UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 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 SEPTEMBER 30, 1999

OR

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

FOR THE TRANSITION PERIOD FROM _____ TO _____ .

COMMISSION FILE NUMBER: 0-23490

VIVUS, INC.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE	94-3136179
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(I.R.S. EMPLOYER IDENTIFICATION NUMBER)
605 EAST FAIRCHILD DRIVE	MOUNTAIN VIEW, CA 94043
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)	(ZIP CODE)

(650) 934-5200
(REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE)

N/A
(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 to be filed 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

At SEPTEMBER 30, 1999, 32,156,178 shares of common stock were outstanding.

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PART I: FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

VIVUS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)
(Unaudited)

	THREE MONTHS ENDED			NINE MONTHS ENDED	
	SEPTEMBER 30, 1999	JUNE 30, 1999	SEPTEMBER 30, 1998	SEPTEMBER 30, 1999	SEPTEMBER 30, 1998
Revenue					
US Product	$ 5,640	$ 5,239	$ 3,485	$ 15,417	$ 34,178
International Product	1,105	1,572	14,579	4,393	26,391
Milestone	2,000	--	2,000	6,000	3,000
Returns	(2,325)	--	--	(2,325)	--
Total revenue	6,420	6,811	20,064	23,485	63,569
Operating Expenses					
Cost of goods sold	2,840	3,072	28,297	9,514	49,483
Research and development	1,416	1,762	4,673	4,965	13,912
Selling, general and administrative	1,719	1,554	3,882	4,625	38,516
Settlement of shareholder lawsuits	--	600	--	600	--
Write-down of property	--	--	32,163	--	32,163
Other restructuring costs	--	--	5,968	--	12,490
Total operating expenses	5,975	6,988	74,983	19,704	146,564
Income (loss) from operations	445	(177)	(54,919)	3,781	(82,995)
Interest and other income	499	484	194	1,462	1,702
Income (loss) before taxes	944	307	(54,725)	5,243	(81,293)
Income tax provision	(47)	(15)	--	(262)	--
Net income (loss)	$ 897	$ 292	$ (54,725)	$ 4,981	$ (81,293)
Net income (loss) per share:					
Basic	$ 0.03	$ 0.01	$ (1.72)	$ 0.16	$ (2.55)
Diluted	$ 0.03	$ 0.01	$ (1.72)	$ 0.15	$ (2.55)
Shares used in the computation of net income (loss) per share:					
Basic	32,143	32,066	31,806	32,048	31,893
Diluted	32,546	32,889	31,806	32,585	31,893

VIVUS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(IN THOUSANDS)
(Unaudited)

	THREE MONTHS ENDED			NINE MONTHS ENDED	
	SEPTEMBER 30, 1999	JUNE 30, 1999	SEPTEMBER 30, 1998	SEPTEMBER 30, 1999	SEPTEMBER 30, 1998
Net Income (loss)	$ 897	$ 292	$(54,725)	$ 4,981	$(81,293)
Other comprehensive income:					
Unrealized gain (loss) on securities	(309)	231	18	(143)	(73)
Income tax benefit (provision)	15	(12)	--	7	--
	(294)	219	18	(136)	(73)
Comprehensive income (loss)	$ 603	$ 511	$(54,707)	$ 4,845	$(81,366)

VIVUS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT PER SHARE AMOUNT)

	SEPTEMBER 30, 1999 (unaudited)	JUNE 30, 1999 (unaudited)	DECEMBER 31, 1998
Current assets:			
Cash	$ 5,553	$ 5,152	$ 2,989
Available-for-sale securities	36,723	33,542	20,903
Accounts receivable	2,050	2,518	5,197
Inventories	4,031	4,093	5,272
Prepaid expenses and other assets	1,076	1,155	534
Total current assets	49,433	46,460	34,895
Property and equipment	16,841	17,633	19,213
Total assets	$ 66,274	$ 64,093	$ 54,108
Current Liabilities:			
Accounts payable	$ 1,721	$ 1,804	$ 3,277
Accrued and other liabilities	31,333	29,295	21,294
Current liabilities	33,054	31,099	24,571
Accrued and other long-term liabilities	5,636	6,052	7,860
Total liabilities	$ 38,690	$ 37,151	$ 32,431
Stockholders' equity:			
Common stock; $.001 par value; shares authorized 200,000; shares outstanding - September 30, 1999, 32,156; June 30, 1999, 32,137; December 31, 1998, 31,890	32	32	32
Paid in capital	132,535	132,481	131,466
Accumulated other comprehensive income (loss)	(174)	135	(31)
Accumulated deficit	(104,809)	(105,706)	(109,790)
Total stockholders' equity	27,584	26,942	21,677
Total liabilities and stockholders equity	$ 66,274	$ 64,093	$ 54,108

VIVUS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)
(Unaudited)

	NINE MONTHS ENDED SEPTEMBER 30,	
	1999	1998
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ 4,981	$ (81,293)
Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities:		
Depreciation and amortization	2,483	2,865
Property write-down	--	32,163
Inventory write-down	--	16,083
Stock compensation costs	182	360
Issuance of common stock for lawsuit settlement	600	--
Changes in assets and liabilities:		
Accounts receivable	3,147	3,831
Inventories	1,241	(14,784)
Prepaid expenses and other assets	(542)	675
Accounts payable	(1,556)	6,463
Accrued and other liabilities	7,815	8,734
Net cash provided by (used for) operating activities	18,350	(24,903)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property and equipment purchases	(111)	(18,603)
Investment purchases	(103,509)	(134,855)
Proceeds from sale/maturity of securities	87,547	199,499
Net cash provided by (used for) investing activities	(16,073)	46,041
CASH FLOWS FROM FINANCING ACTIVITIES:		
Exercise of common stock options	187	562
Sale of common stock through employee stock purchase plan	100	413
Repurchase of common stock	--	(23,584)
Net cash provided by (used for) financing activities	287	(22,609)
NET INCREASE (DECREASE) IN CASH	2,564	(1,471)
CASH:		
Beginning of period	2,989	6,161
End of period	$ 5,553	$ 4,690
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Unrealized loss on securities	$ (143)	$ (73)
SUPPLEMENTAL CASH FLOW DISCLOSURE:		
Income taxes paid	$ 36	71

VIVUS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 1999

1. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulations S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three-month and nine-month periods ended September 30, 1999 are not necessarily indicative of the results that may be expected for the year ending December 31, 1999. For further information, refer to the financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 1998.

2. RESTRUCTURING RESERVE

During 1998, the Company experienced a significant decline in market demand as the result of the introduction of a competitor's product. As a result, the Company took steps to restructure its operations in an attempt to bring the cost structure in line with current and projected revenues. (See Notes 1 and 6 to the Consolidated Financial Statements for the year ended December 31, 1998 included in the Company's Annual Report on Form 10-K). The reserve balance at September 30, 1999 was $9.6 million, a decrease of $481,000 from $10.1 million at June 30, 1999.

	SEVERANCE AND EMPLOYEE COSTS	INVENTORY AND RELATED COMMITMENTS	PROPERTY AND RELATED COMMITMENTS	MARKETING PROGRAMS	OTHER	TOTAL
Balance at December 31, 1998	$ 1,910	$ 5,384	$ 4,664	$ 1,307	$ 1,793	$ 15,058
Incurred in first quarter 1999...	(108)	(128)	(309)	(1,076)	(500)	(2,121)
Balance at March 31, 1999	1,802	5,256	4,355	231	1,293	12,937
Incurred in second quarter 1999..	(1,502)	(48)	(158)	(131)	(1,000)	(2,839)
Balance at June 30, 1999	300	5,208	4,197	100	293	10,098
Incurred in third quarter 1999...	--	(30)	(158)	--	(293)	(481)
Balance at September 30, 1999....	$ 300	$ 5,178	$ 4,039	$ 100	$ --	$ 9,617

The Company expects that over the next twelve months, it will make cash payments of approximately $4.0 million related to the restructuring, with the remaining $5.6 million to occur after this period.

3. UNEARNED REVENUE

As of September 30, 1999, the Company has recorded unearned revenue of $16.7 million associated with contractual obligations and other payments from AstraZeneca. In October 1999, the marketing and distribution rights for the Company's product MUSE were returned to the Company. The Company and AstraZeneca are currently formalizing such return of rights under the terms of the agreement. (See Note 8.)

Management believes that the conclusion of contractual obligations will not have a material adverse effect on the Company's financial condition. There can be no assurance, however, that the Company and AstraZeneca will reach a satisfactory agreement on the conclusion of contractual obligations, which could have a material adverse effect on the financial condition of the Company.

4. ACCRUED AND OTHER LIABILITIES

Accrued and other liabilities as of September 30, 1999, June 30, 1999, and December 31, 1998 consist of:

(in thousands)	September 30, 1999	Jun 30, 1999	December 31, 1998
Unearned revenue	$16,740	$15,677	$ 5,040
Restructuring	9,617	10,098	15,058
Research and clinical expenses	2,534	2,549	2,337
Income taxes	2,285	2,263	2,082
Royalties	2,293	2,100	2,133
Expired product returns	1,000	--	--
Employee compensation and benefits	972	1,132	902
Manufacturing expenses	710	615	368
Sales and marketing expenses	232	301	664
Other	586	611	570
	$36,969	$35,347	$29,154

5. NET INCOME (LOSS) PER SHARE

Net income (loss) per share is calculated in accordance with Statement of Financial Accounting Standards No. 128, "Earnings per Share," which requires a dual presentation of basic and diluted earnings per share. Basic income (loss) per share is based on the weighted average number of common shares outstanding during the periods. Diluted income per share is based on the weighted average number of common and common equivalent shares, which represent shares that may be issued in the future upon the exercise of outstanding stock options and warrants. Certain options and warrants are excluded from the diluted income per share for income periods presented because they are anti-dilutive. All options and warrants are excluded from the diluted loss per share for all loss periods because they are anti-dilutive.

6. SEGMENT INFORMATION

During 1998, the Company adopted Statement of Financial Accounting Statement SFAS No. 131, "Disclosure About Segments of an Enterprise and Related Information." SFAS 131 requires a new basis of determining reportable business segments, i.e., the management approach. This approach requires business segment information used by management to assess performance and manage company resources for information disclosure. On this basis, the Company primarily sells its product through wholesale channels in the United States. International sales are made only to the Company's two international partners. All transactions are denominated in U.S. dollars; therefore, the Company considers the arrangement as operating in a single segment.

During the first nine months of 1999, five customers accounted for 24%, 19%, 16%, 15%, and 12% of total product revenue, as compared to five customers accounted for 35%, 13%, 11%, 11% and 10% of total product revenue for fiscal year 1998.

7. PRODUCT RETURNS

In the third quarter 1999, the Company recorded a $2.3 million charge for the actual and anticipated return of expired product in the U.S. These returns are primarily the result of shipments made during the fourth quarter of 1997 and first quarter of 1998. Demand for MUSE declined following the launch of a competitive product in April 1998, resulting in excess inventories of wholesalers and retailers.

8. SUBSEQUENT EVENT

On October 7, 1999, the Company announced that AstraZeneca has returned the marketing and distribution rights for MUSE to the Company. This decision follows a change in product strategies due to the recent merger of Astra AB and Zeneca Group PLC. The Company and AstraZeneca are currently formalizing the return of rights and a transition plan under the terms of the contract. AstraZeneca will continue to handle patient and physician inquiries and ensure product supply while VIVUS pursues strategic alternatives regarding marketing and distribution of MUSE in Europe, Australia, New Zealand, Central America and South America.

This Quarterly Report on Form 10-Q contains forward-looking statements that involve risks and uncertainties. The Company's actual results could differ from those set forth in such forward-looking statements as a result of certain factors, including those set forth in this Risk Factors section starting on page 11 of this document.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

VIVUS, Inc. ("VIVUS" or the "Company") is the developer and manufacturer of MUSE(R) (alprostadil) and ACTIS(TM), two advancements in the treatment of men with erectile dysfunction ("ED"), also known as impotence. The Company's objective is to become a global leader in the development and commercialization of innovative therapies for the treatment of sexual dysfunction and urologic disorders in men and women. To this end, the Company focuses its R&D activities on male erectile dysfunction and premature ejaculation, and female sexual dysfunction using pharmacological agents that have pre-existing data. The Company believes that such agents present a lower development risk profile and may progress more rapidly through the clinical development and regulatory process than agents without pre-existing data.

In November 1996, the Company obtained marketing clearance by the U.S. Food and Drug Administration (the "FDA") to manufacture and market its first product, MUSE, and commercially introduced MUSE in the United States beginning in January 1997. The launch of MUSE went on to become one of the top 25 most successful drug launches in the U.S., and the Company recorded a net profit of $36.6 million and product revenue of $129.3 million for the year ended December 31, 1997.

During 1998, the Company experienced a significant decline in market demand for MUSE as the result of the introduction of a competitor's product in April 1998. Since the launch of this competitive product, MUSE prescriptions have declined approximately 80% in the U.S. During the second and third quarters of 1998, the Company took significant steps to restructure its operations in an attempt to bring the cost structure in line with current and projected revenues. As a result, the Company incurred a net loss of $80 million and had negative operating cash flow of $26 million for the year ended December 31, 1998. For further information, refer to the financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 1998.

The Company received approval to market MUSE in Germany and France in the first quarter 1999 and Spain in the third quarter 1999. To date, MUSE has been approved by regulatory agencies in 45 countries, including all European Union countries except Italy.

The Company supports MUSE sales in the U.S. through physician and patient information/help lines, sales support for major accounts, product education newsletters and participation in national urologic and sexual dysfunction forums and conferences, such as the American Urological Association annual and regional meetings and the International Society for Impotence Research. In addition, the Company supports ongoing research and clinical investigation of MUSE and the publication of data in peer-reviewed journals.

Internationally, the Company has entered into a licensing and distribution agreement with Janssen Pharmaceutical ("Janssen") for certain international markets, including China, multiple Pacific Rim countries (excluding Japan), Canada, Mexico and South Africa.

In October 1999, the marketing and distribution rights in Europe, Australia, New Zealand, Central and South America were returned to the Company from AstraZeneca. The Company and AstraZeneca are currently formalizing a transition plan for the return of these rights. During the transition, AstraZeneca will continue to handle patient and physician inquiries and ensure product supply in the countries where MUSE has been launched. The Company is currently evaluating alternate strategic options in these markets, including the retention of a pharmaceutical partner(s) to market, distribute and sell its products in these markets.

The Company has completed a Phase III clinical trial for ALIBRA, the Company's second generation transurethral approach to treat ED. The Company expects to submit a New Drug Application ("NDA") for ALIBRA in the fourth quarter of 1999. The Company also began a Phase II proof of concept clinical study to evaluate compounds for the treatment of premature ejaculation in the third quarter of 1999. In addition, the Company is developing a product for female sexual dysfunction and expects to enter clinical testing next year.

In September 1999, the Company terminated its license agreement with Albert Einstein College of Medicine of Yeshiva University for the development of gene therapy for the treatment of ED. This was a strategic decision based on the development risks involved and the amount of funding and time required to potentially bring a product to market.

During the third quarter of 1999, product shipments in the U.S. increased 8% over the second quarter and the Company recorded its fourth consecutive profitable quarter since restructuring its operations in the third quarter of 1998. The Company continues to keep the cost structure of its business in line with current and projected demand for MUSE.

RESULTS OF OPERATIONS

THREE MONTHS ENDED SEPTEMBER 30, 1999 AND JUNE 30, 1999

Product revenues for the quarter ended September 30, 1999 were $5.6 million in the United States and $1.1 million internationally, compared to $5.2 million in the United States and $1.6 million internationally for the quarter ended June 30, 1999. U.S. product revenue increased 8% in third quarter 1999 compared to the second quarter 1999. Product shipments in the U.S. during the third quarter are more reflective of current demand, as compared to the first six month of 1999 where wholesale inventories were at higher levels. As of September 30, 1999, wholesale inventory levels represent approximately one-half of monthly sales. International product revenue decreased by $467,000 from second quarter 1999 as a result of the Company's international marketing partners, Janssen and AstraZeneca, having sufficient inventory for their markets.

Total revenues during the third quarter of 1999 included a $2.0 million milestone payment from AstraZeneca for the marketing approval of MUSE in Spain and a $2.3 million charge for the actual and anticipated return of expired product in the U.S. These returns are primarily the result of shipments made prior to the decline in demand for MUSE following the launch of a competitive product in April 1998.

Cost of goods sold was $2.8 million for the third quarter 1999, compared to $3.1 million for the second quarter 1999. This decrease was primarily the result of continued cost conservation efforts and lower unit shipments.

Research and development ("R&D") expenses for the third quarter 1999 were $1.4 million, compared to $1.8 million in the second quarter of 1999. Lower spending in the third quarter 1999 is attributed to the current phase of the development process. The Company anticipates that R&D expenses will increase significantly in the fourth quarter 1999, as compared with previous quarters in 1999, as the Company anticipates filing an NDA for ALIBRA and continues to progress in the development of its R&D pipeline.

During the second quarter 1999, the Company reached a settlement of the shareholder class action lawsuits, in which the Company incurred a non-cash expense of $600,000 for the issuance of 120,000 shares of VIVUS, Inc. common stock.

The Company recorded a tax provision of $47,000, or five percent of income before taxes for the third quarter 1999, consistent with previous quarters in 1999, and includes the effect of net operating loss ("NOL") carried forward from prior periods. The tax rate would have been substantially higher if the NOLs had not been available to offset current income.

THREE AND NINE MONTHS ENDED SEPTEMBER 30, 1999 AND 1998

Product revenues for the quarter ended September 30, 1999 were $5.6 million in the United States and $1.1 million internationally, compared to $3.5 million in the Unites States and $14.6 million internationally for the quarter ended September 30, 1998. Product revenues for the nine months ended September 30, 1999 were $15.4 million in the U.S. and $4.4 million internationally, compared to $34.2 million in the U.S. and $26.4 million internationally for the same periods in 1998. Higher product revenue in the U.S. during the third quarter 1999 compared to third quarter 1998 was the result of balancing of inventory levels in the wholesale channel in 1998. Underlying demand for MUSE domestically, as measured by retail prescriptions, has declined approximately 80% since the commercial launch of a competitive product in April 1998, which is the primary reason for lower revenues domestically for the first nine months in 1999. Internationally, the decrease in product revenue for the three and nine month periods in 1999 is attributed to the Company's partners, Janssen and AstraZeneca, having accumulated sufficient inventory in 1998 for their respective markets.

Total revenues for the nine months ended September 30, 1999 include milestone payments of $6.0 million related to regulatory approval of MUSE in Germany, France and Spain ($2.0 million for each country), and a charge of $2.3 million for the actual and anticipated return of expired product returns. For the nine months ended September 30, 1998, total revenues included $1.0 million and $2.0 million milestone payments related to regulatory approval of MUSE in South Korea and Canada, respectively.

Cost of goods sold was $2.8 million for the third quarter 1999, compared to $28.3 million for the third quarter 1998. For the nine months ended September 30, 1999, cost of goods sold was $9.5 million, compared to $49.5 million for the first nine months of 1998. Cost of goods sold for three and nine months ended September 30, 1998 include a $16.0 million write-down for excess inventory and future inventory purchase commitments. The Company has made significant progress in manufacturing projects improving yields and continued cost conservation in the first nine months of 1999. As a result, the higher unit cost caused by lower economies of scale has been partially offset by the ongoing improvements.

Research and development expenses for the third quarter 1999 were $1.4 million, compared to $4.7 million in the third quarter 1998. For the nine months ended September 30, 1999 and 1998, research and development expenses were $5.0 million and $13.9 million, respectively. Lower spending for the three and nine-month periods ended September 30, 1999 were primarily the result of the Company's efforts to bring its cost structure in line with current and projected revenues. Higher spending in 1998 was mainly associated with a significantly larger R&D organization.

Selling, general and administrative expenses for the third quarter 1999 were $1.7 million, compared to $3.9 million in the third quarter 1998. For the nine months ended September 30, 1999, expenses were $4.6 million, compared to $38.5 million for the same period in 1998. The lower expenses in the three and nine-month periods ended September 30, 1999 were primarily the result of the Company's effort to bring overall cost levels in line with the Company's current and projected future demand for MUSE. Included in the three and nine-month periods ended September 30, 1998 were significant expenses for a direct-to-consumer advertising campaign as well as a significantly larger direct sales force.

Included in the nine-month period ended September 30, 1999 is a settlement of shareholders class action lawsuits, in which the Company recorded a non-cash expense of $600,000 for the issuance of 120,000 shares of VIVUS, Inc. common stock. Included in the nine-month period ended September 30, 1998 is a restructuring charge of $12.5 million, primarily associated with the Company's agreement to facilitate the transition of its direct U.S. sales force to ALZA Corporation, as well as terminating the contract sales agreement with Innovex, and personnel reductions; and $32.2 million write-down of property and equipment. The write-down was calculated in accordance with the provisions of SFAS No. 121 and represents the excess of the carrying values of property and equipment over the projected future discounted cash flows for the Company.

Interest and other income for the three and nine-month periods ended September 30, 1999 were $499,000 and $1.5 million, respectively, compared with $194,000 and $1.7 million in the three and nine-month periods ended September 30, 1998. The increased interest in the three-month period ended September 30, 1999 was due to higher average invested balance during that period, whereas the lower interest in the nine-month period ended September 30, 1999 was primarily the result of lower average invested cash balances in the first six months of 1999, as compared with the first six months of 1998.

The Company recorded a tax provision of five percent of net income before taxes for the nine months ended September 30, 1999. This compares to no tax provision recorded for the nine months ended September 30, 1998, as the Company expected a loss for the fiscal year ended December 31, 1998. The 1999 effective tax rate calculation includes the effect of NOLs carried forward from prior periods. The tax rate would have been substantially higher if the NOLs were not available to offset current income.

LIQUIDITY AND CAPITAL RESOURCES

Since inception, the Company has financed operations primarily from the sale of preferred and common stock. Through September 30, 1999, VIVUS has raised $153.7 million from financing activities and has an accumulated deficit of $104.8 million at September 30, 1999.

Cash, cash equivalents and available-for-sale securities totaled $42.3 million at September 30, 1999, compared with $38.7 million at June 30, 1999 and $23.9 million at December 31, 1998. The $18.4 million increase in cash from December 31, 1998 primarily resulted from an increase in unearned revenue ($11.7 million), net income ($5.0 million), milestone payments ($6.0 million), and collection of accounts receivable ($3.1 million). These increases were partially offset by payments made related to the restructuring reserve established in 1998 of $5.5 million.

Accounts receivable at September 30, 1999 were $2.1 million, compared with $5.2 million at December 31, 1998, a decrease of $3.1 million due primarily to lower sales and improved collection of accounts receivable.

Total liabilities were $38.7 million at September 30, 1999, compared with $32.4 million at December 31, 1998, an increase of $6.3 million. The increase primarily relates to the increase in unearned revenue of $11.7 million associated with contractual obligations and other payments from AstraZeneca, which is partially offset by payments made related to the restructuring reserve established in 1998 of $5.5 million.

On October 5, 1998, the Company was named in a civil action filed in the Superior Court of New Jersey. This complaint seeks specific performance and other relief in connection with the Company's leased manufacturing facilities, located in Lakewood, New Jersey. The Company's lease agreement requires that the Company provide a removal security deposit in the form of cash or a letter of credit. The Company and lessor ("plaintiff") have reached a tentative agreement whereby the Company will provide an irrevocable letter of credit in the amount of $3.3 million for such security deposit in the fourth quarter.

This Quarterly Report on Form 10-Q contains forward-looking statements that involve risks and uncertainties. The Company's actual results could differ from those set forth in such forward-looking statements as a result of certain factors, including those set forth in the Risk Factors section.

RISK FACTORS

LIMITED SALES AND MARKETING EXPERIENCE

The Company supports MUSE sales in the U.S. through physician and patient information/help lines, sales support for major accounts, product education newsletters and participation in national urologic and sexual dysfunction forums and conferences, such as the American Urological Association annual and regional meetings and the International Society for Impotence Research. In addition, the Company supports ongoing research and clinical investigation of MUSE and the publication of data in peer-reviewed journals. The Company is currently evaluating alternative strategic options regarding the U.S. market. There can be no assurance that the options are viable, or that the Company will be able to successfully implement those options.

In 1997, the Company entered into an international marketing agreement with Janssen to purchase the Company's products for resale in China, multiple Pacific Rim countries (excluding Japan), Canada, Mexico, South Africa, the Middle East, Russia, the Indian sub-continent, and Africa. The marketing agreement does not have minimum purchase commitments and the Company is dependent on Janssen's efforts to distribute and sell the Company's products effectively in the above-mentioned markets. Janssen may take up to twelve months to introduce a product in a given country following regulatory approval in such country. There can be no assurance that such efforts will be successful or that Janssen will continue to support the product.

In October 1999, the marketing and distribution rights in Europe, Australia, New Zealand, Central and South America were returned to the Company from AstraZeneca. The Company is currently evaluating alternative strategic options regarding these countries. There can be no assurance that the Company's options are viable, or that the Company will be able to successfully implement those options.

FUTURE CAPITAL NEEDS AND UNCERTAINTY OF ADDITIONAL FINANCING

Cash, cash equivalents and available-for-sale securities totaled $42.3 million and current liabilities totaled $33.1 million at September 30, 1999. Included in current liabilities is unearned revenue of $16.7 million associated with contractual obligations and other payments from AstraZeneca. The Company and AstraZeneca are currently formalizing the transition of marketing and distribution rights back to VIVUS, including contractual obligations under the terms of the agreement.

Management believes that the conclusion of contractual obligations will not have a material adverse effect on the Company's financial condition. There can be no assurance, however, that the Company and AstraZeneca will reach a satisfactory agreement on the conclusion of contractual obligations, which could have a material adverse effect on the financial condition of the Company.

On October 5, 1998, the Company's lessor ("plaintiff") named the Company in a civil action in connection with the Company's leased manufacturing facilities, located in Lakewood, New Jersey. The Company's lease requires that the Company provide a removal security deposit in the form of cash or letter of credit. The Company and lessor ("plaintiff") have reached a tentative agreement whereby the Company will provide an irrevocable letter of credit in the amount of $3.3 million for such security deposit in the fourth quarter of 1999.

The Company anticipates that its existing capital resources combined with anticipated future revenues may not be sufficient to support the commercial introduction of any additional future products. The Company is currently seeking other sources of financing to support the development of its R&D pipeline.

The Company expects that it will be required to issue additional equity or debt securities or use other financing sources including, but not limited to corporate alliances to fund the development and possible commercial launch of its future products. The sale of additional equity securities would result in additional dilution to the Company's stockholders. The Company's working capital and additional funding requirements will depend upon numerous factors, including: (i) results of operations; (ii) demand for MUSE; (iii) the activities of competitors; (iv) the progress of the Company's research and development programs; (v) the timing and results of pre-clinical testing and clinical trials; (vi) technological advances; and (vii) the level of resources that the Company devotes to sales and marketing capabilities.

INTENSE COMPETITION

Competition in the pharmaceutical and medical products industries is intense and is characterized by extensive research efforts and rapid technological progress. Certain treatments for ED exist, such as oral medications, needle injection therapy, vacuum constriction

devices and penile implants, and the manufacturers of these products will continue to improve these therapies. The most significant competitive therapy is sildenafil, an oral medication marketed by Pfizer, which received regulatory approvals in the U.S. in March 1998 and in the European Union in September 1998. The commercial launch of sildenafil in the U.S. in April 1998 dramatically increased the number of men seeking treatment for impotence and significantly decreased demand for MUSE. Since the launch of sildenafil, MUSE prescriptions have declined approximately 80% in the U.S.

Additional competitive products in the erectile dysfunction market include needle injection therapy products from Pharmacia Upjohn and Schwartz Pharma, which were approved by the FDA in July 1995 and June 1997, respectively. Other large pharmaceutical companies are also actively engaged in the development of therapies for the treatment of ED. These companies have substantially greater research and development capabilities as well as substantially greater marketing, financial and human resources than the Company. In addition, many of these companies have significantly greater experience than the Company in undertaking pre-clinical testing, human clinical trials and other regulatory approval procedures. There are also small companies, academic institutions, governmental agencies and other research organizations that are conducting research in the area of ED. For instance, Zonagen, Inc. has filed for FDA approval of its oral treatment and has received approval in Mexico; TAP Pharmaceuticals, Inc. has submitted an application to the FDA for approval of its sub-lingual treatment; ICOS Corporation has an oral medication in clinical testing; and Senetek has a needle injection therapy product approved recently in Denmark and has filed for approval in other countries. These entities may market commercial products either on their own or through collaborative efforts. For example, Zonagen, Inc. announced a worldwide marketing agreement with Schering-Plough in November 1997; and ICOS Corporation formed a joint venture with Eli Lilly in October 1998 to jointly develop and market its oral treatment. The Company's competitors may develop technologies and products that are more effective than those currently marketed or being developed by the Company. Such developments would render the Company's products less competitive or possibly obsolete. The Company is also competing with respect to marketing capabilities and manufacturing efficiency, areas in which it has limited experience.

NEW PRODUCT DEVELOPMENT

The Company's future operating results may be adversely affected if the Company is unable to continue to develop, manufacture and bring to market pharmacological products rapidly. The process of developing new drugs and/or therapeutic solutions is inherently complex and uncertain. The Company must make long-term investments and commit significant resources before knowing whether its predictions will eventually result in products that will receive FDA approval and achieve market acceptance. After the FDA approves a product, the Company must quickly manufacture sufficient volumes to meet market demand. This is a process that requires accurate forecasting of market demand. Given the alternative treatments and the number of products introduced in the market each year, the drug development process becomes increasingly difficult and risky.

DEPENDENCE ON THIRD PARTIES

In 1996, the Company entered into a distribution agreement with CORD Logistics, Inc. ("CORD"), a wholly owned subsidiary of Cardinal Health, Inc. Under this agreement, CORD warehouses the Company's finished goods for U.S. distribution, takes customer orders, picks, packs and ships its product, invoices customers and collects related receivables. The Company also has access to CORD's information systems that support these functions. As a result of this distribution agreement with CORD, the Company is heavily dependent on CORD's efforts to fulfill orders and warehouse its products effectively in the U.S. There can be no assurance that such efforts will be successful.

In 1996, the Company entered into a distribution agreement with Integrated Commercialization Services ("ICS"), a subsidiary of Bergen Brunswig Corporation. ICS provides "direct-to-physician" distribution capabilities in support of U.S. marketing and sales efforts. ICS also stores and ships various promotional materials to sales personnel, including MUSE patient and in-office instructional videos and brochures. As a result of this distribution agreement with ICS, the Company is dependent on ICS's efforts to distribute product samples effectively. There can be no assurance that such efforts will be successful.

In 1996, the Company entered into an agreement with WRB Communications ("WRB") to handle patient and healthcare professional hotlines for VIVUS. WRB maintains a staff of healthcare professionals to handle questions and inquires about MUSE and ACTIS. These calls may include complaints about the Company's product due to efficacy or quality, as well as reporting of adverse events. As a result of this agreement, the Company is dependent on WRB to effectively handle these hotline calls. There can be no assurance that such effort will be successful.

HISTORY OF LOSSES AND LIMITED OPERATING HISTORY

The Company has generated a cumulative net loss of $104.8 million for the period from its inception through September 30, 1999. In order to sustain profitable operations, the Company must successfully manufacture and market MUSE and keep its expenditures in line with lower product revenues. The Company is subject to a number of risks including its ability to successfully market, distribute and sell its product, intense competition, and its reliance on a single therapeutic approach to erectile dysfunction and its ability to secure additional operating capital. There can be no assurance that the Company will be able to continue to achieve profitability on a sustained basis. Accordingly, there can be no assurance of the Company's future success.

During 1998, the Company took significant steps to restructure its operations in an attempt to bring the cost structure of the business in line with current demand for MUSE. These steps included significant reductions in personnel, closing the contract-manufacturing site located in PACO Pharmaceutical Services, Inc., the termination of the lease for the Company's leased corporate offices, and recorded significant write-down of property, equipment and inventory. As a result of these and other factors, the Company experienced an operating loss of $80.3 million, or $2.52 per share, in the year ended December 31, 1998.

In September 1998, the Company significantly scaled back its manufacturing operations as a result of lower demand domestically and internationally for MUSE. Current production is significantly below capacity for the plant resulting in a higher unit cost, and the Company expects that the gross margin from the sale of MUSE will be less predictable in future periods, which may cause greater volatility in the Company's results of operations and financial condition.

Management believes that these restructuring measures were adequate in bringing the cost structure in line with current and projected revenues; however, there can be no assurance that product demand will not weaken further or that these measures will result in sustained profitability in future periods.

DEPENDENCE ON KEY PERSONNEL

The Company's success is highly dependent upon the skills of a limited number of key management personnel. To reach its business objectives, the Company will need to retain and hire qualified personnel in the areas of manufacturing, research and development, clinical trial management and pre-clinical testing. There can be no assurance that the Company will be able to retain or hire such personnel, as the Company must compete with other companies, academic institutions, government entities and other agencies. The loss of any of the Company's key personnel or the failure to attract or retain necessary new employees could have an adverse effect on the Company's research, product development and business operations.

DEPENDENCE ON SINGLE SOURCE OF SUPPLY

The Company relies on a single source, E-Beam Services, Inc., for sterilization of its product. There can be no assurance that the Company will be able to identify and qualify additional sterilization sources. The Company is required to receive FDA approval for suppliers. The FDA may require additional clinical studies or other testing prior to accepting a new supplier. Unless the Company secures and qualifies additional sources of sterilization facilities, it will be entirely dependent on E-Beam. If interruption in this service were to occur for any reason, including a decision by E-Beam to discontinue service, political unrest, labor disputes or a failure of E-Beam to follow regulatory guidelines, the development and commercial marketing of MUSE and other potential products could be delayed or prevented. An interruption in sterilization services would have a material adverse effect on the Company's business, financial condition and results of operations.

LIMITED MANUFACTURING EXPERIENCE

The Company has limited experience in manufacturing and selling MUSE in commercial quantities. The Company initially experienced product shortages due to higher than expected demand and difficulties encountered in scaling up production of MUSE. The Company leased 90,000 square feet of space in New Jersey in which it has constructed manufacturing and testing facilities. The FDA and European Medicine Controls Agency ("MCA") authorized the Company to begin commercial production and shipment of MUSE from its new facility in June and March 1998, respectively. In September 1998, the Company closed its contract manufacturing site within PACO Pharmaceutical Services, Inc. and significantly scaled back its manufacturing operations in the New Jersey facility, as a result of lower domestic and international demand for MUSE. Production is currently significantly below capacity for the plant.

DEPENDENCE ON THE COMPANY'S TRANSURETHRAL SYSTEM FOR ERECTION

The Company currently relies on a single therapeutic approach to treat ED, its transurethral system for erection. Certain side effects have been found to occur with the use of MUSE. MUSE is applied into the urinary opening and is not for men with sickle cell trait, disease, or other blood disorders. One third of men reported genital pain, causing some to stop use. A few men reported dizziness and, less commonly, fainting. To date, the incidence of post-launch adverse side effects is consistent with that experienced in clinical trials. As a result of the Company's single therapeutic approach, the failure to successfully commercialize the product will have a material adverse effect to the Company's business.

The existence of side effects or dissatisfaction with product results may impact a patient's decision to use or continue to use, or a physician's decision to recommend, MUSE as a therapy for the treatment of ED, thereby affecting the commercial viability of MUSE.

In addition, technological changes or medical advancements could diminish or eliminate the commercial viability of the Company's product.

RISKS RELATING TO INTERNATIONAL OPERATIONS

The Company's product is currently marketed internationally. Changes in overseas economic and political conditions, currency exchange rates, foreign tax laws or tariffs or other trade regulations could have a material adverse effect on the Company's business, financial condition and results of operations. The international nature of the Company's business is also expected to subject it and its representatives, agents and distributors to laws and regulations of the foreign jurisdictions in which they operate or where the Company's product is sold. The regulation of drug therapies in a number of such jurisdictions, particularly in the European Union, continues to develop, and there can be no assurance that new laws or regulations will not have a material adverse effect on the Company's business, financial condition and results of operations. In addition, the laws of certain foreign countries do not protect the Company's intellectual property rights to the same extent, as do the laws of the United States.

GOVERNMENT REGULATION AND UNCERTAINTY OF PRODUCT APPROVALS

The Company's research, pre-clinical development, clinical studies, manufacturing and marketing of its products are subject to extensive regulation, rigorous testing and approval processes of the Food and Drug Administration ("FDA") and equivalent foreign regulatory agencies. In November 1996, the Company received final marketing clearance from the FDA for MUSE. In November 1997, the Company obtained regulatory marketing clearance by MCA to market MUSE in the United Kingdom. To date, MUSE has been approved in 45 countries.

After regulatory approval is obtained, the Company's products are subject to continual review. Manufacturing, labeling and promotional activities are continually regulated by the FDA and equivalent foreign regulatory agencies, and the Company must also report certain adverse events involving its drugs to these agencies. Previously unidentified adverse events or an increased frequency of adverse events that occur post-approval could result in labeling modifications of approved products, which could adversely affect future marketing of a drug. Finally, approvals may be withdrawn if compliance with regulatory standards is not maintained or if problems occur following initial marketing. The restriction, suspension or revocation of regulatory approvals or any other failure to comply with regulatory requirements would have a material adverse effect on the Company's business, financial condition and results of operations.

The Company has submitted applications for approval of MUSE in several other countries. These applications will be subject to rigorous approval processes. There can be no assurance that approval in these or other countries will be granted or that these approvals, if granted, will not contain significant limitations in the form of warnings, precautions or contraindications with respect to condition of use. Any delay in obtaining or failure to obtain such approval would adversely affect the Company's ability to generate product revenue.

The Company's clinical studies for future products will generate safety data as well as efficacy data and will require substantial time and significant funding. There is no assurance that clinical studies related to future products would be completed successfully within any specified time period, if at all. Furthermore, the FDA could suspend clinical studies at any time if it is believed that the subjects participating in such studies are being exposed to unacceptable health risks.

Failure to comply with the applicable regulatory requirements can, among other things, result in fines, suspensions of regulatory approvals, product recalls, operating restrictions and criminal prosecution. In addition, the marketing and manufacturing of pharmaceutical products are subject to continuing FDA and other regulatory review, and later discovery of previously unknown problems with a product, manufacturer or facility may result in the FDA and other regulatory agencies requiring further clinical research or restrictions on the product or the manufacturer, including withdrawal of the product from the market. The restriction, suspension or revocation of regulatory approvals or any other failure to comply with regulatory requirements would have a material adverse effect on the Company's business, financial condition and results of operations.

The Company obtains the necessary raw materials and components for the manufacture of MUSE as well as certain services, such as testing and sterilization, from third parties. The Company currently contracts with suppliers and service providers, including foreign manufacturers that are required to comply with strict standards established by the Company. Certain suppliers and service providers are required by the Federal Food, Drug, and Cosmetic Act, as amended, and by FDA regulations to follow current good manufacturing practice ("cGMP") requirements and are subject to routine periodic inspections by the FDA and certain state and foreign regulatory agencies for compliance with cGMP and other applicable regulations. Certain of the Company's suppliers were inspected for cGMP

compliance as part of the approval process. However, upon routine re-inspection of these facilities, there can be no assurance that the FDA and other regulatory agencies will find the manufacturing process or facilities to be in compliance with cGMP and other regulations. Failure to achieve satisfactory cGMP compliance as confirmed by routine inspections could have a material adverse effect on the Company's ability to continue to manufacture and distribute its products and, in the most serious case, result in the issuance of a regulatory Warning Letter or seizure or recall of products, injunction and/or civil fines or closure of the Company's manufacturing facility until cGMP compliance is achieved.

PATENTS AND PROPRIETARY RIGHTS

The Company's policy is to aggressively maintain its patent position and to enforce all of its intellectual property rights.

The Company is the exclusive licensee of United States and Canadian patents originally filed in the name of Dr. Gene Voss. These patents claim methods of treating ED with a vasodilator-containing ointment that is administered either topically or transurethrally.

The Company is also the exclusive licensee of patents and patent applications filed in the name of Dr. Nils G. Kock, in numerous countries. Four United States patents have issued directed to methods and compositions for treating ED by transurethrally administering an active agent. Patents have also been granted in Australia, Austria, Belgium, Canada, Finland, France, Germany, Great Britain, Greece, Ireland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Spain, Sweden and South Africa. Patent applications are pending in Denmark and Romania. The foreign patents and applications, like the U.S. patents and applications, are directed to the treatment of ED by transurethral administration of certain active substances including alpha-receptor blockers, vasoactive polypeptides, prostaglandins or nitroglycerin dispersed in a hydrophilic vehicle.

The Company is the sole assignee of three United States patents, one divisional patent application and two continuation applications all deriving from patent applications originally filed by Alza, covering inventions of Dr. Virgil Place made while he was an employee of Alza. The patents and patent applications are directed to dosage forms for administering a therapeutic agent to the urethra, methods for treating erectile dysfunction and specific drug formulations that can be delivered transurethrally for the treatment of erectile dysfunction. The divisional and continuation applications were filed in the United States on June 7, 1995. All patents issuing on applications filed before June 8, 1995 will automatically have a term that is the greater of twenty years from the patent's effective filing date or seventeen years from the date of patent grant. Foreign patents have been granted in Australia, Europe (including Austria, Belgium, Denmark, France, Germany, Great Britain, Greece, Italy, Luxembourg, Norway, the Netherlands, Portugal, Spain, Sweden and Switzerland), New Zealand, South Africa and South Korea, and foreign applications are pending in Canada, Finland, Ireland, Mexico, and Japan.

The Company's license and assignment agreements for these patents and patent applications are royalty bearing and do not expire until the licensed patents expire. These license and assignment agreements provide that the Company may assume responsibility for the maintenance and prosecution of the patents and bring infringement actions.

In addition to the Voss, Kock, and Place patents and applications identified above, the Company has nine issued United States patents, seven pending United States patent applications, three Patent Cooperation Treaty ("PCT") applications, two granted foreign patents, and ten pending foreign patent applications. Several of these patents and applications further address the prevention, treatment and diagnosis of ED, while others are directed to prevention and/or treatment of other types of sexual dysfunction, including premature ejaculation in men, and female sexual dysfunction. One of the Company's issued patents covers the Company's ACTIS(R) venous flow control device. Other issued patents and pending patent applications focus on prevention and/or treatment of conditions other than sexual dysfunction, including vascular disorders such as peripheral vascular disease ("PVD"), hormone replacement therapy, and contraception.

One of the Company's issued United States patents is directed to a method for treating female sexual dysfunction with a topical or intravaginal formulation containing a vasoactive prostaglandin. Since issuance of that patent, another U.S. patent has been issued that claims a similar method wherein an "E-series" prostaglandin is administered topically. That patent, U.S. Patent No. 5,891,915 to Wysor et al., derives from a U.S. patent application that was filed after the Company's patent application was filed. The Company believes that its patent is dominant, and that the Wysor et al. patent will not have an impact on the Company's plans to develop and market a prostaglandin formulation for treating female sexual dysfunction. At this time, however, the issue has not been determined with certainty, and there can be no assurance that the Company's patent is in fact dominant.

The Company's success will depend in large part on the strength of its current and future patent position relating to the transurethral delivery of pharmacologic agents for the treatment of erectile dysfunction. The Company's patent position, like that of

other pharmaceutical companies, is highly uncertain and involves complex legal and factual questions. The claims of a U.S. or foreign patent application may be denied or significantly narrowed, and patents that ultimately issue may not provide significant commercial protection to the Company. The Company could incur substantial costs in proceedings before the United States Patent and Trademark Office, including interference proceedings. These proceedings could also result in adverse decisions as to the priority of the Company's licensed or assigned inventions. There is no assurance that the Company's patents will not be successfully challenged or designed around by others.

The Company is presently involved in an opposition proceeding that was instigated by the Pharmedic Company against a European patent, inventors Nils G. Kock et al., that is exclusively licensed to VIVUS. As a result of the opposition proceeding, certain pharmaceutical composition claims in the European patent were held unpatentable by the Opposition Division of the EPO. The patentability of all other claims in the patent was confirmed, i.e., those claims directed to the use of active agents in the treatment of ED, and to a pharmaceutical composition claim for prazosin. The Company appealed the EPO's decision with respect to the pharmaceutical composition claims that were held unpatentable. The Pharmedic Company appealed the EPO's decision with respect to the claims that were held patentable, but has since withdrawn the appeal. Despite the withdrawal of the Pharmedic Company from the appeal process, the Company has continued with its own appeal in an attempt to reinstate the composition claims. The EPO Appeals Board must make its own finding whether the claims that were deemed unpatentable by the Opposition Division are indeed patentable before it can reverse the Opposition Division's decision. There can be no assurance that the appeal will be successful or that further challenges to the Company's European patent will not occur should the Company try to enforce the patent in the various European courts.

The Company was also the first to file a Notice of Opposition to Pfizer's European patent application claiming the use of phosphodiesterase inhibitors to treat erectile dysfunction. Numerous other companies have also opposed the patent, and the Company will support these other entities in their oppositions as necessary.

There can be no assurance that the Company's products do not or will not infringe on the patent or proprietary rights of others. The Company may be required to obtain additional licenses to the patents, patent applications or other proprietary rights of others. There can be no assurance that any such licenses would be made available on terms acceptable to the Company, if at all. If the Company does not obtain such licenses, it could encounter delays in product introductions while it attempts to design around such patents, or the development, manufacture or sale of products requiring such licenses could be precluded. The Company believes there will continue to be significant litigation in the pharmaceutical industry regarding patent and other intellectual property rights.

In addition to its patent portfolio, the Company also relies on trade secrets and other unpatented proprietary technology. No assurance can be given that the Company can meaningfully protect its rights in such unpatented proprietary technology or that others will not independently develop substantially equivalent proprietary products and processes or otherwise gain access to the Company's proprietary technology. The Company seeks to protect its trade secrets and proprietary know-how, in part, with confidentiality agreements with employees and consultants. There can be no assurance that the agreements will not be breached or that the Company will have adequate remedies for any breach or that the Company's trade secrets will not otherwise become known or be independently developed by competitors. In addition, protracted and costly litigation may be necessary to enforce and determine the scope and validity of the Company's proprietary rights.

UNCERTAINTY OF PHARMACEUTICAL PRICING AND REIMBURSEMENT

In the U.S. and elsewhere, sales of pharmaceutical products are dependent, in part, on the availability of reimbursement to the consumer from third party payors, such as government and private insurance plans. Third party payors are increasingly challenging the prices charged for medical products and services. With the introduction of sildenafil, third party payors have begun to restrict or eliminate reimbursement for erectile dysfunction treatments. While more than 70 percent of prescriptions in the U.S. for MUSE have been reimbursed by third party payors since its commercial launch in January 1997, there can be no assurance that the Company's products will be considered cost effective and that reimbursement to the consumer will continue to be available or sufficient to allow the Company to sell its products on a competitive basis.

In addition, certain healthcare providers are moving towards a managed care system in which such providers contract to provide comprehensive healthcare services, including prescription drugs, for a fixed cost per person. The Company hopes to further qualify MUSE for reimbursement in the managed care environment. However, the Company is unable to predict the reimbursement policies employed by third party healthcare payors. Furthermore, reimbursement for MUSE could be adversely affected by changes in reimbursement policies of governmental or private healthcare payors.

PRODUCT LIABILITY AND AVAILABILITY OF INSURANCE

The commercial launch of MUSE exposes the Company to a significant risk of product liability claims due to its availability to a large population of patients. In addition, pharmaceutical products are subject to heightened risk for product liability claims due to inherent side effects. The Company details potential side effects in the patient package insert and the physician package insert, both of which are distributed with MUSE, and the Company maintains product liability insurance coverage. However, the Company's product liability coverage is limited and may not be adequate to cover potential product liability exposure. Product liability insurance is expensive, difficult to maintain and current or increased coverage may not be available on acceptable terms, if at all. Product liability claims brought against the Company in excess of its insurance coverage, if any, could have a material adverse effect upon the Company's business, financial condition and results of operations.

UNCERTAINTY AND POSSIBLE NEGATIVE EFFECTS OF HEALTHCARE REFORM

The healthcare industry is undergoing fundamental changes that are the result of political, economic and regulatory influences. The levels of revenue and profitability of pharmaceutical companies may be affected by the continuing efforts of governmental and third party payors to contain or reduce healthcare costs through various means. Reforms that have been and may be considered include mandated basic healthcare benefits, controls on healthcare spending through limitations on the increase in private health insurance premiums and Medicare and Medicaid spending, the creation of large insurance purchasing groups and fundamental changes to the healthcare delivery system. Due to uncertainties regarding the outcome of healthcare reform initiatives and their enactment and implementation, the Company cannot predict which, if any, of the reform proposals will be adopted or the effect such adoption may have on the Company. There can be no assurance that future healthcare legislation or other changes in the administration or interpretation of government healthcare or third party reimbursement programs will not have a material adverse effect on the Company. Healthcare reform is also under consideration in some other countries.

POTENTIAL VOLATILITY OF STOCK PRICE

The stock market has experienced significant price and volume fluctuations unrelated to the operating performance of particular companies. In addition, the market price of the Company's Common Stock has been highly volatile and is likely to continue to be so. Factors such as the Company's ability to increase demand for its product in the U.S., the Company's ability to successfully sell its product in the U.S. and internationally, variations in the Company's financial results and its ability to obtain needed financing, announcements of technological innovations or new products by the Company or its competition, comments by security analysts, adverse regulatory actions or decisions, any loss of key management, the results of the Company's clinical trials or those of its competition, changing governmental regulations, patents or other proprietary rights, product or patent litigation or public concern as to the safety of products developed by the Company, may have a significant effect on the market price of the Company's Common Stock.

ANTI-TAKEOVER EFFECT OF PREFERRED SHARES RIGHTS PLAN AND CERTAIN CHARTER AND BYLAW PROVISIONS

In February 1996, the Company's Board of Directors authorized its reincorporation in the State of Delaware (the "Reincorporation") and adopted a Preferred Shares Rights Plan. The Company's Reincorporation into the State of Delaware was approved by its stockholders and became effective in May 1996. The Preferred Shares Rights Plan provides for a dividend distribution of one Preferred Shares Purchase Right (a "Right") on each outstanding share of the Company's Common Stock. The Rights will become exercisable following the tenth day after a person or group announces acquisition of 20 percent or more of the Company's Common Stock, or announces commencement of a tender offer, the consummation of which would result in ownership by the person or group of 20 percent or more of the Company's common stock. The Company will be entitled to redeem the Rights at $0.01 per Right at any time on or before the tenth day following acquisition by a person or group of 20 percent or more of the Company's common stock.

The Preferred Shares Rights Plan and certain provisions of the Company's Certificate of Incorporation and Bylaws may have the effect of making it more difficult for a third party to acquire, or of discouraging a third party from attempting to acquire, control of the Company. The Company's Certificate of Incorporation allows the Company to issue Preferred Stock without any vote or further action by the stockholders, and certain provisions of the Company's Certificate of Incorporation and Bylaws eliminate the right of stockholders to act by written consent without a meeting, specify procedures for director nominations by stockholders and submission of other proposals for consideration at stockholder meetings, and eliminate cumulative voting in the election of directors. Certain provisions of Delaware law could also delay or make more difficult a merger, tender offer or proxy contest involving the Company, including Section 203, which prohibits a Delaware corporation from engaging in any business combination with any interested

stockholder for a period of three years unless certain conditions are met. The Preferred Shares Rights Plan, the possible issuance of Preferred Stock, the procedures required for director nominations and stockholder proposals and Delaware law could have the effect of delaying, deferring or preventing a change in control of the Company, including without limitation, discouraging a proxy contest or making more difficult the acquisition of a substantial block of the Company's common stock. These provisions could also limit the price that investors might be willing to pay in the future for shares of the Company's Common Stock.

PART II: OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On October 5, 1998, the Company was named in a civil action filed in the Superior Court of New Jersey. This complaint seeks specific performance and other relief in connection with the Company's leased manufacturing facilities, located in Lakewood, New Jersey. The Company's lease agreement requires that the Company provide a removal security deposit in the form of cash or a letter of credit. The Company and lessor ("plaintiff") have reached a tentative agreement whereby the Company will provide an irrevocable letter of credit in the amount of $3.3 million for such security deposit in the fourth quarter.

On February 18, 1998, a purported shareholder class action entitled Crain et al. v. Vivus, Inc. et al., was filed in Superior Court of the State of California for the County of San Mateo. Five identical complaints were subsequently filed in the same court. These complaints were filed on behalf of a purported class of persons who purchased stock between May 15, 1997 and December 9, 1997. The complaints alleged that the Company and certain current and former officers or directors artificially inflated the Company's stock price by issuing false and misleading statements concerning the Company's prospects and issuing false financial statements. On March 16, 1998, a purported shareholder class action entitled Cramblit et al. v. Vivus, Inc. et al. was filed in the United States District Court for the Northern District of California. Five additional complaints were subsequently filed in the same court. The federal complaints were filed on behalf of a purported class of persons who purchased stock between May 2, 1997 and December 9, 1997. The federal complaints asserted the same factual allegations as the state court complaints, but asserted legal claims under the Federal Securities Laws. The federal court cases were consolidated, and a lead plaintiff has been appointed and the plaintiff filed a consolidated and amended complaint in 1998.

On May 4, 1999 the Company reached a settlement with plaintiffs of the shareholder class action lawsuits described above. The aggregate settlement amount is $6 million. The settlement is funded by insurance proceeds of $5.4 million and by the Company contributing 120,000 shares of VIVUS Common Stock to the settlement fund.

In the normal course of business, the Company receives and makes inquiries regarding patent infringement and other legal matters. The Company believes that it has meritorious claims and defenses and intends to pursue any such matters vigorously. The Company is not aware of any asserted or unasserted claims against it where the resolution would have an adverse material impact on the operations or financial position of the Company.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. OTHER INFORMATION

None

ITEM 5. EXHIBITS AND REPORTS ON FORM 8-K

(a) EXHIBITS (in accordance with Item 601 of Regulation S-K)

EXHIBIT NUMBER	DESCRIPTION
3.2(7)	Amended and Restated Certificate of Incorporation of the Company
3.3(4)	Bylaws of the Registrant, as amended
3.4(8)	Certificate of Designations of Rights, Preferences and Privileges of Series A Participating Preferred Stock
4.1(7)	Specimen Common Stock Certificate of the Registrant
4.2(7)	Registration Rights, as amended
4.4(1)	Form of Preferred Stock Purchase Warrant issued by the Registrant to Invemed Associates, Inc., Frazier Investment Securities, L.P., and Cristina H. Kepner
4.5(8)	Second Amended and Restated Preferred Shares Rights Agreement, dated as of April 15, 1997 by and between the Registrant and Harris Trust Company of California, including the Certificate of Determination, the form of Rights Certificate and the Summary of Rights attached thereto as Exhibits A, B, and C, respectively
10.1(1)+	Assignment Agreement by and between Alza Corporation and the Registrant dated December 31, 1993
10.2(1)+	Memorandum of Understanding by and between Ortho Pharmaceutical Corporation and the Registrant dated February 25, 1992
10.3(1)+	Assignment Agreement by and between Ortho Pharmaceutical Corporation and the Registrant dated June 9, 1992
10.4(1)+	License Agreement by and between Gene A. Voss, MD, Allen C. Eichler, MD, and the Registrant dated December 28, 1992
10.5A(1)+	License Agreement by and between Ortho Pharmaceutical Corporation and Kjell Holmquist AB dated June 23, 1989
10.5B(1)+	Amendment by and between Kjell Holmquist AB and the Registrant dated July 3, 1992
10.5C(1)	Amendment by and between Kjell Holmquist AB and the Registrant dated April 22, 1992
10.5D(1)+	Stock Purchase Agreement by and between Kjell Holmquist AB and the Registrant dated April 22, 1992
10.6A(1)+	License Agreement by and between Amsu, Ltd., and Ortho Pharmaceutical Corporation dated June 23, 1989
10.6B(1)+	Amendment by and between Amsu, Ltd., and the Registrant dated July 3, 1992
10.6C(1)	Amendment by and between Amsu, Ltd., and the Registrant dated April 22, 1992
10.6D(1)+	Stock Purchase Agreement by and between Amsu, Ltd., and the Registrant dated July 10, 1992
10.11(4)	Form of Indemnification Agreements by and among the Registrant and the Directors and Officers of the Registrant
10.12(2)	1991 Incentive Stock Plan and Form of Agreement, as amended
10.13(1)	1994 Director Option Plan and Form of Agreement
10.14(1)	Form of 1994 Employee Stock Purchase Plan and Form of Subscription Agreement
10.17(1)	Letter Agreement between the Registrant and Leland F. Wilson dated June 14, 1991 concerning severance pay
10.21(3)+	Distribution Services Agreement between the Registrant and Synergy Logistics, Inc. (a wholly-owned subsidiary of Cardinal Health, Inc.)+ dated February 9, 1996
10.22(3)+	Manufacturing Agreement between the Registrant and CHINOIN Pharmaceutical and Chemical Works Co., Ltd. dated December 20, 1995
10.22A(11)+	Amendment One, dated as of December 11, 1997, to the Manufacturing Agreement by and between VIVUS and CHINOIN Pharmaceutical and Chemical Works Co., Ltd. dated December 20, 1995
10.23(6)+	Distribution and Services Agreement between the Registrant and Alternate Site Distributors, Inc. dated July 17, 1996
10.24(5)+	Distribution Agreement made as of May 29, 1996 between the

	Registrant and ASTRAZ AB
10.27(11)+	Distribution Agreement made as of January 22, 1997 between the Registrant and Janssen Pharmaceutica International, a division of Cilag AG International
10.27A(11)+	Amended and Restated Addendum 1091, dated as of October 29, 1997, between VIVUS International Limited and Janssen Pharmaceutica International
10.28(7)	Lease Agreement made as of January 1, 1997 between the Registrant and Airport Associates

EXHIBIT NUMBER	DESCRIPTION
10.29(7)	Lease Amendment No. 1 as of February 15, 1997 between Registrant and Airport Associates
10.29A(10)	Lease Amendment No. 2 dated July 24, 1997 by and between the Registrant and Airport Associates
10.29B(10)	Lease Amendment No. 3 dated July 24, 1997 by and between the Registrant and Airport Associates
10.31(9)+	Manufacture and Supply Agreement between Registrant and Spolana Chemical Works, A.S. dated May 30, 1997
10.32A(11)	Agreement between ADP Marshall, Inc. and the Registrant dated December 19, 1997
10.32B(11)	General Conditions of the Contract for Construction
10.32C(11)	Addendum to General Conditions of the Contract for Construction
10.34(12)+	Agreement dated as of June 30, 1998 between Registrant and Alza Corporation
10.35(12)+	Sales Force Transition Agreement dated July 6, 1998 between Registrant and Alza Corporation
10.36(13)	Form of, "Change of Control Agreements," dated July 8, 1998 by and between the Registrant and certain Executive Officers of the Company.
10.30A(13)	Amendment of lease agreement made as of October 19, 1998 by and between Registrant and 605 East Fairchild Associates, L.P.
10.37(13)	Sublease agreement made as of November 17, 1998 between Caliper Technologies, Inc. and Registrant.
10.22B(13)+	Amendment Two, dated as of December 18, 1998 by and between VIVUS, Inc. and CHINOIN Pharmaceutical and Chemical Works Co.
10.31A(13)+	Amendment One, dated as of December 12, 1998 by and between VIVUS, Inc. and Spolana Chemical Works, A.S.
27.1	Financial Data Schedule

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\+ Confidential treatment granted.

(1) Incorporated by reference to the same-numbered exhibit filed with the Registrant's Registration Statement on Form S-1 No. 33-75698, as amended.

(2) Incorporated by reference to the same numbered exhibit filed with the Registrant's Registration Statement on Form S-1 No. 33-90390, as amended.

(3) Incorporated by reference to the same-numbered exhibit filed with the Registrant's Annual Report on Form 10-K for the year ended December 31, 1995, as amended.

(4) Incorporated by reference to the same numbered exhibit filed with the Registrant's Form 8-B filed with the Commission on June 24, 1996.

(5) Incorporated by reference to the same numbered exhibit filed with the Registrant's Current Report on Form 8-K/A filed with the Commission on June 21, 1996.

(6) Incorporated by reference to the same-numbered exhibit filed with the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1996.

(7) Incorporated by reference to the same-numbered exhibit filed with the Registrant's Annual Report on Form 10-K for the year ended December 31, 1996, as amended.

(8) Incorporated by reference to exhibit 99.1 filed with Registrant's Amendment Number 2 to the Registration Statement of Form 8-A (File No. 0-23490) filed with the Commission on April 23, 1997.

(9) Incorporated by reference to the same-numbered exhibit filed with the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1997.

(10) Incorporated by reference to the same numbered exhibit filed with the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1997.

(11) Incorporated by reference to the same-numbered exhibit filed with the Registrant's Annual Report on Form 10-K for the year ended December 31, 1997.

(12) Incorporated by reference to the same-numbered exhibit filed with the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998.

(13) Incorporated by reference to the same-numbered exhibit filed with the Registrant's Annual Report on Form 10-K for the year ended December 31, 1998.

(b) REPORTS ON FORM 8-K

(c) None.

SIGNATURES

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 duly authorized.

VIVUS, Inc. Date:

November 12, 1999

/s/ RICHARD WALLISER

Richard Walliser
Vice President and Chief Financial Officer

/s/ LELAND F. WILSON

Leland F. Wilson
President and Chief Executive Officer

VIVUS, INC.

INDEX TO EXHIBITS*

EXHIBIT	DESCRIPTION
27.1	Financial Data Schedule

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* Only exhibits actually filed are listed. Exhibits incorporated by reference are set forth in the exhibit listing included in Item 6 of the Quarterly Report on Form 10-Q.

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3-MOS
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JUL-01-1999
SEP-30-1999
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(166)
4,031
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(19,726)
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0
0
944
(47)
897
0
0
0
897
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0.03