

INHALE THERAPEUTIC SYSTEMS

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ITEM 10 - DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

DIRECTORS SERVING UNTIL THE 1998 ANNUAL MEETING

NAME	AGE	POSITION
Robert B. Chess	41	President and Chief Executive Officer
Ajit S. Gill	50	Chief Operating Officer
John S. Patton, Ph.D.	51	Vice President, Research
Terry L. Opdendyk	50	Chairman; General Partner, ONSET Ventures
Mark J. Gabrielson	42	General Partner, Prince Ventures
James B. Glavin	62	Chairman of the Board, The Immune Response Corporation
Melvin Perelman, Ph.D.	67	Former Executive Vice President, Eli Lilly and Company

ROBERT B. CHESS has served as President of the Company since December 1991 and as Chief Executive Officer since May 1992. Mr. Chess was also elected a Director of the Company in May 1992. From September 1990 until October 1991, he was an Associate Deputy Director in the White House Office of Policy Development. In March 1987, Mr. Chess co-founded Penederm Incorporated ("Penederm"), a topical dermatological drug delivery company, and served as its President until February 1989. He left the company in October 1989. Prior to co-founding Penederm, Mr. Chess held management positions at Intel Corp., a semiconductor manufacturer, and Metaphor, a computer software company (acquired by International Business Machines). Mr. Chess holds a B.S. in Engineering from the California Institute of Technology and a M.B.A. from the Harvard Business School.

AJIT S. GILL has served as Chief Operating Officer since October 1996 and as a Director since April 1998. Mr. Gill also served as the Company's Chief Financial Officer from January 1993 until October 1996. Before joining Inhale, Mr. Gill was Vice President and General Manager of Kodak's Interactive Systems divisions. Mr. Gill has served as Chief Financial Officer for TRW-Fujitsu, Director of Business Development for Visicorp, and as a start-up President for three high technology companies. He completed a B.Tech at the Indian Institute of Technology, an MS in Electrical Engineering from the University of Nebraska, and holds an MBA from the University of Western Ontario.

JOHN S. PATTON, PH.D., a co-founder of Inhale, has been Vice President of Research since December 1991 and a Director of the Company since July 1990. He served as President of the Company from its incorporation in July 1990 to December 1991. From 1985 to 1990, Dr. Patton was a Project Team Leader with Genentech, Inc., a biotechnology company, where he headed their non-invasive drug delivery activities. Dr. Patton was on the faculty of the Marine Science and Microbiology Departments at the University of Georgia from 1979 through 1985, where he was granted tenure in 1984. Dr. Patton received a B.S. in Zoology and Biochemistry from Pennsylvania State University, an M.S. from the University of Rhode Island, a Ph.D. in Biology from the University of California, San Diego and received post doctorate fellowships from Harvard Medical School and the University of Lund, Sweden, both in biomedicine.

TERRY L. OPDENDYK has been the Chairman of the Board of Directors of the Company since August 1991. He served as acting Chief Executive Officer of the Company between August 1991 and May 1992. Mr. Opdendyk has been a general partner of the general partner of ONSET, a California Limited Partnership, a venture capital limited partnership, since 1984; a general partner of the general partner of ONSET Enterprise Associates, L.P., a venture capital limited partnership, since 1989; a general partner of the general partner of ONSET Enterprise Associates II, L.P, a venture capital partnership, since 1994; a special limited partner of the general partner of New Enterprise Associates V, Limited Partnership, a venture capital limited partnership, since 1990; and a special limited partner of the general partner of New Enterprise Associates VI, Limited Partnership, a venture

capital limited partnership, since 1993. From 1980 to 1984, he served as president of VisiCorp, a computer software company. Prior to 1980, Mr. Opdendyk held management positions with Intel Corp., a semiconductor manufacturer, and Hewlett-Packard Co., a computer and peripherals manufacturer. Mr. Opdendyk is a director of Penederm and a director of several private companies.

MARK J. GABRIELSON has been a Director of the Company since May 1992. Since January 1991 he has been a general partner of Prince Ventures, L.P., a venture capital management firm that serves as the general partner of Prince Venture Partners III, L.P. ("Prince"). In addition, Mr. Gabrielson is the Chairman of Ontyx, Inc. Prior to joining Prince, Mr. Gabrielson served in a variety of marketing and business positions with SmithKline Beecham plc since July 1978. Mr. Gabrielson is a director of Penederm.

JAMES B. GLAVIN has been a Director of the Company since May 1993. Mr. Glavin is Chairman of the Board of The Immune Response Corporation, a biotechnology company. He was President and Chief Executive Officer of The Immune Response Corporation from 1987 until September 1994. From 1987 to 1990, Mr. Glavin served as Chairman of the Board of Smith Laboratories, Inc. and was President and Chief Executive Officer from 1985 to 1989. From 1985 to 1987, he was a partner in CH Ventures, a venture capital firm. From 1983 to 1985, he served as Chairman of the Board of Genetic Systems Corporation, a biotechnology firm, and as its President and Chief Executive Officer from 1981 to 1983. Mr. Glavin is a director of The Meridian Fund and Gish Biomedical, Inc.

MELVIN PERELMAN, PH.D. has been a Director of the Company since January 1996. Dr. Perelman spent 36 years at Eli Lilly and Company, most recently as Executive Vice-President and President of Lilly Research Laboratories, a position which he held from 1986 until his retirement in 1993. Dr. Perelman served as President of Lilly International from 1976 until 1986. He was a member of the Board of Directors of Eli Lilly and Company from 1976 until 1993. Dr. Perelman is a member of the Board of Directors of Cinergy, Inc., DataChem, Inc., Immusol, Inc. and of The Immune Response Corporation.

BOARD COMMITTEES AND MEETINGS

During the fiscal year ended December 31, 1997 the Board of Directors held six meetings. The Board has an Audit Committee and a Compensation Committee.

The Audit Committee meets with the Company's independent auditors at least annually to review the results of the annual audit and discuss the financial statements; recommends to the Board the independent auditors to be retained; and receives and considers the accountants' comments as to controls, adequacy of staff and management performance and procedures in connection with audit and financial controls. The Audit Committee is composed of two non-employee directors: Messrs. Gabrielson and Glavin. It met once during the fiscal year ended December 31, 1997.

The Compensation Committee makes recommendations concerning salaries and incentive compensation and otherwise determines compensation levels and performs such other functions regarding compensation as the Board may delegate. The Compensation Committee is composed of two non-employee directors: Messrs. Gabrielson and Glavin. It met once during the fiscal year ended December 31, 1997.

During the fiscal year ended December 31, 1997, each director attended 75% or more of the aggregate of the meetings of the Board and of the committees on which he then served, except for Dr. Patton who attended 66% of such meetings.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") requires the Company's directors and executive officers, and persons who own more than ten percent of a registered class of the Company's equity securities, to file with the SEC initial reports of ownership and reports of changes in ownership

of Common Stock and other equity securities of the Company. Officers, directors and greater than ten percent shareholders are required by SEC regulation to furnish the Company with copies of all Section 16(a) forms they file.

To the Company's knowledge, based solely on a review of the copies of such reports furnished to the Company and written representations that no other reports were required, during the fiscal year ended December 31, 1997, all Section 16(a) filing requirements applicable to its officers, directors and greater than ten percent beneficial owners were complied with.

ITEM 11 - EXECUTIVE COMPENSATION.

COMPENSATION OF DIRECTORS

For the fiscal year ended December 31, 1997, each non-employee director of the Company received \$10,000 of cash compensation from the Company payable quarterly. The members of the Board of Directors are also eligible for reimbursement for their expenses incurred in connection with attendance at Board meetings in accordance with Company policy.

On June 1 of every other year (or the next business day should such date be a legal holiday), commencing June 1, 1996, each member of the Company's Board of Directors who is not an employee of the Company is automatically granted under the Company's 1994 Non-Employee Directors' Stock Option Plan (the "Directors' Plan"), without further action by the Company, the Board of Directors or the shareholders of the Company, an option to purchase 14,400 shares of Common Stock of the Company. The exercise price of options granted under the Directors' Plan is 100% of the fair market value of the Common Stock subject to the option on the date of the option grant. Options granted under the Directors' Plan vest over 24 months from the date of grant. Option grants under the Directors' Plan are non-discretionary. The term of options granted under the Directors' Plan is ten years. In the event of a merger of the Company with or into another corporation or a consolidation, acquisition of assets or other change-in-control transaction involving the Company, the vesting of each option will accelerate and the option will terminate if not exercised prior to the consummation of the transaction. Options to purchase 130,200 shares of Common Stock have been granted under the Directors' Plan, 6,000 of which have been exercised.

COMPENSATION OF EXECUTIVE OFFICERS SUMMARY OF COMPENSATION

The following table shows for the fiscal years ended December 31, 1997, 1996 and 1995, compensation awarded or paid to, or earned by, the Company's Chief Executive Officer and its other four most highly compensated executive officers at December 31, 1997 (the "Named Executive Officers"):

SUMMARY COMPENSATION TABLE

NAME AND PRINCIPAL POSITION	ANNUAL COMPENSATION			SECURITIES UNDERLYING OPTIONS	ALL OTHER COMPENSATION (1)
	YEAR	SALARY	BONUS		
Robert B. Chess President and Chief Executive Officer	1997	\$195,666	\$136,763	15,900	\$ 510
	1996	183,936	72,986	28,000	330
	1995	172,521	55,000	55,800	330
Ajit S. Gill Chief Operating Officer	1997	194,155	51,757	54,600	870
	1996	170,012	53,061	33,000	870
	1995	158,283	37,000	21,400	40,870
John S. Patton Vice President, Research	1997	150,119	32,344	7,500	1,440
	1996	138,020	39,158	29,000	1,367
	1995	128,721	27,000	15,800	770
Stephen L. Hurst Vice President, Intellectual Property and Licensing	1997	156,682	27,098	25,400	510
	1996	146,529	33,264	9,000	510
	1995	137,093	27,000	24,000	480
Judi R. Lum Former Vice President, Finance and Administration and Chief Financial Officer	1997	145,142	18,875	5,400	330
	1996	28,211(2)	30,000	35,000	83

- (1) Except for the \$40,000 paid to Mr. Gill in 1995 pursuant to an agreement with the Company to cover expenses incurred by Mr. Gill in connection with his relocation upon joining the Company, amounts represent life insurance premiums paid by the Company.
- (2) Ms. Lum joined the Company in October 1996 and resigned in February 1998.

STOCK OPTION GRANTS AND EXERCISES

The Company grants options to its executive officers under its 1994 Equity Incentive Plan (the "Equity Incentive Plan"). As of March 31, 1998, options to purchase a total of 2,493,000 shares were outstanding under the Equity Incentive Plan and options to purchase 764,000 shares remained available for grant thereunder.

The following tables show for the fiscal year ended December 31, 1997, certain information regarding options granted to, exercised by, and held at year end by, the Named Executive Officers:

OPTION GRANTS IN LAST FISCAL YEAR

NAME	INDIVIDUAL GRANTS		EXERCISE OR BASE PRICE (\$/SHARE)	EXPIRATION DATE	POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR OPTION TERM (2)	
	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED	PERCENTAGE OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN FISCAL YEAR (1)			5%	10%
Robert B. Chess	500(3) 15,400(4)	0.06% 1.81	\$16.125 18.625	01/07/07 01/28/07	\$ 5,070 180,383	\$ 12,850 457,125
Ajit S. Gill	500(3) 45,000(5) 9,100(6)	0.06 5.28 1.07	16.125 16.125 18.125	01/07/07 01/07/07 01/28/07	5,070 456,342 103,728	12,850 1,156,459 262,868
John S. Patton	500(3) 7,000(7)	0.06 0.82	16.125 18.625	01/07/07 01/28/07	5,070 81,992	12,850 207,784
Stephen L. Hurst	500(3) 20,000(8) 4,900(9)	0.06 2.35 0.58	16.125 18.625 18.625	01/07/07 01/28/07 01/28/07	5,070 234,263 57,394	12,850 593,669 145,449
Judi R. Lum	500(3) 4,900(10)	0.06 0.58	16.125 18.625	01/07/07 01/28/07	5,070 57,394	12,850 145,449

- (1) Based on an aggregate of 852,070 options granted to employees and consultants to the Company in 1997, including the Named Executive Officers.
- (2) The potential realizable value is based on the term of the option at the time of grant (ten years). Assumed stock price appreciation of five percent and ten percent is used pursuant to rules promulgated by the SEC. The potential realizable value is calculated by assuming that the market price on the date of grant appreciates at the indicated rate for the entire term of the option and that the option is exercised at the exercise price and sold on the last day of its term at the appreciated price.
- (3) This option vests monthly over 1 year commencing in January 1997.
- (4) This option vests monthly over 5 years commencing in November 2002.
- (5) This option vests monthly over 5 years commencing in February 2002.
- (6) This option vests monthly over 1 year commencing in May 2002.
- (7) This option vests monthly over 1 year commencing in October 2002.
- (8) This option vests 20% in February 2002 and the remainder vests monthly thereafter over 2 years.
- (9) This option vests monthly over 1 year commencing in March 2002.
- (10) This option vests monthly over 1 year commencing in October 2002.

AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR, AND
DECEMBER 31, 1997 OPTION VALUES

NAME	SHARES ACQUIRED ON EXERCISE	VALUE REALIZED(1)	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT DECEMBER 31, 1997 (2)		VALUE OF UNEXERCISED IN-THE- MONEY OPTIONS AT DECEMBER 31, 1997 (3)	
			EXERCISABLE	UNEXERCISABLE	EXERCISABLE	UNEXERCISABLE
Robert B. Chess	--	--	71,009	129,490	\$ 1,389,960	\$2,175,473
Ajit S. Gill	--	--	106,848	114,629	2,375,667	1,671,645
John S. Patton	--	--	59,704	51,073	1,216,213	812,287
Stephen L. Hurst	28,418	\$ 475,431	4,396	60,585	79,401	800,438
Judi R. Lum	--	--	15,062	25,338	157,839	250,737

(1) Based on the fair market value of the Company's Common Stock on the exercise date, minus the exercise price, multiplied by the number of shares exercised.

(2) On January 18, 1995, the Board amended the provisions of the options held by the Named Executive Officers to provide that upon a change-in control of the Company the vesting of all outstanding options held by such persons would be accelerated by two years.

(3) Based on the fair market value of the Company's Common Stock as of December 31, 1997 (\$26.00 per share), minus the exercise price, multiplied by the number of shares underlying the options.

ITEM 12 - SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

SECURITY OWNERSHIP OF
CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information regarding the ownership of the Company's Common Stock as of March 31, 1998 by: (i) each director; (ii) each of the Named Executive Officers; (iii) all executive officers and directors of the Company as a group; and (iv) all those known by the Company to be beneficial owners of more than five percent of its Common Stock.

BENEFICIAL OWNER	BENEFICIAL OWNERSHIP (1)	
	NUMBER OF SHARES	PERCENT OF TOTAL (2)
Baxter Healthcare Corporation One Baxter Parkway Deerfield, IL 60015	1,335,897	8.6%
Mark J. Gabrielson (3)	624,844	4.0%
John S. Patton (4)	435,720	2.8%
Robert B. Chess (5)	383,084	2.4%
Ajit S. Gill (6)	174,088	1.1%

BENEFICIAL OWNER	BENEFICIAL OWNERSHIP (1)	
	NUMBER OF SHARES	PERCENT OF TOTAL (2)
Terry L. Opdendyk (7)	137,122	*
James B. Glavin (8)	55,799	*
Stephen L. Hurst (9)	37,836	*
Melvin Perelman (10)	16,800	*
Judi R. Lum (11)	15,062	*
All directors and executive officers as a group (9 persons) (12)	2,208,865	13.7%

* Less than 1%

- (1) This table is based upon information supplied by officers, directors and principal shareholders. Unless otherwise indicated in the footnotes to this table and subject to the community property laws where applicable, the Company believes that each of the shareholders named in this table has sole voting and investment power with respect to the shares shown as beneficially owned.
- (2) Applicable percentages are based on 15,592,699 shares of Common Stock outstanding as of March 31, 1998, adjusted as required by rules promulgated by the Securities and Exchange Commission (the "SEC").
- (3) Includes 595,044 shares held by Prince. Mr. Gabrielson is a general partner of the general partner of Prince. Mr. Gabrielson disclaims beneficial ownership of such shares except to the extent of his pro rata interest therein. Also includes 28,800 shares issuable upon the exercise of options exercisable within 60 days of March 31, 1998.
- (4) Includes 68,720 shares issuable upon exercise of options exercisable within 60 days of March 31, 1998.
- (5) Includes 94,329 shares issuable upon exercise of options exercisable within 60 days of March 31, 1998.
- (6) Includes 123,413 shares issuable upon exercise of options exercisable within 60 days of, 1998.
- (7) Includes 28,800 shares issuable upon the exercise of options exercisable within 60 days of March 31, 1998.
- (8) Includes 49,800 shares issuable upon exercise of options exercisable within 60 days of March 31, 1998.
- (9) Includes 4,230 shares issuable upon exercise of options exercisable within 60 days of March 31, 1998.
- (10) All shares issuable upon exercise of option exercisable within 60 days of March 31, 1998.
- (11) Includes 4,979 shares issuable upon exercise of options exercisable within 60 days of March 31, 1998.
- (12) Includes 595,044 shares held by Prince as described in footnote 3. Also includes 475,459 shares issuable upon exercise of outstanding options exercisable within 60 days of March 31, 1998. See footnotes 3 through 10.

ITEM 13 - CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

CERTAIN TRANSACTIONS

The Company's Bylaws provide that the Company will indemnify its directors and may indemnify its officers, employees and other agents to the fullest extent permitted by California law. The Company is also empowered under its Bylaws to enter into indemnification contracts with its directors and officers and to purchase insurance on behalf of any person whom it is required or permitted to indemnify.

In addition, the Company's Amended and Restated Articles of Incorporation provide that the liability of the directors for monetary damages shall be eliminated to the fullest extent permissible under California law. Pursuant to California law, the Company's directors shall not be liable for monetary damages for breach of the directors' fiduciary duty of care to the Company and its shareholders. However, this provision does not eliminate the duty of care, and in appropriate circumstances, equitable remedies such as injunctive or other forms of nonmonetary relief will remain available under California law. In addition, each director will continue to be subject

to liability for (i) acts or omissions that involve intentional misconduct or a knowing and culpable violation of law, (ii) acts or omissions that a director believes to be contrary to the best interests of the Company or its shareholders or that involve the absence of good faith on the part of the director, (iii) any transaction from which a director derived an improper personal benefit, (iv) acts or omissions that show a reckless disregard for the director's duty to the Company or its shareholders in circumstances in which the director was aware, or should have been aware, in the ordinary course of performing a director's duties, of a risk of serious injury to the Company or its shareholders, (v) acts or omissions that constitute an unexcused pattern of inattention that amounts to an abdication of the director's duty to the Company or its shareholders, (vi) any transaction that constitutes an illegal distribution or dividend under California law, and (vii) any transaction involving an unlawful conflict of interest between the director and the Company under California law. The provision also does not affect a director's responsibilities under any other law, such as the federal securities laws or state or federal environmental laws.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

INHALE THERAPEUTIC SYSTEMS

By: /s/ Robert B. Chess

Robert B. Chess
President, Chief Executive
Officer and Director

Date: April 30, 1998
