except as contemplated by this Agreement, there has not been:

(1) any material adverse change in the assets, liabilities, financial condition, operating results or business of the Company; or

(2) any issuance of capital stock by the Company or any options, warrants or rights therefor, other than:

(a) shares of Common Stock issued upon the conversion of shares of Discovery Series B Preferred Stock outstanding at December 31, 1997;

(b) shares of Common Stock issued pursuant to options and warrants outstanding at December 31, 1997;

(c) options to purchase 132,500 shares of Common Stock granted by the Company on January 2, 1998; and

(d) options to purchase up to 75,000 shares of Common Stock that the Company may issue after the date hereof to employees and consultants at exercise prices at least equal to the fair market value of such shares.

f. Securities Laws. Assuming that JJDC's representations and warranties contained in Section 5 of this Agreement are true and correct, the exchange of the Series B ATI Preferred Shares for the Discovery Series C Preferred Shares pursuant to Section 2 of this Agreement and the issuance of the Discovery Series C Preferred Shares pursuant to Section 3 of this Agreement will be exempt from the registration and prospectus delivery requirements of the Securities Act of 1933, as amended (the "1933 Act").

5. Representations and Warranties of JJDC.

JJDC hereby represents and warrants to the Company that:

a. Authorization. JJDC has full corporate power and authority to enter into and perform its obligations under this Agreement, and the Registration Rights Agreement, and such Agreements constitute valid and legally binding obligations of JJDC, enforceable in accordance with their terms except (i) as limited by applicable bankruptcy, insolvency, reorganization, moratorium, and other laws of general application affecting enforcement of creditors' rights generally and (ii) as limited by laws relating to the availability of specific performance, injunctive relief, or other equitable remedies and (iii) as limited by the indemnification provisions set forth in Section 1.7 of the Registration Rights Agreement.

b. Investment Representations.

(1) Investment Intent. This Agreement is made with JJDC in reliance upon its representation to the Company, which by acceptance hereof JJDC confirms, that the Shares will be acquired with JJDC's own assets for investment, not as a nominee or agent, and not with a view to the sale or distribution of any part thereof, and that JJDC has no present intention of selling, granting participation in, or otherwise distributing the same. By executing this Agreement, JJDC represents that it does not have any contract, undertaking, agreement or arrangement with any person or entity to sell, transfer, or grant participation, to such person or entity or to any third person or entity, with respect to any of the Shares.

(2) Restricted Securities. JJDC understands that the Shares and the Underlying Common Shares have not been registered under the 1933 Act. JJDC further understands that if a registration statement covering the Shares or the Underlying Common Shares under the 1933 Act is not in effect when it desires to sell the Shares or the Underlying Common Shares, JJDC may be required to hold the Shares or the Underlying Common Shares for an indeterminate period. JJDC also acknowledges that it understands that any sale of the Shares or the Underlying Common Shares that might be made by JJDC in reliance upon Rule 144 under the 1933 Act may be made only in limited amounts in accordance with the terms and conditions of that rule and that JJDC may not be able to sell the Shares or the Underlying Common Shares at the time or in the amount JJDC so desires. JJDC is familiar with Rule 144 and understands that the Shares and the Underlying Common Shares constitute "restricted securities" within the meaning of that Rule.

(3) Investment Experience. JJDC represents that it is able to fend for itself in the transactions contemplated by this Agreement, has such knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of its investment, has the ability to bear the economic risks of its investment and has been furnished with and has had access to such information as JJDC has requested and deems appropriate to its investment decision.

(4) Limitations on Disposition. JJDC agrees that in no event will it make a disposition of any of the Shares or the Underlying Common Shares, unless and until (a) JJDC shall have notified the Company of the proposed disposition and shall have furnished the Company with a statement of the circumstances surrounding the proposed disposition, and (b) if requested by the Company, JJDC shall have furnished the Company with an opinion of counsel reasonably satisfactory to the Company to the effect that (i) such disposition will not require registration of such Shares, or the underlying Common Shares, under the 1933 Act, or (ii) that appropriate action necessary for compliance with the 1933 Act has been taken, or (c) the Company shall have waived, expressly and in writing, its rights under clauses (a) and (b) of this subparagraph. In addition, prior to any disposition of any of the Shares, or the Underlying Common Shares, the Company may require the transferee or assignee to provide in writing investment representations and its agreement to the market stand-off provisions hereof in a form acceptable to the Company. The restrictions on disposition imposed by this Section 5(b)(4) shall cease and terminate as to the Shares or the Underlying Common Shares when: (i) such securities shall have been effectively registered under the 1933 Act and sold by the holder thereof in accordance with such registration, or (ii) an opinion of the kind described in the second preceding sentence states that all future transfers of such securities by the holder thereof would be exempt from registration under the 1933 Act.

The Company shall not be required (i) to transfer on its books any Shares or the Underlying Common Shares of the Company which shall have been sold or transferred in violation of any of the provisions set forth in this Agreement, or (ii) to treat as owner of such shares or to accord the right to vote as such owner or to pay dividends to any transferee to whom such shares shall have been so transferred. JJDC shall, during the term of this Agreement, exercise all rights and privileges of a stockholder of the Company with respect to the Shares or the Underlying Common Shares of the Company after the issuance, and prior to the repurchase, thereof.

c. Legends. All certificates representing any Shares or the Underlying Common Shares of the Company subject to the provisions of this Agreement shall have endorsed thereon the following legends (except that such certificates shall not be required to bear such legend after a transfer thereof if the transfer was made in compliance with Rule 144 or pursuant to a registration statement or, if the opinion of counsel referred to above is issued and provides that such legend is not required in order to establish compliance with any provisions of the 1933 Act):

(1) "THE SECURITIES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO THE TERMS AND CONDITIONS OF A CERTAIN STOCK EXCHANGE AGREEMENT WHICH INCLUDES A MARKET STAND-OFF AGREEMENT AND A REGISTRATION RIGHTS AGREEMENT ON THE SALE OF THE SECURITIES. COPIES OF THE AGREEMENTS MAY BE OBTAINED UPON WRITTEN REQUEST TO THE SECRETARY OF THE CORPORATION."

(2) "THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933. THESE SECURITIES HAVE BEEN ACQUIRED FOR INVESTMENT AND NOT WITH A VIEW TO DISTRIBUTION OR RESALE, AND MAY NOT BE TRANSFERRED WITHOUT AN EFFECTIVE REGISTRATION STATEMENT FOR SUCH SHARES UNDER THE SECURITIES ACT OF 1933, OR PURSUANT TO RULE 144 UNDER THE ACT OR AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY THAT REGISTRATION IS NOT REQUIRED UNDER SUCH ACT."

(3) Any legend required to be placed thereon by applicable state laws.

6. "Market Stand-Off" Agreement. JJDC hereby agrees that, during the period specified by the Company and the underwriter or underwriters of common stock (or other securities) of the Company, following the effective date of a registration statement of the Company filed under the 1933 Act, JJDC shall not to the extent requested by the Company and such underwriter, but in any case for a period not to exceed 180 days, directly or indirectly, sell, offer or contract to sell (including, without limitation, any short sale), grant any option to purchase or otherwise transfer or dispose of (other than to donees who agree to be similarly bound) any securities of the Company at any time during such period except common stock included in such registration, provided, however, that (a) such agreement shall be applicable only to the first such registration statement of the Company after the date of this Agreement which covers common stock (or other securities) to be sold on its behalf to the public in an underwritten offering and (b) all directors and officers of the Company and all stockholders of the Company holding the same or a greater percentage of the outstanding stock of the Company on a fully diluted basis enter into similar agreements.

In order to enforce the foregoing covenant, the Company may impose stop-transfer instructions with respect to the Shares held by JJDC until the end of such 180-day period.

7. Miscellaneous.

a. Publicity. No party shall originate any publicity, news release, or other announcement, written or oral, relating to this Agreement, or to performance hereunder or the existence of an arrangement between the parties hereto without the prior written consent of the other.

b. Notices. Any notice required or permitted hereunder shall be given in writing and shall be deemed effectively given upon personal delivery or upon deposit in the United States Post Office, by registered or certified mail with postage and fees prepaid, or upon delivery by overnight courier service (paid by sender), addressed to the other party hereto at his or her address hereinafter shown below his or her signature or at such other address as such party may designate by ten (10) days' advance written notice to the other party hereto.

c. Governing Law Assignment and Enforcement. This Agreement is governed by the internal law of Delaware and shall inure to the benefit of the successors and assigns of the Company and, subject to the restrictions on transfer herein set forth, be binding upon JJDC and its successors and assigns.

d. Amendments and Waivers. This Agreement represents the entire understanding of the parties with respect to the subject matter hereof and supersedes all previous understandings, written or oral. This Agreement may only be amended with the written consent of the parties hereto and the Company's assignees, or the successors or assigns of the foregoing, and no oral waiver or amendment shall be effective under any circumstances whatsoever.

e. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

DISCOVERY LABORATORIES, INC.

By: /s/ Robert J. Capetola

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

Address: 3359 Durham Road
Doylestown, Pennsylvania 18901

JOHNSON & JOHNSON
DEVELOPMENT CORPORATION

/s/ Blair M. Flicker

(Signature)

Blair M. Flicker

(Print Name)

Address: One Johnson & Johnson Plaza
New Brunswick, New Jersey 08933

EXHIBIT 10.30

ROBINSON LERER & MONTGOMERY

STRATEGIC COMMUNICATIONS

75 Rockefeller Plaza
New York, NY 10019
212.484.6100
fax 212.484.741 1

July 28, 1998

Mr. Evan Myrianthopoulos
Vice President of Finance
Discovery Laboratories, Inc.
509 Madison Avenue, 14th Floor
New York, NY 10022

Dear Mr. Myrianthopoulos

This letter, when signed by both Discovery Laboratories, Inc. ("you" or "your") and Robinson Lerer & Montgomery, LLC ("we," "us" or "our"), will constitute an agreement (the "Agreement") between you and us with regard to our appointment by you as a consultant for certain of your corporate communications work, as described in the attached Exhibit A.

1. Fees: For our services on your behalf, you agree to pay us a fixed monthly fee of $10,000 (the "Fee") for each month during the term of this Agreement. For reference, our standard hourly time charges are as follows:

Partner	$385-$450
Principal	$325
Executive Vice President	$300
Senior Vice President	$260
Vice President	$200
Senior Associate	$160
Associate	$125
Assistant	$ 60

It is understood and agreed that the above referenced hourly time charges shall be subject to change by us upon thirty (30) days prior written notice to you.

Work Above Fee: In the event you ask us to perform work substantially above that contemplated by this Agreement, then you and we shall, in good faith, negotiate an additional fee for us in connection with such work.

Reimbursements: For our outlays on your behalf, you agree to reimburse us for reasonable disbursements and other charges we incur in connection with providing services to you under this Agreement. We shall bill you monthly, in arrears, for such disbursements and other charges.

Interest on Late Payments: On invoices for fees or reimbursements for which payment is not received within thirty (30) days, you agree to pay us simple interest, computed monthly, at one and one-half percent (1 1/2 percent) over the prime rate of interest in effect at Chase Manhattan Bank, in New York City, on the undisputed amount outstanding at the end of such 30-day period, until such payment is received. In the event of a disputed charge, you shall notify us in writing of the disputed amount and reason for the dispute, and you agree to pay all undisputed amounts owed while the dispute is under negotiation.

2. Term: This Agreement shall commence as of July 28, 1998, and will continue until December 31, 1998. Upon termination of this Agreement, you agree to pay all fees, disbursements and other charges incurred prior to the effective date of such termination.

3. Indemnity: You hereby agree to indemnify and hold harmless us and our officers, directors, members, agents, and employees (each of the foregoing, including us, being hereinafter referred to as an "Indemnified Person") to the fullest extent permitted by law from and against any and all losses, claims, damages, expenses (including reasonable fees, disbursements, and other charges of counsel), actions, proceedings, arbitrations or investigations or threats thereof (all of the foregoing being hereinafter referred to as "Liabilities"), based upon, relating to or arising out of our engagement by you to perform services hereunder or any Indemnified Person's role therein; provided, however, that you shall not be liable under this paragraph: (a) for any amount paid in settlement of claims without your consent, unless your consent is unreasonably withheld, or (b) to the extent that it is finally judicially determined, or expressly stated in an arbitration award, that such Liabilities resulted primarily from the willful misconduct or gross negligence of the Indemnified Person seeking indemnification. In connection with your obligation to indemnify for expenses as set forth above, you further agree to reimburse each Indemnified Person for all such expenses (including reasonable fees, disbursements, and other charges of counsel) as they are incurred by such Indemnified Person; provided, however, that if any Indemnified Person is reimbursed hereunder for any expenses, the amount so paid shall be refunded if and to the extent it is finally judicially determined, or expressly stated in an arbitration award, that the Liabilities in question resulted primarily from the willful misconduct or gross negligence of such Indemnified Person. You hereby also agree that neither we nor any other Indemnified Person shall have any liability to you (or anyone claiming through you or in your name) in connection with our engagement by you except to the extent that such Indemnified Person has engaged in willful misconduct

or been grossly negligent. The foregoing provisions of this paragraph shall remain in effect indefinitely, notwithstanding any termination of the Agreement.

4. Applicable Law: This Agreement shall be governed by and construed in accordance with the internal laws of the State of New York applicable to agreements made and to be performed entirely within such State, without regard to the principles of conflicts of law. This Agreement sets forth the entire agreement and understanding of the parties relating to the subject matter hereof and supersedes all prior agreements, arrangements, and understandings, written or oral, relating thereto. No representation, promise, or inducement has been made by either party that is not embodied in this Agreement and neither party shall be bound by or liable for any alleged representation, promise, or inducement not so set forth. Neither party shall have the right to assign any of its right or obligations under this Agreement. No amendment or waiver of this Agreement shall be effective, binding, or enforceable unless in writing and signed by both you and us or, in the case of a waiver, by the party granting the waiver.

Please confirm that the foregoing correctly sets forth our understanding by signing and returning to us the enclosed duplicate copy of this letter.

Very truly yours,

By: /s/ Patricia S. Gallagher

Patrick S. Gallagher
Chief Financial Officer

ACCEPTED AND AGREED:

By: /s/ Evan Myrianthopoulos

Evan Myrianthopoulos
Chief Financial Officer
Discovery Laboratories, Inc.

Exhibit A

Services: RLM will work to increase awareness of Discovery Laboratories and its products by targeted media outlets, and will provide additional communications support as requested and as contemplated by this Agreement.

EXHIBIT 10.31

KPMG Peat Marwick LLP
Princeton Pike Corporate Center
P.O. Box 7348
Princeton, NJ 08543-7348
Telephone: (609) 896-2100
Facsimile: (609) 896-9782

Confidential
- ------------

July 24, 1998

Robert J. Capetola, Ph.D.
President & CEO
Discovery Laboratories, Inc.
3359 Durham Road
Doylestown, PA 18901

The purpose of this letter is to provide a revision ("Revision One") to the letter agreement of April 27, 1998 ("the Agreement") between KPMG Peat Marwick LLP ("KPMG") and Discovery Laboratories, Inc. ("Discovery Labs" or "the Company"). In addition to the advisory services outlined in the Agreement, KPMG will render strategic advisory services to the Company in connection with a possible merger, acquisition or sale transaction (a "Transaction") with another company ("Strategic Partner"). KPMG will also arrange additional contacts with portfolio managers.

Section 1. Services to be Rendered

In addition to those services provided under the original Agreement, KPMG will perform such of the following financial advisory services as the Company may reasonably request:

- Assist the executive management of Discovery Labs in formulating and prioritizing the Company's strategic objectives;
- From these objectives, work with the Company to identify the preferred attributes of prospective Strategic Partners;
- Perform a broad search of publicly available information on public and private companies to identify an initial list of potential Strategic Partners;
- Advise and assist the Company in refining the list of potential Strategic Partners and prepare a profile of Select Companies, including financial data, product pipeline, intellectual property position and possible strategic fit with Discovery Labs;
- If KPMG and the Company believe it to be advisable, assist the Company in preparing a memorandum and confidentiality agreement, for distribution to Select Companies, the memorandum will describe the Company and its technology, business, operations, properties,

financial condition, and prospects, it being specifically agreed that (i) such memorandum shall be based entirely upon information supplied by the Company, which information the Company hereby warrants shall be complete and accurate in all material respects, and not misleading, (ii) the Company shall be solely responsible for the accuracy and completeness of such memorandum, and (iii) other than as contemplated by this paragraph, such memorandum shall not be used, reproduced, disseminated, quoted, or referred to at any time, in any manner, or for any purpose, except with KPMG's prior written consent;

- On behalf of the Company, contact such potential Strategic Partners as the Company may designate;
- Advise and assist the Company in considering the desirability of effecting various types of Transaction(s), and, if the Company believes such a transaction to be desirable, in developing a general strategy for accomplishing a Transaction;
- Assist management of the Company in making presentations to the Board of Directors of the Company concerning a proposed Transaction with one or more potential Strategic Partners;
- Advise and assist the Company in the course of its negotiation of a Transaction with a potential Strategic Partner in order to facilitate the issuance of a letter of intent and definitive Transaction agreement;
- Suggest various financing alternatives in financing a Transaction(s); o Render such other financial advisory services as may from time to time be agreed upon by KPMG and the Company; and
- Separately, KPMG will arrange additional contacts with portfolio managers.

Section 2. Fees

The Company shall pay to KPMG for its services hereunder the following cash fees:

- $7,500 each month, representing an increase of $2,500 from the monthly fee under the original Agreement, as payment for KPMG's services; and
- At the conclusion of the above contemplated engagement, the Company will pay KPMG a fee reflective of the value of the services provided. [***]

Section 3. Indemnity

KPMG and the Company hereby agrees as follows:

1. The Company agrees to reimburse KPMG, its affiliates and their respective partners, principals, directors, officers, employees, agents and controlling persons (each an "Indemnified Party") promptly upon demand for expenses (including fees and expenses of legal counsel) as they are incurred in connection with the investigation of, preparation for or defense of any pending or threatened claim, or any litigation, proceeding or other action in connection

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[***] Confidential Treatment Requested. Omitted portions have been filed separately with the Commission

with or arising out of or relating to the engagement of KPMG under the Letter Agreement, or any actions taken or omitted, services performed or matters contemplated by or in connection with the Letter Agreement, whether or not such litigation, proceeding or other action is initiated or brought by the Company. The Company also agrees to indemnify and hold harmless each Indemnified Party from and against any and all losses, claims, damages and liabilities ("Losses"), joint or several, to which any Indemnified Party may become subject, including, without limitations, any amount paid or payable in settlement of any litigation, proceeding or other action (commenced or threatened), in connection with or arising out of or relating to the engagement of KPMG under the Letter Agreement, or any actions taken or omitted, services performed or matters contemplated by or in connection with the Letter Agreement, provided, however, that the Company shall not be liable pursuant to this paragraph to the extent such Losses have been finally determined by a court of competent jurisdiction (not subject to further appeal) to have resulted primarily from the willful misconduct or gross negligence of any Indemnified Party.

2. If indemnification is to be sought hereunder by an Indemnified Party, then such indemnified Party shall notify the Company of the commencement or threat of any litigation, proceeding or other action in respect thereof; provided, however, that the failure to notify the Company shall not relieve the Company from any liability or obligation that it may have hereunder or otherwise to such Indemnified Party unless and only to the extent that such failure to notify results in actual prejudice to the Company. Following such notification, the Company may elect in writing to assume the defense of such litigation, proceeding or other action (and the costs related thereto) and, upon such election, the Company shall not be liable for any legal costs subsequently incurred by such Indemnified Party (other than costs of investigation or the production of documents or witnesses) unless (i) the Company has failed to provide legal counsel reasonably satisfactory to such Indemnified Party in a timely manner or (ii) such Indemnified Party shall have reasonably concluded on the advice of counsel that (a) the representation of such Indemnified Party by legal counsel selected by the Company would be inappropriate due to actual or potential conflicts of interest; or (b) there may be legal defenses available to such Indemnified Party that are different from or additional to those available to the Company such that separate representation for such Indemnified Party would be advisable. Nothing set forth herein shall preclude an Indemnified Party from retaining its own counsel at its own expense.

The Company agrees that, without KPMG's prior written consent (which will not be unreasonably withheld), the Company will not settle, compromise or consent to the entry of any judgment with respect to arny pending or threatened claim, action or proceeding in respect of which indemnification could be sought hereunder (whether or not KPMG or any other Indemnified Party are an actual or potential party to such claim, action or proceeding), unless such settlement, compromise or consent includes an unconditional release of each of the foregoing parties from all liability arising out of such claim, action or proceeding or unless KPMG reasonably agrees that such release is not necessary at such time (it being understood that the Company's indemnification obligations will remain in full force and effect). KPMG agrees that the Company shall not be liable for the settlement, compronise or consent of any claim, action or proceeding which is effected without the Company's written consent (which will not be unreasonably withheld).

3. In the event that the indemnity provided for in paragraphs 1 and 2 hereof is unavailable or insufficient to hold any Indemnified Party harmless other than by operation of the proviso set forth in paragraph 1 above, then the

Company shall contribute to amounts paid or payable by an Indemnified Party in respect of such Indemnified Party's Losses as to which the indemnity provided for in paragraphs 1 and 2 hereof is unavailable or insufficient (i) in such proportion as approximately reflects the relative benefits received by the Company, on the one hand, and KPMG, on the other hand, in connection with the matters as to which such Losses relate or (ii) if the allocation provided by clause (i) above is not permitted by applicable law, in such proportion as appropriately reflects not only the relative benefits referred to in clause (i) but also the relative fault of the Company, on the one hand, and KPMG, on the other hand, as well as any other equitable considerations. The amounts paid or payable by an Indemnified Party in respect of Losses referred to above shall be deemed to include any legal or other fees and expenses incurred in defending any litigation, proceeding or other action or claim. Notwithstanding the provisions hereof, to the extent permitted by applicable law, KPMG's share of the liability hereunder shall not be in excess of the amount of fees actually received by KPMG under the Letter Agreement (excluding any amounts received as reimbursement of expenses incurred by KPMG).

4. These Indemnification Provisions shall remain in full force and effect whether or not any of the transactions contemplated by the Letter Agreement are consummated and shall survive the expiration or termination of the Letter Agreement and all residual periods, and shall be in addition to any liability that the Company might otherwise have to any Indemnified Party under the Letter Agreement or otherwise. It is further agreed that no Indemnified Party (including KPMG) shall be liable to the Company or any affiliate of the Company in connection with any matter arising out of or relating to the engagement of KPMG under the Letter Agreement, or any actions taken or omitted, services performed or matters contemplated by or in connection with the Letter Agreement, except to the extent of any Losses that a court of competent jurisdiction shall have finally determined (not subject to further appeal) to have resulted primarily from the willful misfeasance or gross negligence of any Indemnified Party.

Section 4. Termination of Engagement

As under the original Agreement, this engagement will continue until terminated by one of the parties; provided, however, that KPMG will have the same entitlement to its fee under Section 2 hereof in the event that, at any time prior to the expiration of one year after such termination, a Transaction is consummated with a company with whom KPMG held discussions during the course of its engagement hereunder.

Please confirm that the foregoing is in accordance with your understandings and agreements with KPMG Peat Marwick LLP by signing and returning to KPMG Peat Marwick LLP the duplicate of this letter enclosed herewith.

KPMG's acceptance of this assignment is conditioned upon completion of our standard prospective client evaluation

Very truly yours,
KPMG Peat Marwick LLP

/s/ M.J. Ostro

Marc J. Ostro, Ph.D.
Senior Managing Director
KPMG Corporate Finance

cc: Stephen B. Blum - National Director, Corporate Finance
Steve Griffin - Managing Partner, Corporate Finance

ACCEPTED AND AGREED AS OF
THE DATE FIRST ABOVE WRITTEN:

/s/ Robert J. Capetola/mtg

Robert J. Capetola, Ph.D.
President & CEO
Discovery Laboratories, Inc.

AMENDMENT NO. 1 TO RESEARCH FUNDING AND OPTION AGREEMENT

This Amendment No. 1 to Research Funding and Option Agreement ("Amendment") is effective March 1, 1998, and is an amendment to the Research Funding and Option Agreement dated October 28, 1996 (the "Research Agreement") by and between THE SCRIPPS RESEARCH INSTITUTE, a California nonprofit public benefit corporation ("Scripps") and ACUTE THERAPEUTICS, INC., a Delaware corporation ("Optionee") with respect to the facts set forth below.

RECITALS

A. Optionee and Scripps are parties to that certain Research Funding and Option Agreement dated October 28, 1996 (the "Research Agreement"), pursuant to which Optionee is funding research activities conducted by Scripps relating to synthetic pulmonary surfactants.

B. Optionee wishes to extend the term of the Research Agreement.

C. In order to provide Optionee with an extension of the term of said Research Agreement, Scripps is willing to amend the Research Agreement as set forth herein.

AGREEMENT

NOW THEREFORE, in consideration of the foregoing and the mutual covenants and conditions set forth herein, Scripps and Optionee agree as follows:

1. Amendment of Research Agreement. The following Sections of the Research Agreement are hereby amended to read as follows:

2.1 Conduct of Research Program. Scripps hereby agrees to conduct the Research Program as expressly set forth on Exhibit A to this Amendment, as amended from time to time in accordance with its terms, and subject to the provisions of this Agreement.

2.4 Contributions of Parties to Research Program. Contributions in the form of financial support, equipment, personnel, technology and other necessary components for the conduct of the Research Program shall be made by the parties in accordance with the terms set forth on Exhibit B attached to this Amendment.

7.1 Term. Unless terminated sooner, the term of this Agreement shall commence on the date set forth above and shall continue until February 28, 1999, and thereafter, this Agreement shall be renewable for additional periods of one (1) year each upon mutual agreement of the parties.

IN WITNESS WHEREOF, the parties have executed this Amendment by their duly authorized representatives as of the Effective Date set forth above.

SCRIPPS:	OPTIONEE:
THE SCRIPPS RESEARCH INSTITUTE	ACUTE THERAPEUTICS, INC.
By:_____	By:_____
Title:_____	Title:_____

EXHIBIT A

A. Summary of Projects

1. Studies of the effect of pulmonary lavage with dilute surfactant on the expansion of injured lungs and the improvement of pulmonary function.

2. Studies on the stabilization of expansion induced by surfactant and the capacity of the inflammatory process to inhibit surfactant.

3. Studies on the capacity of surfactant to inhibit inflammation in the lung.

4. [***]

5. [***]

6. [***]

B. Research Methods

1. Studies of the expansion of injured lungs and the improvement of pulmonary function by lavage with dilute surfactant

[***]

2. Stabilization of expansion and the capaicty of the inflammatory response to inhibit surfactant.

[***]

3. The capacity of surfactant to inhibit pulmonary inflammation.

[***]

[***] Confidential Treatment Requested. Omitted portions have been filed separately with the Commission.

EXHIBIT B

Efficacy of KL4-Surfactant in Models of Pulmonary Injury Budget

Personnel:

Total		Salary	Fringe
C.G. Cochrane, M.D., P.I.	26,500	6,625	33,125
S.D. Revak	18,400	3,864	22,264
I.U. Schraufstatter, M.D.	20,000	4,200	24,200
Y. Pavlova	28,500	5,415	33,915
H. Takamori, M.D., Ph.D. (Surgery)	15,000	2,850	17,850
	108,400	22,954	131,354

Supplies:

[***]
Vivarium charges: animal care, anesthesiology
Chemicals, synthetic peptides, phospholipids, surgical supplies
Glassware, plasticware
Tissue culture supplies
EM
Photography
Equipment maintenance
Histology
85,218

Travel (Scientific meetings, including ATI Conferences)
12,000

DIRECT COSTS:	228,572
INDIRECT COSTS: (@ 75%, Negotiated Rate 10/9/97)	171,429
INSTITUTIONAL SUPPORT FOR RESEARCH (@ 15%)	60,000
TOTAL COSTS	460,001

EXHIBIT 10.41

EMPLOYMENT AGREEMENT

This Employment Agreement (the "Agreement") is entered into as of June 16, 1998 by and between Discovery Laboratories, Inc., a Delaware corporation (the "Company"), and Robert Capetola, Ph.D. (the "Executive").

WHEREAS, the Company and Executive desire that Executive be employed by the Company and that the terms and conditions of such employment be defined;

NOW, THEREFORE, in consideration of the employment of Executive by the Company, the Company and Executive agree as follows:

1. Term of the Agreement. The Company shall employ Executive and Executive shall accept employment for a period of four (4) years commencing on June 16, 1998 (the "Commencement Date") and continuing until June 15, 2002, subject, however, to prior termination as hereinafter provided in Section 5 (the "Employment Period").

2. Executive's Duties and Obligations.

a. Duties. Executive shall serve as President and Chief Executive Officer of the Company. Executive shall be responsible for overall management of the Company and all operating managers of the Company shall report to Executive. Executive shall at all times report to, and shall be subject to the policies established by, the Company's Board of Directors (the "Board") or any Executive Committee thereof. The Company agrees that, at all times during the Employment Period, it will nominate Executive for election to the Board of Directors of the Company. Executive shall immediately resign from any Board position held by him at the expiration or termination of the Employment Period.

b. Location of Employment. Executive's principal place of business shall be at the Company's office to be located within thirty (30) miles of Doylestown, Pennsylvania. Such office shall serve as the company's principal executive office.

c. Proprietary Information and Inventions Agreement. Upon commencement of employment with the Company, Executive shall execute the Company's standard form of Intellectual Property and Confidential Information Agreement (the "Confidentiality Agreement") a copy of which is attached to this Agreement as Exhibit A.

3. Devotion of Time to Company's Business

a. Full-time Efforts. During his employment with the Company, Executive shall devote substantially all of his business time, attention and efforts to the high quality performance of his duties to the Company.

b. No Other Employment. During his employment with the Company, Executive shall not, whether directly or indirectly, render any services of a commercial or professional nature to any other person or organization, whether for compensation or otherwise, without the prior written consent of the Company's Executive Committee or Board of Directors. Notwithstanding the foregoing provisions of this Section 3.b., Executive may perform services in connection with charitable or civic activities to the extent such participation does not materially interfere with the performance of Executive's duties for the Company.

c. Non-Competition During the Employment Period and for eighteen (18) months after its termination, Executive shall not, directly or indirectly, either as an employee, employer, consultant, agent, principal, partner, stockholder, corporate officer, director, or in any other individual or representative capacity compete with the Company business of developing or

commercializing pulmonary surfactants, Vitamin D analogs or any other category of compounds which forms the basis of the Company's products or products under development (a "Competing Business"), or (ii) directly or indirectly solicit employees of the Company. Notwithstanding the provisions of this Section 3.c., nothing herein shall prohibit Executive from (i) holding less than one percent (1%) of he outstanding capital stock of a publicly held corporation engaged in a Competing Business; (ii) serving on one or more Boards of Directors of for-profit or non-profit corporations so long as, in the aggregate, such commitments do not interfere with the performance of Executive's duties for the Company and such corporations are not engaged in any Competing Business; or (iii) after his employment with the Company terminates for any reason, being employed by a multi-division corporation that engages in a Competing Business so long as Executive works in division of such corporation which is not primarily engaged in a Competing Business and Executive has no responsibilities for the direct supervision of, and will not in the ordinary course of discharging his responsibilities become involved in the analysis of proprietary data or marketing strategies relating to, any Competing Business.

4. Compensation and Benefits.

a. Initial Bonus. The Company shall pay to Executive an initial sign-on bonus of of One Hundred Thousand Dollars ($100,000) upon the execution of this Agreement.

b. Base Compensation. During the first year of the Employment Period, the Company shall pay to Executive, payable in accordance with the Company's standard payroll policy, base annual compensation of Two Hundred Thirty Six Thousand Two Hundred Fifty Dollars ($236,250), less all required withholdings. Such base salary shall be increased annually during the Employment Period by a minimum of five percent (5%) per year.

c. Bonuses. During the Employment Period, Executive shall be entitled to a minimum year-end bonus equal to twenty percent (20%) of his base compensation for each year end and, at the discretion of the Compensation Committee of the Board of Directors of the Company, any additional bonus that may be awarded him.

d. Benefits. During the Employment Period, Executive will be entitled to all such family health and medical benefits and disability insurance as are provided to officers of the Company generally. In addition, the Company will provide to Executive (i) term life insurance on behalf of Executive's beneficiaries in the amount of Two Million Dollars ($2,000,000) for the term of this Agreement, and (ii) long-term disability insurance, subject to a combined premium cap of Fifteen Thousand Dollars ($15,000) per year.

e. Incentive Bonus. Executive shall be eligible for incentive bonuses as follows:

(i) Fifty Thousand Dollars ($50,000) upon the execution of each partnering or similar arrangement involving Surfaxin having a Value (as hereinafter defined) to the Company in excess of Ten Million Dollars ($10,000,000). For purposes of this Agreement, "Value" shall mean the total payments, including without limitation, contingent payment prior to or at receipt of marketing approval for the compound under development in the Company's portfolio (each a "Portfolio Compound") involving in the relevant agreement, to be paid to Discovery from corporate partnering transactions or from any other transactions for the development, clinical testing, regulatory approval, manufacturing and/or marketing of a Portfolio Compound, including without limitation upfront fees, milestones payments, research and development and other contractual commitments.

(ii) In amounts to be determined by the Company's Compensation Committee, to be paid in either cash or equity, upon the achievement of each of the following milestones (which bonuses shall be paid only once of each of the milestones): (a) the successful completion of Phase II studies for any Portfolio Compound; (b) the successful completion of Phase III studies of any Portfolio compound; and (c) receipt of marketing approval in the United States for any Portfolio Compound.

f. Stock Options. The Board of Directors of the Company has granted to Executive, on the date hereof, incentive stock options to purchase: (i) 115,090 shares of Common Stock, $0.001 par value of the Company (the "Common Stock"), pursuant to the terms of the Notice of Grant attached hereto as Exhibit B, (ii) 59,500 shares of Common Stock, subject to acceleration at such time as the market capitalization of the Company exceeds $75 million, pursuant to the terms of the Notice of Grant attached hereto as Exhibit C, and (iii) 54,240 shares of Common Stock, subject to acceleration upon consummation of a corporate partnering deal having a total Value of at least $20 million, pursuant to the terms of the Notice of Grant attached hereto as Exhibit D.

5. Termination of Employment.

a. Termination for Cause. The Company may terminate Executive's employment at any time for "Cause," as herein defined. For the purposes of this Agreement, "Cause" shall mean (i) breach of nay contractual obligations relating to noncompetition, assignment of inventions, protection of intellectual property or confidentiality, (ii) gross negligence or willful misconduct relating the performance of employment responsibility or (iii) the commission of any felony or any other crime involving moral turpitude.

b. Termination without Cause. If Executive's employment is terminated by the Company without Cause, the following provisions shall apply:

(i) Executive shall be entitled to any unpaid compensation accrued through the last day of Executive's employment; (ii) Executive shall be entitled to receive severance payments equal to his base compensation for a eighteen (18) month period, not subject to setoff by the Company, but subject to the execution by the Executive of a Release, substantially in the form attached hereto as Exhibit E, with respect to all employment-related matters. Such severance shall be payable in six (6) equal installments, with the first installments payable on the date of receipt of the foregoing release and the subsequent installments payable at three (3) month intervals thereafter.

c. Death or Disability. This Agreement shall terminate if Executive dies or is mentally or physically "Disabled" as herein defined. For the purposes of this Agreement, "Disabled" shall mean a mental or physical condition that renders Executive incapable of performing his duties and obligations under this Agreement for three (3) or more consecutive months or for a total of six (6) months during any twelve (12) consecutive months; provided, that during such period the Company shall give Executive at least thirty (30) days' written notice that it considers the time period for disability to be running. If this Agreement is terminated under this Section 5.c., Executive or his estate shall be entitled to any unpaid compensation accrued through the last day of Executive's employment but shall not be entitled to any severance benefits.

d. Lock-up Period. Executive shall not directly or indirectly, sell, offer, contract to sell, transfer the economic risk of ownership, make any short sale, pledge or otherwise dispose of any shares of Common Stock issued upon the exercise of options, or any securities convertible into or exchangeable or exercisable for such options, granted to Executive for one-year lock-up period following any termination of Executive's employment by (i) the Company for Cause or (ii) Executive to the extent such termination constitutes a breach of this Agreement.

6. Miscellaneous.

a. Governing Law. This Agreement shall be interpreted, construed, governed and enforced according to the laws of the Commonwealth of Pennsylvania as applied to agreements among Pennsylvania residents entered into and to be performed entirely within Pennsylvania without regards to the application of choice of law rules.

b. Amendments. No amendment or modification of the terms or conditions of this Agreement shall be valid unless in writing and signed by the parties hereto.

c. Severability. If one or more provisions of this Agreement are held to be unenforceable under applicable law, such provision shall be construed, if possible, so as to be enforceable under applicable law, else, such provision shall be excluded from this Agreement and the balance of the Agreement shall be interpreted as if such provision were so excluded and shall be enforceable in accordance with its terms.

d. Successors and Assigns. The rights and obligations of the Company under this Agreement shall inure to the benefit of and shall be binding upon the successors and assigns of the Company. Executive shall not be entitled to assign any of his rights or obligations under this Agreement.

e. Notices. All notices required or permitted under this Agreement shall be in writing and shall be deemed effective upon personal delivery, on the date of scheduled delivery by a nationally recognized overnight service or two (2) days after deposit in the United States Post Office, by registered or certified mail, postage prepaid, addressed to the other party at the address shown below such party's signature, or at such other address or addresses as either party shall designate to the other in accordance with this Section 6.e.

f. Entire Agreement. This Agreement, including the exhibits attached hereto, constitutes the entire agreement between the parties with respect to the employment of Executive. The Employment Agreement by and between Executive and Acute Therapeutics, Inc., dated October 1, 1996, is hereby terminated and shall be of no further force or effect and that he shall have no further rights under said agreement.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date set forth above.

DISCOVERY LABORATORIES, INC.

/s/ Steve Kanzer

By: Steve H. Kanzer
Its: Director (on behalf of the Board of Directors)

Address: 787 Seventh Avenue
New York, NY 10019

EXECUTIVE:

/s/ Robert J. Capetola

Robert J. Capetola, Ph.D.

Address: 6097 Hidden Valley Drive
Doylestown, PA 18901

ACUTE THERAPEUTICS, INC. (for
Purposes of Section 6.f. only)

/s/ Robert J. Capetola

By: Robert J. Capetola, Ph.D.
Its: President and Chief Executive Officer

Address: 3359 Durham Road
Doylestown, PA 18901

EXHIBIT 10.42

EMPLOYMENT AGREEMENT

This Employment Agreement (the "Agreement") is entered into as of June 16, 1998 by and between Discovery Laboratories, Inc., a Delaware corporation (the "Company"), and Harry Brittain, Ph.D. (the "Executive").

WHEREAS, the Company and Executive desire that Executive be employed by the Company and that the terms and conditions of such employment be defined;

NOW, THEREFORE, in consideration of the employment of Executive by the Company, the Company and Executive agree as follows:

1. Term of the Agreement. The Company shall employ Executive and Executive shall accept employment for a period of three (3) years commencing on June 16, 1998 (the "Commencement Date") and continuing until June 15, 2001, subject, however, to prior termination as hereinafter provided in Section 5 (the "Employment Period").

2. Executive's Duties and Obligations.

a. Duties. Executive shall serve as Vice President for Pharmaceutical Development. Executive shall be responsible for analytical formulation, chemical development and manufacturing technology transfer.

b. Location of Employment. Executive's principal place of business shall be at the Company's office to be located within thirty (30) miles of Doylestown, Pennsylvania.

c. Proprietary Information and Inventions Agreement. Upon commencement of employment with the Company, Executive shall execute the

Company's standard form of Intellectual Property and Confidential Information Agreement (the "Confidentiality Agreement") a copy of which is attached to this Agreement as Exhibit A.

3. Devotion of Time to Company's Business

a. Full-time Efforts. During his employment with the Company, Executive shall devote substantially all of his business time, attention and efforts to the high quality performance of his duties to the Company.

b. No Other Employment. During his employment with the Company, Executive shall not, whether directly or indirectly, render any services of a commercial or professional nature to any other person or organization, whether for compensation or otherwise, without the prior written consent of the Company's Executive Committee or Board of Directors.

c. Non-Competition During Employment. During the Employment Period and for eighteen (18) months after its termination, Executive shall not, directly or indirectly, either as an employee, employer, consultant, agent, principal, partner, stockholder, corporate officer, director, or in any other individual or representative capacity (i) compete with the Company in the business of developing or commercializing pulmonary surfactants, Vitamin D analogs or any other category of compounds which forms the basis of the Company's products or products under development (a "Competing Business"), or (ii) directly or indirectly solicit employees of the Company.

4. Compensation and Benefits.

a. Base Compensation. During the term of this Agreement, the Company shall pay to Executive base annual compensation of One Hundred Forty Two Thousand Dollars ($142,000), less all required withholdings.

b. Relocation Payment. Executive shall receive a one-time payment of Thirty Thousand dollars ($30,000) solely to cover any relocation expenses if and only if Executive relocates to a location in or in proximity to Doylestown, Pennsylvania within one year of the Commencement Date.

c. Bonuses.

(1) Incentive Bonus. Executive shall be eligible for incentive bonuses in amounts to be determined by the Company's Compensation Committee after consultation with the Company's Chief Executive Officer, to be paid in either cash or equity, upon the achievement of each of the following milestones (which bonuses shall be paid only once for each of the milestones): (a) the successful completion of Phase II studies for any compound under development in the Company's portfolio (each a "Portfolio Compound"); (b) the successful completion of Phase III studies for any Portfolio Compound; and (c) receipt of marketing approval in the United States for any Portfolio Compound.

(2) Additional Bonus. Executive shall be eligible for such year-end bonus, which may be paid in either cash or equity, or both, as is awarded at the discretion of the Compensation Committee of the Board of Directors of the Company after consultation with the Company's Chief Executive Officer.

d. Benefits. During his employment with the Company, the Company shall provide reasonable medical and disability benefits to Executive. In addition, the Company will provide to Executive term life insurance on behalf of Executive's beneficiaries in the amount of Executive's annual salary for the term of this Agreement.

e. Stock Options. The Board of Directors of the Company has granted to Executive, on the date hereof, incentive stock options to purchase: (i) 39,638 shares of Common Stock, $0.001 par value of the Company (the "Common Stock"), pursuant to the terms of the Notice of Grant attached hereto as Exhibit B, (ii) 20,493 shares of Common Stock, subject to acceleration at such time as the market capitalization of the Company exceeds $75 million, pursuant to the terms of the Notice of Grant attached hereto as Exhibit C, and (iii) 18,400 shares of Common Stock, subject to acceleration upon consummation of a corporate partnering deal having a total Value (as hereinafter defined) of at least $20 million, pursuant to the terms of the Notice of Grant attached hereto as Exhibit D. For purposes of this Agreement, "Value" shall mean the total payments, including without limitation, contingent payments prior to or at receipt of marketing approval for the Portfolio Compound involved in the relevant agreement, to be paid to Discovery from corporate partnering transactions of from any other transactions for the development, clinical testing, regulatory approval, manufacturing and/or marketing of a Portfolio Compound, including without limitation upfront fees, milestone payments, research and development and other contractual commitments.

5. Termination of Employment.

a. Termination for Good Cause. The Company may terminate Executive's employment at any time for "Good Cause," as herein defined. For the purposes of this Agreement, "Good Cause" includes, but is not limited to, gross misconduct, gross neglect of duties, acts involving moral turpitude, material breach by Executive of this Agreement or the Confidentiality Agreement or any act or omission involving fraud, embezzlement, or misappropriation of any property or proprietary information of the Company by Executive which is not cured by

Executive within fifteen (15) days after receipt of written notice from the Company.

b. Termination without Good Cause. If Executive's employment is terminated by the Company without Good Cause, the following provisions shall apply:

(1) Executive shall be entitled to any unpaid compensation accrued through the last day of Executive's employment;

(2) Executive shall be entitled to receive severance payments equal to his base compensation, payable on normal Company payroll dates, for a six (6) month period, subject to setoff for other employment or consulting income received by Executive.

c. Death or Disability. This Agreement shall terminate if Executive dies or is mentally or physically "Disabled" as herein defined. For the purposes of this Agreement, "Disabled" shall mean a mental or physical condition that renders Executive incapable of performing his duties and obligations under this Agreement for three (3) or more consecutive months or for a total of six (6) months during any twelve (12) consecutive months; provided, that during such period the Company shall give Executive at least thirty (30) days' written notice that it considers the time period for disability to be running. If this Agreement is terminated under this Section 5.c., Executive or his estate shall be entitled to any unpaid compensation accrued through the last day of Executive's employment but shall not be entitled to any severance benefits.

6. Miscellaneous.

a. Governing Law. This Agreement shall be interpreted, construed, governed and enforced according to the laws of the Commonwealth of Pennsylvania

as applied to agreements among Pennsylvania residents entered into and to be performed entirely within Pennsylvania without regards to the application of choice of law rules.

b. Amendments. No amendment or modification of the terms or conditions of this Agreement shall be valid unless in writing and signed by the parties hereto.

c. Severability. If one or more provisions of this Agreement are held to be unenforceable under applicable law, such provision shall be construed, if possible, so as to be enforceable under applicable law, else, such provision shall be excluded from this Agreement and the balance of the Agreement shall be interpreted as if such provision were so excluded and shall be enforceable in accordance with its terms.

d. Successors and Assigns. The rights and obligations of the Company under this Agreement shall inure to the benefit of and shall be binding upon the successors and assigns of the Company. Executive shall not be entitled to assign any of his rights or obligations under this Agreement.

e. Notices. All notices required or permitted under this Agreement shall be in writing and shall be deemed effective upon personal delivery, on the date of scheduled delivery by a nationally recognized overnight service or two (2) days after deposit in the United States Post Office, by registered or certified mail, postage prepaid, addressed to the other party at the address shown below such party's signature, or at such other address or addresses as either party shall designate to the other in accordance with this Section 6.e.

f. Entire Agreement. This Agreement, including the exhibits attached hereto, constitutes the entire agreement between the parties with respect to the employment of Executive. Executive hereby agrees that the Employment Agreement

by and between Executive and Acute Therapeutics, Inc., dated November 1, 1996, shall be of no further force or effect and that he shall have no further rights under said agreement.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date set forth above.

DISCOVERY LABORATORIES, INC.

/s/ Robert J. Capetola

By: Roberts Capetola, Ph.D.
Its: President

Address: 3359 Durham Road
Doylestown, Pennsylvania 18901

EXECUTIVE:

/s/ Harry Brittain

Harry Brittain, Ph.D.

Address: 88 Courter Avenue
Maplewood, New Jersey 07040

EMPLOYMENT AGREEMENT

This Employment Agreement (the "Agreement") is entered into as of June 16, 1998 by and between Discovery Laboratories, Inc., a Delaware corporation (the "Company"), and Laurence B. Katz, Ph.D. (the "Executive").

WHEREAS, the Company and Executive desire that Executive be employed by the Company and that the terms and conditions of such employment be defined;

NOW, THEREFORE, in consideration of the employment of Executive by the Company, the Company and Executive agree as follows:

1. Term of the Agreement. The Company shall employ Executive and Executive shall accept employment for a period of three (3) years commencing on June 16, 1998 (the "Commencement Date") and continuing until June 15, 2001, subject, however, to prior termination as hereinafter provided in Section 5 (the "Employment Period").

2. Executive's Duties and Obligations.

a. Duties. Executive shall serve as Vice President of Project Management and Clinical Administration. Executive shall be responsible for execution of clinical site selection, protocol development and management of Clinical Research Associates and interfacing with Contact Research Organizations.

b. Location of Employment. Executive's principal place of business shall be at the Company's office to be located within thirty (30) miles of Doylestown, Pennsylvania.

c. Proprietary Information and Inventions Agreement. Upon commencement of employment with the Company, Executive shall execute the Company's standard form of Intellectual Property and Confidential Information Agreement (the "Confidentiality Agreement") a copy of which is attached to this Agreement as Exhibit A.

3. Devotion of Time to Company's Business

a. Full-time Efforts. During his employment with the Company, Executive shall devote substantially all of his business time, attention and efforts to the high quality performance of his duties to the Company.

b. No Other Employment. During his employment with the Company, Executive shall not, whether directly or indirectly, render any services of a commercial or professional nature to any other person or organization, whether for compensation or otherwise, without the prior written consent of the Company's Executive Committee or Board of Directors.

c. Non-Competition During Employment. During the Employment Period and for eighteen (18) months after its termination, Executive shall not, directly or indirectly, either as an employee, employer, consultant, agent, principal, partner, stockholder, corporate officer, director, or in any other individual or representative capacity (i) compete with the Company in the business of developing or commercializing pulmonary surfactants, Vitamin D analogs or any other category of compounds which forms the basis of the Company's products or products under development (a "Competing Business"), or (ii) directly or indirectly solicit employees of the Company.

4. Compensation and Benefits.

a. Base Compensation. During the term of this Agreement, the Company shall pay to Executive base annual compensation of One Hundred Forty Two Thousand Dollars ($142,000), less all required withholdings.

b. Bonuses.

(1) Incentive Bonus. Executive shall be eligible for incentive bonuses in amounts to be determined by the Company's Compensation Committee after consultation with the Company's Chief Executive Officer, to be paid in either cash or equity, upon the achievement of each of the following milestones (which bonuses shall be paid only once for each of the milestones): (a) the successful completion of Phase II studies for any compound under development in the Company's portfolio (each a "Portfolio Compound"); (b) the successful completion of Phase III studies for any Portfolio Compound; and (c) receipt of marketing approval in the United States for any Portfolio Compound.

(2) Additional Bonus. Executive shall be eligible for such year-end bonus, which may be paid in either cash or equity, or both, as is awarded at the discretion of the Compensation Committee of the Board of Directors of the Company after consultation with the Company's Chief Executive Officer.

c. Benefits. During his employment with the Company, the Company shall provide reasonable medical and disability benefits to Executive. In addition, the Company will provide to Executive term life insurance on behalf of Executive's beneficiaries in the amount of Executive's annual salary for the term of this Agreement.

d. Stock Options. The Board of Directors of the Company has granted to Executive, on the date hereof, incentive stock options to purchase: (i) 39,638 shares of Common Stock, $0.001 par value of the Company (the "Common Stock"), pursuant to the terms of the Notice of Grant

attached hereto as Exhibit B, (ii) 20,493 shares of Common Stock, subject to acceleration at such time as the market capitalization of the Company exceeds $75 million, pursuant to the terms of the Notice of Grant attached hereto as Exhibit C, and (iii) 18,400 shares of Common Stock, subject to acceleration upon consummation of a corporate partnering deal having a total Value (as hereinafter defined) of at least $20 million, pursuant to the terms of the Notice of Grant attached hereto as Exhibit D. For purposes of this Agreement, "Value" shall mean the total payments, including without limitation, contingent payments prior to or at receipt of marketing approval for the Portfolio Compound involved in the relevant agreement, to be paid to Discovery from corporate partnering transactions of from any other transactions for the development, clinical testing, regulatory approval, manufacturing and/or marketing of a Portfolio Compound, including without limitation upfront fees, milestone payments, research and development and other contractual commitments.

5. Termination of Employment.

a. Termination for Good Cause. The Company may terminate Executive's employment at any time for "Good Cause," as herein defined. For the purposes of this Agreement, "Good Cause" includes, but is not limited to, gross misconduct, gross neglect of duties, acts involving moral turpitude, material breach by Executive of this Agreement or the Confidentiality Agreement or any act or omission involving fraud, embezzlement, or misappropriation of any property or proprietary information of the Company by Executive which is not cured by Executive within fifteen (15) days after receipt of written notice from the Company.

b. Termination without Good Cause. If Executive's employment is terminated by the Company without Good Cause, the following provisions shall apply:

(1) Executive shall be entitled to any unpaid compensation accrued through the last day of Executive's employment;

(2) Executive shall be entitled to receive severance payments equal to his base compensation, payable on normal Company payroll dates, for a six (6) month period, subject to setoff for other employment or consulting income received by Executive.

c. Death or Disability. This Agreement shall terminate if Executive dies or is mentally or physically "Disabled" as herein defined. For the purposes of this Agreement, "Disabled" shall mean a mental or physical condition that renders Executive incapable of performing his duties and obligations under this Agreement for three (3) or more consecutive months or for a total of six (6) months during any twelve (12) consecutive months; provided, that during such period the Company shall give Executive at least thirty (30) days' written notice that it considers the time period for disability to be running. If this Agreement is terminated under this Section 5.c., Executive or his estate shall be entitled to any unpaid compensation accrued through the last day of Executive's employment but shall not be entitled to any severance benefits.

6. Miscellaneous.

a. Governing Law. This Agreement shall be interpreted, construed, governed and enforced according to the laws of the Commonwealth of Pennsylvania as applied to agreements among Pennsylvania residents entered into and to be performed entirely within Pennsylvania without regards to the application of choice of law rules.

b. Amendments. No amendment or modification of the terms or conditions of this Agreement shall be valid unless in writing and signed by the parties hereto.

c. Severabilitv. If one or more provisions of this Agreement are held to be unenforceable under applicable law, such provision shall be construed, if possible, so as to be enforceable under applicable law, else, such provision shall be excluded from this Agreement and the balance of the Agreement shall be interpreted as if such provision were so excluded and shall be enforceable in accordance with its terms.

d. Successors and Assigns. The rights and obligations of the Company under this Agreement shall inure to the benefit of and shall be binding upon the successors and assigns of the Company. Executive shall not be entitled to assign any of his rights or obligations under this Agreement.

e. Notices. All notices required or permitted under this Agreement shall be in writing and shall be deemed effective upon personal delivery, on the date of scheduled delivery by a nationally recognized overnight service or two (2) days after deposit in the United States Post Office, by registered or certified mail, postage prepaid, addressed to the other party at the address shown below such party's signature, or at such other address or addresses as either party shall designate to the other in accordance with this Section 6.e.

f. Entire Agreement. This Agreement, including the exhibits attached hereto, constitutes the entire agreement between the parties with respect to the employment of Executive. Executive hereby agrees that the Employment Agreement by and between Executive and Acute Therapeutics, Inc., dated November 18, 1996, shall be of no further force or effect and that he shall have no further rights under said agreement.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date set forth above.

DISCOVERY LABORATORIES, INC.

/s/ Robert J. Capetola

By: Robert J. Capetola, Ph.D.
Its: President

Address: 3359 Durham Road
Doylestown, Pennsylvania 18901

EXECUTIVE:

/s/ Laurence B. Katz

Laurence B. Katz, Ph.D.

Address: 1704 Grandview Dr.
Newtown, PA 18940

EXHIBIT 10.44

EMPLOYMENT AGREEMENT

This Employment Agreement (the "Agreement") is entered into as of June 16, 1998 by and between Discovery Laboratories, Inc., a Delaware corporation (the "Company"), and Lisa Mastroianni (the "Executive").

WHEREAS, the Company and Executive desire that Executive be employed by the Company and that the terms and conditions of such employment be defined;

NOW, THEREFORE, in consideration of the employment of Executive by the Company, the Company and Executive agree as follows:

1. Term of the Agreement. The Company shall employ Executive and Executive shall accept employment for a period of three (3) years commencing on June 16, 1998 (the "Commencement Date") and continuing until June 15, 2001, subject, however, to prior termination as hereinafter provided in Section 5 (the "Employment Period").

2. Executive's Duties and Obligations.

a. Duties. Executive shall serve as Director of Clinical Research. Executive shall be responsible for protocol development, initiation of clinical sites, execution of clinical protocols, finalizing trial sites and overall quality of clinical data management.

b. Location of Employment. Executive's principal place of business shall be at the Company's office to be located within thirty (30) miles of Doylestown, Pennsylvania.

c. Proprietary Information and Inventions Agreement. Upon commencement of employment with the Company, Executive shall execute the Company's standard form of Intellectual Property and Confidential Information Agreement (the "Confidentiality Agreement") a copy of which is attached to this Agreement as Exhibit A.

3. Devotion of Time to Company's Business

a. Full-time Efforts. During her employment with the Company, Executive shall devote substantially all of her business time, attention and efforts to the high quality performance of her duties to the Company.

b. No Other Employment. During his employment with the Company, Executive shall not, whether directly or indirectly, render any services of a commercial or professional nature to any other person or organization, whether for compensation or otherwise, without the prior written consent of the Company's Executive Committee or Board of Directors.

c. Non-Competition During Employment. During the Employment Period and for eighteen (18) months after its termination, Executive shall not, directly or indirectly, either as an employee, employer, consultant, agent, principal, partner, stockholder, corporate officer, director, or in any other individual or representative capacity (i) compete with the Company in the business of developing or commercializing pulmonary surfactants, Vitamin D analogs or any other category of compounds which forms the basis of the Company's products or products under development (a "Competing Business"), or (ii) directly or indirectly solicit employees of the Company.

4. Compensation and Benefits.

a. Base Compensation. During the term of this Agreement, the Company shall pay to Executive base annual compensation of Eighty Thousand Dollars ($80,000), less all required withholdings.

b. Bonuses.

(1) Incentive Bonus. Executive shall be eligible for incentive bonuses in amounts to be determined by the Company's Compensation Committee after consultation with the Company's Chief Executive Officer, to be paid in either cash or equity, upon the achievement of each of the following milestones (which bonuses shall be paid only once for each of the milestones): (a) the successful completion of Phase II studies for any compound under development in the Company's portfolio (each a "Portfolio Compound"); (b) the successful completion of Phase III studies for any Portfolio Compound; and (c) receipt of marketing approval in the United States for any Portfolio Compound.

(2) Additional Bonus. Executive shall be eligible for such year-end bonus, which may be paid in either cash or equity, or both, as is awarded at the discretion of the Compensation Committee of the Board of Directors of the Company after consultation with the Company's Chief Executive Officer.

c. Benefits. During the Employment Period, the Company shall provide reasonable medical and disability benefits to Executive. In addition, the Company will provide to Executive term life insurance on behalf of Executive's beneficiaries in the amount of Executive's annual salary for the term of this Agreement.

d. Stock Options. The Board of Directors of the Company has granted to Executive, on the date hereof, incentive stock options to purchase: (i) 11,577 shares of Common Stock, $0.001 par value of the Company (the "Common Stock"), pursuant to the terms of the Notice of Grant attached hereto as Exhibit B, (ii) 5,985 shares of Common Stock, subject to acceleration at such time as the market capitalization of the Company exceeds $75 million, pursuant to the

terms of the Notice of Grant attached hereto as Exhibit C, and (iii) 5,152 shares of Common Stock, subject to acceleration upon consummation of a corporate partnering deal having a total Value (as hereinafter defined) of at least $20 million, pursuant to the terms of the Notice of Grant attached hereto as Exhibit D. For purposes of this Agreement, "Value" shall mean the total payments, including without limitation, contingent payments prior to or at receipt of marketing approval for the Portfolio Compound involved in the relevant agreement, to be paid to Discovery from corporate partnering transactions of from any other transactions for the development, clinical testing, regulatory approval, manufacturing and/or marketing of a Portfolio Compound, including without limitation upfront fees, milestone payments, research and development and other contractual commitments.

5. Termination of Employment.

a. Termination for Good Cause. The Company may terminate Executive's employment at any time for "Good Cause," as herein defined. For the purposes of this Agreement, "Good Cause" includes, but is not limited to, gross misconduct, gross neglect of duties, acts involving moral turpitude, material breach by Executive of this Agreement or the Confidentiality Agreement or any act or omission involving fraud, embezzlement, or misappropriation of any property or proprietary information of the Company by Executive which is not cured by Executive within fifteen (15) days after receipt of written notice from the Company.

b. Termination without Good Cause. If Executive's employment is terminated by the Company without Good Cause, the following provisions shall apply:

(1) Executive shall be entitled to any unpaid compensation accrued through the last day of Executive's employment;

(2) Executive shall be entitled to receive severance payments equal to her base compensation, payable on normal Company payroll dates, for a three (3) month period, subject to setoff for other employment or consulting income received by Executive.

c. Death or Disability. This Agreement shall terminate if Executive dies or is mentally or physically "Disabled" as herein defined. For the purposes of this Agreement, "Disabled" shall mean a mental or physical condition that renders Executive incapable of performing his duties and obligations under this Agreement for three (3) or more consecutive months or for a total of six (6) months during any twelve (12) consecutive months; provided, that during such period the Company shall give Executive at least thirty (30) days' written notice that it considers the time period for disability to be running. If this Agreement is terminated under this Section 5.c., Executive or her estate shall be entitled to any unpaid compensation accrued through the last day of Executive's employment but shall not be entitled to any severance benefits.

6. Miscellaneous.

a. Governing Law. This Agreement shall be interpreted, construed, governed and enforced according to the laws of the Commonwealth of Pennsylvania as applied to agreements among Pennsylvania residents entered into and to be performed entirely within Pennsylvania without regards to the application of choice of law rules.

b. Amendments. No amendment or modification of the terms or conditions of this Agreement shall be valid unless in writing and signed by the parties hereto.

c. Severabilitv. If one or more provisions of this Agreement are held to be unenforceable under applicable law, such provision shall be construed, if possible, so as to be enforceable under applicable law, else, such provision shall be excluded from this Agreement and the balance of the Agreement shall be interpreted as if such provision were so excluded and shall be enforceable in accordance with its terms.

d. Successors and Assigns. The rights and obligations of the Company under this Agreement shall inure to the benefit of and shall be binding upon the successors and assigns of the Company. Executive shall not be entitled to assign any of her rights or obligations under this Agreement.

e. Notices. All notices required or permitted under this Agreement shall be in writing and shall be deemed effective upon personal delivery, on the date of scheduled delivery by a nationally recognized overnight service or two (2) days after deposit in the United States Post Office, by registered or certified mail, postage prepaid, addressed to the other party at the address shown below such party's signature, or at such other address or addresses as either party shall designate to the other in accordance with this Section 6.e.

f. Entire Agreement. This Agreement, including the exhibits attached hereto, constitutes the entire agreement between the parties with respect to the employment of Executive. Executive hereby agrees that the Employment Agreement by and between Executive and Acute Therapeutics, Inc., dated January 2, 1997, shall be of no further force or effect and that he shall have no further rights under said agreement.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date set forth above.

DISCOVERY LABORATORIES, INC.

/s/ Robert J. Capetola

By: Robert J. Capetola, Ph.D.
Its: President

Address: 3359 Durham Road
Doylestown, Pennsylvania 18901

EXECUTIVE:

/s/ Lisa Mastroianni

Lisa Mastroianni

Address:

EXHIBIT 10.45

EMPLOYMENT AGREEMENT

This Employment Agreement (the "Agreement") is entered into as of June 16, 1998 by and between Discovery Laboratories, Inc., a Delaware corporation (the "Company"), and Christopher J. Schaber (the "Executive").

WHEREAS, the Company and Executive desire that Executive be employed by the Company and that the terms and conditions of such employment be defined;

NOW, THEREFORE, in consideration of the employment of Executive by the Company, the Company and Executive agree as follows:

1. Term of the Agreement. The Company shall employ Executive and Executive shall accept employment for a period of three (3) years commencing on June 16, 1998 (the "Commencement Date") and continuing until June 15, 2001, subject, however, to prior termination as hereinafter provided in Section 5 (the "Employment Period").

2. Executive's Duties and Obligations.

a. Duties. Executive shall serve as Vice President of Regulatory Affairs and Quality Assurance. Executive shall be responsible for direct interface with regulatory authorities worldwide, including the United States Food and Drug Administration, as well as quality assurance overnight for all clinical development supplies and manufacturing.

b. Location of Employment. Executive's principal place of business shall be at the Company's office to be located within thirty (30) miles of Doylestown, Pennsylvania.

c. Proprietary Information and Inventions Agreement. Upon commencement of employment with the Company, Executive shall execute the

Company's standard form of Intellectual Property and Confidential Information Agreement (the "Confidentiality Agreement") a copy of which is attached to this Agreement as Exhibit A.

3. Devotion of Time to Company's Business

a. Full-time Efforts. During his employment with the Company, Executive shall devote substantially all of his business time, attention and efforts to the high quality performance of his duties to the Company.

b. No Other Employment. During his employment with the Company, Executive shall not, whether directly or indirectly, render any services of a commercial or professional nature to any other person or organization, whether for compensation or otherwise, without the prior written consent of the Company's Executive Committee or Board of Directors.

c. Non-Competition During Employment. During the Employment Period and for eighteen (18) months after its termination, Executive shall not, directly or indirectly, either as an employee, employer, consultant, agent, principal, partner, stockholder, corporate officer, director, or in any other individual or representative capacity (i) compete with the Company in the business of developing or commercializing pulmonary surfactants, Vitamin D analogs or any other category of compounds which forms the basis of the Company's products or products under development (a "Competing Business"), or (ii) directly or indirectly solicit employees of the Company.

4. Compensation and Benefits.

a. Base Compensation. During the term of this Agreement, the Company shall pay to Executive base annual compensation of One Hundred Thirty Thousand Dollars ($130,000), less all required withholdings.

b. Bonuses.

(1) Incentive Bonus. Executive shall be eligible for incentive bonuses in amounts to be determined by the Company's Compensation Committee after consultation with the Company's Chief Executive Officer, to be paid in either cash or equity, upon the achievement of each of the following milestones (which bonuses shall be paid only once for each of the milestones): (a) the successful completion of Phase II studies for any compound under development in the Company's portfolio (each a "Portfolio Compound"); (b) the successful completion of Phase III studies for any Portfolio Compound; and (c) receipt of marketing approval in the United States for any Portfolio Compound.

(2) Additional Bonus. Executive shall be eligible for such year-end bonus, which may be paid in either cash or equity, or both, as is awarded at the discretion of the Compensation Committee of the Board of Directors of the Company after consultation with the Company's Chief Executive Officer.

c. Benefits. During his employment with the Company, the Company shall provide reasonable medical and disability benefits to Executive. In addition, the Company will provide to Executive term life insurance on behalf of Executive's beneficiaries in the amount of Executive's annual salary for the term of this Agreement. Executive shall receive an annual payment of Twelve Thousand Dollars ($12,000) per year for the length of this Agreement solely to cover tuition expenses for the Ph.D. program in which Executive is enrolled.

d. Stock Options. The Board of Directors of the Company has granted to Executive, on the date hereof, incentive stock options to purchase: (i) 39,638 shares of Common Stock, $0.001 par value of the Company (the "Common

Stock"), pursuant to the terms of the Notice of Grant attached hereto as Exhibit B, (ii) 20,493 shares of Common Stock, subject to acceleration at such time as the market capitalization of the Company exceeds $75 million, pursuant to the terms of the Notice of Grant attached hereto as Exhibit C, and (iii) 18,400 shares of Common Stock, subject to acceleration upon consummation of a corporate partnering deal having a total Value (as hereinafter defined) of at least $20 million, pursuant to the terms of the Notice of Grant attached hereto as Exhibit D. For purposes of this Agreement, "Value" shall mean the total payments, including without limitation, contingent payments prior to or at receipt of marketing approval for the Portfolio Compound involved in the relevant agreement, to be paid to Discovery from corporate partnering transactions of from any other transactions for the development, clinical testing, regulatory approval, manufacturing and/or marketing of a Portfolio Compound, including without limitation upfront fees, milestone payments, research and development and other contractual commitments.

5. Termination of Employment.

a. Termination for Good Cause. The Company may terminate Executive's employment at any time for "Good Cause," as herein defined. For the purposes of this Agreement, "Good Cause" includes, but is not limited to, gross misconduct, gross neglect of duties, acts involving moral turpitude, material breach by Executive of this Agreement or the Confidentiality Agreement or any act or omission involving fraud, embezzlement, or misappropriation of any property or proprietary information of the Company by Executive which is not cured by Executive within fifteen (15) days after receipt of written notice from the Company.

b. Termination without Good Cause. If Executive's employment is terminated by the Company without Good Cause, the following provisions shall apply:

(1) Executive shall be entitled to any unpaid compensation accrued through the last day of Executive's employment;

(2) Executive shall be entitled to receive severance payments equal to his base compensation, payable on normal Company payroll dates, for a six (6) month period, subject to setoff for other employment or consulting income received by Executive.

c. Death or Disability. This Agreement shall terminate if Executive dies or is mentally or physically "Disabled" as herein defined. For the purposes of this Agreement, "Disabled" shall mean a mental or physical condition that renders Executive incapable of performing his duties and obligations under this Agreement for three (3) or more consecutive months or for a total of six (6) months during any twelve (12) consecutive months; provided, that during such period the Company shall give Executive at least thirty (30) days' written notice that it considers the time period for disability to be running. If this Agreement is terminated under this Section 5.c., Executive or his estate shall be entitled to any unpaid compensation accrued through the last day of Executive's employment but shall not be entitled to any severance benefits.

6. Miscellaneous.

a. Governing Law. This Agreement shall be interpreted, construed, governed and enforced according to the laws of the Commonwealth of Pennsylvania as applied to agreements among Pennsylvania residents entered into and to be performed entirely within Pennsylvania without regards to the application of choice of law rules.

b. Amendments. No amendment or modification of the terms or conditions of this Agreement shall be valid unless in writing and signed by the parties hereto.

c. Severability. If one or more provisions of this Agreement are held to be unenforceable under applicable law, such provision shall be construed, if possible, so as to be enforceable under applicable law, else, such provision shall be excluded from this Agreement and the balance of the Agreement shall be interpreted as if such provision were so excluded and shall be enforceable in accordance with its terms.

d. Successors and Assigns. The rights and obligations of the Company under this Agreement shall inure to the benefit of and shall be binding upon the successors and assigns of the Company. Executive shall not be entitled to assign any of his rights or obligations under this Agreement.

e. Notices. All notices required or permitted under this Agreement shall be in writing and shall be deemed effective upon personal delivery, on the date of scheduled delivery by a nationally recognized overnight service or two (2) days after deposit in the United States Post Office, by registered or certified mail, postage prepaid, addressed to the other party at the address shown below such party's signature, or at such other address or addresses as either party shall designate to the other in accordance with this Section 6.e.

f. Entire Agreement. This Agreement, including the exhibits attached hereto, constitutes the entire agreement between the parties with respect to the employment of Executive. Executive hereby agrees that the Employment Agreement by and between Executive and Acute Therapeutics, Inc., dated November 4, 1996, shall be of no further force or effect and that he shall have no further rights under said agreement.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date set forth above.

DISCOVERY LABORATORIES, INC.

/s/ Robert J. Capetola

By: Roberts Capetola, Ph.D.
Its: President

Address: 3359 Durham Road
Doylestown, Pennsylvania 18901

EXECUTIVE:

/s/ Christopher J. Schaber

Christopher J. Schaber

Address: 4 Stirrup Way
Burlington, New Jersey 08016

EXHIBIT 10.46

EMPLOYMENT AGREEMENT

This Employment Agreement (the "Agreement") is entered into as of June 16, 1998 by and between Discovery Laboratories, Inc., a Delaware corporation (the "Company"), and Huei Tsai, Ph.D. (the "Executive").

WHEREAS, the Company and Executive desire that Executive be employed by the Company and that the terms and conditions of such employment be defined;

NOW, THEREFORE, in consideration of the employment of Executive by the Company, the Company and Executive agree as follows:

1. Term of the Agreement. The Company shall employ Executive and Executive shall accept employment for a period of three (3) years commencing on June 16, 1998 (the "Commencement Date") and continuing until June 15, 2001, subject, however, to prior termination as hereinafter provided in Section 5 (the "Employment Period").

2. Executive's Duties and Obligations.

a. Duties. Executive shall serve as Vice President of Biometrics. Executive shall be responsible for assistance and design, execution, analysis and quality of clinical data.

b. Location of Employment. Executive's principal place of business shall be at the Company's office to be located within thirty (30) miles of Doylestown, Pennsylvania.

c. Proprietary Information and Inventions Agreement. Upon commencement of employment with the Company, Executive shall execute the Company's standard form of Intellectual Property and Confidential Information

Agreement (the "Confidentiality Agreement") a copy of which is attached to this Agreement as Exhibit A.

3. Devotion of Time to Company's Business

a. Full-time Efforts. During his employment with the Company, Executive shall devote substantially all of his business time, attention and efforts to the high quality performance of his duties to the Company.

b. No Other Employment. During his employment with the Company, Executive shall not, whether directly or indirectly, render any services of a commercial or professional nature to any other person or organization, whether for compensation or otherwise, without the prior written consent of the Company's Executive Committee or Board of Directors.

c. Non-Competition During Employment. During the Employment Period and for eighteen (18) months after its termination, Executive shall not, directly or indirectly, either as an employee, employer, consultant, agent, principal, partner, stockholder, corporate officer, director, or in any other individual or representative capacity (i) compete with the Company in the business of developing or commercializing pulmonary surfactants, Vitamin D analogs or any other category of compounds which forms the basis of the Company's products or products under development (a "Competing Business"), or (ii) directly or indirectly solicit employees of the Company.

4. Compensation and Benefits.

a. Base Compensation. During the term of this Agreement, the Company shall pay to Executive base annual compensation of One Hundred Forty Thousand Dollars ($140,000), less all required withholdings.

b. Bonuses.

(1) Incentive Bonus. Executive shall be eligible for incentive bonuses in amounts to be determined by the Company's Compensation Committee after consultation with the Company's Chief Executive Officer, to be paid in either cash or equity, upon the achievement of each of the following milestones (which bonuses shall be paid only once for each of the milestones): (a) the successful completion of Phase II studies for any compound under development in the Company's portfolio (each a "Portfolio Compound"); (b) the successful completion of Phase III studies for any Portfolio Compound; and (c) receipt of marketing approval in the United States for any Portfolio Compound.

(2) Additional Bonus. Executive shall be eligible for such year-end bonus, which may be paid in either cash or equity, or both, as is awarded at the discretion of the Compensation Committee of the Board of Directors of the Company after consultation with the Company's Chief Executive Officer.

c. Benefits. During his employment with the Company, the Company shall provide reasonable disability benefits to Executive. In addition, the Company will provide to Executive term life insurance on behalf of Executive's beneficiaries in the amount of Executive's annual salary for the term of this Agreement. Executive shall receive an annual payment of Five Thousand Dollars ($5,000) per year for the length of this Agreement in lieu of receiving any health care, dental and life insurance benefits.

d. Stock Options. The Board of Directors of the Company has granted to Executive, on the date hereof, incentive stock options to purchase: (i) 39,638 shares of Common Stock, $0.001 par value of the Company (the "Common

Stock"), pursuant to the terms of the Notice of Grant attached hereto as Exhibit B, (ii) 20,493 shares of Common Stock, subject to acceleration at such time as the market capitalization of the Company exceeds $75 million, pursuant to the terms of the Notice of Grant attached hereto as Exhibit C, and (iii) 18,400 shares of Common Stock, subject to acceleration upon consummation of a corporate partnering deal having a total Value (as hereinafter defined) of at least $20 million, pursuant to the terms of the Notice of Grant attached hereto as Exhibit D. For purposes of this Agreement, "Value" shall mean the total payments, including without limitation, contingent payments prior to or at receipt of marketing approval for the Portfolio Compound involved in the relevant agreement, to be paid to Discovery from corporate partnering transactions of from any other transactions for the development, clinical testing, regulatory approval, manufacturing and/or marketing of a Portfolio Compound, including without limitation upfront fees, milestone payments, research and development and other contractual commitments.

5. Termination of Employment.

a. Termination for Good Cause. The Company may terminate Executive's employment at any time for "Good Cause," as herein defined. For the purposes of this Agreement, "Good Cause" includes, but is not limited to, gross misconduct, gross neglect of duties, acts involving moral turpitude, material breach by Executive of this Agreement or the Confidentiality Agreement or any act or omission involving fraud, embezzlement, or misappropriation of any property or proprietary information of the Company by Executive which is not cured by Executive within fifteen (15) days after receipt of written notice from the Company.

b. Termination without Good Cause. If Executive's employment is terminated by the Company without Good Cause, the following provisions shall apply:

(1) Executive shall be entitled to any unpaid compensation accrued through the last day of Executive's employment;

(2) Executive shall be entitled to receive severance payments equal to his base compensation, payable on normal Company payroll dates, for a six (6) month period, subject to setoff for other employment or consulting income received by Executive.

c. Death or Disability. This Agreement shall terminate if Executive dies or is mentally or physically "Disabled" as herein defined. For the purposes of this Agreement, "Disabled" shall mean a mental or physical condition that renders Executive incapable of performing his duties and obligations under this Agreement for three (3) or more consecutive months or for a total of six (6) months during any twelve (12) consecutive months; provided, that during such period the Company shall give Executive at least thirty (30) days' written notice that it considers the time period for disability to be running. If this Agreement is terminated under this Section 5.c., Executive or his estate shall be entitled to any unpaid compensation accrued through the last day of Executive's employment but shall not be entitled to any severance benefits.

6. Miscellaneous.

a. Governing Law. This Agreement shall be interpreted, construed, governed and enforced according to the laws of the Commonwealth of Pennsylvania as applied to agreements among Pennsylvania residents entered into and to be performed entirely within Pennsylvania without regards to the application of choice of law rules.

b. Amendments. No amendment or modification of the terms or conditions of this Agreement shall be valid unless in writing and signed by the parties hereto.

c. Severabilitv. If one or more provisions of this Agreement are held to be unenforceable under applicable law, such provision shall be construed, if possible, so as to be enforceable under applicable law, else, such provision shall be excluded from this Agreement and the balance of the Agreement shall be interpreted as if such provision were so excluded and shall be enforceable in accordance with its terms.

d. Successors and Assigns. The rights and obligations of the Company under this Agreement shall inure to the benefit of and shall be binding upon the successors and assigns of the Company. Executive shall not be entitled to assign any of his rights or obligations under this Agreement.

e. Notices. All notices required or permitted under this Agreement shall be in writing and shall be deemed effective upon personal delivery, on the date of scheduled delivery by a nationally recognized overnight service or two (2) days after deposit in the United States Post Office, by registered or certified mail, postage prepaid, addressed to the other party at the address shown below such party's signature, or at such other address or addresses as either party shall designate to the other in accordance with this Section 6.e.

f. Entire Agreement. This Agreement, including the exhibits attached hereto, constitutes the entire agreement between the parties with respect to the employment of Executive. Executive hereby agrees that the Employment Agreement by and between Executive and Acute Therapeutics, Inc., dated February 16, 1997, shall be of no further force or effect and that he shall have no further rights under said agreement.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date set forth above.

DISCOVERY LABORATORIES, INC.

/s/ Robert J. Capetola

By: Robert J. Capetola, Ph.D.
Its: President

Address 3359 Durham Road
Doylestown, Pennsylvania 18901

EXECUTIVE:

/s/ Huei Tsai

Huei Tsai, Ph.D.

Address: 53 Worths Mill Lane
Princeton, New Jersey 08540

EXHIBIT 10.47

EMPLOYMENT AGREEMENT

This Employment Agreement (the "Agreement") is entered into as of June 16, 1998 by and between Discovery Laboratories, Inc., a Delaware corporation (the "Company"), and Thomas E. Wiswell, M.D. (the "Executive").

WHEREAS, the Company and Executive desire that Executive be employed by the Company and that the terms and conditions of such employment be defined;

NOW, THEREFORE, in consideration of the employment of Executive by the Company, the Company and Executive agree as follows:

1. Term of the Agreement. The Company shall employ Executive and Executive shall accept employment for a period of three (3) years commencing on June 16, 1998 (the "Commencement Date") and continuing until June 15, 2001, subject, however, to prior termination as hereinafter provided in Section 5 (the "Employment Period").

2. Executive's Duties and Obligations.

a. Duties. Executive shall serve as Vice President of Clinical Research. Executive shall be responsible for the overall conduct of protocol development for existing and future drug candidates within the Company's pipeline and for overall conduct of clinical trials according to current Good Clinical Practices.

b. Location of Employment. Executive's principal place of business shall be at the Company's office to be located within thirty (30) miles of Doylestown, Pennsylvania.

c. Proprietary Information and Inventions Agreement. Upon commencement of employment with the Company, Executive shall execute the Company's standard form of Intellectual Property and Confidential Information Agreement (the "Confidentiality Agreement") a copy of which is attached to this Agreement as Exhibit A.

3. Devotion of Time to Company's Business

a. Full-time Efforts. During his employment with the Company, Executive shall, subject to the provisions set forth in Section 3.b, devote substantially all of his business time, attention and efforts to the high quality performance of his duties to the Company.

b. No Other Employment. During his employment with the Company, Executive shall not, whether directly or indirectly, render any services of a commercial or professional nature to any other person or organization, whether for compensation or otherwise, without the prior written consent of the Company's Executive Committee or Board of Directors. Notwithstanding this Section 3.b., as specifically agreed by the Company and Executive, Executive may engage in activities related to the filed of neonatology at the hospital of his choice, private patient and research and attendance at professional meetings, provided that Executive's time spent at such activities shall not interfere with the performance of his contractual obligations under this Agreement.

c. Non-Competition During Employment. During the Employment Period and for eighteen (18) months after its termination, Executive shall not, directly or indirectly, either as an employee, employer, consultant, agent, principal, partner, stockholder, corporate officer, director, or in any other individual or representative capacity (i) compete with the Company in the business of developing or commercializing pulmonary surfactants, Vitamin D analogs or any other category of compounds which forms the basis of the Company's products or products under development (a "Competing Business"), or (ii) directly or indirectly solicit employees of the Company, provided however, that the provisions set forth in Exhibit A and in this Section 3 shall not be applicable in the event Executive's employment is terminated by the Company without Good Cause or by the Executive for Good Cause, as defined in Section 5.

4. Compensation and Benefits.

a. Base Compensation. During the term of this Agreement, the Company shall pay to Executive base annual compensation of Two Hundred Thousand Dollars ($200,000), less all required tax withholdings, as required by law.

b. Bonuses.

(1) Incentive Bonus. Executive shall be eligible for incentive bonuses in amounts to be determined by the Company's Compensation Committee after consultation with the Company's Chief Executive Officer, to be paid in either cash or equity, upon the achievement of each of the following milestones (which bonuses shall be paid only once for each of the milestones): (a) the successful completion of Phase II studies for any compound under development in the Company's portfolio (each a "Portfolio Compound"); (b) the successful completion of Phase III studies for any Portfolio Compound; and (c) receipt of marketing approval in the United States for any Portfolio Compound.

(2) Additional Bonus. Executive shall be eligible for such year-end bonus, which may be paid in either cash or equity, or both, as is awarded at the discretion of the Compensation Committee of the Board of Directors of the Company after consultation with the Company's Chief Executive Officer.

c. Insurance Benefits. During his employment with the Company, the Company shall provide reasonable medical and disability benefits to Executive and to Executive's family. In addition, the Company will provide Executive with term life insurance upon his life on behalf of Executive's beneficiaries in the amount of Executive's annual salary for the term of this Agreement.

d. Stock Options. The Board of Directors of the Company has granted to Executive, on the date hereof, incentive stock options to purchase: (i) 39,638 shares of Common Stock, $0.001 par value of the Company (the "Common Stock"), pursuant to the terms of the Notice of Grant attached hereto as Exhibit B, (ii) 20,493 shares of Common Stock, subject to acceleration at such time as the market capitalization of the Company exceeds $75 million, pursuant to the terms of the Notice of Grant attached hereto as Exhibit C, and (iii) 18,400 shares of Common Stock, subject to acceleration upon consummation of a corporate partnering deal having a total Value (as hereinafter defined) of at least $20 million, pursuant to the terms of the Notice of Grant attached hereto as Exhibit D. For purposes of this Agreement, "Value" shall mean the total payments, including without limitation, contingent payments prior to or at receipt of marketing approval for the Portfolio Compound involved in the relevant agreement, to be paid to Discovery from corporate partnering transactions of from any other transactions for the development, clinical testing, regulatory approval, manufacturing and/or marketing of a Portfolio Compound, including without limitation upfront fees, milestone payments, research and development and other contractual commitments.

e. Participation in Benefits. Executive shall be entitled to participate in and receive the benefits in any plan of the Company, in addition to those specifically referred to in this Agreement, relating to pension, profit sharing, stock options, or other retirement benefits, disability and medical coverage or reimbursement plans that the Company may adopt for the benefit of its executives and employees which are now in existence or may come into existence hereafter. Nothing paid to Executive under any plan or arrangement presently in effect or made available in the future shall be deemed to be in lieu of the compensation payable pursuant to Section 4.a.

f. Vacation. Executive shall be entitled to a paid vacation benefit during each year of the term of this Agreement. The vacation benefit shall consist of not less than three (3) weeks during each year at times mutually acceptable between the Company and Executive.

g. Relocation Allowance. The Company shall pay the amount of Fifteen Thousand Dollars ($15,000.00) to Executive towards reimbursement of relocation expenses for which no accounting shall be required from Executive by Company if, and only if, Executive relocates to a location in or in proximity to Doylestown, Pennsylvania, within one (1) year of the Commencement Date.

h. Other Expenses. The Company shall reimburse Executive or otherwise provide for or pay for all expenses (including but not limited to meals, entertainment, travel, automobile and lodging expenses) incurred by Executive in the course of performing his duties under this Agreement.

5. Termination of Employment.

a. Termination for Good Cause. The Company may terminate Executive's employment at any time for "Good Cause," as herein defined. For the purposes of this Agreement, "Good Cause" shall mean (i) gross misconduct, (ii) gross neglect of duties, (iii) acts involving moral turpitude, (iv) material breach by Executive of this Agreement or the Confidentiality Agreement or (v) any act or omission involving fraud, embezzlement, or misappropriation of any property or proprietary information of the Company by Executive which is not cured or cannot be cured by Executive within fifteen (15) days after receipt of written notice from the Company. If the Company terminates Executive's employment for Good Cause, Executive shall have a right to unpaid compensation and other benefits accrued and unpaid through the last day of Executive's employment.

b. Termination by Executive for Good Cause. Executive may terminate his employment at any time for "Good Cause" as herein defined. "Good Cause" shall mean (i) a failure by Company to comply with any material provisions of the Agreement which failure has not been cured in fifteen (15) days after notice given by Executive to Company, (ii) without Executive's express written consent, the assignment to Executive of any duties inconsistent with Executive's position, duties, responsibilities and status with the Company, (iii) the failure of Company to continue in effect any bonus, benefit or compensation plan, life insurance plan, health and accident plan, or any other benefit plan in which Executive is participating, (iv) the taking of any action by Company which would adversely affect Executive's benefits under such plans, or (v) any purported termination of Executive's employment which is not effective pursuant to Section 5.a. of this Agreement.

If Executive terminates his employment for Good Cause pursuant to this Section 5.b., the Company shall immediately pay all compensation and benefits accrued and unpaid through the last day of Executive's employment. In addition, Executive shall receive a severance payment equal to Executive's base compensation, payable at normal Company payroll dates, for a period of six (6) months. Executive shall not be required to set off or mitigate the amount of any payment provided for under this 5.b. for payments received or to be received by Executive from other employment or consulting income.

c. Death or Disability. This Agreement shall terminate if Executive dies or is mentally or physically "Disabled" as herein defined. For the purposes of this Agreement, "Disabled" shall mean a mental or physical condition that renders Executive incapable of performing his duties and obligations under this Agreement for three (3) or more consecutive months or for a total of six (6) months during any twelve (12) consecutive months; provided, that during such period the Company shall give Executive at least thirty (30) days' written notice that it considers the time period for disability to be running. If this Agreement is terminated under this Section 5.c., Executive or his estate shall be entitled to any unpaid compensation accrued through the last day of Executive's employment but shall not be entitled to any severance benefits.

6. Miscellaneous.

a. Governing Law. This Agreement shall be interpreted, construed, governed and enforced according to the laws of the Commonwealth of Pennsylvania as applied to agreements among Pennsylvania residents entered into and to be performed entirely within Pennsylvania without regards to the application of choice of law rules.

b. Amendments. No amendment or modification of the terms or conditions of this Agreement shall be valid unless in writing and signed by the parties hereto.

c. Severabilitv. If one or more provisions of this Agreement are held to be unenforceable under applicable law, such provision shall be construed, if possible, so as to be enforceable under applicable law, else, such provision shall be excluded from this Agreement and the balance of the Agreement shall be interpreted as if such provision were so excluded and shall be enforceable in accordance with its terms.

d. Successors and Assigns. The rights and obligations of the Company under this Agreement shall inure to the benefit of and shall be binding upon the successors and assigns of the Company, including, without limitation, any person, partnership or corporation which may acquire all or substantially all of the Company's assets and business, or with or into which the Company may be consolidated or merged. Executive shall not be entitled to assign any of his rights or obligations under this Agreement.

e. Notices. All notices required or permitted under this Agreement shall be in writing and shall be deemed effective upon personal delivery, on the date of scheduled delivery by a nationally recognized overnight service or two (2) days after deposit in the United States Post Office, by registered or certified mail, postage prepaid, addressed to the other party at the address shown below such party's signature, or at such other address or addresses as either party shall designate to the other in accordance with this Section 6.e.

f. Entire Agreement. This Agreement, including the exhibits attached hereto, constitutes the entire agreement between the parties with respect to the employment of Executive. Executive hereby agrees that the Employment Agreement by and between Executive and Acute Therapeutics, Inc., dated June 1, 1997, shall be of no further force or effect and that he shall have no further rights under said agreement.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date set forth above.

DISCOVERY LABORATORIES, INC.

/s/ Robert J. Capetola

By: Robert J. Capetola, Ph.D.
Its: President

Address: 3359 Durham Road
Doylestown, Pennsylvania 18901

EXECUTIVE:

/s/ Thomas E. Wiswell

Thomas E. Wiswell, M.D.

Address: 234 Cuylers Lane
Haverford, Pennsylvania 19041

EXHIBIT 10.48

EMPLOYMENT AGREEMENT

This Employment Agreement (the "Agreement") is entered into as of June 16, 1998 by and between Discovery Laboratories, Inc., a Delaware corporation (the "Company"), and Evan Myrianthopoulos (the "Executive").

WHEREAS, the Company and Executive desire that Executive be employed by the Company and that the terms and conditions of such employment be defined;

NOW, THEREFORE, in consideration of the employment of Executive by the Company, the Company and Executive agree as follows:

1. Term of the Agreement. The Company shall employ Executive and Executive shall accept employment for a period of one (1) year commencing on June 16, 1998 (the "Commencement Date") and continuing until June 15, 1999, subject, however, to prior termination as hereinafter provided in Section 5 (the "Employment Period").

2. Executive's Duties and Obligations.

a. Duties. Executive shall serve as Vice President of Finance. Executive shall (i) have charge and custody of, and be responsible for, all the funds and securities of the Company, (ii) render to the Board of Directors, whenever the Board of Directors may require, an account of the financial condition of the Company, (iii) develop the Company's strategic financial planning, (iv) oversee the Company's compliance with the securities' laws, (v) interface with auditors for preparation of audited and unaudited financial statements and (vi) perform such other duties as from time to time may be assigned to him by the Board of Directors.

b. Location of Employment. Executive's principal place of business shall be at the Company's office to be located within ninety (90) miles of Doylestown, Pennsylvania.

c. Proprietary Information and Inventions Agreement. Upon commencement of employment with the Company, Executive shall execute the Company's standard form of Intellectual Property and Confidential Information Agreement (the "Confidentiality Agreement") a copy of which is attached to this Agreement as Exhibit A.

3. Devotion of Time to Company's Business

a. Full-Time Efforts. During his employment with the Company, Executive shall devote substantially all of his business time, attention and efforts to the high quality performance of his duties to the Company.

b. No Other Employment. During his employment with the Company, Executive shall not, whether directly or indirectly, render any services of a commercial or professional nature to any other person or organization, whether for compensation or otherwise, without the prior written consent of the Company's Executive Committee or Board of Directors.

c. Non-Competition During Employment. During the Employment Period and for eighteen (18) months after its termination, Executive shall not, directly or indirectly, either as an employee, employer, consultant, agent, principal, partner, stockholder, corporate officer, director, or in any other individual or representative capacity (i) compete with the Company in the business of developing or commercializing pulmonary surfactants, Vitamin D analogs or any other category of compounds which forms the basis of the Company's products or products under development (a "Competing Business"), or (ii) directly or indirectly solicit employees of the Company.

4. Compensation and Benefits.

a. Base Compensation. During the term of this Agreement, the Company shall pay to Executive base annual compensation of One Hundred Five Thousand Dollars ($105,000), less all required withholdings.

b. Bonuses.

(1) Incentive Bonus. Executive shall be eligible for incentive bonuses in amounts to be determined by the Company's Compensation Committee after consultation with the Company's Chief Executive Officer, to be paid in either cash or equity, upon the achievement of each of the following milestones (which bonuses shall be paid only once for each of the milestones): (a) the successful completion of Phase II studies for any compound under development in the Company's portfolio (each a "Portfolio Compound"); (b) the successful completion of Phase III studies for any Portfolio Compound; and (c) receipt of marketing approval in the United States for any Portfolio Compound.

(2) Additional Bonus. Executive shall be eligible for such year-end bonus, which may be paid in either cash or equity, or both, as is awarded at the discretion of the Compensation Committee of the Board of Directors of the Company after consultation with the Company's Chief Executive Officer.

c. Benefits. During the Employment Period, the Company shall provide reasonable medical and disability benefits to Executive. In addition, the Company will provide to Executive term life insurance on behalf of Executive's beneficiaries in the amount of Executive's annual salary for the term of this Agreement. During the term of this Agreement, the Company shall pay up to Five Thousand Dollars ($5,000) solely to cover tuition expenses for the accounting programs in which the Executive will enroll.

5. Termination of Employment.

a. Termination for Good Cause. The Company may terminate Executive's employment at any time for "Good Cause," as herein defined. For the purposes of this Agreement, "Good Cause" includes, but is not limited to, gross misconduct, gross neglect of duties, acts involving moral turpitude, material breach by Executive of this Agreement or the Confidentiality Agreement or any act or omission involving fraud, embezzlement, or misappropriation of any property or proprietary information of the Company by Executive which is not cured by Executive within fifteen (15) days after receipt of written notice from the Company.

b. Termination without Good Cause. If Executive's employment is terminated by the Company without Good Cause, the following provisions shall apply:

(1) Executive shall be entitled to any unpaid compensation accrued through the last day of Executive's employment;

(2) Executive shall be entitled to receive severance payments equal to his base compensation, payable on normal Company payroll dates, for a six (6) month period, subject to setoff for other employment or consulting income received by Executive.

c. Death or Disability. This Agreement shall terminate if Executive dies or is mentally or physically "Disabled" as herein defined. For the purposes of this Agreement, "Disabled" shall mean a mental or physical condition that renders Executive incapable of performing his duties and obligations under this Agreement for three (3) or more consecutive months or for a total of six (6) months during any twelve (12) consecutive months; provided, that during such period the Company shall give Executive at least thirty (30) days' written notice that it considers the time period for disability to be running. If this Agreement is terminated under this Section 5.c., Executive or his estate shall be entitled to any unpaid compensation accrued through the last day of Executive's employment but shall not be entitled to any severance benefits.

6. Miscellaneous.

a. Governing Law. This Agreement shall be interpreted, construed, governed and enforced according to the laws of the Commonwealth of Pennsylvania as applied to agreements among Pennsylvania residents entered into and to be performed entirely within Pennsylvania without regards to the application of choice of law rules.

b. Amendments. No amendment or modification of the terms or conditions of this Agreement shall be valid unless in writing and signed by the parties hereto.

c. Severability. If one or more provisions of this Agreement are held to be unenforceable under applicable law, such provision shall be construed, if possible, so as to be enforceable under applicable law, else, such provision shall be excluded from this Agreement and the balance of the Agreement shall be interpreted as if such provision were so excluded and shall be enforceable in accordance with its terms.

d. Successors and Assigns. The rights and obligations of the Company under this Agreement shall inure to the benefit of and shall be binding upon the successors and assigns of the Company. Executive shall not be entitled to assign any of his rights or obligations under this Agreement.

e. Notices. All notices required or permitted under this Agreement shall be in writing and shall be deemed effective upon personal delivery (which shall include delivery by a nationally recognized overnight service) or two (2) days after deposit in the United States Post Office, by registered or certified mail, postage prepaid, addressed to the other party at the address shown below such party's signature, or at such other address or addresses as either party shall designate to the other in accordance with this Section 6.e.

f. Entire Agreement. This Agreement, including the exhibits attached hereto, constitutes the entire agreement between the parties with respect to the employment of Executive.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date set forth above.

DISCOVERY LABORATORIES, INC.

/s/ Robert J. Capetola

By: Robert J. Capetola, Ph.D.
Its: President

Address: 3359 Durham Road
Doylestown, Pennsylvania 18901

EXECUTIVE:

/s/ Evan Myrianthopoulos

Evan Myrianthopoulos

Address:

EXHIBIT 10.49

EMPLOYMENT AGREEMENT

This Employment Agreement (the "Agreement") is entered into as of June 16, 1998 by and between Discovery Laboratories, Inc., a Delaware corporation (the "Company"), and Cynthia Davis (the "Executive").

WHEREAS, the Company and Executive desire that Executive be employed by the Company and that the terms and conditions of such employment be defined;

NOW, THEREFORE, in consideration of the employment of Executive by the Company, the Company and Executive agree as follows:

1. Term of the Agreement. The Company shall employ Executive and Executive shall accept employment for a period of three (3) years commencing on June 16, 1998 (the "Commencement Date") and continuing until June 15, 2001, subject, however, to prior termination as hereinafter provided in Section 5 (the "Employment Period").

2. Executive's Duties and Obligations.

a. Duties. Executive shall serve as Controller. Executive shall be responsible for the day to day administrative, accounting and financial needs of the Company. Executive shall also be responsible for the Company's Human Resources requirements.

b. Location of Employment. Executive's principal place of business shall be at the Company's office to be located within thirty (30) miles of Doylestown, Pennsylvania.

c. Proprietary Information and Inventions Agreement. Upon commencement of employment with the Company, Executive shall execute the Company's standard form of Intellectual Property and Confidential Information Agreement (the "Confidentiality Agreement") a copy of which is attached to this Agreement as Exhibit A.

3. Devotion of Time to Company's Business

a. Full-Time Efforts. During her employment with the Company, Executive shall devote substantially all of her business time, attention and efforts to the high quality performance of her duties to the Company.

b. No Other Employment. During her employment with the Company, Executive shall not, whether directly or indirectly, render any services of a commercial or professional nature to any other person or organization, whether for compensation or otherwise, without the prior written consent of the Company's Executive Committee or Board of Directors.

c. Non-Competition During Employment. During the Employment Period and for eighteen (18) months after its termination, Executive shall not, directly or indirectly, either as an employee, employer, consultant, agent, principal, partner, stockholder, corporate officer, director, or in any other individual or representative capacity (i) compete with the Company in the business of developing or commercializing pulmonary surfactants, Vitamin D analogs or any other category of compounds which forms the basis of the Company's products or products under development (a "Competing Business"), or (ii) directly or indirectly solicit employees of the Company.

4. Compensation and Benefits.

a. Base Compensation. During the term of this Agreement, the Company shall pay to Executive base annual compensation of Fifty Five Thousand Dollars ($55,000), less all required withholdings.

b. Bonuses.

(1) Incentive Bonus. Executive shall be eligible for incentive bonuses in amounts to be determined by the Company's Compensation Committee after consultation with the Company's Chief Executive Officer, to be paid in either cash or equity, upon the achievement of each of the following milestones (which bonuses shall be paid only once for each of the milestones): (a) the successful completion of Phase II studies for any compound under development in the Company's portfolio (each a "Portfolio Compound"); (b) the successful completion of Phase III studies for any Portfolio Compound; and (c) receipt of marketing approval in the United States for any Portfolio Compound.

(2) Additional Bonus. Executive shall be eligible for such year-end bonus, which may be paid in either cash or equity, or both, as is awarded at the discretion of the Compensation Committee of the Board of Directors of the Company after consultation with the Company's Chief Executive Officer.

c. Benefits. During her employment with the Company, the Company shall provide reasonable medical and disability benefits to Executive. In addition, the Company will provide to Executive term life insurance on behalf of Executive's beneficiaries in the amount of Executive's annual salary for the term of this Agreement.

d. Stock Options. The Board of Directors of the Company has granted to Executive, on the date hereof, incentive stock options to purchase: (i) 11,848 shares of Common Stock, $0.001 par value of the Company (the "Common Stock"), pursuant to the terms of the Notice of Grant attached hereto as Exhibit B. (ii) 6,125 shares of Common Stock, subject to acceleration at such time as the market capitalization of the Company exceeds $75 million, pursuant to the terms of the Notice of Grant attached hereto as Exhibit C, and (iii) 7,760 shares of Common Stock, subject to acceleration upon consummation of a corporate partnering deal having a total Value (as hereinafter defined) of at least $20 million, pursuant to the terms of the Notice of Grant attached hereto as Exhibit D. For purposes of this Agreement, "Value" shall mean the total payments, including without limitation, contingent payments prior to or at receipt of marketing approval for the Portfolio Compound involved in the relevant agreement, to be paid to Discovery from corporate partnering transactions of from any other transactions for the development, clinical testing, regulatory approval, manufacturing and/or marketing of a Portfolio Compound, including without limitation upfront fees, milestone payments, research and development and other contractual commitments.

5. Termination of Employment.

a. Termination for Good Cause. The Company may terminate Executive's employment at any time for "Good Cause," as herein defined. For the purposes of this Agreement, "Good Cause" includes, but is not limited to, gross misconduct, gross neglect of duties, acts involving moral turpitude, material breach by Executive of this Agreement or the Confidentiality Agreement or any act or omission involving fraud, embezzlement, or misappropriation of any property or proprietary information of the Company by Executive which is not cured by Executive within fifteen (15) days after receipt of written notice from the Company.

b. Termination without Good Cause. If Executive's employment is terminated by the Company without Good Cause, the following provisions shall apply:

(1) Executive shall be entitled to any unpaid compensation accrued through the last day of Executive's employment; (2) Executive shall be entitled to receive severance payments equal to her base compensation, payable on normal

Company payroll dates, for a three (3) month period, subject to setoff or other employment or consulting income received by Executive.

c. Death or Disability. This Agreement shall terminate if Executive dies or is mentally or physically "Disabled" as herein defined. For the purposes of this Agreement, "Disabled" shall mean a mental or physical condition that renders Executive incapable of performing her duties and obligations under this Agreement for three (3) or more consecutive months or for a total of six (6) months during any twelve (12) consecutive months; provided, that during such period the Company shall give Executive at least thirty (30) days' written notice that it considers the time period for disability to be running. If this Agreement is terminated under this Section 5.c., Executive or her estate shall be entitled to any unpaid compensation accrued through the last day of Executive's employment but shall not be entitled to any severance benefits.

6. Miscellaneous.

a. Governing Law. This Agreement shall be interpreted, construed, governed and enforced according to the laws of the Commonwealth of Pennsylvania as applied to agreements among Pennsylvania residents entered into and to be performed entirely within Pennsylvania without regards to the application of choice of law rules.

b. Amendments. No amendment or modification of the terms or conditions of this Agreement shall be valid unless in writing and signed by the parties hereto.

c. Severability. If one or more provisions of this Agreement are held to be unenforceable under applicable law, such provision shall be construed, if possible, so as to be enforceable under applicable law, else, such provision shall be excluded from this Agreement and the balance of the Agreement shall be interpreted as if such provision were so excluded and shall be enforceable in accordance with its terms.

d. Successors and Assigns. The rights and obligations of the Company under this Agreement shall inure to the benefit of and shall be binding upon the successors and assigns of the Company. Executive shall not be entitled to assign any of her rights or obligations under this Agreement.

e. Notices. All notices required or permitted under this Agreement shall be in writing and shall be deemed effective upon personal delivery, on the date of scheduled delivery by a nationally recognized overnight service or two (2) days after deposit in the United States Post Office, by registered or certified mail, postage prepaid, addressed to the other party at the address shown below such party's signature, or at such other address or addresses as either party shall designate to the other in accordance with this Section 6.e.

f. Entire Agreement. This Agreement, including the exhibits attached hereto, constitutes the entire agreement between the parties with respect to the employment of Executive.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date set forth above.

DISCOVERY LABORATORIES, INC.

/s/ Robert J. Capetola

By: Robert J. Capetola, Ph.D.
Its: President

Address: 3359 Durham Road
Doylestown, Pennsylvania 18901

EXECUTIVE

/s/ Cynthia Davis

Cynthia Davis

Address:

EXHIBIT 10.50

PROPRIETARY INFORMATION AND INVENTIONS,
NON-SOLICITATION AND
NON COMPETITION AGREEMENT

(Date)

Ladies and Gentlemen:

The following confirms an agreement between Discovery Laboratories, Inc. a Delaware corporation (the "Company"), and any successor in interest, and me, which is a material part of the consideration for my employment or continued employment by the Company

1. Proprietary Information. I recognize that the Company is engaged in a continuous program of research, development and production. I also recognize that the Company possesses or has rights to information (including information developed by me during my employment by the Company) which has commercial value in the Company's business ("Proprietary Information"). By way of illustration, but not limitation, Proprietary Information includes inventions, products, processes, methods, techniques, formulas, compositions, compounds, projects, developments, plans, research data, clinical data, financial data, personnel data, computer programs, customer and supplier lists,, and contacts at or knowledge of customers or prospective customers of the company.

2. Obligation of Confidentiality. I understand and agree that my employment creates a relationship of confidence and trust between the Company and me with respect to (i) all Proprietary Information, and (ii) the confidential information of others with which the Company has a business relationship. At all times, both during my employment by the Company and after its termination, I will keep in confidence and trust all such information, and I will not use or disclose any such information without the written consent of the Company, except as may be necessary in the ordinary course of performing my duties to the Company.

3. Disclosure and Assignment of Inventions. In addition, I hereby agree as follows:

(a) All Proprietary Information shall be the sole property of the Company and its assigns, and the Company and its assigns shall be the sole owner of all trade secrets, patents, trademarks, copyrights, and other rights in connection therewith. I hereby assign to the Company any rights I may have or acquire in such Proprietary Information.

(b) All documents, records, apparatus, equipment and other physical property, whether or not pertaining to Proprietary Information, furnished to me by the Company or produced by me or others in connection with my employment shall be and remain the sole property of the Company. I shall return to the Company all such materials and property as and when requested by the Company. Even if the Company does not so request, I shall return all such materials and property upon termination of my employment by me or by the Company for any reason, and I will not take with me any such material or property or any reproduction thereof upon such termination.

(c) I will promptly disclose to the Company, or any persons designated by it, all improvements, inventions, works of authorship, formulas, ideas, processes, techniques, know-how and data, whether or not patentable (collectively, "Inventions"), made or conceived, reduced to practice or learned by me, either alone or jointly with others, during the term of my employment and for one (1) year thereafter.

(d) All Inventions which I conceive, develop or have developed (in whole or in part, either alone or jointly with others) and (i) which use or have used equipment, supplies, facilities or trade secret information of the Company, or (ii) which use or have used the hours for which I am to be or was compensated by the Company, or (iii) which relate at the time of conception or reduction to practice thereof to the business of the Company or its actual or demonstrably anticipated research and development or (iv) which result from any work performed by me for the Company, shall be the sole property of the Company and its assigns (and to the fullest extent permitted by law shall be deemed works made for hire), and the Company and its assigns shall be the sole owner of all patents, copyrights and other rights in connection therewith. I hereby assign to the Company any rights I may have or acquire in such Inventions. I agree that any Invention required to be disclosed under paragraph (c) above within one (1) year after the term of my employment shall be presumed to have been conceived during my employment. I understand that I may overcome the presumption by showing that such Invention was conceived after the termination of my employment.

(e) With respect to Inventions described in paragraph (d) above, I will assist the Company in every proper way (but at the Company's expense) to obtain and from time to time enforce patents, copyrights or other rights on said Inventions in any and all countries, and will execute all documents reasonably necessary or appropriate for this purpose. This obligation shall survive the termination of my employment, but the Company shall compensate me at a reasonable rate after such termination for time actually spent by me at the Company's request on such assistance. In the event that the Company is unable for any reason whatsoever to secure my signature to any document reasonably necessary or appropriate for any of the foregoing purposes, (including renewals, extensions, continuations, divisions, or continuations in part), I hereby irrevocably designate and appoint the Company and its duly authorized officers and agents, as my agents and attorneys-in-fact to act for and in my behalf and instead of me, but only for the purpose of executing and filing any such document and doing all other lawfully permitted acts to accomplish the foregoing purposes with the same legal force and effect as if executed by me.

(f) I understand that this Agreement does not require assignment of an invention for which no equipment, supplies, facility, or trade secret information of the Company was used and which was developed entirely on my own time, unless the invention relates (i) directly to the business of the Company, or (ii) to the Company's actual or demonstrably anticipated research or development. However, I will disclose any Inventions as required by paragraph (c) above in order to permit the Company to determine such issues as may arise. Such disclosure shall be received in confidence by the Company.

4. Other Business Activities. So that the Company may be aware of the extent of any other demands upon my time and attention, I will disclose to the Company (such disclosure to be held in confidence by the Company) the nature and scope of any other business activity in which I am or become engaged during the term of my employment. During the term of my employment, I will not engage in any business activity which is related to the Company's business or its actual or demonstrably anticipated research and development.

5. Non-Solicitation of Employees, Customers and Others. I will not now or in the future disrupt, damage, impair or interfere with the business of the Company, whether by way of interfering with or raiding its employees, disrupting its relationships with customers, agents, vendors, distributors or representatives, or otherwise. During my employment with the Company and for eighteen (18) months thereafter, I will not encourage or solicit any employee of the Company to leave the Company for any reason; provided, however, that this obligation shall not affect any responsibility I may have as an employee of the Company with respect to the bona fide hiring and firing of Company personnel.

6. Prior Inventions. As a matter of record I attach hereto as Exhibit A a complete list of all inventions or improvements relevant to the subject matter of my employment by the company which have been made or conceived or first reduced to practice by me, alone or jointly with others, prior to my employment with the Company that I desire to remove from the operation of this Agreement, and I covenant that such list is complete. If no such list is attached to this Agreement, I represent that I have no such inventions and improvements at the time of signing this Agreement.

7. Obligations to Former Emplovers. I represent that my execution of this Agreement, my employment with the Company and my performance of my proposed duties to the Company in the development of its business will not violate any obligations I may have to any former employer or any other third party, including any obligations to keep confidential any proprietary or confidential information. I have not entered into, and I will not enter into, any agreement which conflicts with or would, if performed by me, cause me to breach this Agreement. I further represent that I have no knowledge of any pending or threatened litigation to which the Company may become a party by virtue of my association with the Company. I further agree to immediately inform the Company of any such pending or threatened litigation should it come to my attention during the course of my employment.

8. Confidential Information of Former Employers. In the course of performing my duties to the Company, I will not utilize any proprietary or confidential information of any former employer nor violate any written or oral, express or implied agreement with any former employer.

9. United States Government Obligations. I acknowledge that the Company from time to time may have agreements with other persons or with the United States Government, or agencies thereof, which impose obligations or restrictions on the Company regarding inventions made during the course of work under such agreements or regarding the confidential nature of such work. I agree to be bound by all such obligations and restrictions which are made known to me and to take all action necessary to discharge the obligations of the Company under such agreements.

10. Miscellaneous

(a) If one or more provisions of this Agreement are held to be unenforceable under applicable law, such provision shall be construed, if possible, so as to be enforceable under applicable law, else, such provision shall be excluded from this Agreement and the balance of the Agreement shall be interpreted as if such provision were so excluded and shall be enforceable in accordance with its terms.

(b) No delay or omission by the Company in exercising any right hereunder will operate as a waiver of that or any other right. A waiver or consent given by the Company on any one occasion is effective only in that instance and will not be construed as a bar to or waiver of any right on any other occasion

(c) I expressly consent to be bound by the provisions hereof for the benefit of the Company or any subsidiary or affiliate thereof to whose employ I may be transferred without the necessity that this Agreement be reassigned at the time of such transfer.

(d) This Agreement shall be governed by and construed under the laws of the State of New York as applied to agreements among New York residents entered into and to be performed entirely within New York, without regards to the application of choice of law rules.

(e) This Agreement shall be effective as of the first day of my employment by the Company, shall be binding upon me, my heirs, executors, assigns and administrators and shall inure to the benefit of the Company, its successors and assigns.

Dated:_____

_____
Employee Signature
Name:_____

S.S.#:_____

Accepted and Agreed to:

DISCOVERY LABORATORIES, INC.

By: _____
Name: _____
Title: _____

EXHIBIT A

Discovery Laboratories, Inc.
3359 Durham Road
Doylestown, PA 18901

Attn: Robert J. Capetola, Ph.D.

Ladies and Gentlemen:

1. The following is a complete list of all inventions or improvements relevant to the subject matter of my employment by Discovery Laboratories, Inc. (the "Company") that have been made or conceived or first reduced to practice by me, alone or jointly with others, prior to my employment by the Company that I desire to remove from the operation of the Company's Proprietary Information and Inventions, Non-Solicitation and Non-Competition Agreement.

_____ No inventions or improvements

_____ See below: Any and all inventions regarding

_____ Additional sheets attached.

2. 1 propose to bring to my employment the following materials and documents of a former employer:

_____ No materials or documents

_____ See below:

Date: _____ _____
Employee Signature

Name: _____

EXHIBIT 10.55

AMENDMENT NO. 1 TO LETTER AGREEMENT

THIS AMENDMENT NO. 1 TO LETTER AGREEMENT, dated as of April 30, 1998 ("Amendment No. 1"), by and between Acute Therapeutics, Inc., a Delaware corporation ("Acute"), and The Sage Group ("TSG").

RECITALS:

WHEREAS, the parties hereto entered into a Letter Agreement, dated October 28, 1996 (the "Letter Agreement"), pursuant to which TSG assists the management of Acute in strategic, product development and commercialization aspects of Acute's business; and

WHEREAS, the parties wish to enter into this Amendment No. 1 in connection with certain modifications to the Letter Agreement;

NOW, THEREFORE, for good and valuable consideration and the mutual covenants and agreements contained in this Amendment No. 1 and in the Letter Agreement, and intending to be legally bound hereby and thereby, Acute and TSG hereby agree as follows:

1. The term of the Letter Agreement shall be extended through the end of November 30, 1998.

2. The monthly management fee of $7,500 payable on the first of every month during the term of the Letter Agreement shall be reduced to $4,000 starting on July 1, 1998.

3. Except as set forth in this Amendment No. 1, the Letter Agreement shall remain in full force and effect.

IN WITNESS WHEREOF, Acute and TSG have caused this Amendment No. 1 to be signed by their respective officers or partners thereunto duly authorized as of the date first written above.

ACUTE THERAPEUTICS, INC.

By: /s/ Robert J. Capetola

Name: Robert J. Capetola
Title: President/CEO

THE SAGE GROUP

By: /s/ Richard Power

Name: Richard G. Power
Title: Executive Director

October 7, 1998

Richard Power
The Sage Group

Dear Dick:

Let this letter serve to memorialize our conversations on October 6, 1998 regarding your consulting compensation.

You have asked that we increase your consultant's fee from $4,000 back up to $7,500 per month in light of the increasing amount of time that you have spent working on Discovery corporate partnering. We are positively inclined to do so. However, in the interest of preserving much needed capital resources, we would ask that you accept a deferral of the increase in exchange for a doubling of the increase per month. This would be payable in one lump sum as a bonus upon consummation of a corporate partnering deal.

By way of an illustration, we would hold your monthly compensation at $4,000 per month. If a deal is signed at the end of December, we will pay you $21,000 as a bonus. This represents double the difference for the months of October through December.

Dick, we view your contributions as highly valuable and wish to keep you incentivized through completion of a corporate partnering effort.

Sincerely,

/s/ Robert J. Capetola

Robert Capetola, Ph.D.
President

STOCK PURCHASE AGREEMENT

among

DISCOVERY LABORATORIES, INC.,

and

WINDWARD VENTURE PARTTNERS

Purchase of [ ] Shares of
Common Stock and [ ] Warrant of

Discovery Laboratories, Inc.

[ ], 1999

STOCK PURCHASE AGREEMENT (this "Agreement") dated as of [ ], 1999 (the "Effective Date"), among DISCOVERY LABORATORIES, INC., a Delaware corporation (the "Company"), and [ ] (the "Investor").

WHEREAS, the Investor have agreed to make an aggregate equity investment of $[ ] in the Company through the purchase of (a) shares of Common Stock, par value $.001 per share (the "Common Stock") and (b) warrants (the "Warrants") to purchase shares of Common Stock, of the Company; and

WHEREAS, the Company has agreed to sell such shares of Common Stock and Warrants to the Investor.

NOW THEREFORE, in consideration of the premises and the mutual representations and covenants hereinafter set forth, the parties hereby agree as follows:

Section 1. Terms of Investment.

1.1 On the date hereof, the Company shall issue and sell to the Investor, and the Investor shall purchase from the Company, (a) an aggregate of [ ] shares of Common Stock (the "Shares") at a price of $1.88 per share (the "Per Share Price") and (b) Warrants to purchase [ ] shares of Common Stock at an exercise price equal to $2.30 (the "Per Share Exercise Price"), for an aggregate purchase price of $[ ] (the "Purchase Price"). The Warrants shall be issued in the form of Exhibit A. The Purchase Price shall be paid by wire transfer of immediately available funds in United States dollars to the Company, contemporaneously with the execution and delivery of this Agreement, to an account previously designated in writing by the Company.

1.2 The Shares and Warrants (collectively sometimes referred to as the "Securities") being sold in accordance with the terms of this Agreement for the Purchase Price shall be validly issued, fully paid, and nonassessable, and shall be free of restrictions on transfer other than under this Agreement and under applicable state and federal securities laws. The shares of Common Stock issuable upon exercise of the Warrants, when issued in accordance with the terms of the Warrants, shall be validly issued, fully paid, and nonassessable, and shall be free of restrictions on transfer other than under this Agreement and under applicable state and federal securities laws.

Section 2. Purchase Price Adjustment. (a) If, within 150 days from the Effective Date the Company shall issue and sell shares of Common Stock in a private offering at a price per share less than the Per Share Price, (i) the Investor shall be entitled to receive, for no additional consideration, a number of additional shares of Common Stock sufficient to reduce the Per Share Price to the per share purchase price paid by investors in such private offering and (ii) the Per Share Exercise Price shall be reduced to equal the greater of (A) 110% of the per share purchase price paid by investors in such private offering and (B) $2.15.

(b) If, within 150 days from the Effective Date the Company shall issue and sell, in a private offering, any shares of capital stock or equity derivatives of the Company (including, without limitation, options, warrants or convertible securities) (the "Offering Securities"), alone or in combination with shares of Common Stock, , which Offering Securities are convertible into, or exercisable for, shares of Common Stock at a conversion price or exercise price less than the Per Share Price (i) the Investor shall be entitled to receive, for no additional consideration, a number of additional shares of Common Stock sufficient to reduce the Per Share Price to the conversion price or exercise price of the Offering Securities and (ii) the Per Share Exercise Price shall be reduced to equal the greater of (A) 110% of the conversion price or exercise price of the Offering Securities and (B) $2.15.

(c) If, within 150 days from the Effective Date, the Company shall not have either (i) raised at least $2 million through the sale of Common Stock, other capital stock of the Company and/or equity derivatives of the Company in addition to the Purchase Price or (ii) entered into any partnering arrangement with a non-affiliate of the Company having a value (taking into account, on a dollar-for-dollar basis, all upfront and milestone payments provided for by the terms of such arrangement as well as any substantially contemporaneous equity investments or written commitments (whether or not contingent) to make loans or equity investments) of at least $10 million, (A) the Investor shall be entitled to receive, for no additional consideration, a number of additional shares of Common Stock sufficient to reduce the Per Share Price (such reduction pursuant to this Section 2(c) or 2(d) being referred to as a "Reset") to the average of the lowest three Closing Prices of the Common Stock during the 20 trading-day period ending on the last trading day prior to the expiration of such 150-day period and (B) the Per Share Exercise Price shall be reduced to $2.15. As used herein, "Closing Price" shall mean the last sale price of the Common Stock, as reported on NASDAQ, on any trading day or, if there shall not have been a sale on any trading day, the average between the closing bid and ask prices reported on NASDAQ for such trading day.

(d) If the average of the Closing Prices for the 20 trading days preceding the date that is 150 days from the Effective Date is less than the Per Share Price, then (i) the Investor shall be entitled to receive, for no additional consideration, a number of additional shares of Common Stock sufficient to reduce the Per Share Price to the average of the lowest three Closing Prices of the Common Stock during the 20 trading-day period ending on the last trading day prior to the expiration of such 150-day period and (ii) the Per Share Exercise Price shall be reduced to $2.15. Notwithstanding the foregoing, additional shares of Common Stock shall not be required to be issued pursuant to this Section 2(d) (1) if the Company has raised at least $4 million (or such lesser amount as is consented to by Aries Domestic Fund, L.P. and/or The Aries Master Fund, a Cayman Exempted Company ("Aries")) through the sale of Common Stock, other capital stock of the Company and/or equity derivatives of the Company in addition to the Purchase Price by the date that is 150 days from the Effective Date, or (2) to the extent Aries otherwise agrees to waive or reduce the required issuance, any such consent or agreement by Aries being binding on all of the Investor signatory hereto.

(e) In no event shall the Reset or any issuance of securities by the Company subject to paragraph (a) or (b) above require the Company to issue a number of shares of Common Stock to the Investor where such issuance would require the Company to lower the Per Share Price to a price equal to or less than $0.86.

Section 3. Closing.

3.1 Closing. (a) The purchase and sale of the Shares shall take place at the offices of Paramount Capital Asset Management, Inc., 787 Seventh Avenue, New York, New York 10019, on March 31, 1999 (the "Closing"). At the Closing, in consideration of, and following confirmation of receipt of, the Purchase Price, the Company shall deliver to the Investor certificates representing the Shares.

3.2 Conditions to the Obligations of the Investor at the Closing. (a) Conditions to the Closing. The obligation of the Investor to purchase and pay for the Securities at the Closing is subject to the satisfaction on or prior to the applicable date of Closing (the "Closing Date") of the following conditions, which may be waived by the Investor:

3.3 Opinion of Counsel to the Company. The Investor shall have received from Roberts, Sheridan & Kotel, A Professional Corporation, counsel for the Company, its opinion dated such Closing Date in the form of Exhibit B.

3.4 Representations and Warranties. All of the representations and warranties of the Company contained in this Agreement shall be true and correct in all material respects at and as of such Closing Date.

3.5 Performance of Covenants. All of the covenants and agreements of the Company contained in this Agreement required to be performed on or prior to such Closing Date shall have been performed in a manner satisfactory in all material respects to Investor.

3.6 Legal Action. No injunction, order, investigation, claim, action or proceeding before any court or governmental body shall be pending or threatened wherein an unfavorable judgment, decree or order would restrain, impair or prevent the carrying out of this Agreement or any of the transactions contemplated hereby, declare unlawful the transactions contemplated by this Agreement or cause any such transaction to be rescinded.

3.7 Consents. The Company shall have obtained in writing or made all consents, waivers, approvals, orders, permits, licenses and authorizations of, and registrations, declarations, notices to and filings and applications with, any governmental authority or any other person (including, without limitation, securityholders and creditors of the Company) required to be obtained or made in order to enable the Company to observe and comply with all its obligations under the Agreement and to consummate and perform the transactions contemplated thereby except any of those the failure of which to be obtained shall not have a material adverse effect on the Company.

3.8 Closing Documents. The Company shall have delivered to Investor the following:

(a) a certificate executed by the President and Chief Executive Officer of the Company dated as of the Closing Date stating that the conditions set forth in Sections 3.2 through 3.7 have been satisfied;

(b) a certificate of the Secretary of the Company, dated such Closing Date, as to the continued and valid existence of the Company, certifying the attached copy of the Restated Certificate of Incorporation and the By-laws of the Company, the authorization of the execution, delivery and performance of the Agreement, and the resolutions adopted by the Board of Directors of the Company authorizing the actions to be taken by the Company under the Agreement;

(c) a certificate of the Secretary of State of the State of Delaware, dated a recent date, to the effect that the Company is in good standing in the State of Delaware and that all annual reports, if any, have been filed as required and that all taxes and fees have been paid in connection therewith;

(d) a certified copy of the Certificate of Incorporation of the Company as filed with the Secretary of State of the State of Delaware, including any amendments thereto; and

3.9 Proceedings. All corporate and other proceedings taken or to be taken in connection with the transactions contemplated by this Agreement and all documents incident thereto shall be satisfactory in form and substance to Investor.

3.10 Financial Statements; Absence of Changes. The Company shall have provided to the Investor (i) the consolidated balance sheets of the Company and its subsidiaries as of December 31, 1998, and the related unaudited consolidated statements of operations and cash flows for the 12 month period then ended and for the period from May 18, 1993 (date of inception) to December 31, 1998 (the "Financial Statements"), all of which will be correct and complete and will present fairly the financial position of the Company and the results of its operations and changes in its financial position as of the time and for the periods then ended, and (ii) a certification, in form and substance satisfactory to the Investor, of the Vice President, Finance of the Company as to the Financial Statements to the effect that the Financial Statements have been prepared in accordance with the books and records of the Company and its subsidiaries and generally accepted accounting principles applied on a basis consistent with prior years (except as otherwise specified in such Financial Statements), and present fairly the financial position of the Company and its subsidiaries and the results of their operations and changes in their financial position as of the time and for the periods then ended.

3.11 Schedules. The Company shall have provided to the Investor all schedules required pursuant to this Agreement.

Section 4. Conditions to the Obligations of the Company at the Closing. The obligation of the Company to issue and sell the Shares to the Investor at the Closing is subject to the satisfaction on or prior to the applicable Closing Date of the following conditions, any of which may be waived by the Company:

4.1 Representations and Warranties. The representations and warranties of Investor contained in this Agreement shall be true and correct in all material respects at and as of such Closing Date.

4.2 Legal Action. No injunction, order, investigation, claim, action or proceeding before any court or governmental body shall be pending or threatened wherein an unfavorable judgment, decree or order would restrain, impair or prevent the carrying out of this Agreement or any of the transactions contemplated hereby, declare unlawful the transactions contemplated by this Agreement or cause any such transaction to be rescinded.

Section 5 Representations and Warranties of the Investor.

The Investor hereby represent and warrant to the Company that:

5.1 The Investor is an "accredited investor" within the meaning of Regulation D under the Securities Act of 1933 (the "Securities Act"). Each of the Investor has experience in making investments in development stage biotechnology companies and is acquiring the Securities for its own account and not with a present view to, or for sale in connection with, any distribution thereof in violation of the registration requirements of the Securities Exchange Act of 1934 (the "Exchange Act").

5.2 The Investor has the power and authority to execute and deliver this Agreement and to perform its obligations hereunder, having obtained all required consents, if any, and this Agreement, when executed and delivered, will constitute a valid and legally binding obligation of such Investor.

5.3 No finder, broker, agent, financial person or other intermediary has acted on behalf of any of the Investor in connection with the offering of the Shares or the consummation of this Agreement or any of the transactions contemplated hereby.

5.4 The Investor has not directly or indirectly sold or caused to be sold any shares of Common Stock during the 30 trading days preceding the Closing Date. As of the Closing Date, the Investos does not directly or indirectly have, and as of the date of any Reset, each of the Investor will not directly or indirectly have, a "short" position with respect to the Common Stock.

5.5 The Investor recognizes that the purchase of the Securities involves a high degree of risk including, but not limited to, the following: (a) an investment in the Company is highly speculative, and only an investor who can afford the loss of their entire investment should consider investing in the Company and the Securities; (b) an investor may not be able to liquidate its investment; (c) transferability of the Securities is extremely limited; and (d) in the event of a disposition, such investor could sustain the loss of its entire investment.

5.6 The Investor hereby represents that it has been furnished by the Company with all information regarding the Company that such Investor has requested or desired to know, has been afforded the opportunity to ask questions of and receive answers from duly authorized officers or other representatives of the Company concerning the terms and conditions of the investment and has received any additional information that such Investor has requested.

5.7 The Investor has relied solely upon its own judgment in making the decision to invest in the Company. To the extent necessary, such Investor has retained, at its own expense, and relied upon appropriate professional advice regarding the investment, tax and legal merits and consequences of this Agreement and its purchase of the Securities hereunder.

5.8 The Investor represents that no Securities were offered or sold to it by means of any form of general solicitation or general advertising, and in connection therewith such Investor did not (A) receive or review any advertisement, article, notice or other communication published in a newspaper or magazine or similar media or broadcast over television or radio, whether closed circuit, or generally available; or (B) attend any seminar meeting or industry investor conference whose attendees were invited by any general solicitation or general advertising.

5.9 The Investor hereby represents that it, either by reason of such Investor's business or financial experience or the business or financial experience of such Investor's outside professional advisors (who are unaffiliated with and who are not compensated by the Company or any affiliate or selling agent of the Company, directly or indirectly), has the capacity to protect the Investor's own interests in connection with the transaction contemplated hereby.

5.10 The Investor has full power and authority (corporate or partnership, as the case may be, statutory and otherwise) to execute and deliver this Agreement and to purchase the Securities. The execution and delivery by the Investor of this Agreement and the consummation of the transactions contemplated hereby have been duly authorized by all necessary corporate or partnership, as the case may be, action on the part of such Investor.

5.11 Each Investor is authorized and qualified to become an investor in the Company and the person signing this Agreement on behalf of such entity has been duly authorized by such Investor to do so.

5.12 No material consent, approval, license, permit, order or authorization of, or registration, declaration or filing with, any court, administrative agency or commission or other governmental authority or instrumentality, domestic or foreign, remains to be obtained or is otherwise required to be obtained by the Investor in connection with the authorization, execution and delivery of this Agreement or the consummation of the transactions contemplated hereby, including, without limitation the purchase and sale of the Securities.

Section 6. Representations and Warranties of the Company

The Company hereby represents and warrants to the Investor that:

6.1 Organization, Qualification and Corporate Power. The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware. The Company has full corporate power and authority to own and hold its properties and to conduct its business; to execute, deliver and perform this Agreement; and to issue, sell and deliver the Securities. The Company is duly qualified or licensed to do business in each jurisdiction in which the failure to be so qualified or licensed would have a materially adverse effect on the business or financial condition of the Company.

6.2 Capitalization. As of the date hereof, the authorized capital stock of the Company consists of 20,000,000 shares of Common Stock, par value $0.001 per share, and 5,000,000 shares of Preferred Stock, par value $0.001 per share, of which 2,420,282 are designated Series B Convertible Preferred Stock of the Company (the "Series B Preferred Stock") and 2,039 are designated Series C Convertible Preferred Stock of the Company (the "Series C Preferred Stock"). As of the date hereof, (i) 5,855,428 shares of Common Stock were issued and outstanding, (ii) 1,712,386 shares of Series B Preferred Stock were issued and outstanding and were convertible into 55,331,095 shares of Common Stock, (iii) 2,039 shares of Series C Preferred Stock, which are convertible into shares of Common Stock under certain circumstances based on the liquidation value of the Series C Preferred Stock and the market price of the Common Stock, were issued and outstanding, (iv) 2,000 shares of Common Stock were held in the treasury of the Company, (v) 2,299,212 shares of Common Stock were reserved for issuance upon exercise of outstanding options issued under (A) the Company's 1998 Stock Incentive Plan, the Company's 1995 Stock Option Plan and the Company's 1993 Stock Option Plan (the "Option Plans") and (B) stock option plans of certain corporate predecessors of the Company, (vi) an aggregate of 2,297 shares of Common Stock were reserved for issuance under stock options granted by the Company outside the Option Plans, (vii) an aggregate of 2,045,087 shares of Common Stock were reserved for issuance under outstanding warrants, (viii) 684,997 shares of Common Stock were reserved for issuance upon conversion of the 220,026 shares of Series B Preferred Stock issuable upon the exercise of outstanding warrants, and (ix) 173,333 shares of Common Stock were reserved for issuance upon exercise of the Company's outstanding unit purchase option (including warrants issuable upon the exercise of such unit purchase option). All of the outstanding shares of Common Stock have been duly authorized and validly issued and are fully paid and nonassessable and free of preemptive rights. Except as set forth in this Section 6.2 and Section 6.2 of the Disclosure Schedule, there are no options, warrants or other rights, convertible debt, agreements, arrangements or commitments of any character obligating the Company or any of its subsidiaries to issue or sell any shares of capital stock of or other equity interests in the Company or any of its subsidiaries. The Company is not obligated to retire, redeem, repurchase or otherwise reacquire any of its capital stock or other securities.

6.3 Authorization; Enforceability. The Company has full corporate power and authority to execute, deliver and enter into this Agreement and to consummate the transactions contemplated hereby. All action on the part of the Company, its directors, managers, members or stockholders necessary for

the authorization, execution, delivery and performance of this Agreement by the Company, the authorization, sale, issuance and delivery of the Securities contemplated hereby and the performance of the Company's obligations hereunder has been taken. This Agreement has been duly executed and delivered by the Company and constitutes a valid and legally binding obligation of the Company, enforceable against the Company in accordance with its terms, subject to laws of general application relating to bankruptcy, insolvency and the relief of debtors and rules of law governing specific performance, injunctive relief or other equitable remedies, and to limitations of public policy.

6.4 Financial Statements and SEC Documents. (a) Contained within the SEC Documents (as defined in Section 6.4(b) are (i) the audited consolidated balance sheets of the Company and its subsidiaries as of December 31, 1997 and 1996, and the related audited consolidated statements of operations, stockholders' equity, and cash flows for the years ended December 31, 1997 and 1996, and for the period from May 18, 1993 (date of inception) to December 31, 1997, together with the related notes thereto (the "Audited Financial Statements") and (ii) the Financial Statements (as such term is defined in Section 3.10) (other than the Financial Statements at and as of December 31, 1998, which have not yet been included in any document filed with the Securities and Exchange Commission (the "SEC")). All of the Audited Financial Statements and the Financial Statements are correct and complete, and have been prepared in accordance with the books and records of the Company and its subsidiaries and generally accepted accounting principles, applied consistently with the past practices of the Company and its subsidiaries (except as otherwise noted in such Audited Financial Statements and Financial Statements), reflect all liabilities and obligations of the Company and its subsidiaries, as of their respective dates, and present fairly the financial position of the Company and its subsidiaries and the results of their operations as of the time and for the periods indicated therein.

(b) The Company has filed with the SEC all documents required to be filed with the SEC by the Company since January 1, 1997 except to the extent such filings are permitted to be deferred under applicable rules and regulations. All such documents, as the same have since the time of their filing been amended, are referred to herein as the "SEC Documents". As of their respective dates, the SEC Documents complied in all respects with the requirements of the Securities Act and/or the Securities Exchange Act, as the case may be, and the rules and regulations of the SEC thereunder applicable to such SEC Documents and none of the SEC Documents contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to be stated therein to make the statements therein, in light of the circumstances under which they were made, not misleading. The financial statements of the Company included in the SEC Documents comply as to form in all material respects with applicable accounting requirements and with the published rules and regulations of the SEC with respect thereto, have been prepared in accordance with generally accepted accounting principles applied on a consistent basis during the periods involved (except as may be indicated in the notes thereto or, in the case of the unaudited statements, as permitted by Form 10-Q of the SEC) and fairly present the financial position of the Company as at the dates thereof and the consolidated results of their operations and cash flows for the periods then ended.

6.5 No Material Adverse Changes. Since December 31, 1997, except as disclosed in the SEC Documents filed subsequent to that date, in Schedule 6.5 or in the other schedules to this Agreement, there has not at any time been (a) any material adverse change in the business, financial condition, operating results, business prospects, employee relations or customer relations of the Company or its subsidiaries, other declines in working capital, shareholders' equity and other financial items resulting from the use of cash in furtherance of the Company's business, or (b) other adverse changes, which in the aggregate have been materially adverse to the Company or its subsidiaries.

6.6 Absence of Certain Developments. Except as contemplated by this Agreement, since December 31, 1998, the Company and each of its subsidiaries have not (a) issued any securities, (b) borrowed any amount or incurred or become subject to any liabilities (absolute or contingent), other than liabilities incurred in the ordinary course of business and liabilities under contracts entered into in the ordinary course of business, all of which involve less than $100,000, (c) discharged or satisfied any lien, adverse claim or encumbrance or paid any obligation or liability (absolute or contingent), other than current liabilities paid in the ordinary course of business; (d) declared or made any payment or distribution of cash or other property to the stockholders of the Company with respect to the Common Stock or purchased or redeemed any shares of Common Stock; (e) mortgaged, pledged or subjected to any lien, adverse claim, charge or any other encumbrance, any of its properties or assets, except for liens for taxes not yet due and payable or otherwise in the ordinary course of business; (f) sold, assigned or transferred any of its assets, tangible or intangible, except in the ordinary course of business and in an amount less than $100,000, (g) suffered any extraordinary losses or waived any rights of material value other than in the ordinary course of business; (h) made any capital expenditures or commitments therefor other than in the ordinary course of business; (i) entered into any other transaction other than in the ordinary course of business in an amount less than $100,000 or entered into any material transaction, whether or not in the ordinary course of business; (j) made any charitable contributions or pledges; (k) suffered any damages, destruction or casualty loss, whether or not covered by insurance, affecting any of the properties or assets of the Company or its subsidiaries or any other properties or assets of the Company or its subsidiaries which could have a material adverse effect on the business or financial condition of the Company or its subsidiaries; (l) made any change in the nature or operations of the business of the Company or its subsidiaries; or (m) resolved or entered into any agreement or understanding with respect to any of the foregoing.

6.7 No Conflict; Governmental Consents. (a) The execution and delivery by the Company of this Agreement and the consummation of the transactions contemplated hereby will not result in the material violation of any law, statute, rule, regulation, order, writ, injunction, judgment or decree of any court or governmental authority to or by which the Company is bound, or of any provision of the Restated Certificate of Incorporation or By-Laws of the Company, and will not conflict with, or result in a material breach or violation of, any of the terms or provisions of, or constitute (with due notice or lapse of time or both) a default under, any lease, loan agreement, mortgage, security

agreement, trust indenture or other agreement or instrument to which the Company is a party or by which it is bound or to which any of its material properties or assets is subject, nor result in the creation or imposition of any lien upon any of the material properties or assets of the Company.

(b) No material consent, approval, license, permit, order or authorization of, or registration, declaration or filing with, any court, administrative agency or commission or other governmental authority or instrumentality, domestic or foreign, remains to be obtained or is otherwise required to be obtained by the Company in connection with the authorization, execution and delivery of this Agreement or the consummation of the transactions contemplated hereby, including, without limitation the issue and sale of the Securities, except such filings as may be required to be made with the SEC, the National Association of Securities Dealers, Inc. , The NASDAQ Stock Market, Inc. or any state blue sky or securities regulatory authority.

6.8 Licenses. The Company has sufficient licenses, permits and other governmental authorizations currently required for the conduct of its business or ownership of properties and is in all material respects complying therewith.

6.9 Litigation. There are no pending, or to the Company's knowledge, threatened legal or governmental proceedings against the Company that would materially adversely affect the business, property, financial condition or operations of the Company.

6.10 Investment Company. The Company is not an "investment company" within the meaning of such term under the Investment Company Act of 1940, as amended, and the rules and regulations of the SEC thereunder.

Section 7. Registration Rights.

7.1 Upon the next filing by the Company of a registration statement (the "Registration Statement") with the SEC with respect to the resale of the shares of Common Stock, the Company shall include (a) all shares of Common Stock acquired hereunder by the Investor hereunder (b) all shares of Common Stock issuable upon exercise of the Warrants and (c) any shares of Common Stock acquired as the result of a Reset or otherwise pursuant to Section 2(a) or 2(b) (the "Registrable Securities"); provided, however, that in any event, the Company shall file a Registration Statement with the SEC for the resale of the Registrable Securities no later than the date that is 180 days from the Effective Date. Upon the filing of the Registration Statement, the Company shall use its best efforts to cause such registration statement to become effective within 60 days thereafter. The Company will use its best efforts to effect the registrations, qualifications or compliances (including, without limitation, the execution of any required undertaking to file post-effective amendments, appropriate qualifications under applicable blue sky or other state securities laws and appropriate compliance with applicable securities laws, requirements or regulations) as may be reasonably requested and as would permit or facilitate that sale and distribution of all Registrable Securities until all Registrable Securities held by the Investor have been disposed of pursuant to such registration statement; provided that the Company shall not be obligated to maintain the effectiveness of the Registration Statement (or any related qualifications or compliance) following the first anniversary of the date such Registration Statement is filed. Other holders of registration rights with respect to the Common Stock shall be permitted to include their shares of Common Stock in the Registration Statement provided that, in the event the Investor elect to retain an underwriter in connection with the distribution contemplated by the Registration Statement, the inclusion in the Registration Statement of shares of Common Stock held by other holders of registration rights shall be conditioned on such other holders disposing of such shares of Common Stock pursuant to the related underwriting agreement.

7.2 In connection with any registration statement filed pursuant to Section 7.1, the following provisions shall apply:

(a) The Investor will promptly provide the Company with such information as the Company shall reasonably request in order to prepare such registration statement. In the event that the distribution of the Common Stock covered by the registration statement shall be effected pursuant to an underwritten offering, the inclusion in such registration of the Registrable Securities shall be conditioned on the Investor' execution and delivery of a customary underwriting agreement with respect thereto (it being understood that the Investor shall have sole authority with respect to retaining an underwriter in connection with any registration effected requested pursuant to Section 7.1).

(b) All expenses in connection with the preparation of such registration statement (other than underwriting fees, discounts or commissions and the fees and disbursements of counsel for the Investor) shall be borne solely by the Company.

(c) Following the effective date of such registration statement, the Company shall, upon the request of the Investor, forthwith supply such number of prospectuses (including preliminary prospectuses and amendments and supplements thereto) meeting the requirements of the Securities Act or such other securities laws where the registration statement or prospectus has been filed and such other documents as are referred to in the registration statement as shall be requested by the Investor to permit it to make a public distribution of their Registrable Securities, provided that the Investor furnishes the Company with such appropriate information relating to the Investor's intentions in connection therewith as the Company shall reasonably request in writing.

(d) the Company shall prepare and file such amendments and supplements to such registration statement as may be necessary to keep such registration statement effective and to comply with the provisions of the Securities Act or such other securities laws where the registration statement has been filed with the respect to the offer and sale or other disposition of the shares covered by such registration statement during the period it is required to be maintained.

(e) The Company will as expeditiously as possible:

(i) notify the Investor at any time when a prospectus relating thereto is required to be delivered under the Securities Act, of the happening of any event as a result of which the prospectus included in such registration statement contains an untrue statement of a material fact or

omits to state any material fact required to be stated therein or necessary to make the statements therein not misleading, and the Company will prepare a supplement or amendment to such prospectus will not contain an untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading;

(ii) cause all Registrable Securities covered by the registration statement to be listed on each securities exchange on which the Common Stock is then listed, and, unless the same already exists, provide a transfer agent, registrar and CUSIP number for all such Registrable Securities not later than the effective date of the registration statement;

(iii) enter into such customary agreements (including an underwriting agreement uncustomary form) and take all such other actions as the Investor or the underwriters, if any, of a registration requested pursuant to Section 7.1 reasonably request in order to expedite or facilitate the disposition of such Registrable Securities;

(iv) make available for inspection by the Investor, any underwriter participating in any disposition pursuant to such registration statement, and any attorney, accountant or other agent retained by the Investor or any underwriter (collectively, the "Inspectors"), all financial and other records, pertinent corporate documents and properties of the Company as shall be necessary to enable them to exercise their due diligence responsibility, and cause the Company's officers, directors and employees to supply all information requested by any such Inspector in connection with such registration statement, provided that the Company shall have received appropriate confidentiality undertakings with respect to such disclosure;

(v) obtain "cold comfort" letters and updates thereof from the Company's independent public accountants and an opinion from the Company's counsel in customary form and covering such matters of the type customarily covered by "cold comfort" letters and opinions of counsel, respectively, as the investors shall request in connection with any registration pursuant to Section 7.1; and

(vi) otherwise comply with all applicable rules and regulations of the Securities and Exchange Commission.

(f) The Investor agrees that, upon receipt of any notice from the Company of the happening of any event of the kind described in Section 7.2 (a)(i), each Investor will forthwith discontinue disposition of its Registrable Securities pursuant to the registration statement covering such Registrable

Securities until such Investor's receipt of the copies of the supplemented or amended prospectus covering such Registrable Securities current at the time of receipt of such notice.

(g) Indemnification.

(i) In the event of the registration or qualification of any Registrable Securities under the Securities Act or any other applicable securities laws pursuant to the provisions of this Section 7, the Company agrees to indemnify and hold harmless the Investor and each underwriter, broker or dealer, if any, of such Registrable Securities, and each other person, if any, who controls the Investor or any such underwriter, broker or dealer within the meaning of the Securities Act or any other applicable securities, from and against any and all losses, claims, damages or liabilities (or actions in respect thereof), joint or several, to which the Investor or such underwriter, broker or dealer within the meaning of the Securities Act or any other applicable securities, from and against any and all losses, claims, damages or liabilities (or actions in respect thereof), joint or several, to which the Investor or such underwriter, broker or dealer or controlling person may become subject under the Securities Act or any other applicable securities laws or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of any material fact contained in any registration statement under which such Registrable Securities were registered or qualified under the Securities Act or any other applicable securities laws, any preliminary prospectus or final prospectus relating to such Registrable Securities, or any amendment or supplement thereto, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, or any violation by the Company of any rule or regulation under the Securities Act or any other applicable securities laws applicable to the Company or relating to any action or inaction required by the Company in connection with any such registration or qualification and will reimburse The Investor and each such underwriter, broker or dealer and each such controlling person for any legal or other expenses reasonably incurred by the Investor or such underwriter, broker or dealer or controlling person in connection with investigating or defending any such loss, claim, damage, liability or action, provided that the Company will not be liable in any such case to the extent that any such loss, claim, damage or liability arises out of or is based upon an untrue statement or omission made in such registration statement, such preliminary prospectus, such final prospectus or such amendment or supplement thereto in reliance upon and in conformity with written information furnished to the Company by the Investor or such underwriter, broker, dealer or controlling person specifically and expressly for use in the preparation thereof.

(ii) In the event of the registration or qualification of any Registrable Securities under the Securities Act or any other applicable securities laws for sale pursuant to the provisions hereof, the Investor, each underwriter, broker and dealer, if any, of such Registrable Securities, and each other person, if any, who controls the Investor or any such underwriter, broker or dealer within the meaning of the Securities Act, agrees severally, and not jointly, to indemnify and hold harmless the Company, each person who controls the Company within the meaning of the Securities Act, and each

officer and director of the Company from and against any losses, claims, damages or liabilities, joint or several, to which the Company, such controlling person or any such officer or director may become subject under the Securities Act or any other applicable securities laws or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any untrue statement of any material fact contained in any registration statement under which such Registrable Securities were registered or qualified under the Securities Act or any other applicable securities laws, any preliminary prospectus or final prospectus relating to such Registrable Securities, or any amendment or supplement thereto, or arise out of or are based upon an untrue statement or the omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, which untrue statement or omission was made therein in reliance upon and unconformity with written information furnished to the Company by the Investor or such underwriter, broker, dealer or controlling person specifically for use in connection with the preparation thereof, and will reimburse the Company, such controlling person and each such officer or director of any legal or any other expenses reasonably incurred by them in connection with investigating or defending any such loss, claim, damage, liability, or action, provided, that in no event shall The Investor be liable for any amount in excess of the sales proceeds of the Registrable Securities sold by it.

(iii) Promptly after receipt by a person entitled to indemnification under this Section 7.3(c) (an "indemnified party") of notice of the commencement of any action or claim relating to any registration statement as to which indemnity may be sought hereunder, such indemnified party of its election so to assume the defense thereof, the indemnifying party to such indemnified party of its election so to assume the defense thereof, the indemnifying party will not be liable to such indemnified party for any legal or other expenses subsequently incurred by such indemnified party in connection with the defense thereof, other than the reasonable cost of investigation, provided that no indemnifying party shall enter into any settlement without the prior written consent of the indemnified party unless such indemnified party is fully released and discharged from any such liability. Notwithstanding the foregoing, the indemnified party shall have the right to employ its own counsel in any such case, but the fees and expenses of such counsel shall be at the expense of such indemnified party unless (A) the employment of such counsel shall have been authorized in writing by the indemnifying party in connection with the defense of such suit, action, claim or proceeding, (B) the indemnifying party shall not have employed counsel (reasonably satisfactory to the indemnified party) to take charge of the defense of such action, suit, claim or proceeding, or (C) such indemnified party shall have reasonably concluded, based upon the advice of counsel, that there may be defenses available to it which are different from or additional to those available to the indemnifying party which, if the indemnifying party and the indemnified party were to be represented by the same counsel, could result in a conflict of interest for such counsel or materially prejudice the prosecution of the defenses available to such counsel or materially prejudice the prosecution of the defenses available to such indemnified party. If any of the event specified in clauses (A), (B) or (C) of the preceding sentence shall

have occurred or shall otherwise be applicable, then the fees and expenses of one counsel or firm of counsel selected by a majority in interest of the indemnified parties (and reasonably acceptable to the indemnifying party) shall be borne by the indemnifying party. If, in any such case, the indemnified party employs separate counsel, the indemnifying party shall not have the right to direct the defense of such action, suit, claim or proceeding on behalf of the indemnified party and the indemnified party shall assume such defense and/or settle such action; provided, however, that, an indemnifying party shall not be liable for the settlement of any action, suit, claim or proceeding effected without its prior written consent, which consent shall not be unreasonably withheld.

7.4 (a) . The Investor agrees to comply with such customary lock-up or black-out restrictions on transfer as may be requested by the Company or any underwriter in connection with a public offering of the Company's securities after the Effective Date, provided that in no event shall the Investor be required to comply with any such lock-up or black-out for a period in excess of 180 days from the completion of such offering. In the event a request for filing of the Registration Statement is made prior during such lock-up or black-out, the Company shall prepare the Registration Statement for filing but shall not be required to file the Registration Statement prior to the expiration of such lock-up or black-out. No transfer in violation of this Agreement shall be made or recorded on the books of the Company and any such Transfer or purported Transfer shall be void ab initio and of no force or effect.

(b) The Investor agrees to suspend, upon request of the Company, any disposition of Registrable Securities pursuant to the Registration Statement during any period, not to exceed one 90-day period per 12-month period, if the Board of Directors of the Company determines in good faith that the disclosure of material undisclosed circumstances or developments with respect to the Company would be required in such a prospectus and that such disclosure would interfere with any material financing, acquisition, merger, reorganization or other transaction involving the Company, would have an adverse effect on the Company or is otherwise inadvisable, provided that in such event, the Company shall furnish to the Investor a certificate signed by its chief executive officer setting forth in reasonable detail the basis for requesting such suspension.

7.5 Any registration statement filed pursuant to this Section 7.1 may include other securities of the Company, with respect to which registration rights have been granted, and may include securities of the Company being sold for the account of the Company, provided that in the event the related registration is underwritten, the inclusion of the Registrable Securities sought to be included in such registration by the Investor shall take priority over the inclusion of such other securities.

Section 8. Covenants of the Company.

8.1 Use of Proceeds. The Company, without the consent of the Investor, will not use any of the proceeds of the purchase and sale of Securities hereunder to (a) repay any indebtedness of the Company owed to officers, directors, employees or principal stockholders of the Company or (b) redeem, repurchase or otherwise acquire any equity security of the Company.

8.2 Expenses of the Offering. The Company shall be responsible for and shall bear all expenses incurred in connection with the transactions contemplated hereby, provided that the Company shall not be obligated to reimburse the Investor for in excess of $2,500 of out-of-pocket expenses incurred by the Investor.

8.3 Blue Sky. The Company shall use its best efforts to qualify the Securities for offering and sale under exemptions from qualification or registration requirements under the securities or "blue sky" laws of such jurisdictions as the Investor may reasonably request; provided, however, that the Company will not be obligated to qualify as a dealer in securities in any jurisdiction in which it is not so qualified, execute a general consent to service of process or to qualify to do business as a foreign corporation in any jurisdiction where it is not so qualified.

8.4 Form D Filing. The Company shall file five copies of a Notice of Sale of Securities on Form D with the SEC no later than 15 days after the Effective Date. The Company shall also comply with any filing requirement imposed by the laws of New York in connection with the transactions contemplated hereby.

8.5 No Statements. The Company shall not use the name of the Investor or any officer, director, employee or shareholder thereof without the express written consent of such party, except to the extent required to comply with applicable law. On the Effective Date, the Company shall be entitled to issue a press release relating to the transactions contemplated by this Agreement with the consent of the Investor, which consent shall not be unreasonably withheld.

Section 10. Miscellaneous.

10.1 Any notice or other communication given hereunder shall be deemed sufficient if in writing and sent by registered or certified mail, return receipt requested, or delivered by hand against written receipt therefor, addressed to: Discovery Laboratories, Inc., 350 South Main Street, Suite 307 Doylestown, PA 18901 Attn: Robert J. Capetola, Ph.D., Chief Executive Officer, and to the Investor, or either of them, at ,_____ _____ Attention:_____ . Notices shall be deemed to have been given or delivered on the date of mailing, except notices of change of address, which shall be deemed to have been given or delivered when received.

10.2 This Agreement shall be binding upon and inure to the benefit of the parties hereto and to their respective heirs, legal representatives, successors and assigns. Notwithstanding the foregoing, the Investor shall not be permitted to assign their rights pursuant to Article 7 to any person or entity acquiring less than 50% of the Shares acquired by the Investor hereunder.

10.3 This Agreement sets forth the entire agreement and understanding among the parties as to the subject matter hereof and merges and supersedes all prior discussions, agreements and understandings pertaining to the subject matter hereof. This Agreement may be amended only by mutual written agreement of the Company and the Investor, and the Company may take any action herein prohibited or omit to take any action herein required to be performed by it, and any breach of any covenant, agreement, warranty or representation may be waived, only if the Company has obtained the written consent or waiver of the Investor.

10.4 (a) Notwithstanding the place where this Agreement may be executed by any of the parties hereto, the parties expressly agree that all the terms and provisions hereof shall be construed in accordance with and governed by the laws of the State of New York without regard to that State's conflicts of law principles. In the event that a judicial proceeding is necessary, the sole forum for resolving disputes arising out of or relating to this agreement is the Supreme Court of the State of New York in and for the County of New York or the Federal Courts for such state and county, and all related appellate courts (collectively, the "New York Courts"). The parties hereby irrevocably and unconditionally consent to the jurisdiction of such courts.

(b) Each of the parties hereby irrevocably and unconditionally consents to venue in the New York Courts, and hereby irrevocably and unconditionally waives any objection to the laying of venue of any judicial proceeding in the New York Courts, and agrees not to plead or claim in any such New York Court that any such judicial proceeding brought in any such court has been brought in an inconvenient forum.

(c) Each of the parties agree that service of any process, summons, notice or document by registered or certified mail, postage prepaid, to its address set forth in Section 10.1 shall be effective service or process for any suits, actions or other proceedings brought in the New York Courts. The parties may use any other legally available means for service of process.

(d) Each of the parties waives the right to a trial by jury in any action under this Agreement or any judicial proceeding arising out of the transactions contemplated hereby, regardless of which party initiates such judicial proceeding.

10.5 The holding of any provision of this Agreement to be invalid or unenforceable by a court of competent jurisdiction shall not affect any other provision of this Agreement, which shall remain in full force and effect. If any provision of this Agreement shall be declared by a court of competent jurisdiction to be invalid, illegal or incapable of being enforced in whole or in part, such provision shall be interpreted so as to remain enforceable to the maximum extent permissible consistent with applicable law and the remaining conditions and provisions or portions thereof shall nevertheless remain in full force and effect and enforceable to the extent they are valid, legal and enforceable, and no provisions shall be deemed dependent upon any other covenant or provision unless so expressed herein.

10.6 It is agreed that a waiver by either party of a breach of any provision of this Agreement shall not operate, or be construed, as a waiver of any subsequent breach by that same party.

10.7 The parties agree to execute and deliver all such further documents, agreements and instruments and take such other and further action as may be necessary or appropriate to carry out the purposes and intent of this Agreement. Any documentary, registration, stamp tax or similar issuance or transfer taxes due as a result of the conveyance, transfer or sale of the Shares between any of the Investor (or any of their permitted transferees), on the one hand, and the Company, on the other hand, pursuant to this Agreement shall be borne by such Investor (or their respective permitted transferees). Except as otherwise provided in this Agreement, each party will pay its own expenses incident to this Agreement.

10.8 This Agreement may be executed in two or more counterparts each of which shall be deemed an original, but all of which shall together constitute one and the same instrument.

10.9 Nothing in this Agreement shall create or be deemed to create in any person or entity not a party to this Agreement any legal or equitable right, remedy or claim under this Agreement, and this Agreement shall be for the sole and exclusive benefit of the parties hereto. The parties hereto expressly recognize that this Agreement is not intended to create a partnership, joint venture or other similar arrangement between or among any of such parties or their respective affiliates.

10.10 No press release or other public disclosure relating to the transactions contemplated by this Agreement shall be issued or made by or on behalf of any party hereto without prior consultation with the other party, except as required by applicable law, court process or stock exchange rules, and except that the parties may issue press releases and make other public disclosure consistent with the general terms of the transactions contemplated by this Agreement. In addition, the parties shall agree on the content of the initial press release regarding such transactions.

IN WITNESS WHEREOF, the undersigned have duly executed this Agreement as of the date first above written.

DISCOVERY LABORATORIES, INC.

By:_____
Name:
Title:

[ ]

By:_____
Name:
Title:

EXHIBIT B

[ ], 1999

To_____:

Discovery Laboratories, Inc.

Dear Sirs:

We have acted as counsel to Discovery Laboratories, Inc., a Delaware corporation, (the "Company") in connection with its offering, issuance and sale of 345,744 shares of Common Stock, par value $.001 per share (the "Common Stock"), of the Company, and warrants (the "Warrants") to purchase 345,744 shares of Common Stock (collectively, the "Securities"). The Securities are being issued and sold on the date hereof by the Company pursuant to the Stock and Warrant Purchase Agreement (the "Purchase Agreement") between the Company and the purchasers (the "Purchasers") that are named on Exhibit A at a closing held on the date hereof. Capitalized terms used but not defined herein shall have the meanings ascribed to such terms in the Purchase Agreement.

We have examined certain documents delivered in connection with the offering, sale and purchase of the Units by the Purchasers, including, without limitation, (i) the Purchase Agreement and (ii) the Warrants (collectively, the "Offering Documents"). We have also examined originals or copies, certified or otherwise identified to our satisfaction, of certificates of public officials and corporate records, instruments and documents of or affecting the Company, as well as certificates of officers or representatives of the Company. We have also reviewed such questions of law and made such other inquiries, as we have deemed necessary or appropriate for the purpose of rendering this opinion.

In rendering our opinion, we have relied, as to matters of fact, upon the representations and warranties of the Company and the Purchasers which are set forth in the Offering Documents, and upon certificates and other instruments of the Company, the representations and warranties made by the Purchasers in the Purchase Agreement, the Warrants and, where applicable, the certificates of officers or representatives of the Company; which we have assumed to be true and correct without independent investigation or verification. Additionally, without any independent investigation or verification, we have assumed (i) the genuineness of all signatures other than persons signing on behalf of the Company, (ii) the authenticity of all documents submitted to us as originals and the conformity with the original documents of

all documents submitted to us as certified, conformed or photostatic copies, (iii) the authority of all persons signing any document other than persons signing on behalf of the Company, and (iv) that all future offers, sales and issuances which may be integrated pursuant to Rule 502 of the Securities Act of 1933 (the "Act") with the offer, sale and issuance of the Securities meet all of the terms and conditions of Regulation D of the Act. We also call your attention to the fact that we have not made any independent inquiries of the Purchasers and the Company except as set forth in such documents, certificates or other instruments.

Based upon the foregoing, and subject to the limitations, qualifications, assumptions and exceptions set forth herein, we are of opinion that:

1. The Company is a corporation duly incorporated, validly existing and in good standing under the laws of the State of Delaware.

2. The Company has the corporate power and authority to execute, deliver and perform the Offering Documents. The Company has taken all corporate action necessary to authorize the execution, delivery and performance of the Offering Documents, provided that the Warrants have been approved on terms providing for their redemption, at the option of the Company, in the event the Common Stock trades at a price in excess of 250% of the Per Share Exercise Price. We hereby undertake to supplement this opinion to confirm terms providing for their redemption, at the option of the Company, in the event the Common Stock trades at a price in excess of 300% of the Per Share Exercise Price upon ratification of such terms by the Company's board of directors.

3. Each of the Offering Documents constitutes the legal, valid and binding obligation of the Company, enforceable against the Company in accordance with its terms, except as limited by bankruptcy, insolvency, reorganization, fraudulent transfer, moratorium or other laws relating to creditors' rights generally or by equitable principles (whether considered in an action at law or in equity).

4. The execution and delivery of each of the Offering Documents by the Company and the consummation of the transactions contemplated thereby by the Company does not violate any provision of the Restated Certificate of Incorporation or By-Laws of the Company.

5. The Common Stock issued pursuant to and in accordance with the Purchase Agreement has been duly authorized for issuance by the Company and, has been validly issued, and is fully paid and non-assessable. The Warrants issued pursuant to and in accordance with the Purchase Agreement have been duly authorized for issuance by the Company and have been validly issued.

6. The Common Stock reserved for issuance upon exercise of the Warrants has been duly authorized and reserved for future issuance by the Company and, upon issuance in accordance with the terms of the Warrants will be validly issued, fully paid and non-assessable. The Common Stock reserved for issuance upon any adjustment of the Per Share Price (as defined in the Purchase Agreement) pursuant to Section 2 of the Purchase Agreement has been duly authorized and reserved for future issuance by the Company and, upon issuance in accordance with the terms of the Warrants will be validly issued, fully paid and non-assessable.

7. The offer, sale and issuance of the Securities, and the issuance of Common Stock upon exercise of the Warrants, in each case under the circumstances contemplated by the Offering Documents, under existing law constitute transactions exempt from the registration provisions of the Act. We express no opinion as to when or under what circumstances the Securities or the Common Stock issuable upon exercise of the Warrants may be re-offered or re-sold.

We express no opinion on any provisions of any Offering Document relating to indemnification or waivers to the extent that such indemnification or waivers may be held to be unenforceable because they are in violation of public policy.

Members of this Firm are admitted to practice law only in the State of New York and do not purport to be experts on, and are not expressing any opinion with respect to, any laws other than the laws of the State of New York, the Federal securities laws of the United States of America and the General Corporation Law of the State of Delaware. We assume no obligation to supplement this opinion if any applicable laws change after the date hereof or if we become aware of any facts that might change the opinions expressed herein after the date hereof.

This opinion is being furnished solely for the benefit of the Purchasers and may not be relied on by or furnished to any other person, or used, circulated, quoted or otherwise referred to for any other purpose, without the express prior written consent of this Firm.

Very truly yours,

EXHIBIT 23.1

CONSENT OF INDEPENDENT AUDITORS

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-59945) pertaining to Discovery Laboratories, Inc. stock incentive and stock option plans of our report dated February 24, 1999 (with respect to the last paragraph of Note A, April 7, 1999) on the financial statements as of and for the year ended December 31, 1998 which is included in the annual report on Form 10-KSB for the year ended December 31, 1998.

Richard A. Eisner & Company, LLP

New York, New York
April 7, 1999

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