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, 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
(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 20,925,381 as of April 28, 2000.

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Item 1.

INHALE THERAPEUTIC SYSTEMS, INC.

CONDENSED BALANCE SHEETS
(IN THOUSANDS)

	MARCH 31, 2000	DECEMBER 31, 1999 *
ASSETS	(Unaudited)	
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)	-
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
Net cash provided by financing activities	213,234	55
Net increase (decrease) in cash and cash equivalents	96,348	(6,893)
Cash and cash equivalents at beginning of period	33,430	24,916
Cash and cash equivalents at end of period	$ 129,778	$ 18,023
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
	$ 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
	$ 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 Rule 144A of 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 $13.93 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.

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, 2000 and 1999 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, 1999, as amended. 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, 1999, as amended.

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, 2000, Inhale incurred a cumulative net loss of approximately $123.3 million. The sources of working capital have been equity and debt financings, financings of equipment acquisitions and tenant improvements, interest earned on investments of cash, and revenues from short-term research 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 2000 was $10.6 million compared to $7.8 million in the first quarter of 1999, an increase of 37%. 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 for the insulin program. Revenue for the first quarter of 2000 and 1999 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 $21.9 million in the first quarter of 2000 from $12.7 million in the corresponding period of 1999, an increase of 72%. The increase was due to increased spending related to the scale-up of technologies and the continuing development of global manufacturing capabilities in order to support Phase III inhaleable insulin clinical trials and commercial production. In addition, Inhale hired additional scientific and development personnel to meet the needs of an increase in the number of development projects and incurred increased expenses associated with device development and clinical manufacturing. 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 increased to $3.5 million in the first quarter of 2000 from $1.3 million in the first quarter of 1999, an increase of 169%. The increase in such expenses in 2000 was due primarily to $1.4 million in non-cash compensation charges associated with stock and to costs associated with supporting Inhale's increased manufacturing and development efforts, including administrative staffing, business development activities and marketing activities. General and administrative expenses are expected to continue to increase over the next few years as Inhale expands its operations

Interest income was $3.6 million in the first quarter of 2000, compared to $1.1 million in the first quarter of 1999. The 227% increase reflects the Company's larger cash and investment balances, including the proceeds of its issuance of convertible subordinated debentures in October and November 1999 and convertible subordinated notes in February 2000. Interest expense was $17.7 million in the first quarter of 2000, compared to $0.1 million in the first quarter of 1999. The $17.6 million increase largely relates to the one-time net interest charge of approximately $15.2 million for the payment to holders of the Company's October 2000 debentures of a conversion premium to convert $98.7 million aggregate principal amount of outstanding debentures into approximately 3.1 million shares of Inhale's common stock.

LIQUIDITY AND CAPITAL RESOURCES

Inhale has financed its operations primarily through public and private placements of its securities, contract research and milestone payments, financing of equipment acquisitions and interest income earned on its investments of cash. In February 2000, Inhale received approximately $222.4 million in net proceeds from the sale of convertible subordinated notes. Also in February 2000, Inhale converted approximately $98.7 million of its outstanding convertible subordinated debentures into approximatly 3.1 million shares of its common stock at a net charge of $15.2 million. Inhale will no longer have interest payment obligations on the converted debentures. At March 31, 2000, Inhale had cash, cash equivalents and short-term investments of approximately $335.7 million.

Inhale's operations used cash of $1.9 million in the three months ended March 31, 2000, as compared to $3.6 million used in the three months ended March 31, 1999. The decrease in cash used in operations was due principally to the combination of decreased receivables and increased accrued liability balances at March 31, 2000 compared to the same period in 1999.

Inhale purchased property and equipment of $13.6 million during the three months ended March 31, 2000, compared to $5.7 million for the corresponding period in 1999. The increase in purchased property and equipment reflects the Company's investment in commercial manufacturing facilities, including device manufacturing at third-party contract manufacturers, and expansion of its San Carlos powder processing facilities.

Inhale expects its cash requirements to continue at an accelerated rate due to expected increases in costs associated with further research and development of its technologies, 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. Inhale's planned facilities expansion includes the completion of its commercial manufacturing facility and the scale-up of device manufacturing with its third-party contract manufacturers.

Given its current cash requirements, Inhale believes that it will have sufficient cash to meet its operating expense requirements for at least the next 24 months. However, the Company plans to continue to invest heavily in its growth and the need for cash will be dependent upon the timing of these investments. 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.

THE FOLLOWING RISK FACTORS SHOULD BE READ CAREFULLY IN CONNECTION WITH EVALUATING INHALE'S BUSINESS. ANY OF THE FOLLOWING RISKS COULD MATERIALLY ADVERSELY AFFECT INHALE'S BUSINESS AND OPERATING RESULTS OR FINANCIAL CONDITION.

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

We are in an early stage of development. There is a risk that our deep lung drug delivery technology will not be commercially feasible. Even if our deep lung delivery technology is commercially feasible, it may not be commercially accepted across a range of large and small molecule drugs. We have tested seven deep lung delivery formulations in humans, but many of our potential formulations have not been tested in humans.

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 you 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 commercial feasibility, demonstrate safety, achieve clinical efficacy, obtain regulatory approval or, together with partners, successfully market products will negatively impact our revenues and results of operations.

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

We may not be able to achieve the total system efficiency needed to be competitive with alternative routes of delivery. Total system efficiency is determined by the amount of drug loss during manufacture, in the delivery device, in reaching the site of absorption, and during absorption from that site into the bloodstream. Deep lung bioavailability is the percentage of a drug that is absorbed into the bloodstream when that drug is delivered directly to the lungs as compared to when the drug is delivered by injection. Bioavailability is the initial screen for whether deep lung delivery of any systemic drug is commercially feasible. We would not consider a drug to be a good candidate for development and commercialization if its drug loss is excessive at any one stage or cumulatively in the manufacturing and delivery process or if its deep lung bioavailability is too low.

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, shipping and usage conditions. Formulation stability will vary with each deep lung formulation and the type and amount of ingredients that are used in the formulation. Problems with powdered drug stability would negatively impact our ability to develop and market our potential products or obtain regulatory approval.

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

We may not be able to prove potential products to be safe. Our products require lengthy laboratory, animal and human testing. Most of our products are in preclinical testing or 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 DRUG DELIVERY 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 DEPEND ON PARTNERS FOR REGULATORY APPROVALS AND COMMERCIALIZATION OF OUR PRODUCTS.

Because we are 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 we sign a collaborative development agreement or 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, we cannot complete the development of the product.

WE MAY NOT OBTAIN REGULATORY APPROVAL FOR OUR PRODUCTS ON A TIMELY BASIS, OR AT ALL.

There is a risk that we will not obtain regulatory approval for our products on a timely basis, or at all. Our products must undergo rigorous animal and human testing and an extensive review process mandated by the United States Food and Drug Administration ("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 FDA policies, including policies 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 negatively impact our revenues and results of operations.

WE DO NOT KNOW IF OUR TECHNOLOGIES CAN BE INTEGRATED SUCCESSFULLY TO BRING PRODUCTS TO MARKET.

We may not be able to integrate all of the relevant technologies to provide a deep lung drug 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.

WE MAY NOT BE ABLE TO MANUFACTURE OUR PRODUCTS IN COMMERCIAL QUANTITIES.

POWDER PROCESSING. We have no experience manufacturing products for 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 negatively impact our revenues and 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 cost of drug production will preclude 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.

POWDER PACKAGING. Our fine particle powders and small quantity packaging require special handling. We have designed and qualified automated filling equipment for small and moderate 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 would negatively impact our revenues and results of operations.

INHALATION DEVICE. 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. In addition, we are attempting to develop a smaller inhalation device, which presents particular technical challenges. There is a risk that we will not successfully achieve any of these challenges. Our failure to overcome any of these challenges would negatively 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 drug delivery device. There is a risk that we will not be able to enter into or maintain arrangements with any potential contract manufacturers or effectively scale-up production of our drug delivery devices through contract manufacturers. Our failure to do so would negatively impact our revenues and results of operations.

WE DEPEND ON SOLE OR EXCLUSIVE SUPPLIERS FOR OUR INHALATION DEVICE AND BULK DRUGS.

We plan to subcontract the manufacture of our pulmonary delivery device before commercial production of our first product. We have identified contract manufacturers that we believe have the technical capabilities and production capacity to manufacture our devices and which can meet the requirements of good manufacturing practices. We cannot be assured that we will be able to obtain and maintain satisfactory contract manufacturing on commercially acceptable terms, if at all. Our dependence on third parties for the manufacture of our inhalation device may negatively impact our cost of goods and our ability to develop and commercialize products on a timely and competitive basis.

We obtain the bulk drugs we use to formulate and manufacture the dry powders for our deep lung delivery system from sole or exclusive sources of supply. For example, with respect to our source of bulk insulin, we have entered into a collaborative agreement with Pfizer, Inc., which has, in turn, entered into an agreement with Aventis S.A. to manufacture biosynthetic recombinant insulin. Under the terms of their agreement, Pfizer and Aventis agreed to construct a jointly owned manufacturing plant in Frankfurt, Germany. Until its completion, Pfizer will provide us with insulin from Aventis's existing plant. If our sole or exclusive source suppliers fail to provide bulk drugs in sufficient quantities when required, our revenues and results of operations will be negatively impacted.

WE DO NOT KNOW IF THE MARKET WILL ACCEPT OUR DEEP LUNG DRUG 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 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 would be significantly and negatively impacted.

IF OUR PRODUCTS ARE NOT COST EFFECTIVE, GOVERNMENT AND PRIVATE INSURANCE PLANS MAY 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 or third-party payor decision to not provide adequate coverage and reimbursements for our products would limit market acceptance of such products.

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

We have never been profitable and, through March 31, 2000, we have an accumulated deficit of approximately $123.3 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 further expand 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 MAY NEED TO RAISE ADDITIONAL CAPITAL THAT MAY NOT BE AVAILABLE.

We anticipate that our existing capital resources will enable us to maintain currently planned operations through at least the next 24 months. However, this expectation is based on our current operating plan, which is expected to change as a result of many factors, and we may need additional funding sooner than anticipated. In addition, we may choose to raise additional capital due to market conditions or strategic considerations, even if we believe we have sufficient funds for our current or future operating plans. To the extent that additional capital is raised through the sale of equity or convertible debt securities, the issuance of such securities could result in dilution to our stockholders.

We have no credit facility or other committed sources of capital. To the extent operating and capital resources are insufficient to meet future requirements, we will have to raise additional funds to continue the development and commercialization of our technologies. Such funds may not be available on favorable terms, or at all. In particular, our substantial leverage may limit our ability to obtain additional financing. If adequate funds are not available on reasonable terms, we may be required to curtail operations significantly or to obtain funds by entering into financing, supply or collaboration agreements on unattractive terms. Our inability to raise capital could negatively impact our business.

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

We have 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. We currently have 49 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 many 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.

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 U.S. 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 negatively impact our revenues and results of operations.

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 or collaborations with 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 regulatory approval for products or gaining market acceptance before us. Developments by others could make our products or technologies uncompetitive or obsolete. Our competitors may introduce products or processes competitive with or superior to ours.

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:

- changes in and compliance with government regulations;
- handling of hazardous materials;
- hiring and retaining qualified people; and
- insuring against product liability claims.

WE EXPECT OUR STOCK PRICE TO REMAIN VOLATILE.

Our stock price is volatile. In the twelve-month period ended April 30, 2000, based on closing prices on the Nasdaq National Market, our stock price ranged from $23.00 to $126.62. 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 or product development delays;
- 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 brought 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 negatively impact our financial condition, revenues and results of operations.

OUR OUTSTANDING INDEBTEDNESS HAS INCREASED SUBSTANTIALLY.

As of March 31, 2000, we had approximately $244.6 million in long-term debt. This increased indebtedness has and will continue to impact us by:

- significantly increasing our interest expense and related debt service costs;

- making it more difficult to obtain additional financing; and

- constraining our ability to react quickly in an unfavorable economic climate.

Currently, we are not generating sufficient cash flow to satisfy the annual debt service payments that are required under the terms of our outstanding convertible subordinated debentures and notes. This may require us to use a portion of the proceeds from the sales of these securities to pay interest or borrow additional funds or sell additional equity to meet our debt service obligations. If we are unable to satisfy our debt service requirements, substantial liquidity problems could result, which would negatively impact our future prospects.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in the reported market risks since December 31, 1999.

PART II: OTHER INFORMATION

Item 1. Legal Proceedings - Not Applicable

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, call for provisional redemption in an amount equal to $13.93 per $1,000 principal amount of notes, less the amount of any interest actually paid on the notes before the call for redemption. We may redeem some or all of the notes at any time after February 8, 2003. 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.

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:

EXHIBIT	EXHIBIT TITLE
27.1	Financial Data Schedule

Reports on Form 8-K:

i On February 1, 2000, the Company filed a Current Report on Form 8-K reporting an offer to issue convertible subordinated notes.

ii On February 9, 2000, the Company filed a Current Report on Form 8-K reporting a purchase agreement regarding its convertible subordinated notes.

iii On February 24, 2000, the Company filed a Current Report on Form 8-K reporting the exercise of an over-allotment option by purchasers of the Company's convertible subordinated notes.

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 11, 2000

BY: /s/Ajit S. Gill
Ajit S. Gill
Chief Executive Officer and Director
(Duly Authorized Officer)

BY: /s/Brigid A. Makes
Brigid A. Makes
Chief Financial Officer

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE QUARTERLY FINANCIAL STATEMENTS OF INHALE THERAPEUTIC SYSTEMS, INC., AS FILED ON FORM 10-Q FOR THE PERIOD ENDED MARCH 31, 2000 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

3-MOS
DEC-31-2000
JAN-01-2000
MAR-31-2000
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