



DISCOVERY LABORATORIES, INC.

Discovery Laboratories Reports Third Quarter Financial Results

Doylestown, PA — November 8, 2002 — Discovery Laboratories, Inc. (Nasdaq: DSCO), a late-stage specialty pharmaceutical company leveraging its technology in humanized lung surfactants to develop novel respiratory therapies and pulmonary drug delivery products, today announced financial results for the third quarter ended September 30, 2002. The Company has also scheduled an investor conference call to be held on Friday, November 15th, at 11:00 AM EST to review the Company's third quarter results and its recent progress.

For the quarter ended September 30, 2002, the Company reported a net loss of \$4.5 million, or \$0.17 per share, on approximately 26.4 million weighted average common shares outstanding, compared to a net loss of \$2.5 million, or \$0.12 per share, on approximately 21.2 million weighted average common shares outstanding for the same period in 2001. For the nine months ended September 30, 2002, the Company reported a net loss of \$12.2 million, or \$0.46 per share, on approximately 26.2 million weighted average common shares outstanding, compared to a net loss of \$6.9 million, or \$0.33 per share, on approximately 21.0 million weighted average common shares outstanding for the same period in 2001. As of September 30, 2002, the Company had approximately 26.4 million common shares outstanding.

The increase in the net loss primarily reflects clinical trial costs incurred for the Company's lead product Surfaxin[®] (which is currently in three Phase 3 trials and one Phase 2 trial for critical care patients with life threatening respiratory disorders), as well as activities related to the development of aerosolized formulations of Discovery's humanized surfactant to potentially treat a variety of respiratory conditions and as a pulmonary drug delivery vehicle. The results also include charges of \$857,000 and \$1,257,000 (for the quarter ended and nine months ended September 30, 2002, respectively) for pre-launch commercialization activities for Surfaxin for which funding is provided by a secured revolving credit facility pursuant to the Company's collaboration arrangement with Quintiles Transnational Corp. (see credit facility below).

As of September 30, 2002, the Company had cash and investments of approximately \$11 million, a decrease of \$2.6 million from the previous quarter. The difference between the \$4.5 million net loss and the \$2.6 million decrease in cash for the quarter ended September 30, 2002, primarily reflects charges for pre-launch commercialization activities discussed above and a reduction of prepaid expense balances associated with R&D activities.

Additionally, on November 5, 2002, the Company completed the sale of its securities in a private placement to selected institutional and accredited investors for gross proceeds of approximately \$12.8 million. The Company also has a secured revolving credit facility of \$8.5 million to \$10.0 million with Quintiles Transnational Corp. As of September 30, 2002, \$1.26 million was outstanding under the credit facility. The Company may use this credit facility for general working capital purposes but is obligated to use a majority of the funds borrowed under this facility for pre-launch marketing of Surfaxin.

“We are pleased with the continuing progress of our clinical development efforts to bring our lead product, Surfaxin, to market,” commented Robert J. Capetola, Ph.D., President and Chief Executive Officer of Discovery. “In the face of a difficult biotechnology financing environment where Wall Street is being extremely selective, we completed a successful financing supported by quality life science investors. Management’s focus can now turn solely to operational and business development matters. In 2003, we anticipate significant milestones for Surfaxin in critical care indications and entering the clinic with an aerosolized surfactant for severe acute asthma.”

Selected updates on the Company’s progress since the end of the second quarter:

- In November, the Company completed the sale of securities in a private placement to selected institutional and accredited investors for gross proceeds of approximately \$12.8 million. The Company sold approximately 6.4 million newly issued shares of Common Stock at a price of \$1.94 per share. For an additional \$0.125 per underlying common share, the investors also purchased warrants exercisable for approximately 2.9 million shares of common stock with an exercise price of \$2.425 per share. The financing was led by BioAsia Investments, and included Heartland Value Fund, Special Situations Funds, SDS Capital Partners, DMG LLC, State Street Research Health Science Fund, PharmaBio Development, Inc. (the investment subsidiary of Quintiles Transnational Corp.), Laboratorios del Dr. Esteve S.A., and an accredited life science investor.
- In October, the Company announced a collaboration with CollaGenex Pharmaceuticals, Inc. to develop and assess formulations of humanized lung surfactant and protease inhibitors as potential treatments for diseases such as Chronic Obstructive Pulmonary Disease (COPD), Cystic Fibrosis, Chronic Interstitial Lung Disease and Acute Lung Injury (ALI). COPD, which includes chronic bronchitis and emphysema, affects over 100 million people worldwide and is the fourth leading cause of death in the United States.
- In July, the Company announced a collaborative relationship with Aerogen, Inc. to investigate the application of Aerogen’s Aeroneb[®] Professional Nebulizer System with Discovery’s humanized lung surfactant for pulmonary delivery to the lungs of mechanically ventilated patients. The Company believes that the successful development of aerosolized surfactant therapies would provide the opportunity to address a potential worldwide market estimated at \$5 billion.
- In July, the Company completed the dose-ranging stage of its Phase 2 trial of Surfaxin for Acute Respiratory Distress Syndrome and reported encouraging results. Twenty-two patients in four dosing groups (five to six patients per group) received progressively higher dosages of Surfaxin (employing the Company’s proprietary “lung wash” technique) with the early data suggesting that the most promising results and effective dosages were in the patient groups receiving the highest Surfaxin concentrations. The Independent Safety Review Committee determined that the Phase 2 trial procedure is generally safe and tolerable and the Company is now enrolling patients into the larger safety and efficacy portion of the trial.

Additional details of the Company’s recent progress will be discussed Friday, November 15, 2002 at 11:00 AM EST on a live audio Web cast that will be available to shareholders and

interested parties on the Internet through <http://audioevent.mshow.com/77862> and at www.discoverylabs.com. It is recommended that participants log onto one of these sites at least 15 minutes prior to the call. The Internet broadcast will be available for up to 30 days after the call on both Website addresses.

About Discovery Laboratories

Discovery Laboratories, Inc. is a specialty pharmaceutical company leveraging the only platform technology in humanized lung surfactants to develop a number of potential novel respiratory therapies and pulmonary drug delivery products. Surfactants are produced naturally in the lungs and are critical to all air-breathing mammals. Discovery's technology is being developed initially for critical care patients with life-threatening respiratory disorders where there are few or no approved therapies available. Surfaxin[®], Discovery's lead product, is currently in Phase 3 clinical trials for Respiratory Distress Syndrome (RDS) in premature infants, a Phase 3 clinical trial for Meconium Aspiration Syndrome (MAS) in full-term infants, and a Phase 2 clinical trial for Acute Respiratory Distress Syndrome (ARDS) in adults. Aerosol formulations are being developed in an effort to treat other respiratory conditions such as asthma, chronic obstructive pulmonary disease, and acute lung injury, and as a novel pulmonary drug delivery vehicle to render drugs more effective when delivered to or via the respiratory tract. Discovery is developing a dedicated sales and marketing capability through a collaboration with Quintiles for the United States, and has a strategic alliance with Esteve for Europe and Latin America. Interested parties can receive corporate updates by sending their email addresses to dsco@focuspartners.com. More information about Discovery Laboratories is available on the Company's Web site at www.discoverylabs.com.

This press release shall not constitute an offer to sell or a solicitation of an offer to buy any securities of the Company. To the extent that statements in this press release are not strictly historical, including statements as to the Company's business strategy, outlook, objectives, future milestones, plans, intentions, goals, future financial conditions, future collaboration agreements, the success of the Company's product development, or otherwise as to future events, such statements are forward-looking, and are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The forward-looking statements contained in this release are subject to certain risks and uncertainties that could cause actual results to differ materially from the statements made. Among the factors which could affect the Company's actual results and could cause results to differ from those contained in the forward-looking statements contained herein are the risk that financial conditions may change, the risk that the Company will not be able to raise additional capital or enter into additional collaboration agreements, risks relating to the progress of the Company's research and development and the development of competing therapies and/or technologies by other companies. Those associated risks and others are further described in the Company's periodic filings with the Securities and Exchange Commission including the most recent reports on Forms 10-KSB, 8-K, 10-QSB and 10-Q, and amendments thereto.

(tables to follow)

Discovery Laboratories, Inc.
Condensed Consolidated Statements of Operations
(in thousands, except per share data)

	Three months ended September 30,		Nine Months ended September 30,	
	2002	2001	2002	2001
Revenues from collaborative agreements	\$ 368	\$ 197	\$ 1,388	\$ 915
Operating expenses				
Research and Development	3,475	1,921	9,801	5,732
General and Administrative	1,633	733	4,303	2,772
Total Expenses	5,108	2,654	14,104	8,504
Operating loss	(4,740)	(2,457)	(12,716)	(7,589)
Other income and expense:	211		530	655
Net loss	\$ (4,529)	\$ (2,519)	\$ (12,186)	\$ (6,934)
Net loss per common share	\$ (0.17)	\$ (0.12)	\$ (0.46)	\$ (0.33)
Weighted average number of common shares outstanding	26,441	21,188	26,223	21,045

Condensed Consolidated Balance Sheets
(in thousands)

	September 30, 2002	December 31 2001
ASSETS		
Current assets:		
Cash, cash equivalents and available-for-sale market securities	\$ 10,974	\$ 16,696
Prepaid expenses and other current assets	755	1,582
Total current assets	11,729	18,278
Property and equipment, net of depreciation	1,122	822
Other assets	317	965
Total assets	\$ 13,168	\$ 20,065
LIABILITIES AND STOCKHOLDERS' EQUITY		
Total current liabilities	\$ 2,114	\$ 1,794
Deferred revenue	1,641	615
Credit facility with corporate partner	1,257	
Capitalized lease	69	33
Total liabilities	\$ 5,081	\$ 2,442
Stockholders' equity	8,087	17,623
Total liabilities and stockholders' equity	\$ 13,168	\$ 20,065

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