UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended March 31, 1999

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
(State of other jurisdiction of incorporation or organization)	(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
(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. [X] Yes [ ] No

APPLICABLE ONLY TO CORPORATE ISSUERS

The number of outstanding shares of the registrant's Common Stock, $0.0001 par value, was 16,941,154 as of April 30, 1999.

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PART I: FINANCIAL INFORMATION

Item 1.

INHALE THERAPEUTIC SYSTEMS, INC.

CONDENSED BALANCE SHEETS
(IN THOUSANDS)

	MARCH 31, 1999 (UNAUDITED)	DECEMBER 31, 1998 *
ASSETS		
Current assets:		
Cash and cash equivalents	$18,023	$24,916
Short-term investments	55,553	57,946
Other current assets	3,231	1,678
Total current assets	76,807	84,540
Property and equipment, net	54,449	49,863
Deposits and other assets	93	93
	$131,349	$134,496
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$10,902	$8,397
Deferred revenue	3,755	4,359
Total current liabilities	14,657	12,756
Equipment financing obligations	1	9
Tenant improvement loan	4,924	4,931
Accrued rent	989	919
Stockholders' equity:		
Common stock	2	2
Capital in excess of par value	172,918	172,847
Deferred compensation	(869)	(931)
Accumulated other comprehensive loss	(32)	(19)
Accumulated deficit	(61,241)	(56,018)
Total stockholders' equity	110,778	115,881
	$131,349	$134,496

SEE ACCOMPANYING NOTES.

(*) The balance sheet at December 31, 1998 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,	
	1999	1998
Contract research revenue	$7,780	$3,865
Operating costs and expenses:		
Research and development	12,716	7,217
General and administrative	1,264	1,925
Total operating costs and expenses	13,980	9,142
Loss from operations	(6,200)	(5,277)
Interest income, net	977	1,128
Net loss	(5,223)	(4,149)
Basic and diluted net loss per share	($0.31)	($0.27)
Shares used in computing basic and diluted net loss per share	16,929	15,568

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,	
	1999	1998
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash used in operations	$(3,586)	$(8,164)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sale of short-term investments, net of purchases and maturities	2,382	12,756
Purchases of property and equipment	(5,744)	(8,774)
Net cash (used in) provided by investing activities	(3,362)	3,982
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments of equipment financing obligations	(16)	(20)
Issuance of common stock, net of issuance costs	71	651
Net cash provided by financing activities	55	631
Net increase (decrease) in cash and cash equivalents	(6,893)	(3,551)
Cash and cash equivalents at beginning of period	24,916	14,948
Cash and cash equivalents at end of period	$18,023	$11,397

SEE ACCOMPANYING NOTES.

INHALE THERAPEUTIC SYSTEMS, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS
MARCH 31, 1999
(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 and the instructions for Form 10-Q and Article 10 of Regulation S-X. The balance sheet as of March 31, 1999 and the related statements of operations and cash flows for the three month periods ended March 31, 1999 and 1998, 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 Annual Report on Form 10-K for the year ended December 31, 1998 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. COMPREHENSIVE LOSS

Other comprehensive loss (primarily unrealized losses on available for sale securities) amounted to $13,000 and $27,000, respectively, for the three month periods ended March 31, 1999 and 1998.

3. 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 77% of Inhale's revenue in the three month period ended March 31, 1999. Contract revenue from two partners accounted for 67% of Inhale's revenue in the corresponding period in 1998. Costs of contract research revenue approximate such revenue and are included in operating costs and expenses.

4. NET LOSS PER SHARE

Basic and diluted net loss per common share is computed in conformance 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 equivalent shares for stock options and warrants are not included in the per share calculations as the effect of their inclusion would be antidilutive.

5. SEGMENT INFORMATION

Management has organized Inhale's business in one operating segment which includes activities related to the development of systems for the pulmonary delivery of macromolecule drugs. Inhale's operations are presently located in the United States and Inhale derives all of its revenues within the United States.

ITEM 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Management's Discussion and Analysis of Financial Condition and Results of Operations for the three months ended March 31, 1999 and 1998 should be read in conjunction with the Management's Discussion and Analysis of Financial Condition and Results of Operations included in Inhale's Annual Report on Form 10-K for the year ended December 31, 1998. The following discussion contains forward-looking statements that involve risk and uncertainties. Inhale's actual results could differ materially from those discussed here. Factors that could cause or contribute to such differences include, but are not limited to, those discussed herein under the heading "Risk Factors" as well as those discussed in Inhale's Annual Report on Form 10-K for the year ended December 31, 1998.

Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis only as of the date hereof. Inhale undertakes no obligation to publicly release the results of any revision to these forward-looking statements which may be made to reflect events or circumstances occurring after the date hereof or to reflect the occurrence of unanticipated events.

OVERVIEW

Since its inception in July 1990, Inhale has been engaged in the development of a pulmonary system for the delivery of macromolecules and other drugs for systemic and local lung applications. Inhale has been unprofitable since inception and expects to incur significant and increasing additional operating losses over the next several years primarily due to increasing research and development expenditures and expansion of late stage clinical and early stage commercial manufacturing facilities. To date, Inhale has not sold any commercial products and does not anticipate receiving revenue from product sales or royalties in the near future. For the period from inception through March 31, 1999, Inhale incurred a cumulative net loss of approximately $61.2 million. The sources of working capital have been equity financings, financings of equipment acquisitions and tenant improvements, interest earned on investments of cash, and revenues from short-term research and feasibility agreements and development contracts.

Inhale typically has been compensated for research and development expenses during initial feasibility work performed under collaborative arrangements. Partners that enter into collaborative agreements will pay for research and development expenses and make additional payments to Inhale as Inhale achieves certain key milestones. Inhale expects to receive royalties from its partners based on revenues received from product sales, and to receive revenue from the manufacturing of powders and the supply of devices. In certain cases, Inhale may enter into collaborative agreements under which Inhale's partners would manufacture or package powders or supply inhalation devices, thereby potentially limiting one or more sources of revenue for Inhale. To achieve and sustain profitable operations, Inhale, alone or with others, must successfully develop, obtain regulatory approval for, manufacture, introduce, market and sell products utilizing its pulmonary drug delivery system. There can be no assurance that Inhale can generate sufficient product or contract research revenue to become profitable or to sustain profitability.

RESULTS OF OPERATIONS

Revenue in the first quarter of 1999 was $7.8 million compared to $3.9 million in the first quarter of 1998, an increase of approximately 100%. The increase in revenue was primarily due to the expansion of Inhale's existing collaborative agreement with Pfizer, Inc. and includes activities associated with the manufacture of Phase III clinical supplies. Revenue for the first quarter of 1999 and 1998 was comprised of reimbursed research and development expenses as well as the amortization of the pro-rata portion of up-front signing and progress payments received

from Inhale's collaborative partners. Recognition of up-front signing and progress payments is based on actual efforts expended. Costs of contract research revenue approximate such revenue and are included in research and development expenses.

Research and development expenses increased to approximately $12.7 million in the first quarter of 1999 from $7.2 million in the corresponding period of 1998, an increase of 76%. The increase was due to the continued expansion of the Company's manufacturing activities in order to support Phase III clinical trials. In addition, the company hired additional scientific and development personnel to handle an increase in the number of development projects and incurred increased expenses associated with device development. Inhale expects research, development and process development spending to increase over the next few years as Inhale expands its development efforts under collaborative agreements and scales up its commercial manufacturing facility.

General and administrative expenses decreased to $1.3 million in the first quarter of 1999 from $1.9 million in the first quarter of 1998, an decrease of 32%. The decrease was due primarily to a change in the Company's methodology for allocating administrative costs to research and development expenses. In 1999 the Company began allocating human resources costs associated with supporting the Inhale organization including administrative staffing and business development and marketing activities. General and administrative expenses are expected to continue to increase over the next few years to support increasing levels of research, development and manufacturing activities.

Net interest income decreased to $1.0 million in the first quarter of 1999 compared to $1.1 million in the first quarter of 1998, an decrease of 9%. Interest income was earned on lower cash and investment balances held by Inhale in the three month period ended March 31, 1999, compared to the same period in 1998.

LIQUIDITY AND CAPITAL RESOURCES

Inhale has financed its operations primarily through public and private placements of its equity securities, contract research and milestone payments, financing of equipment acquisitions and interest income earned on its investments of cash. At March 31, 1999, Inhale had cash, cash equivalents and short-term investments of approximately $73.6 million.

Inhale's operations used cash of $3.6 million in the three months ended March 31, 1999, as compared to $8.2 million used in the three months ended March 31, 1998. The decrease in cash used in operations was due principally to the combination of decreased receivable and increased accrued liability balances at March 31, 1999 compared to the same period in 1998.

Inhale purchased property and equipment of approximately $5.7 million during the three months ended March 31, 1999, compared to $8.8 million for the corresponding period in 1998. The decrease in purchased property and equipment is due to the fact that 1998 spending included costs related to the build out of Inhale's headquarters and first phase of its manufacturing plant located in San Carlos, California, which is now largely complete.

Inhale expects its cash requirements to continue to increase at an accelerated rate due to expected increases in costs associated with further research and development of its technologies, resulting in larger numbers of projects, development of drug formulations, process development for the manufacture and filling of powders and devices, marketing and general and administrative costs. These expenses include, but are not limited to, increases in personnel and personnel related costs, purchases of capital equipment, investments in technologies, inhalation device prototype construction and facilities expansion, including the completion of its late stage clinical and commercial manufacturing facility.

Inhale believes that its cash, cash equivalents and short-term investments as of March 31, 1999, together with interest income and possible additional equipment financing, will be sufficient to meet its operating expense and capital expenditure requirements at least through the first half of 2000. However, Inhale's capital needs will depend on many factors, including continued scientific progress in its research and development arrangements, progress with pre-clinical and clinical trials, the time and costs involved in obtaining regulatory approvals, the costs of developing and the rate of scale-up of Inhale's powder processing and packaging technologies, the timing and cost of its late-stage clinical and early commercial production facility, the costs involved in preparing, filing, prosecuting, maintaining and enforcing patent claims, the need to acquire licenses to new technologies and the

status of competitive products. To satisfy its long-term needs, Inhale intends to seek additional funding, as necessary, from corporate partners and from the sale of securities. There can be no assurance that additional funds, if and when required, will be available to Inhale on favorable terms, if at all.

YEAR 2000 COMPLIANCE

Inhale is aware of the issues associated with the programming code in existing computer systems as the millennium (Year 2000) approaches. The Year 2000 ("Y2K") problem is pervasive and complex as virtually every computer operation may be affected in some way by the rollover of the two digit year value to "00". The issue is whether systems will properly recognize date sensitive information when the year changes to 2000. If Inhale's software and firmware with date-sensitive functions are not Y2K compliant, they may recognize a date with "00" as the year 1900 rather than the year 2000. This could result in a system failure or miscalculations causing disruptions of operations, including, among other things, interruptions in manufacturing operations, a temporary inability to process transactions, or engage in similar normal business activities.

Inhale is utilizing both internal and external resources to conduct a comprehensive review of its systems to identify those systems that could be affected by the Y2K problem and has developed an implementation plan to resolve the issue by the end of 1999. The scope of the Y2K effort includes information technology ("IT") such as software and hardware, non-IT systems or embedded technology such as microcontrollers contained in various manufacturing and lab equipment, environmental and safety systems, facilities and utilities, and the Y2K readiness of key third parties such as suppliers and financial institutions. A multi-step Y2K readiness plan has been developed for its internal systems. This plan includes the following elements: 1) Awareness - raising Inhale's awareness of the Y2K issue; 2) Discovery - keeping an inventory and monitoring the compliance status of key financial, informational and operations systems subject to Y2K issues; 3) Assessment - determining both the business impact of noncompliance and the likelihood of noncompliance from each of the entities in the inventory; 4) Validation Remediation - the process of validating entities to ascertain compliance and remediate non-compliant entities. As of March 1999, Inhale had completed the Awareness, Discovery and Assessment phases of the plan and is working on the Validation Remediation phase of the plan.

Inhale has initiated formal communication with significant vendors and suppliers to determine the extent to which Inhale's operations are vulnerable to those third parties' failure to remediate their own Y2K issues. Suppliers of hardware, software or other products that might contain embedded processors were requested to provide information regarding Y2K compliance status of their products. Inhale will continue to seek information from non-responsive suppliers and plans to contact replacement vendors and suppliers through the second quarter of 1999 and then implement appropriate contingency plans. In addition, in order to protect against the acquisition of additional non-compliant products, Inhale now requires suppliers to warrant that products sold or licensed to Inhale are Y2K compliant. In the event that any of Inhale's significant suppliers do not successfully achieve Y2K compliance in a timely manner, Inhale's business or operations could be adversely affected. There can be no assurance that the systems of other companies on which Inhale's systems rely will be converted on a timely basis and would not have an adverse effect on Inhale's operations.

As of March 31, 1999, Inhale has substantially developed a comprehensive contingency plan to address situations that may result if Inhale is unable to achieve Y2K readiness of its critical operations. The contingency plan will be implemented should situations occur where Inhale is unable to achieve Y2K readiness in its critical operations. There can be no assurance that Inhale will be able to develop a contingency plan that will adequately address issues that may arise in the year 2000. The failure of Inhale to develop and implement, if necessary, an appropriate contingency plan could have a material impact on the operations of Inhale. Finally, Inhale is also vulnerable to external forces that might generally affect industry and commerce, such as utility and transportation company Y2K compliance failures and related service interruptions.

Inhale anticipates completing the mission critical, high impact Y2K issues by the first half of 1999, which is prior to any anticipated impact on its operating systems and expects the Y2K project to continue beyond the year 2000 with respect to the upgrading, replacement and testing of non-critical systems. These dates are contingent upon the timeliness and accuracy of software and hardware upgrades from vendors, adequacy and quality of resources available to work on completion of the project and any other unforeseen factors. The total expense of the Y2K project is currently estimated at approximately $750,000, of which approximately $350,000 has been spent through March 31, 1999, which is not material to Inhale's business operations or financial condition. The expenses of the Y2K project are being funded through operating cash flows.

The costs of the project and the date on which Inhale believes it will complete the Y2K modifications are based on management's best estimates, which were derived utilizing numerous assumptions of future events, including the continued availability of certain resources, third-party modification plans and other factors. There can be no assurance that these estimates will be achieved and actual results could differ materially from those anticipated.

RISK FACTORS

WE DO NOT KNOW IF OUR DEEP LUNG DRUG DELIVERY SYSTEM IS TECHNICALLY FEASIBLE.

We are in an early stage of development. There is a risk that our deep lung delivery technology will not be technically feasible. Even if our deep lung delivery technology is technically feasible, it may not be commercially accepted across a range of large and small molecule drugs. We have tested six of our thirteen deep lung delivery formulations in humans. The deep lung formulations tested in humans are insulin, interleukin-1 receptor, salmon calcitonin, an osteoporosis drug and two small molecules.

Many of the underlying drug compounds contained in our deep lung formulations have been tested in humans by other companies using alternative delivery routes. Our potential products require extensive research, development and pre-clinical (animal) and clinical (human) testing. Our potential products also may involve lengthy regulatory review before they can be sold. We do not know if and cannot assure that any of our potential products will prove to be safe and effective or meet regulatory standards. There is a risk that any of our potential products will not be able to be produced in commercial quantities at acceptable cost or marketed successfully. Our failure to achieve technical feasibility, demonstrate safety, achieve clinical efficacy, obtain regulatory approval or, together with partners, successfully market products will seriously impact the amount of our revenue and our results of operations.

WE DO NOT KNOW IF OUR DEEP LUNG DELIVERY SYSTEM IS EFFICIENT.

We may not be able to achieve the total system efficiency needed to be competitive with alternative routes of delivery. System efficiency is the product of the deep lung bioavailability of a potential product and the percentage of each drug dose lost at various stages of the manufacturing and deep lung delivery process. Deep lung bioavailability is the percentage of a drug that is absorbed into the bloodstream when that drug is delivered directly to the lungs. This is the initial screen for whether deep lung delivery of any systemic drug is feasible.

WE DO NOT KNOW IF OUR DEEP LUNG DRUG FORMULATIONS ARE STABLE.

We may not be able to identify and produce powdered versions of drugs that retain the physical and chemical properties needed to work with our delivery device. Formulation stability is the physical and chemical stability of the drug over time and under various storage conditions. Formulation stability will vary with each deep lung formulation and the type and amount of ingredients that are used in the formulation. We would not consider a drug to be a good candidate for development and commercialization if its dose loss is excessive at any one stage or cumulatively in the manufacturing and delivery process or if its deep lung bioavailability is too low. Problems with powdered drug stability would seriously impact our ability to develop and market our potential products.

WE DO NOT KNOW IF OUR DEEP LUNG SYSTEM IS SAFE.

We may not be able to prove potential products to be safe.

Our products require lengthy laboratory, animal and human testing. For most of our products we are in the early stage of human testing. If we find that any product is not safe, we will not be able to commercialize the product. The safety of our deep lung formulations will vary with each drug and the ingredients used in its formulation.

WE DO NOT KNOW IF OUR DEEP LUNG SYSTEM PROVIDES CONSISTENT DOSES OF MEDICINE.

We may not be able to provide reproducible dosages of stable formulations sufficient to achieve clinical success. Reproducible dosing is the ability to deliver a consistent and predictable amount of drug into the bloodstream over time both for a single patient and across patient groups. Reproducible dosing requires the development of:

- an inhalation device that consistently delivers predictable amounts of dry powder formulations to the deep lung;

- accurate unit dose packaging of dry powder formulations; and

- moisture resistant packaging.

We may not be able to develop reproducible dosing of any potential product. The failure to do so means that we would not consider it a good candidate for development and commercialization.

WE DO NOT KNOW IF OUR TECHNOLOGIES CAN BE INTEGRATED IN TIME TO BRING PRODUCT TO MARKET.

We may not be able to integrate all of the relevant technologies to provide an integrated deep lung delivery system. Our integrated approach to systems development relies upon several different but related technologies:

- dry powder formulations;

- dry powder processing technology;

- dry powder packaging technology; and

- deep lung delivery devices.

At the same time we must:

- establish collaborations with partners;

- perform laboratory and clinical testing of potential products; and

- scale-up our manufacturing processes.

We must accomplish all of these steps without delaying any aspect of technology development. Any delay in one component of product or business development could delay our ability to develop, obtain approval of or market therapeutic products using our deep lung delivery technology.

OUR DEEP LUNG DELIVERY SYSTEM MAY NOT BE COMMERCIALLY ACCEPTED.

We may not be able to achieve commercial viability of our deep lung delivery system. In order to sell any potential product, we must make it commercially acceptable to the market. This means that we must:

- further refine our device prototype;

- complete scale-up of our powder processing system; and

- complete scale-up of our automated packaging system.

The failure to demonstrate deep lung bioavailability, achieve total system efficiency, provide safe, reproducible dosages of stable formulations or advance on a timely basis the numerous aspects of product and business development will seriously impact the amounts of our revenues and our results of operations.

WE EXPECT TO CONTINUE TO LOSE MONEY FOR THE NEXT SEVERAL YEARS.

We have never been profitable and, through March 31, 1999, have incurred a cumulative deficit of approximately $61.2 million. We expect to continue to incur substantial and increasing losses over at least the next several years as we expand our research and development efforts, testing activities and manufacturing operations, and as we complete our late stage clinical and early commercial production facility. All of our potential products are in

research or in the early stages of development except for our insulin collaboration. We have generated no revenues from approved product sales. Our revenues to date have consisted primarily of payments under short-term research and feasibility agreements and development contracts. To achieve and sustain profitable operations, we must, alone or with others, successfully develop, obtain regulatory approval for, manufacture, introduce, market and sell products using our deep lung drug delivery system. There is a risk that we will not generate sufficient product or contract research revenue to become profitable or to sustain profitability.

WE DEPEND ON PARTNERS FOR REGULATORY APPROVALS AND COMMERCIALIZATION OF OUR PRODUCTS.

Since Inhale is in the business of developing technology for delivering drugs to the lungs and licensing this technology to companies that make and sell drugs, we do not have the people and other resources to do the following things:

- make bulk drugs to be used as medicines;
- design and carry out large scale clinical studies;
- prepare and file documents necessary to obtain government approval to sell a given drug product; and
- market and sell our products when and if they are approved.

When Inhale signs a license agreement to develop a product with a drug company, the drug company agrees to do some or all of the things described above. If our partner fails to do any of these things, Inhale cannot complete the development of the product.

WE DO NOT KNOW IF WE WILL BE ABLE TO PRODUCE OUR PRODUCTS IN COMMERCIAL QUANTITIES.

We must scale-up our current powder processing and filling facilities and comply with the good manufacturing practice standards prescribed by the United States Food and Drug Administration and other standards prescribed by other regulatory agencies to achieve drug production levels that are adequate to support late stage human clinical testing and early commercial sales.

We have no experience manufacturing products for large scale clinical testing or commercial purposes. We have only performed powder processing on the small scale needed for testing formulations and for early stage and larger clinical trials. We may encounter manufacturing and control problems as we attempt to scale-up powder processing facilities. We may not be able to achieve such scale-up in a timely manner or at a commercially reasonable cost, if at all. Our failure to solve any of these problems could delay or prevent late stage clinical testing and commercialization of our products and could seriously impact the amount of our revenues and our results of operations.

To date, we have relied on one particular method of powder processing. There is a risk that this technology will not work with all drugs or that the drug losses will prohibit the commercial viability of certain drugs. Additionally, there is a risk that any alternative powder processing methods we may pursue will not be commercially practical for aerosol drugs or that we will not have or be able to acquire the rights to use such alternative methods.

Our fine particle powders and small quantity packaging require special handling. We have designed and qualified small scale automated filling equipment for small quantity packaging of fine powders. We face significant technical challenges in scaling-up an automated filling system that can handle the small dose and particle sizes of our powders in commercial quantities. There is a risk that we will not be able to scale-up our automated filling equipment in a timely manner or at commercially reasonable costs. Any failure or delay in such scale-up would delay product development or bar commercialization of our products and will impact the level of our revenues and results of operations.

We face many technical challenges in further developing our inhalation device to work with a broad range of drugs, to produce such a device in sufficient quantities and to adapt the device to different powder formulations. There is a risk that we will not successfully achieve any of these things. Our failure to overcome any of these challenges will impact our revenues and results of operations.

For late stage clinical trials and initial commercial production, we intend to use one or more contract manufacturers to produce our device. There is a risk that we will not be able to enter into or maintain arrangements with any potential contract manufacturers, and that the failure to do so will impact our revenues and results of operations.

WE DO NOT KNOW IF THE MARKET WILL ACCEPT INHALE'S DEEP LUNG DELIVERY SYSTEM.

The commercial success of our potential products depends upon market acceptance by health care providers, third-party payors, like health insurance companies and Medicare, and patients. Our products under development use a new method of drug delivery and there is a risk that our potential products will not be accepted by the market. Market acceptance will depend on many factors, including

- the safety and efficacy results of our clinical trials;
- favorable regulatory approval and product labeling;
- the frequency of product use;
- the availability of third-party reimbursement;
- the availability of alternative technologies; and
- the price of our products relative to alternative technologies.

There is a risk that health care providers, patients or third-party payors will not accept our deep lung drug delivery system. If the market does not accept our potential products, our revenues and results of operations will be seriously impacted if our potential products are not accepted by the market.

OUR PATENTS MAY NOT PROTECT OUR PRODUCTS AND OUR PRODUCTS MAY INFRINGE ON THIRD PARTY PATENT RIGHTS.

Inhale has filed patent applications covering certain aspects of our device, powder processing technology, and powder formulations and deep lung route of delivery for certain molecules, and we plan to file additional patent applications. Currently we have 36 issued U.S. and foreign patents that cover certain aspects of our technology and we have a number of patent applications pending. There is a risk that any of the patents applied for will not issue, or that any patents that issue or have issued will not be valid and enforceable. Enforcing our patent rights would be time consuming and costly.

We are aware of an alternate dry powder processing technology that we are not using for our current products under development but may desire to use for certain products in the future. The ownership of this powder processing technology is unclear. We are aware that multiple parties, including Inhale, claim patent, trade secret and other rights in the technology. If we determine that this alternate powder processing technology is relevant to the development of future products and further determine that a license to this alternate powder processing technology is needed, we cannot be certain that we can obtain a license from the relevant party or parties on commercially reasonable terms, if at all.

Our access or our partners' access to the drugs to be formulated will affect our ability to develop and commercialize our technology. Many drugs, including powder formulations of certain drugs that are presently under development by us, are subject to issued and pending United States and foreign patents that may be owned by our competitors. We know that there are issued patents and pending patent applications relating to the deep lung delivery of large molecule drugs, including several for which we are developing deep lung delivery formulations. This situation is highly complex, and the ability of any one company, including Inhale, to commercialize a particular drug is unpredictable.

We intend generally to rely on the ability of our partners to provide access to the drugs that are to be formulated by us for deep lung delivery. There is a risk that our partners will not be able to provide access to such drug candidates. Even if such access is provided, there is a risk that our partners or we will be accused of, or determined to be, infringing a third-party's patent rights and will be prohibited from working with the drug or be found liable for

damages that may not be subject to indemnification. Any such restriction on access to drug candidates or liability for damages would impact the level of our revenues and results of operations.

WE MAY NOT OBTAIN REGULATORY APPROVAL.

There is a risk that we will not obtain regulatory approval for our products on a timely basis, or at all. Our product must undergo rigorous animal and human testing and an extensive review process mandated by the FDA and equivalent foreign authorities. This process generally takes a number of years and requires the expenditure of substantial resources although the time required for completing such testing and obtaining such approvals is uncertain. We have not submitted any of our products to the FDA for marketing approval. We have no experience obtaining such regulatory approval.

In addition, we may encounter delays or rejections based upon changes in the United States Food and Drug Administration policy, including policy relating to good manufacturing practice compliance, during the period of product development. We may encounter similar delays in other countries.

Even if regulatory approval of a product is granted, the approval may limit the indicated uses for which we may market our product. In addition, our marketed product, our manufacturing facilities and Inhale, as the manufacturer, will be subject to continual review and periodic inspections. Later discovery from such review and inspection of previously unknown problems may result in restrictions on our product or on us, including withdrawal of our product from the market. The failure to obtain timely regulatory approval of our products, any product marketing limitations or a product withdrawal would impact the level of our revenue and results of operations.

IF OUR PRODUCTS ARE NOT COST EFFECTIVE, GOVERNMENT AND PRIVATE INSURANCE PLANS WILL NOT PAY FOR OUR PRODUCTS.

In both domestic and foreign markets, sales of our products under development will depend in part upon the availability of reimbursement from third-party payors, such as government health administration authorities, managed care providers, private health insurers and other organizations. In addition, such third-party payors are increasingly challenging the price and cost effectiveness of medical products and services. Significant uncertainty exists as to the reimbursement status of newly approved health care products. Legislation and regulations affecting the pricing of pharmaceuticals may change before our proposed products are approved for marketing. Adoption of such legislation and regulations could further limit reimbursement for medical products. A government third party payor decision to not provide adequate coverage and reimbursements for our products would limit market acceptance of such products.

OUR COMPETITORS MAY DEVELOP AND SELL BETTER DRUG DELIVERY SYSTEMS.

We are aware of other companies engaged in developing and commercializing pulmonary drug delivery systems and enhanced injectable drug delivery systems. Many of these companies have greater research and development capabilities, experience, manufacturing, marketing, financial and managerial resources than we do and represent significant competition for us. Acquisitions of competing drug delivery companies by large pharmaceutical companies could enhance our competitors' financial, marketing and other resources. Accordingly, our competitors may succeed in developing competing technologies, obtaining United States Food and Drug Administration approval for products or gain market acceptance before us. We cannot assure that developments by others will not make our products or technologies uncompetitive or obsolete.

WE EXPECT OUR STOCK PRICE TO REMAIN VOLATILE.

Our stock price is volatile. In the last twelve months our stock price ranged from $20.125 and $35.25 we expect it to remain volatile. A variety of factors may have a significant effect on the market price of our common stock, including:

- fluctuations in our operating results;

- announcements of technological innovations or new therapeutic products;

- announcement or termination of collaborative relationships by Inhale or our competitors;

- governmental regulation;

- clinical trial results;

- developments in patent or other proprietary rights;

- public concern as to the safety of drug formulations developed by Inhale or others; and

- general market conditions.

Any litigation instigated against us as a result of this volatility could result in substantial costs and a diversion of our management's attention and resources, which could impact our revenues and results of operations.

INVESTORS SHOULD BE AWARE OF INDUSTRY-WIDE RISKS.

In addition to the risks associated specifically with Inhale described above, investors should also be aware of general risks associated with drug development and the pharmaceutical industry. These include but are not limited to:

- handling of hazardous materials;

- hiring and retaining qualified people; and

- insuring against product liability claims.

ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK
There have been no material changes in the reported market risks since December 31, 1998.

PART II: OTHER INFORMATION
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Item 1. Legal Proceedings - Not Applicable

Item 2. Changes in Securities - None

Item 3. Defaults upon Senior Securities - None

Item 4. Submission of Matters to a Vote of Security Holders - None

Item 5. Other Information- None

Item 6. Exhibits and Reports on Form 8-K

The following exhibits are filed herewith or incorporated by reference

EXHIBIT	EXHIBIT TITLE
2.1	Agreement and Plan of Merger Between Inhale Therapeutic Systems, a California Corporation, and Inhale Therapeutic Systems (Delaware), a Delaware Corporation
3.1	Certificate of Incorporation of the Registrant.
3.2	Bylaws of the Registrant.
4.1	Reference is made to Exhibits 3.1 through 3.2.
4.2 (1)	Restated Investor Rights Agreement among the Registrant and certain other persons named therein, dated April 29, 1993, as amended October 29, 1993.
4.6 (1)	Specimen stock certificate.

4.9 (2)	Stock Purchase Agreement between the Registrant and Pfizer Inc., dated January 18, 1995.
4.12 (9)	Form of Stock Purchase Agreement between the Registrant and the Selling Shareholders dated January 28, 1997.
10.1 (4)	Registrant's 1994 Equity Incentive Plan, as amended (the "Equity Incentive Plan").
10.2 (1)	Form of Incentive Stock Option under the Equity Incentive Plan.
10.3 (1)	Form of Nonstatutory Stock Option under the Equity Incentive Plan.
10.4 (7)	Registrant's 1994 Non-Employee Directors' Stock Option Plan, as amended.
10.5 (1)	Registrant's 1994 Employee Stock Purchase Plan.
10.6 (1)	Standard Industrial Lease between the Registrant and W.F. Batton & Co., Inc., dated September 17, 1992, as amended September 18, 1992.
10.8 (1)	Senior Loan and Security Agreement between the Registrant and Phoenix Leasing Incorporated, dated September 15, 1993.
10.9 (1)	Sublicense Agreement between the Registrant and John S. Patton, dated September 13, 1991.
10.11(2)	Lease dated September 17, 1992, between the Registrant and W.F. Batton & Marie A. Batton.
10.13 (6)	Addendum Number One to Lease dated September 17, 1992, between the Registrant and W.F. Batton & Marie A. Batton.
10.15 (6)	Addendum Number Two to Lease dated September 17, 1992, between the Registrant and W.F. Batton & Marie A. Batton.
10.16 (5)	Stock Purchase Agreement between the Registrant and Baxter World Trade Corporation, dated March 1, 1996.
10.17 (8)	Sublease and Lease Agreement, dated October 2, 1996 between the Registrant and T.M.T. Associates L.L.C.
27.1	Financial Data Schedule

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(1) Incorporated by reference to the indicated exhibit in Inhale's Registration Statement (No. 33-75942), as amended.

(2) Incorporated by reference to the indicated exhibit in Inhale's Registration Statement (No. 33-89502), as amended.

(3) Incorporated by reference to the indicated exhibit in Inhale's Annual Report on Form 10-K for the year ended December 31, 1994.

(4) Incorporated by reference to Inhale's Registration Statement on Form S-8 (No. 333-59735).

(5) Incorporated by reference to the indicated exhibit in Inhale's Quarterly Report on Form 10-Q for the quarter ended March 31, 1996.

(6) Incorporated by reference to the indicated exhibit in Inhale's Annual Report on Form 10-K for the year ended December 31, 1995.

(7) Incorporated by reference to the indicated exhibit in Inhale's Quarterly Report on Form 10-Q for the quarter ended June 30, 1996.

(8) Incorporated by reference to the indicated exhibit in Inhale's Quarterly Report on Form 10-Q for the quarter ended September 30, 1996.

(9) Incorporated by reference to Inhale's Registration Statement on Form S-3 (No. 333-20787).

(b) Reports on Form 8-K.
none.

(c) See Exhibits listed under Item 14(a)(3).

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 13, 1999

BY: /S/Robert B. Chess

Robert B. Chess

Co-Chief Executive Officer and Director
(Duly Authorized Officer)

BY: /S/Ajit S. Gill

Ajit S. Gill

Co-Chief Executive Officer and Director
(Duly Authorized Officer)

BY: /S/Christian O. Henry

Christian O. Henry
Corporate Controller
(Chief Accounting Officer)

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE QUARTERLY FINANCIAL STATEMENTS OF INHALE THERAPEUTIC SYSTEMS, INC. AS FILED ON FORM 10Q FOR THE PERIOD ENDED MARCH 31, 1999 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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3-MOS
DEC-31-1999
JAN-01-1999
MAR-31-1999
18,023
55,553
2,435
0
0
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131,349
14,657
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172,920
(62,142)
131,349
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7,780
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13,980
0
0
0
(5,223)
0
0
0
0
0
(5,223)
(0.31)
(0.31)