

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-Q/A

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

For the quarterly period ended March 31, 2000  
or,

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

COMMISSION FILE NUMBER: 0-23556

INHALE THERAPEUTIC SYSTEMS, INC.  
(Exact name of registrant as specified in its charter)

DELAWARE

94-3134940

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(State of other jurisdiction of  
incorporation or organization)

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(IRS Employer Identification No.)

150 INDUSTRIAL ROAD  
SAN CARLOS, CALIFORNIA 94070  
(Address of principal executive offices)

650-631-3100  
(Registrant's telephone number, including area code)

Not applicable

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(Former name, former address and former fiscal year, if changed since last  
report)

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

APPLICABLE ONLY TO CORPORATE ISSUERS

The number of outstanding shares of the registrant's Common Stock, \$0.0001 par  
value, was 20,925,381 as of April 28, 2000.

## PART I: FINANCIAL INFORMATION

Item 1.

## INHALE THERAPEUTIC SYSTEMS, INC.

CONDENSED BALANCE SHEETS  
(IN THOUSANDS)

ASSETS	MARCH 31, 2000 (Unaudited)	DECEMBER 31, 1999 *
Current assets:		
Cash and cash equivalents	\$129,778	\$33,430
Short-term investments	205,940	104,755
Accounts receivable	682	1,756
Other current assets	7,883	7,377
Total current assets	344,283	147,318
Property and equipment, net	76,066	63,852
Investment in Alliance Pharmaceutical Corp.	14,674	6,328
Other assets	13,269	9,308
	\$448,292	\$226,806
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$23,737	\$20,268
Deferred revenue	8,211	4,811
Total current liabilities	31,948	25,079
Tenant improvement loan	4,885	4,895
Convertible subordinated notes and debentures	239,760	108,450
Accrued rent	1,824	1,753
Stockholders' equity:		
Common stock	2	2
Capital in excess of par value	284,903	181,154
Deferred compensation	(1,435)	(1,530)
Accumulated other comprehensive gain	9,703	1,469
Accumulated deficit	(123,298)	(94,466)
Total stockholders' equity	169,875	86,629
	\$448,292	\$226,806

SEE ACCOMPANYING NOTES

(\*) The balance sheet at December 31, 1999 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements

INHALE THERAPEUTIC SYSTEMS, INC.

CONDENSED STATEMENTS OF OPERATIONS  
 (IN THOUSANDS, EXCEPT PER SHARE INFORMATION)  
 (UNAUDITED)

	THREE MONTHS ENDED MARCH 31,	
	2000	1999
Contract research revenue	\$10,633	\$7,780
Operating costs and expenses:		
Research and development	21,869	12,716
General and administrative	3,535	1,264
Total operating costs and expenses	25,404	13,980
Loss from operations	(14,771)	(6,200)
Interest income	3,627	1,095
Interest expense	(17,688)	(118)
Net loss	\$ (28,832)	\$ (5,223)
Basic and diluted net loss per share	\$ (1.51)	\$ (0.31)
Shares used in computing basic and diluted net loss per share	19,034	16,929

SEE ACCOMPANYING NOTES

INHALE THERAPEUTIC SYSTEMS, INC.

CONDENSED STATEMENTS OF CASH FLOWS  
 INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS  
 (IN THOUSANDS)  
 (UNAUDITED)

	THREE MONTHS ENDED MARCH 31,	
	2000	1999
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash used in operations	\$ (1,890)	\$ (3,586)
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Purchase)/sale of short-term investments, net	(101,298)	2,382
Purchases of property and equipment	(13,583)	(5,744)
Other investing activities	(115)	-
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Net cash used in by investing activities	(114,996)	(3,362)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments of equipment financing obligations	(18)	(16)
Payment of debt conversion incentives	(16,569)	-
Issuance of convertible debt, net of issuance costs	222,439	-
Issuance of common stock, net of issuance costs	7,382	71
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Net cash provided by financing activities	213,234	55
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Net increase (decrease) in cash and cash equivalents	96,348	(6,893)
Cash and cash equivalents at beginning of period	33,430	24,916
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Cash and cash equivalents at end of period	\$ 129,778	\$ 18,023
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SUPPLEMENTAL DISCLOSURE OF NON-CASH FINANCING ACTIVITIES:		
Common stock issued upon conversion of convertible subordinated debentures, net	\$ 95,220	\$ -

SEE ACCOMPANYING NOTES

INHALE THERAPEUTIC SYSTEMS, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS  
MARCH 31, 2000  
(UNAUDITED)

1. ORGANIZATION AND BASIS OF PRESENTATION

Inhale Therapeutic Systems ("Inhale" or the "Company") was incorporated in the State of California in July 1990 and reincorporated in the State of Delaware in July 1998. Since inception, Inhale has been engaged in the development of systems for the pulmonary delivery of macromolecule drug therapies for systemic and local lung applications.

The accompanying unaudited condensed financial statements of Inhale have been prepared by management in accordance with generally accepted accounting principles for interim financial information, the instructions for Form 10-Q and Article 10 of Regulation S-X. The condensed balance sheet as of March 31, 2000 and the related condensed statements of operations and cash flows for the three month periods ended March 31, 2000 and 1999, are unaudited but include all adjustments (consisting only of normal recurring adjustments) which Inhale considers necessary for a fair presentation of the financial position at such dates and the operating results and cash flows for those periods. Although Inhale believes that the disclosures in these financial statements are adequate to make the information presented not misleading, certain information normally included in financial statements and related footnotes prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission (the "Commission"). The accompanying financial statements should be read in conjunction with the financial statements and notes thereto included in Inhale's Amended Annual Report on Form 10-K/A for the year ended December 31, 1999 as filed with the Commission.

Results for any interim period presented are not necessarily indicative of results for any other interim period or for the entire year.

2. CASH, CASH EQUIVALENTS AND INVESTMENTS

The following is a summary of Inhale's available-for-sale debt securities as of March 31, 2000:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	----	----	-----	-----
	(In thousands)			
Amounts included in cash and cash equivalents.....	\$ 126,324	\$ 121	\$ (12)	\$ 126,433
Amounts included in short-term investments.....	206,021	236	(317)	205,940
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	\$ 332,345	\$ 357	\$ (329)	\$ 332,373
	=====	=====	=====	=====

The following is a summary of the Company's available-for-sale debt securities as of December 31, 1999:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	----	----	-----	-----
	(In thousands)			
Amounts included in cash and cash equivalents.....	\$ 29,822	\$ 54	\$ (-)	\$ 29,876
Amounts included in short-term investments.....	104,668	87	(-)	104,755
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	\$ 134,490	\$ 141	\$ (-)	\$ 134,631
	=====	=====	=====	=====

At March 31, 2000 and December 31, 1999, Inhale's investment portfolio consisted largely of United States corporate commercial paper,

obligations of United States government agencies and repurchase agreements secured by United States Government securities. The average portfolio duration was approximately six months at March 31, 2000 and five months at December 31, 1999. The contractual maturity of any single investment did not exceed nineteen months at March 31, 2000 (eleven months at December 31, 1999).

### 3. COMPREHENSIVE LOSS

Other comprehensive gains/(losses) consists primarily of unrealized gains or losses on available-for-sale securities. For the three-month period ended March 31, 2000, Inhale recorded unrealized gains of approximately \$8,234,000, consisting of approximately \$8,346,000 of gains relating to its investment in Alliance Pharmaceutical Corp. and approximately \$113,000 of losses in other available for sale investments. For the three-month period ended March 31, 1999, Inhale recorded unrealized losses of approximately \$13,000.

### 4. REVENUE RECOGNITION

Contract revenue from collaborative research agreements is recorded when earned and as the related costs are incurred. Payments received which are related to future performance are deferred and recognized as revenue when earned over future performance periods. In accordance with contract terms, up-front and progress payments from collaborative research agreements are considered to be payments to support continued research and development activities under the agreements. In accordance with the Company's revenue recognition policy, these payments are included in deferred revenue and are recognized as the related research and development expenditures are incurred.

Contract research revenue from one partner represented 66% of Inhale's revenue in the three-month period ended March 31, 2000. Contract research revenue from one partner accounted for 77% of Inhale's revenue in the three month period ended March 31, 1999. Costs of contract research revenue approximate such revenue and are included in operating costs and expenses.

### 5. NET LOSS PER SHARE

Basic and diluted net loss per common share is computed in accordance with Statement of Financial Accounting Standards No. 128, "Earnings Per Share," which Inhale adopted in 1997. Accordingly, the weighted

average number of common shares outstanding are used while common stock issuable upon the conversion of debt and common stock equivalent shares for stock options and warrants are not included in the per share calculations as the effect of their inclusion would be antidilutive.

## 6. LONG-TERM DEBT

In February 2000, Inhale received approximately \$222,439,000 in net proceeds from the issuance of \$230,000,000 aggregate principal amount of convertible subordinated notes to certain qualified institutional buyers pursuant to an exemption under the Securities Act of 1933, as amended. Interest on the notes accrues at a rate of 5% per year, subject to adjustment in certain circumstances. The notes will mature in 2007 and are convertible into shares of Inhale's common stock at a conversion price of \$76.71 per share, subject to adjustment in certain circumstances. The notes are redeemable in part or in total at any time before February 8, 2003 at an exchange premium of \$137.93 per \$1,000 principal amount, less any interest actually paid on the notes before the call for redemption, if the closing price of Inhale's common stock has exceeded 150% of the conversion price then in effect for at least 20 trading days within a period of 30 consecutive trading days. The Company can redeem some or all of the notes at any time after February 8, 2003. Interest is payable semi-annually on August 8 and February 8. The notes are unsecured subordinated obligations which rank junior in right of payment to all of the Company's existing and future Senior Debt.

Also in February 2000, Inhale entered into privately negotiated agreements with certain holders of its outstanding 6 3/4% convertible subordinated debentures sold in October and November 1999, providing for the conversion into Inhale common stock of approximately \$98,690,000 aggregate principal amount of the outstanding debentures. In exchange for an exchange premium of approximately \$16,958,000, the \$98,690,000 of convertible debentures was converted into approximately 3,083,000 shares of Inhale common stock. Inhale will no longer have interest payment obligations on the debentures that were converted.

At March 31, 2000, an aggregate of \$239,760,000 principal amount of these debt instruments remained on the balance sheet. Costs relating to the issuances of the notes are recorded as long-term assets and are being amortized over the term of the debt.

## PART II: OTHER INFORMATION

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### Item 2. Changes in Securities

In February 2000 we issued \$230,000,000 aggregate principal amount of convertible subordinated notes, which are convertible at the option of the holder, at any time on or prior to maturity into shares of our common stock. The notes were sold only in the United States to certain qualified institutional buyers under an exemption from registration provided by Rule 144A of the Securities Act of 1933, as amended. The notes are convertible at a conversion price of \$76.71 per share, which is equal to a conversion rate of approximately 13.037 shares per \$1,000 principal amount of notes, subject to adjustment. Interest on the debentures will accrue at a rate of 5.0% per year subject to adjustment in certain circumstances. We will pay interest on the notes on August 8 and February 8 of each year, beginning August 8, 2000. The notes mature on February 8, 2007. We may redeem some or all of the notes at any time before February 8, 2003 at a redemption price of \$1,000 per \$1,000 principal amount of notes, plus accrued and unpaid interest, if any, to the redemption date, if the closing price of our common stock has exceeded 150% of the conversion price then in effect for at least 20 trading days within a period of 30 consecutive trading days ending on the trading day before the date of mailing of the provisional redemption notice. We will make additional payment in cash with respect to the notes, called for provisional redemption in an amount equal to \$137.93 per \$1,000 principal amount of notes, less the amount of any interest actually paid on the notes, before the call for redemption. We also may redeem some or all of the notes at any time after February 8, 2003 by paying a premium on the notes. The notes are unsecured and subordinated to our existing and future senior indebtedness. Merrill Lynch & Co. served as the sole bookrunner for the offering and received approximately \$7,187,500 in discounts and commissions.

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto.

INHALE THERAPEUTIC SYSTEMS, INC.

DATE: May 12, 2000

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BY: /s/Ajit S. Gill

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Ajit S. Gill  
Chief Executive Officer and Director  
(Duly Authorized Officer)

BY: /s/Brigid A. Makes

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Brigid A. Makes  
Chief Financial Officer