AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON APRIL 18, 1997

REGISTRATION NO. 333-

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM SB-2
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

DEPOMED, INC.
(NAME OF SMALL BUSINESS ISSUER AS SPECIFIED IN ITS CHARTER)

CALIFORNIA	8731	94-3229046
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(PRIMARY STANDARD INDUSTRIAL CLASSIFICATION CODE NUMBER)	(I.R.S. EMPLOYER IDENTIFICATION NO.)

1170 B CHESS DRIVE,
FOSTER CITY, CALIFORNIA 94404
(ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE, OF REGISTRANT'S PRINCIPAL EXECUTIVE OFFICES)

JOHN W. FARA
PRESIDENT AND CHIEF EXECUTIVE OFFICER
1170 B CHESS DRIVE
FOSTER CITY, CALIFORNIA 94404
(415) 513-0990
(NAME, ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE, OF AGENT FOR SERVICE)

Copies to:

JULIAN N. STERN STEPHEN C. FERRUOLO HELLER EHRMAN WHITE & MCAULIFFE 525 UNIVERSITY AVENUE PALO ALTO, CALIFORNIA 94301 TELEPHONE: (415) 324-7000 FACSIMILE: (415) 324-0638	LAWRENCE B. FISHER ORRICK, HERRINGTON & SUTCLIFFE LLP 666 FIFTH AVENUE NEW YORK, NEW YORK 10103 TELEPHONE: (212) 506-5000 FACSIMILE: (212) 506-5151

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: As soon as practicable following the effectiveness of this Registration Statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. [X]

If this Form is filed to register additional securities for an offering pursuant to Rule 426(b) under the Securities Act of 1933, please check the following box and list the Securities Act registration number of the earlier effective registration statement for the same offering: [_]

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act of 1933, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering: [_]

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box: [_]

CALCULATION OF REGISTRATION FEE

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	AMOUNT TO BE REGISTERED	PROPOSED MAXIMUM PRICE PER SHARE (1)	PROPOSED MAXIMUM OFFERING PRICE (1)	AMOUNT OF REGISTRATION FEE

Common Stock, no par value (2).....	2,875,000	$7.00	$20,125,000	$6,098
Common Stock Purchase Warrants ("Warrants") (3).....	1,437,500	0.10	143,750	44
Common Stock issuable upon exercise of Warrants (4).....	1,437,500	9.80	14,087,500	4,269
Representative's Warrants (5).....	250,000	0.0001	25	--
Common Stock issuable upon exercise of Representative's Warrants (5).....	250,000	8.40	2,100,000	636
Warrants issuable upon exercise of Representative's Warrants (5).....	125,000	0.12	15,000	5
Common Stock underlying Warrants issuable upon exercise of Representative's Warrants (5).....	125,000	8.40	1,050,000	318
Totals.....	--	--	$37,521,275	$11,370

(1) Estimated solely for the purpose of computing the amount of the registration fee pursuant to Rule 457 of the Securities Act of 1933, as amended (the "Securities Act").
(2) Includes 375,000 shares of Common Stock that the Underwriters have the option to purchase to cover over-allotments in connection with the Registrant's sale of the securities, if any.
(3) Includes 187,500 Warrants that the Underwriters have the option to purchase to cover over-allotments in connection with the Registrant's sale of the securities, if any.
(4) Includes 187,500 shares of Common Stock issuable upon exercise of Warrants that the Underwriters have the option to purchase to cover over-allotments in connection with the Registrant's sale of the securities, if any.
(5) In connection with the Registrant's sale of the securities, the Registrant is granting to the Representative of the several Underwriters (the "Representative") warrants to purchase 250,000 shares of Common Stock and 125,000 Warrants (the "Representative's Warrants").

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

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+INFORMATION CONTAINED HEREIN IS SUBJECT TO COMPLETION OR AMENDMENT. A +
+REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS BEEN FILED WITH THE +
+SECURITIES AND EXCHANGE COMMISSION. THESE SECURITIES MAY NOT BE SOLD NOR MAY +
+OFFERS TO BUY BE ACCEPTED PRIOR TO THE TIME THE REGISTRATION STATEMENT +
+BECOMES EFFECTIVE. THIS PROSPECTUS SHALL NOT CONSTITUTE AN OFFER TO SELL OR +
+THE SOLICITATION OF AN OFFER TO BUY NOR SHALL THERE BE ANY SALE OF THESE +
+SECURITIES IN ANY STATE IN WHICH SUCH OFFER, SOLICITATION OR SALE WOULD BE +
+UNLAWFUL PRIOR TO REGISTRATION OR QUALIFICATION UNDER THE SECURITIES LAWS OF +
+ANY SUCH STATE. +
+++

SUBJECT TO COMPLETION, DATED APRIL 18, 1997

PROSPECTUS

DEPOMED, INC.

2,500,000 SHARES OF COMMON STOCK AND
1,250,000 REDEEMABLE COMMON STOCK PURCHASE WARRANTS

DepoMed, Inc., a California corporation (the "Company"), hereby offers (the "Offering") 2,500,000 shares (the "Shares") of common stock, no par value (the "Common Stock"), and 1,250,000 redeemable common stock purchase warrants (the "Warrants"). The Shares and Warrants are sometimes hereinafter collectively referred to as the "Securities." The Shares and Warrants may only be purchased together on the basis of two shares of Common Stock and one Warrant and will trade separately immediately upon issuance. Each Warrant entitles the registered holder thereof to purchase one share of Common Stock at an exercise price of $ per share [140% of the initial public offering price per share of Common Stock], at any time during the period commencing on , 1998 [twelve months from the date of the Prospectus] until , 2002 [5 years after the date of this Prospectus]. Commencing , 1998 [18 months from the date of the Prospectus], the Warrants are subject to redemption by the Company, in whole but not in part, at $0.10 per Warrant, on 30 days' prior written notice provided that the average closing sale price of the Common Stock as reported on the American Stock Exchange ("AMEX") equals or exceeds $ per share [150% of the initial public offering price per share of Common Stock] for any 20 trading days within a period of 30 consecutive trading days ending on the fifth trading day prior to the date of the notice of redemption. See "Description of Securities--Warrants."

Prior to this Offering, there has been no public market for the Common Stock or the Warrants and there can be no assurance that such a market will develop after the completion of this Offering, or, if developed, that it will be sustained. It is currently anticipated that the initial public offering prices will be $6.00-$7.00 per Share and $0.10 per Warrant, respectively. For information regarding the factors considered in determining the initial public offering prices of the Shares and Warrants and the terms of the Warrants, see "Risk Factors" and "Underwriting." Application has been made to include the Shares and Warrants on the AMEX under the symbols "DMI" and "DMI.WS," respectively.

THE SECURITIES OFFERED HEREBY INVOLVE A HIGH DEGREE OF RISK AND IMMEDIATE SUBSTANTIAL DILUTION. SEE "RISK FACTORS" COMMENCING ON PAGE 7 AND "DILUTION."

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	PRICE TO PUBLIC	UNDERWRITING DISCOUNT(1)	PROCEEDS TO COMPANY(2)
Per Share	$	$	$
Per Warrant	$	$	$
Total(3)	$	$	$

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(1) Does not include additional compensation payable to National Securities Corporation, the representative (the "Representative") of the several Underwriters, in the form of a non-accountable expense allowance. In addition, see "Underwriting" for information concerning indemnification and contribution arrangements with the Underwriters and other compensation payable to the Representative.

(2) Before deducting expenses payable by the Company estimated at $, excluding the non-accountable expense allowance payable to the Representative.

(3) The Company has granted to the Representative an option, exercisable within 45 days after the date of this Prospectus, to purchase up to 375,000 additional shares of Common Stock and/or up to 187,500 additional Warrants, all upon the same terms and conditions as set forth above, solely to cover over-allotments, if any (the "Over-Allotment Option"). If such Over-Allotment Option is exercised in full, the total Price to Public, Underwriting Discount, Proceeds to Company will be $, $ and $, respectively. See "Underwriting."

The Securities are being offered by the Underwriters, subject to prior sale, when, as and if delivered to and accepted by the Underwriters and subject to approval of certain legal matters by their counsel and subject to certain other conditions. The Underwriters reserve the right to withdraw, cancel or modify this Offering and to reject any order in whole or in part. It is expected that delivery of the Securities will be made against payment at the offices of National Securities Corporation, Seattle, Washington, on or about , 1997.

NATIONAL SECURITIES CORPORATION

THE DATE OF THIS PROSPECTUS IS , 1997.

CERTAIN PERSONS PARTICIPATING IN THIS OFFERING MAY ENGAGE IN TRANSACTIONS THAT STABILIZE, MAINTAIN OR OTHERWISE AFFECT THE PRICE OF THE COMMON STOCK AND WARRANTS, INCLUDING PURCHASES OF THE COMMON STOCK AND/OR WARRANTS TO STABILIZE THEIR RESPECTIVE MARKET PRICES, PURCHASES OF THE COMMON STOCK AND/OR WARRANTS TO COVER SOME OR ALL OF A SHORT POSITION MAINTAINED BY THE UNDERWRITERS IN THE COMMON STOCK AND/OR WARRANTS, RESPECTIVELY, AND THE IMPOSITION OF PENALTY BIDS. FOR A DISCUSSION OF THESE ACTIVITIES, SEE "UNDERWRITING."

PROSPECTUS SUMMARY

This Prospectus contains forward-looking statements that involve risk and uncertainties. The Company's actual results could differ materially from those anticipated in such forward-looking statements as a result of certain factors, including those set forth under "Risk Factors" and elsewhere in this Prospectus. The following summary is qualified in its entirety by the more detailed information and the Financial Statements and Notes thereto appearing elsewhere in this Prospectus. Except as otherwise noted, all information in this Prospectus (i) assumes no exercise of the Over-Allotment Option, (ii) gives effect to a one-for-three reverse stock split of the Common Stock on , 1997, (iii) assumes the Warrants and the Representative's Warrants are not exercised, (iv) assumes no exercise of 76,923 warrants to purchase Common Stock (the "Bridge Warrants") issued in connection with the Company's Bridge Financing (the "Bridge Financing") completed in April 1997, and (v) reflects the conversion of all outstanding shares of Series A Preferred Stock and Series B Preferred Stock (collectively, the "Preferred Stock") into 908,623 shares of Common Stock effective automatically upon the closing of the Offering. See "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Description of Securities," "Underwriting" and Notes to Financial Statements.

THE COMPANY

DepoMed, Inc. (the "Company") is a development stage company engaged in the development of new and proprietary oral drug delivery technologies. Utilizing these technologies, the Company has developed two types of oral drug delivery systems, the Gastric Retention System (the "GR System") and the Reduced Irritation System (the "RI System" and collectively with the GR System, the "DepoMed Systems"). The GR System is designed to be retained in the stomach for an extended period of time while it delivers the incorporated drug or drugs, and the RI System is designed to reduce the gastrointestinal ("GI") irritation that is a side effect of many drugs. In addition, the DepoMed Systems are designed to provide continuous, controlled delivery of an incorporated drug.

The Company intends to develop products utilizing the DepoMed Systems in collaboration with pharmaceutical and biotechnology companies, from which the Company expects to receive license fees, research and development funding, milestone payments and royalties. The Company also intends to develop independently certain over-the-counter ("OTC") and generic oral drug products utilizing the DepoMed Systems.

The Company currently has a joint research and development agreement with Bristol-Myers Squibb Company ("BMS") to develop a product incorporating a BMS proprietary compound into the GR System. In addition, the Company has entered into a feasibility study with GalaGen Inc. ("GalaGen") to use the GR System to enhance local effectiveness and/or provide continuous, controlled delivery of GalaGen's proprietary immunoglobulin products. The Company is also independently developing a reduced irritation aspirin product and an enhanced absorption calcium supplement product and has identified certain other product candidates expected to benefit from the DepoMed Systems. In April 1997, the Company and Oakmont Pharmaceuticals, Inc. ("Oakmont") signed a letter of intent to enter into an agreement pursuant to which Oakmont will manufacture the Company's reduced irritation aspirin and enhanced absorption calcium supplement products and have rights to distribute and sell these products in territories to be determined. The letter of intent also provides for the Company and Oakmont each to offer rights to future products to the other party.

The DepoMed Systems include proprietary formulations of drug-containing polymeric units that allow multihour delivery of an incorporated drug continuously into the stomach either for prolonged, local treatment in the stomach or for enhanced absorption in the GI tract. The Company believes that the GR System has the ability to enhance the bioavailability (blood levels) of drugs that are preferentially absorbed in the stomach, allow for more effective treatment of local stomach disorders, and provide continuous and extended delivery of drugs to the upper part of the small intestine, the site where many drugs are absorbed most efficiently. The RI System is designed to reduce the irritation to the GI tract caused by many commonly used drugs, including aspirin. The Company believes the RI System has the potential to make such drugs less irritating and therefore more widely used.

In addition to the benefits described above, the Company believes that the DepoMed Systems may offer additional advantages including multihour release patterns for drugs of almost any solubility and the ability to use drug combinations previously not feasible due to the pharmacokinetic differences of drugs. The Company believes that by reducing the frequency of drug administration, use of the DepoMed Systems may lead to reduced costs and improved patient compliance. Also, by providing new formulations of existing products using the DepoMed Systems, the Company believes that it will be able to provide its collaborative partners with the ability to extend their patent franchises on such products.

The Company intends to have the DepoMed Systems used with as many pharmaceutical products as possible with an emphasis on pharmaceutical products which command a large market share or are in large market segments and where the Company believes the DepoMed Systems will provide an advantage over other drug delivery systems. The Company's primary strategy for the development and commercialization of the DepoMed Systems involves establishing collaborative relationships with pharmaceutical and biotechnology companies to develop improved therapeutic products. The Company also intends to develop improved generic and/or OTC products that utilize the DepoMed Systems either independently or jointly by entering into collaborative partnerships with pharmaceutical, biotechnology or other health care companies.

The Company was incorporated in the State of California in August 1995. Pursuant to a settlement agreement between M6 Pharmaceuticals, Inc. ("M6") on the one hand, and Dr. John W. Shell and DepoMed Systems, Inc. ("DSI") on the other hand, the Company obtained substantially all the assets, and assumed certain liabilities, attributable to the business conducted by DSI prior to its merger into M6. The Company's executive offices are located at 1170 B Chess Drive, Foster City, California 94404 and its telephone number is (415) 513-0990.

THE OFFERING

Securities offered.....	2,500,000 shares of Common Stock and 1,250,000 Warrants.
Terms of Warrants.....	Each Warrant entitles the holder thereof to purchase, at any time commencing , 1998 [one year after the date of this Prospectus], until , 2002 [five years after the date of this Prospectus], one share of Common Stock at a price of $ per share [140% of the initial public offering price per share of Common Stock]. Commencing , 1998 [18 months after the date of this Prospectus], the Warrants are subject to redemption by the Company, in whole but not in part, at $.10 per Warrant provided that the average closing sale price of the Common Stock as reported on the AMEX equals or exceeds $ per share [150% of the initial public offering price of the Common Stock] for any 20 trading days within a period of 30 consecutive trading days ending on the fifth trading day prior to the date of the notice of redemption. See "Description of Securities."
Common Stock outstanding prior to the Offering(1).....	4,263,447 shares of Common Stock.
Securities to be outstanding after the Offering(1).....	6,763,447 shares of Common Stock and 1,250,000 Warrants.
Use of proceeds.....	For research and development, laboratory and facilities capital expenditures, repayment of certain indebtedness and working capital and general corporate purposes. See "Use of Proceeds."
Proposed AMEX symbols:(2)	
Common Stock.....	DMI
Warrants.....	DMI.WS
Risk Factors.....	An investment in the Securities offered hereby involves a high degree of risk and immediate and substantial dilution, and should be made only by investors who can afford the loss of their entire investment. See "Risk Factors" and "Dilution."

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(1) Excludes 196,667 shares of Common Stock issuable upon exercise of outstanding stock options as of March 31, 1997 at a weighted average exercise price of $1.64 per share under the Company's 1995 Stock Option Plan (the "Stock Plan"). Also excludes 128,333 shares available for grant under the Stock Plan. See "Management--1995 Stock Option Plan."

(2) Application has been made for listing of the Common Stock and Warrants on the AMEX. There can be no assurance that the Common Stock and Warrants will be accepted for listing on the AMEX.

SUMMARY FINANCIAL INFORMATION

	PERIOD FROM INCEPTION (AUGUST 7, 1995) TO DECEMBER 31, 1995	YEAR ENDED DECEMBER 31, 1996	PERIOD FROM INCEPTION (AUGUST 7, 1995) TO DECEMBER 31, 1996
STATEMENT OF OPERATIONS DATA:			
Product development revenues	$ --	$ 317,971	$ 317,971
Operating expenses:			
Research and development expenses	138,816	390,496	529,312
General and administrative expenses	155,157	393,676	548,833
Purchase of in-process research and development	298,154	--	298,154
Total operating expenses	592,127	784,172	1,376,299
Loss from operations	(592,127)	(466,201)	(1,058,328)
Interest expense, net	8,541	6,572	15,113
Net loss	$(600,668)	$ (472,773)	$(1,073,441)
Pro forma net loss per share (1)		$ (0.11)	
Shares used in computing pro forma net loss per share (1)		4,285,653	

	DECEMBER 31, 1996	
	ACTUAL	PRO FORMA AS ADJUSTED(2)
BALANCE SHEET DATA:		
Working capital (deficit)	$ (516,688)	$13,467,574
Total assets	333,127	14,317,389
Notes payable to shareholders	294,238	--
Deficit accumulated during the development stage	(1,073,441)	(1,073,441)
Total shareholders' equity (net capital deficiency)	(381,432)	13,897,068

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(1) See Note 2 of Notes to Financial Statements for an explanation of the determination of the number of shares used in computing pro forma net loss per share.

(2) Adjusted to give effect to (i) the sale of 278,500 shares of Series B Preferred Stock in the first quarter of 1997, (ii) the Bridge Financing, and (iii) the receipt of the estimated net proceeds of the Offering upon an assumed initial public offering price of $6.50 per Share and $.10 per Warrant and the initial application of the net proceeds therefrom. See "Use of Proceeds."

RISK FACTORS

This Prospectus contains forward-looking statements that involve risks and uncertainties. Actual results could differ materially from those discussed in the forward-looking statements as a result of certain factors, including those set forth below and elsewhere in this Prospectus. An investment in the Securities offered hereby involves a high degree of risk and should be made only by investors who can afford the loss of their entire investment. Prospective investors should carefully review and consider the risk factors described below and other information in this Prospectus before purchasing the Securities.

EARLY STAGE OF DEVELOPMENT; WORKING CAPITAL DEFICIT; LIMITED REVENUES; LIMITED OPERATING HISTORY

The Company is at an early stage of development and is subject to all business risks associated with a new enterprise, including constraints on the Company's financial and personnel resources, lack of established credit facilities and collaborative partnering relationships, and uncertainties regarding product development and future revenues. At December 31, 1996, the Company had an accumulated deficit of $1,073,441 and a working capital deficit of $516,688. The Company anticipates that it will continue to incur substantial additional operating losses for at least the next several years and expects cumulative losses to increase as the Company's research and development efforts expand. The Company has had only minimal revenues to date from collaborative research and development arrangements and feasibility studies, and no revenues from product sales. There can be no assurance as to when or whether it will be able to develop significant sources of revenue or that its operations will become profitable, even if it is able to commercialize any products.The Company has only a limited history of operations, consisting primarily of development of its products and sponsorship of research. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Notes to Financial Statements.

GOING CONCERN DISCLOSURE IN INDEPENDENT AUDITORS' REPORT

The report of the Company's independent auditors with respect to the Company's financial statements included in this Prospectus includes a "going concern" qualification, indicating that the Company's losses and deficits in working capital and shareholders' equity raise substantial doubt about the Company's ability to continue as a going concern. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Notes to Financial Statements.

NO ASSURANCE OF SUCCESSFUL PRODUCT DEVELOPMENT

The Company's research and development programs are at an early stage of development. Substantial additional research and development will be necessary in order for the Company to develop the DepoMed Systems, and there can be no assurance that the DepoMed Systems will be developed or that products utilizing the DepoMed Systems will be commercialized by the Company or third parties in a timely manner or at all. In addition to further research and development related to the DepoMed Systems, products utilizing the DepoMed Systems will require clinical testing, regulatory approval and substantial additional investment prior to commercialization. There can be no assurance that products utilizing the DepoMed Systems will be successfully developed, prove to be safe and efficacious in clinical trials, meet applicable regulatory standards, be capable of being produced in commercial quantities at acceptable costs, be eligible for third-party reimbursement from governmental or private insurers, be successfully marketed or achieve market acceptance. Further, the DepoMed Systems may prove to have undesirable or unintended side effects that may prevent or limit their commercial use. The Company or its collaborative partners may find that products that appeared promising in preclinical studies do not demonstrate efficacy in larger-scale, Phase I, Phase II and Phase III clinical trials and/or that such products will not receive regulatory approvals. Accordingly, any product development program undertaken by the Company may be curtailed, redirected or eliminated at any time which could have a material adverse effect on the Company. See "Business--The DepoMed Systems."

NEED FOR SUBSTANTIAL ADDITIONAL FUNDS

The Company anticipates that the net proceeds from this Offering will enable it to meet its capital and operational requirements for at least the 12 months following the date of this Prospectus. However, this

expectation is based on the Company's current operating plan which can change as a result of many factors, and the Company could require additional funding sooner than anticipated. The Company's cash needs may also vary materially from those now planned because of results of research and development, relationships with possible collaborative partners, changes in the focus and direction of the Company's research and development programs, competitive and technological advances, results of clinical testing, requirements of the United States Food and Drug Administration ("FDA") and comparable foreign regulatory processes and other factors. The Company will require substantial funds of its own or from third parties to conduct research and development, preclinical and clinical testing, and to manufacture (or have manufactured) and market (or have marketed) the products utilizing the DepoMed Systems. The net proceeds of this Offering are not expected to be sufficient to fund the Company's operations through commercialization of products yielding sufficient revenues to support the Company's operations. The Company has no credit facility or other committed sources of capital. To the extent capital resources are insufficient to meet future capital requirements, the Company will have to raise additional funds to continue the development of the DepoMed Systems. There can be no assurance that such funds will be available on favorable terms, or at all. To the extent that additional capital is raised through the sale of equity or convertible debt securities, the issuance of such securities could result in dilution to the Company's shareholders. If adequate funds are not available, the Company may be required to curtail operations significantly or to obtain funds through entering into collaboration agreements on unattractive terms. The Company's inability to raise capital would have a material adverse effect on the Company. See "Use of Proceeds" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

DEPENDENCE ON AND NEED FOR COLLABORATIVE PARTNERS

The Company's strategy for the research, development, clinical testing, manufacturing and commercialization of products utilizing the DepoMed Systems requires entering into collaborative arrangements with pharmaceutical and biotechnology companies. The Company has received substantially all of its revenues since inception from BMS and GalaGen and intends to enter into collaborative arrangements with other companies to apply the DepoMed Systems, fund development, commercialize potential products utilizing the DepoMed Systems and assist in obtaining regulatory approval. Although the Company has entered into a joint research agreement with BMS and a feasibility study with GalaGen, there can be no assurance that either BMS or GalaGen will choose to continue to fund these projects or enter into arrangements to commercialize products utilizing the DepoMed Systems or, if they do, that any products utilizing the DepoMed Systems will be successfully developed or commercialized. Although the Company has entered into a letter of intent with Oakmont pursuant to which Oakmont will manufacture the Company's reduced irritation aspirin and enhanced absorption calcium supplement products and have rights to distribute and sell these products in certain territories, there can be no assurance that the Company and Oakmont will enter into a definitive agreement or, if they do, that the Company will be successful in developing these products or Oakmont will be successful in manufacturing, distributing or marketing them. Further, there can be no assurance that any of the Company's present or future collaborative partners will perform their obligations as expected or will devote sufficient resources to the development, clinical testing or marketing of the Company's potential products developed under the collaborations or that the Company will be able to negotiate future collaborative arrangements on acceptable terms, if at all, or that such collaborations will be successful. Any parallel development by a collaborative partner of alternative technologies, preclusion of the Company from entering into competitive arrangements, failure to obtain timely regulatory approvals, premature termination of an agreement, or failure by a collaborative partner to devote sufficient resources to the development and commercialization of products utilizing the DepoMed Systems could have a material adverse effect on the Company. See "Business--Collaborative Relationships."

The Company's agreements with its collaborative partners are likely to be complex. There may be provisions within such agreements which give rise to disputes regarding the rights and obligations of the parties. These and other possible disagreements could lead to delays in collaborative research, development or commercialization of potential products, or could require or result in litigation or arbitration, which would be time-consuming and expensive, and could have a material adverse effect on the Company.

FLUCTUATIONS IN OPERATING RESULTS

The Company's quarterly operating results will depend upon variations in revenues recognized under collaborative agreements, including milestones, royalties, license fees and other contract revenues, and the timing of new product introductions by the Company and its collaborative partners. The Company's quarterly operating results may also fluctuate significantly depending on other factors, including the introduction of new products by the Company's competitors, regulatory actions, market acceptance of the DepoMed Systems, adoption of new technologies, manufacturing costs and capabilities, changes in government funding, and third-party reimbursement policies. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

COMPETITION; TECHNOLOGICAL CHANGE

Competition in the areas of pharmaceutical products and drug delivery systems is intense and is expected to become more intense in the future. Several other companies have developed or are developing novel technologies for oral drug delivery, and these competing technologies may prove superior, either generally or in particular market segments, in terms of factors such as cost, consumer satisfaction or drug delivery profile. The Company's primary competitors in the business of developing and applying drug delivery systems include companies, such as ALZA Corporation ("ALZA"), Dura Pharmaceuticals, Inc. ("Dura") and Elan Corporation plc ("Elan"), which have substantially greater financial, technological, marketing, personnel and research and development resources than the Company. In addition, the Company may face competition from pharmaceutical and biotechnology companies that may develop or acquire drug delivery systems or technologies. Many of the Company's potential collaborative partners have devoted and are continuing to devote significant resources in the development of their own drug delivery systems and technologies. Potential products utilizing the DepoMed Systems will compete both with products employing advanced drug delivery systems and with products in conventional dosage forms. New drugs or future developments in alternative technologies may provide therapeutic or cost advantages over products utilizing the DepoMed Systems. There can be no assurance that developments by others will not render the Company's potential products utilizing the DepoMed Systems or technologies noncompetitive or obsolete. In addition, the Company's competitive success will depend heavily on entering into collaborative relationships on reasonable commercial terms, commercial development of products utilizing the DepoMed Systems, regulatory approvals, protection of intellectual property and market acceptance of such products. See "Business--Competition."

NO ASSURANCE OF FDA APPROVAL; GOVERNMENT REGULATION

FDA Approval Process. In the United States, pharmaceutical products, including any products utilizing the DepoMed Systems, are subject to rigorous regulation by the FDA. If a company fails to comply with applicable requirements, it may be subject to administrative or judicially imposed sanctions such as civil penalties, criminal prosecution of the company or its officers and employees, injunctions, product seizure or detention, product recalls, total or partial suspension of production and FDA refusal to approve pending premarket approval applications, or supplements to approved applications.

Prior to commencement of clinical studies involving human beings, preclinical testing of new pharmaceutical products is generally conducted on animals in the laboratory to evaluate the potential efficacy and the safety of the product. The results of these studies are submitted to the FDA as a part of an Investigational New Drug ("IND") application, which must become effective before clinical testing in humans can begin. Typically, clinical evaluation involves a time consuming and costly three-phase process. In Phase I, clinical trials are conducted with a small number of subjects to determine the early safety profile, the pattern of drug distribution and metabolism. In Phase II, clinical trials are conducted with groups of patients afflicted with a specific disease in order to determine preliminary efficacy, optimal dosages and expanded evidence of safety. In Phase III, large-scale, multi-center, comparative trials are conducted with groups of patients afflicted with a target disease in order to provide enough data to demonstrate the efficacy and safety required by the FDA. The FDA closely monitors the progress of each of the three phases of clinical testing and may, at its discretion, reevaluate,

alter, suspend or terminate the testing based upon the data which have been accumulated to that point and its assessment of the risk/benefit ratio to the patient.

The results of the preclinical and clinical testing on a nonbiologic drug and certain diagnostic drugs are submitted to the FDA in the form of a New Drug Application ("NDA") for approval prior to commencement of commercial sales. In responding to an NDA, the FDA may grant marketing approval, request additional information or deny the application if the FDA determines that the application does not satisfy its regulatory approval criteria. There can be no assurance that approvals will be granted on a timely basis, if at all. Failure to receive approval for any products utilizing the DepoMed Systems could have a material adverse effect on the Company.

Certain OTC products are subject to final monographs issued by the FDA. Such products are subject to various FDA regulations such as those outlining current good manufacturing practices ("cGMP") requirements, general and specific OTC labeling requirements (including warning statements), the restriction against advertising for conditions other than those stated in approved product labeling, and the requirement that in addition to active ingredients OTC drugs contain only suitable inactive ingredients. Facilities which manufacture OTC products are subject to FDA inspection and failure to comply with applicable regulatory requirements may lead to administrative or judicially imposed penalties, as well as delays.

Other Regulations. Even if required FDA approval has been obtained with respect to a product, foreign regulatory approval of a product must also be obtained prior to marketing the product internationally. Foreign approval varies from country to country and the time required for approval may delay or prevent marketing. In certain instances the Company or its collaborative partners may seek approval to market and sell certain of its products outside of the United States before submitting an application for United States approval to the FDA. The regulatory procedures for approval of new pharmaceutical products vary significantly among foreign countries. The clinical testing requirements and the time required to obtain foreign regulatory approvals may differ from that required for FDA approval. Although there is now a centralized European Union ("EU") approval mechanism in place, each EU country may nonetheless impose its own procedures and requirements, many of which are time consuming and expensive, and some EU countries require price approval as part of the regulatory process. Thus, there can be substantial delays in obtaining required approvals from both the FDA and foreign regulatory authorities after the relevant applications are filed, and approval in any single country may not be a meaningful indication that the product will thereafter be approved in another country.

The Company is also subject to regulation under various federal and state laws regarding, among other things, occupational safety, environmental protection, hazardous substance control and product advertising and promotion. In connection with its research and development activities and its manufacturing, the Company is subject to federal, state and local laws, rules, regulations and policies governing the use, generation, manufacture, storage, air emission, effluent discharge, handling and disposal of certain materials and wastes. The Company believes that it has complied with these laws and regulations in all material respects and it has not been required to take any action to correct any material noncompliance. See "Business--Government Regulation."

NO MANUFACTURING, MARKETING OR SALES CAPABILITIES

The Company does not have internal manufacturing, marketing or sales resources. In view of its early stage of development and limited resources, the Company does not anticipate spending a material portion of the net proceeds of this Offering to acquire resources and develop capabilities in these areas. Although the Company intends to acquire pilot manufacturing equipment with a portion of the net proceeds from this Offering, the Company does not intend to acquire or establish its own dedicated manufacturing facilities for the foreseeable future. See "Use of Proceeds." Rather, the Company's manufacturing strategy will be to utilize the facilities of its collaborative partners or to develop manufacturing relationships with established contract manufacturers to make products utilizing the DepoMed Systems. In addition, the Company does not intend to establish an internal sales and marketing capability, but will seek to rely on its collaborative partners or distributor arrangements to market and sell the products utilizing the DepoMed Systems. In April 1997, the Company and Oakmont signed

a letter of intent to enter into an agreement pursuant to which Oakmont will manufacture the Company's reduced irritation aspirin and enhanced absorption calcium supplement products and to have rights to distribute and sell these products in territories to be determined. There can be no assurance that the Company will be able to enter into manufacturing, marketing or sales agreements on reasonable commercial terms, or at all, with Oakmont or any other third party. Failure to do so could have a material adverse effect on the Company.

Manufacturers of products utilizing the DepoMed Systems will be subject to applicable cGMP requirements prescribed by the FDA or other rules and regulations prescribed by foreign regulatory authorities. There can be no assurance that the Company will be able to enter into manufacturing agreements either domestically or abroad with companies whose facilities and procedures comply with cGMP or applicable foreign standards. Should such agreements be entered into, the Company will be dependent on such manufacturers for continued compliance with cGMP and applicable foreign standards. Failure by a manufacturer of products utilizing the DepoMed Systems to maintain cGMP or applicable foreign standards could result in significant time delays or the inability of the Company to commercialize the DepoMed Systems and could have a material adverse effect on the Company. At the present time, due to ongoing consolidation in the chemical and pharmaceutical industries, the Company believes there is a worldwide excess of manufacturing capacity available to the Company. As a result, the Company believes that it will be able to enter into agreements with suppliers and manufacturers on reasonable commercial terms. However, there can be no assurance that there will be manufacturing capacity available to the Company at the time the Company is ready to commercialize the DepoMed Systems. There also can be no assurance that any products utilizing the DepoMed Systems can be manufactured at a cost or in quantities required to make it commercially viable. The Company's inability to contract on acceptable terms and with qualified suppliers for the manufacture of any products utilizing the DepoMed Systems or delays or difficulties in its relationships with manufacturers, would have a material adverse effect on the Company.

Contract manufacturers must adhere to cGMP regulations strictly enforced by the FDA on an ongoing basis through its facilities inspection program. Contract manufacturing facilities must pass a pre-approval plant inspection before the FDA will approve an NDA. Certain material manufacturing changes that occur after approval are also subject to FDA review and clearance or approval. There can be no assurance that the FDA or other regulatory agencies will approve the process or the facilities by which any of the products utilizing the DepoMed Systems may be manufactured. The Company's dependence on third parties for the manufacture of products utilizing the DepoMed Systems may adversely affect the Company's ability to develop and deliver products utilizing the DepoMed Systems on a timely and competitive basis. See "Business--Collaborative Relationships" and "Business--Manufacturing, Marketing and Sales."

UNCERTAINTY REGARDING PATENTS AND PROPRIETARY RIGHTS

The Company's success will depend in part on its ability to obtain and maintain patent protection for its technologies and to preserve its trade secrets. It is the policy of the Company to file patent applications in the United States and foreign jurisdictions. The Company currently holds two issued United States and two foreign patents and has two United States patent applications and two foreign applications pending. No assurance can be given that the Company's patent applications will be approved or that any issued patents will provide competitive advantages for the DepoMed Systems or the Company's technologies or will not be challenged or circumvented by competitors. With respect to already issued patents and any patents which may issue from the Company's applications, there can be no assurance that claims allowed will be sufficient to protect the DepoMed Systems or the Company's technologies. Patent applications in the United States are maintained in secrecy until a patent issues, and the Company cannot be certain that others have not filed patent applications for technology covered by the Company's pending applications or that the Company was the first to file patent applications for such technology. Competitors may have filed applications for, or may have received patents and may obtain additional patents and proprietary rights relating to, compounds or processes that may block the Company's patent rights or compete without infringing the patent rights of the Company. In addition, there can be no assurance that any patents issued to the Company will not be challenged, invalidated or circumvented, or that the rights granted thereunder will provide proprietary protection or commercial advantage to the Company.

The Company also relies on trade secrets and proprietary know-how which it seeks to protect, in part, through confidentiality agreements with employees, consultants, collaborative partners and others. There can be no assurance that these agreements will not be breached, that the Company will have adequate remedies for any such breach or that the Company's trade secrets will not otherwise become known or be independently developed by competitors. Although potential collaborative partners and the Company's research partners and consultants are not given access to proprietary trade secrets and know-how of the Company until they have executed confidentiality agreements, these agreements may be breached by the other party thereto or may otherwise be of limited effectiveness or enforceability.

The ability to develop the DepoMed Systems or the Company's technologies and to commercialize products using the DepoMed Systems or such technologies will depend on not infringing the patents of others. Although the Company is not aware of any claim of patent infringement against it, claims concerning patents and proprietary technologies determined adversely to the Company could have a material adverse effect on the Company. In addition, litigation may also be necessary to enforce any patents issued or licensed to the Company or to determine the scope and validity of third-party proprietary rights. There can be no assurance that the Company's issued or licensed patents would be held valid by a court of competent jurisdiction. Whether or not the outcome of litigation is favorable to the Company, the cost of such litigation and the diversion of the Company's resources during such litigation could have a material adverse effect on the Company.

The pharmaceutical industry has experienced extensive litigation regarding patent and other intellectual property rights. Accordingly, the Company could incur substantial costs in defending itself in suits that may be brought against the Company claiming infringement of the patent rights of others or in asserting the Company's patent rights in a suit against another party. The Company may also be required to participate in interference proceedings declared by the United States Patent and Trademark Office for the purpose of determining the priority of inventions in connection with the patent applications of the Company or other parties. Adverse determinations in litigation or interference proceedings could require the Company to seek licenses (which may not be available on commercially reasonable terms) or subject the Company to significant liabilities to third parties, and could therefore have a material adverse effect on the Company. See "Business--Patents and Proprietary Rights."

RELATIONSHIPS OF ADVISORS WITH OTHER ENTITIES

Certain members of the Company's Policy Advisory Board and Development Advisory Board are employed on a full-time basis by academic or research institutions. In some cases, members of the Policy Advisory Board and Development Advisory Board also act as consultants to the other companies. In addition, except for work performed specifically for and at the direction of the Company, any inventions or processes discovered by such persons will be the intellectual property of their institutions or other companies. If the Company desires access to inventions which are not its property, it will be necessary for the Company to obtain licenses to such inventions from these institutions or companies. In addition, invention assignment agreements executed by such persons in connection with their relationships with the Company may be subject to the rights of their primary employers or other third parties with whom they have consulting relationships. See "Business--Advisors to the Company."

HEALTHCARE REFORM; UNCERTAIN AVAILABILITY OF HEALTHCARE REIMBURSEMENT

The healthcare industry is changing rapidly as the public, government, medical professionals, third-party payors and the pharmaceutical industry examine ways to contain or reduce the cost of health care. Changes in the healthcare industry could impact the Company's business, particularly to the extent that the Company develops the DepoMed Systems for use in prescription drug applications. In certain foreign markets pricing or profitability of prescription pharmaceuticals is subject to government control. In the United States, there have been, and the Company expects that there will continue to be, a number of federal and state proposals to implement similar government control or cost containment, particular with respect to Medicare payments. In addition, emphasis on managed care in the United States has increased and is expected to continue to increase

the pressure on pharmaceutical pricing. While the Company cannot predict whether any such legislative or regulatory proposals will be adopted or the effect such proposals or managed care efforts may have on its business, the announcement of such proposals or efforts could have a material adverse effect on the Company's ability to raise capital, and the adoption of such proposals or efforts could have a material adverse effect on the Company. Further, to the extent that such proposals or efforts have a material adverse effect on pharmaceutical and biotechnology companies or other healthcare providers that are prospective collaborative partners for the Company, the Company's ability to establish collaborations may be adversely affected. In addition, in both domestic and foreign markets, sales of products utilizing the DepoMed Systems will depend in part on the availability of reimbursement from third-party payors such as government health administration authorities, private health insurers and other organizations. Third-party payors are increasingly challenging the price and cost-effectiveness of prescription pharmaceutical products. Significant uncertainty exists as to the reimbursement status of newly approved healthcare products. There can be no assurance that products utilizing the DepoMed Systems will be considered cost effective or that adequate third-party reimbursement will be available to the Company's collaborators to maintain price levels sufficient to realize an appropriate return on the Company's investment in the DepoMed Systems.

DEPENDENCE ON MANAGEMENT AND OTHER KEY EMPLOYEES

The success of the Company is dependent in large part upon the continued services of John W. Shell and John W. Fara, its Chairman and Chief Scientific Officer, and President and Chief Executive Officer, respectively, and other members of the Company's executive management, and on the Company's ability to attract and retain key management and operating personnel. The Company intends to apply for key man life insurance on the lives of Drs. Shell and Fara in the amount of $2,000,000 each. Such persons are in high demand and are often subject to competing offers. In particular, the Company's success will depend, in part, on its ability to attract and retain the services of its executive officers and scientific and technical personnel. The loss of the services of one or more members of management or key employees or the inability to hire additional personnel as needed may have a material adverse effect on the Company. See "Business--Employees" and "Management--Executive Officers and Directors."

SUBSTANTIAL CONTROL BY OFFICERS, DIRECTORS AND THEIR AFFILIATES

Following the Offering, the Company's officers and directors and their affiliates will beneficially own or control approximately 50.3% of the outstanding shares of Common Stock. Accordingly, such officers, directors and their affiliates may be able to influence the outcome of shareholder votes, including votes concerning election of directors, adoption of amendments to the Company's Articles of Incorporation and Bylaws and approval of mergers and other significant corporate transactions. See "Principal Shareholders."

RISK OF PRODUCT LIABILITY; UNCERTAINTY OF AVAILABILITY OF PRODUCT LIABILITY INSURANCE

The Company's business involves exposure to potential product liability risks that are inherent in the production and manufacture of pharmaceutical products. Any such claims could have a material adverse effect on the Company. The Company does not currently have any product liability insurance. Although the Company has applied to obtain product liability insurance, there can be no assurance that it will be able to obtain or maintain such insurance on acceptable terms, that the Company will be able to secure increased coverage as the commercialization of its potential products utilizing the DepoMed Systems proceeds or that any insurance will provide adequate protection against potential liabilities. Claims or losses in excess of the limit of any liability insurance coverage obtained by the Company could have a material adverse effect on the Company. See "Business--Product Liability."

ABSENCE OF DIVIDENDS

The Company has never declared or paid cash dividends on its Common Stock and does not intend to pay any cash dividends in the foreseeable future. See "Dividend Policy."

NO PUBLIC MARKET FOR THE SECURITIES; ARBITRARY DETERMINATION OF PUBLIC OFFERING PRICES

Prior to the Offering, there has been no public market for the Securities, and there can be no assurance that an active trading market will develop, or, if developed, be sustained in any of the Securities after the Offering. The initial public offering price of the Securities and the exercise price and terms of the Warrants have been determined arbitrarily by negotiations between the Company and the Representative and do not necessarily bear any relationship to the Company's asset value, net worth or other established criteria of value. Factors considered in such negotiations, in addition to prevailing market conditions, included the history and prospects for the industry in which the Company competes, an assessment of the Company's management, the prospects of the Company, its capital structure and certain other factors as were deemed relevant. Accordingly, the initial public offering price of the Securities and the exercise price and terms of the Warrants may not be indicative of prices that may prevail at any time or from time to time in the public market for the Securities. See "Underwriting."

PRICE VOLATILITY

The securities markets have from time to time experienced significant price and volume fluctuations that may be unrelated to the operating performance of particular companies. In addition, the market prices of the common stock of many publicly traded pharmaceutical or biotechnology companies have in the past been, and can in the future be expected to be, especially volatile. Announcements of technological innovations or new products by the Company or its competitors, developments or disputes concerning patents or proprietary rights, publicity regarding actual or potential medical results relating to products under development by the Company or its competitors, regulatory developments in both the United States and foreign countries, delays in the Company's testing and development schedules, public concern as to the safety of biopharmaceutical or biotechnology products and economic and other external factors, as well as period-to-period fluctuations in the Company's financial results, may have a significant impact on the market price of the Securities.

POTENTIAL ADVERSE EFFECT OF REPRESENTATIVE'S WARRANTS

At the consummation of the Offering, the Company will sell to the Representative for nominal consideration the Representative's Warrants to purchase up to 250,000 shares of Common Stock and/or 125,000 Warrants. The Representative's Warrants will be exercisable for a period of four years commencing , 1998 [one year after the effective date of this Offering], at an exercise price of $ per share [120% of the initial public offering price per share of Common Stock] and $ per Warrant [120% of the initial public offering price per Warrant]. The Warrants obtained upon exercise of the Representative's Warrants will be exercisable for a period of four years commencing one year after the effective date of this Offering, at an exercise price of $ per share [140% of the initial public offering price per share of Common Stock]. For the term of the Representative's Warrants, the holders thereof will have, at nominal cost, the opportunity to profit from a rise in the market price of the Securities without assuming the risk of ownership, with a resulting dilution in the interest of other security holders. As long as the Representative's Warrants remain unexercised, the Company's ability to obtain additional capital may be adversely affected. Moreover, the Representative may be expected to exercise the Representative's Warrants at a time when the Company would, in all likelihood, be able to obtain any needed capital through a new offering of its securities on terms more favorable to the Company than those provided by the Representative's Warrants. See "Underwriting."

POTENTIAL ADVERSE EFFECT OF REDEMPTION OF WARRANTS

Commencing , 1998 [18 months after the date of this Prospectus], the Warrants are subject to redemption at $0.10 per Warrant on 30 days' prior written notice to the Warrant holders if the average closing sales price of the Common Stock as reported on the AMEX equals or exceeds $ per share [150% of the initial public offering price per share of Common Stock] for any 20 trading days within a period of 30 consecutive trading days ending on the fifth trading day prior to the date of the notice of redemption. If the Warrants are redeemed, holders of the Warrants will lose their rights to exercise the Warrants after the expiration of the 30 day notice of redemption period. Upon receipt of a notice of redemption, holders would be required to:

(i) exercise the Warrants and pay the exercise price at a time when it may be disadvantageous for them to do so, (ii) sell the Warrants at the current market price, if any, when they might otherwise wish to hold the Warrants or (iii) accept the redemption price which is likely to be substantially less than the market value of the Warrants at the time of redemption. See "Description of Securities--Warrants."

MANAGEMENT'S DISCRETION IN USE OF PROCEEDS

Approximately $2.4 million or approximately 18% of the estimated net proceeds of the Offering has been allocated to working capital and general corporate purposes. Accordingly, the Company's Board of Directors will have discretion with respect to the allocation of such net proceeds. See "Use of Proceeds."

DILUTION; DISPARITY OF CONSIDERATION

Purchasers of shares of Common Stock in this Offering will experience an immediate and substantial dilution of $4.45 per share based on an assumed initial public offering price of $6.50 per share of Common Stock. Additional dilution to future net tangible book value per share may occur upon exercise of outstanding stock options and warrants and may occur, in addition, if the Company issues additional equity securities in the future. The current shareholders of the Company, including officers and directors, acquired their shares of Common Stock for nominal consideration or for consideration substantially less than the public offering price of the shares of Common Stock offered hereby. As a result, new investors will bear substantially all of the risks inherent in an investment in the Company. See "Dilution" and "Certain Transactions."

POTENTIAL ADVERSE EFFECT OF SHARES ELIGIBLE FOR FUTURE SALE

Future sales of Common Stock by shareholders and option holders or through the exercise of the Warrants could have an adverse effect on the market prices of the Securities. Upon completion of this Offering, the Company will have 6,763,447 shares of Common Stock outstanding, of which the 2,500,000 shares offered hereby (and the 1,250,000 Warrants) will be transferable without restriction under the Securities Act. The Company, all officers and directors of the Company and all holders of outstanding securities exercisable for or convertible into Common Stock have entered into contractual arrangements (the "Lock-Up Agreements") and have agreed not to directly or indirectly, issue, agree or offer to sell, transfer, assign, distribute, grant an option for purchase of sale of, pledge, hypothecate or otherwise encumber or dispose of any beneficial interest in such securities for a period of 12 months following the date of this Prospectus (the "Lock-Up Period") without the prior written consent of the Representative. As a result, notwithstanding the possible earlier eligibility for sale under the provisions of Rules 144, 144(k) and 701 under the Securities Act of 1933, as amended (the "Securities Act"), shares subject to the Lock-Up Agreements will not be saleable until the Lock-Up Period expires or the terms of the Lock-Up Agreements are waived by the Representative. Assuming that the Representative does not release the shareholders from the Lock-Up Agreements, after the Lock-Up Period all of the shares will be eligible for sale in the public market. Of such shares, 3,355,991 shares of Common Stock will be eligible for sale under Rule 144 (subject to volume limitations imposed by such rule), 815,789 shares of Common Stock will be eligible for sale under Rule 144(k), and 91,667 shares will be eligible for sale under Rule 701. In addition, the Company intends to register on Form S-8 under the Securities Act, as soon as possible after the Effective Date, shares of Common Stock issuable under options granted under the Stock Plan. Such registration becomes effective immediately upon its filing with the Securities and Exchange Commission (the "Commission"). As of March 31, 1997, options to purchase a total of 196,667 shares of Common Stock were outstanding, and options to purchase an additional 128,333 shares of Common Stock were reserved for future issuance under the Stock Plan.

No prediction can be made as to the effect that future sales of Common Stock, or the availability of shares of Common Stock for future sale, will have on the market prices of the Common Stock and Warrants prevailing from time to time. The sale or issuance, or the potential for sale or issuance, of Common Stock after the Lock-Up Period could have an adverse impact on the market prices of the Common Stock and/or the Warrants. Sales of substantial amounts of Common Stock or the perception that such sales could occur could adversely affect

prevailing market prices for the Common Stock and/or the Warrants. See "Underwriting" and "Shares Eligible for Future Sale."

CURRENT PROSPECTUS AND STATE BLUE SKY REGISTRATION REQUIRED TO EXERCISE WARRANTS

The Warrants are not exercisable unless, at the time of exercise, the Company has a current prospectus covering the shares of Common Stock issuable upon exercise of the Warrants and such shares have been registered, qualified or deemed to be exempt under the securities or "blue sky" laws of the state of residence of the exercising holder of the Warrants. Although the Company has undertaken to use its best efforts to have all of the shares of Common Stock issuable upon exercise of the Warrants registered or qualified on or before the exercise date and to maintain a current prospectus relating thereto until the expiration of the Warrants, there is no assurance that it will be able to do so. The value of the Warrants may be greatly reduced if a current prospectus covering the Common Stock issuable upon the exercise of the Warrants is not kept effective or if such Common Stock is not qualified or exempt from qualification in the states in which the holders of the Warrants reside. Until completion of this Offering, the Common Stock and the Warrants may only be purchased together on the basis of two shares of Common Stock and one Warrant, but the Warrants will be separately tradeable immediately after this Offering. Although the Securities will not knowingly be sold to purchasers in jurisdictions in which the Securities are not registered or otherwise qualified for sale, investors may purchase the Warrants in the secondary market or move to a jurisdiction in which the shares underlying the Warrants are not registered or qualified during the period that the Warrants are exercisable, the Company will be unable to issue shares to those persons desiring to exercise their Warrants unless and until the shares are qualified for sale in jurisdictions in which such purchasers reside, or an exemption from such qualification exists in such jurisdictions, and holders of the Warrants would have no choice but to attempt to sell the Warrants in a jurisdiction where such sale is permissible or allow them to expire unexercised. See "Description of Securities--Warrants."

USE OF PROCEEDS

The net proceeds to the Company from the sale of the Securities offered hereby (assuming an initial public price of $6.50 per Share and $0.10 per Warrant), after deduction of underwriting discounts and other estimated expenses relating to the Offering, are estimated to be approximately $14,000,000 (or $16,200,000 if the Over-Allotment Option is exercised in full). The Company intends to use the net proceeds as follows:

	NET PROCEEDS	PERCENT OF TOTAL
Research and development expenses.....	$ 7,000,000	50%
Laboratory and facilities capital expenditures.....	3,000,000	21%
Repayment of certain indebtedness.....	1,600,000	11%
Working capital and general corporate purposes.....	2,400,000	18%
Total.....	$14,000,000	100%

Research and Development Expenses. The Company intends to continue investing in the further development of its oral drug delivery technologies and the DepoMed Systems. The Company also intends to develop generic compounds, such as a reduced irritation aspirin product and an enhanced absorption calcium supplement product, internally. The Company intends to conduct or fund clinical trials on such products and will undertake the associated regulatory activities.

Laboratory and Facilities Capital Expenditures. The Company intends to spend a portion of the net proceeds of this Offering to make capital investments in laboratories and related facilities, including the leasing of laboratory, testing and pilot manufacturing facilities, leasehold improvements and purchase of laboratory and pilot scale manufacturing equipment.

Repayment of Certain Indebtedness. Approximately $1,000,000 of the net proceeds of this Offering will be used to repay indebtedness of the Company incurred in connection with the Bridge Financing. In connection with the Bridge Financing, the Company issued promissory notes (the "Bridge Notes") in the aggregate principal amount of $1,000,000 to fund working capital and general corporate purposes. Interest accrues on the Bridge Notes at the rate of 6% per annum and the Bridge Notes will become due and payable on the consummation of the Offering. Approximately $600,000 of the net proceeds of this Offering will be used to repay other indebtedness of the Company, including unpaid salaries and five promissory notes held by officers of the Company. As of March 31, 1997, $250,667 of principal was outstanding and $47,456 of interest was outstanding on such promissory notes. Interest accrues on $150,667 of principal at the rate of 6% per annum and on the remaining $100,000 at the rate of 6.5% per annum. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources" and "Certain Transactions."

The foregoing represents the Company's best estimate of its allocation of the net proceeds of the Offering, based on the current state of its operations, its current plans and current economic conditions. Proceeds may be reapportioned among categories listed above. The amount and timing of expenditures will vary depending upon a number of factors, including progress of the Company's operations, technical advances, terms of collaborative arrangements, changes in competitive conditions and determinations with respect to the commercial potential of products utilizing the DepoMed Systems.

The Company currently anticipates that the net proceeds of this Offering will enable it to meet its operational and capital requirements for at least the 12 months following the date of this Prospectus. However, there can be no assurance the net proceeds of this Offering will satisfy the Company's requirements for any particular period of time. The Company anticipates that additional funding may be required after the use of proceeds of the Offering. No assurance can be given that such additional financing will be available when needed on terms acceptable to the Company, if at all. See "Risk Factors--Need for Substantial Additional Funds."

Pending application of the net proceeds of the Offering, the Company intends to invest such net proceeds in interest-bearing, short-term investment grade financial instruments.

DIVIDEND POLICY

The Company has never declared or paid any cash dividends on its Common Stock. The Company currently intends to retain its earnings for future growth and, therefore, does not anticipate paying any cash dividends in the foreseeable future.

CAPITALIZATION

The following table sets forth the capitalization of the Company as of December 31, 1996 (i) on an actual basis, and (ii) pro forma as adjusted to give effect to (a) the sale of 278,500 shares of Series B Preferred Stock in the first quarter of 1997, (b) the Bridge Financing, (c) the estimated net proceeds from the sale of Common Stock and Warrants offered hereby at an assumed initial public offering price of $6.50 per Share and $0.10 per Warrant and the initial application of the estimated net proceeds therefrom (including the repayment of all the Bridge Notes in the principal amount of $1,000,000), and (d) the conversion of the Preferred Stock into 908,623 shares of Common Stock upon consummation of the Offering. This table should be read in conjunction with the Company's Financial Statements and related Notes thereto and Selected Financial Data appearing elsewhere in this Prospectus. See "Use of Proceeds."

	DECEMBER 31, 1996	
	ACTUAL	PRO FORMA AS ADJUSTED
Shareholders' equity (net capital deficiency):		
Preferred stock, no par value, 10,000,000 shares authorized, 2,447,368 shares issued and outstanding, actual; 5,000,000 shares authorized, none issued and outstanding, pro forma as adjusted	$ 682,759	$ --
Common stock, no par value, 25,000,000 shares authorized, 3,354,825 shares issued and outstanding, actual; 6,763,447 shares issued and outstanding, pro forma as adjusted(1)	284,250	15,245,509
Deferred compensation	(275,000)	(275,000)
Deficit accumulated during the development stage	(1,073,441)	(1,073,441)
Total shareholders' equity (net capital deficiency)	$ (381,432)	$13,897,068

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(1) Excludes 196,667 shares of Common Stock issuable upon the exercise of outstanding stock options as of March 31, 1997 at a weighted average exercise price of $1.64 per share under the Stock Plan. Also excludes 128,333 shares of Common Stock reserved for future grants of options under the Stock Plan. See "Management--1995 Stock Option Plan."

DILUTION

As of December 31, 1996, the pro forma net tangible book value (deficit) of the Company's Common Stock was $(102,932), or approximately $(0.02) per share of Common Stock after giving effect to (i) the sale of Series B Preferred Stock in the first quarter of 1997, (ii) the Bridge Financing, and (iii) the conversion of the Preferred Stock into Common Stock upon consummation of the Offering. Pro forma net tangible book value per share represents the total amount of tangible assets less total liabilities divided by the number of shares of Common Stock issued and outstanding. After giving effect to the sale of the Common Stock and Warrants offered hereby at an assumed initial public offering price of $6.50 per share of Common Stock and $0.10 per Warrant (after deducting underwriting discounts and commissions and estimated offering expenses payable by the Company), the pro forma net tangible book value of the Company at December 31, 1996 would have been $13,897,068, or approximately $2.05 per share of Common Stock. This represents an immediate increase in net tangible book value of $2.07 per share of Common Stock to existing shareholders of Common Stock and an immediate dilution in net tangible book value of $4.45 per share of Common Stock to new investors. The following table illustrates this per share dilution:

Assumed initial public offering price per share.....		$6.50
Pro forma net tangible book value (deficit) per share prior to this Offering.....	(0.02)	
Increase per share attributable to this Offering.....	2.07	
Pro forma net tangible book value per share after this Offering.....		2.05
Dilution per share to new investors.....		$4.45

The computations in the table set forth above assume that the Over-Allotment Option is not exercised. If the Over-Allotment Option is exercised in full, the pro forma net tangible book value as of December 31, 1996 would have been $16,095,411 or $2.25 per share of Common Stock, resulting in dilution to new investors of $4.25 per share of Common Stock.

The following table summarizes, on a pro forma basis to reflect the same adjustments described above, the number of shares of Common Stock purchased from the Company, the total consideration paid and the average price per share paid by (i) existing shareholders of Common Stock at December 31, 1996, and (ii) new shareholders in the Offering, assuming the sale of the Common Stock and Warrants offered hereby at an assumed initial public offering price of $6.50 per Share. The calculations are based upon total consideration given by new investors and existing shareholders before any deduction of underwriting discounts and offering expenses payable by the Company.

	SHARES PURCHASED		TOTAL CONSIDERATION		AVERAGE PRICE
	NUMBER	PERCENT	AMOUNT	PERCENT	PER SHARE
Existing shareholders(1)...	4,263,447	63%	$ 1,037,750	6%	$0.24
New investors(2).....	2,500,000	37%	16,250,000	94%	$6.50
Total.....	6,763,447	100%	$17,220,509	100%	

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(1) Excludes 196,667 shares of Common Stock issuable upon exercise of stock options as of March 31, 1997 with a weighted average exercise price of $1.64 per share outstanding under the Stock Plan. Also excludes 128,333 shares of Common Stock reserved for future grants of options under the Stock Plan. See "Management--1995 Stock Option Plan."

(2) Reflects no proceeds received from the sale of the Warrants.

SELECTED FINANCIAL DATA

The selected statements of operations data for the period from inception (August 7, 1995) to December 31, 1995, for the year ended December 31, 1996 and for the period from inception (August 7, 1995) to December 31, 1996 and the balance sheet data at December 31, 1996 are derived from the financial statements of the Company which have been audited by Ernst & Young LLP, independent auditors. The selected financial data set forth below is qualified in its entirety by, and should be read in conjunction with, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Company's Financial Statements and related Notes thereto appearing elsewhere in this Prospectus.

	PERIOD FROM INCEPTION (AUGUST 7, 1995) TO DECEMBER 31, 1995	YEAR ENDED DECEMBER 31, 1996	PERIOD FROM INCEPTION (AUGUST 7, 1995) TO DECEMBER 31, 1996
STATEMENT OF OPERATIONS DATA:			
Product development revenues..	$ --	$ 317,971	$ 317,971
Operating expenses:			
Research and development expenses.....	138,816	390,496	529,312
General and administrative expenses.....	155,157	393,676	548,833
Purchase of in-process research and development...	298,154	--	298,154
Total operating expenses.....	592,127	784,172	1,376,299
Loss from operations.....	(592,127)	(466,201)	(1,058,328)
Interest expense, net.....	8,541	6,572	15,113
Net loss.....	$(600,668)	$(472,773)	$(1,073,441)
Pro forma net loss per share(1).....		$ (0.11)	
Shares used in computing pro forma net loss per share(1)..		4,285,653	

	DECEMBER 31, 1996
BALANCE SHEET DATA:	
Working capital (deficit).....	$ (516,688)
Total assets.....	333,127
Notes payable to shareholders.....	294,238
Capital lease obligation, non-current portion.....	34,634
Deficit accumulated during development stage.....	(1,073,441)
Total shareholders' equity (net capital deficiency).....	(381,432)

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(1) See Note 2 of Notes to Financial Statements for an explanation of the determination of the number of shares used in computing pro forma net loss per share.

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

The following discussion and analysis should be read in conjunction with "Selected Financial Data" and the Company's Financial Statements and related Notes thereto appearing elsewhere in this Prospectus. Except for the historical information contained herein, the discussion in this Prospectus contains certain forward-looking statements that involve risks and uncertainties, such as statements of the Company's plans, objectives, expectations and intentions. The cautionary statements made in this Prospectus should be read as being applicable to all related forward-looking statements wherever they appear in this Prospectus. The Company's actual results could differ materially from those discussed here. Factors that could cause or contribute to such differences include those discussed in "Risk Factors," as well as those discussed elsewhere herein.

GENERAL

Since its inception in August 1995, the Company has devoted substantially all its efforts to research and development conducted on its own behalf and through collaborations with pharmaceutical partners in connection with the DepoMed Systems. The Company's primary activities since inception (August 7, 1995) have been, in addition to research and development, establishing its offices and research facilities, recruiting personnel, filing patent applications, developing a business strategy and raising capital. To date, the Company has received only limited revenue, all of which has been from collaborative research and feasibility arrangements. At its inception in 1995, the Company acquired $298,154 of in-process research and development technology. This amount was recognized as operating expense in 1995. There was no such expense in 1996. The Company has generated a cumulative net loss of $1,073,441 for the period from its inception through December 31, 1996.

The Company intends to continue investing in the further development of its drug delivery technologies and the DepoMed Systems. The Company also intends to develop generic compounds, such as a reduced irritation aspirin product and an enhanced absorption calcium supplement product, internally. Depending upon a variety of factors, including collaborative arrangements, available personnel and financial resources, the Company will conduct or fund clinical trials on such products and will undertake the associated regulatory activities. The Company will need to make additional capital investments in laboratories and related facilities, including the purchase of laboratory and pilot scale manufacturing equipment. As additional personnel are hired in 1997 and beyond, expenses can be expected to increase from their 1996 levels. Within the next 12 months, the Company will also require additional space for laboratory, testing and pilot manufacturing facilities. See "Use of Proceeds."

RESULTS OF OPERATIONS

The Company commenced operations in August 1995. Because of the difference in the length of the reported periods, the comparison of the period from inception to December 31, 1995 to the year ended December 31, 1996 is not meaningful and has not been presented.

Year Ended December 31, 1996

Revenues in 1996 were $317,971, primarily the result of the joint research agreement with BMS.

Research and development expenses in 1996 were $390,496, primarily consisting of personnel costs and laboratory supply expenses.

General and administrative expenses in 1996 were $393,676, primarily consisting of personnel costs, facilities expenses and fees paid to outside financial consultants.

The Company records and amortizes over related vesting periods deferred compensation representing the difference between the exercise price of options granted and the deemed fair value of its Common Stock at the time of grant. Options generally vest over four years. Deferred compensation of $275,000 has been recorded and is being amortized to both research and development expenses as well as general and administrative expenses over the related vesting periods of the options granted during the period ended December 31, 1996.

LIQUIDITY AND CAPITAL RESOURCES

Since inception, the Company has financed operations principally from the sale of preferred stock. In 1995, the Company issued 2,447,368 shares of Series A Preferred Stock for net proceeds of $682,759. In the first quarter of 1997, the Company issued 278,500 shares of Series B Preferred Stock for an aggregate purchase price of $278,500. In 1996, the Company borrowed $50,000 from an officer of the Company, which the Company intends to repay with a portion of the net proceeds of this Offering. See "Use of Proceeds" and "Certain Transactions."

In April 1997, the Company completed the Bridge Financing and issued the Bridge Notes to fund working capital and general corporate purposes. The Bridge Notes bear interest at the rate of 6% per annum and are due and payable upon the closing of this Offering. The Company intends to use a portion of the net proceeds of this Offering to repay the entire principal amount of and the accrued interest on the Bridge Notes. In connection with the Bridge Financing, the Company issued Bridge Warrants entitling the investors to purchase the number of shares of Common Stock which equals 50% of their investment divided by the initial public offering price per share of the Common Stock. A total of 76,923 shares of Common Stock will be issuable upon exercise of the Bridge Warrants at an exercise price of $6.50 per share of Common Stock, assuming an initial public offering price of $6.50 per share. The Bridge Warrants may be exercised at any time during the four year period beginning 12 months after the date of this Prospectus. See "Use of Proceeds" and Note 9 of Notes to Financial Statements.

Cash used in operations in 1996 was $391,316 compared to $194,019 for the period from inception to December 31, 1995. The period from inception to December 31, 1995 included a non-recurring charge of $298,154 for the acquisition of in-process research and development technology. Cash used for operations is expected to increase in 1997 as a result of increased expenditures and working capital requirements to support product development and expanded and continuing research activities.

Cash used in investing activities primarily related to capital expenditures for property and equipment. Capital expenditures in 1996 were $28,708. Capital expenditures for the period from inception to December 31, 1995 were $49,645. In addition, in 1996, $56,393 of equipment was acquired and financed under a capital lease. For the period from inception to December 31, 1995 $65,563 of equipment was acquired and financed under a capital lease. Capital expenditures in both years were primarily for research and development equipment. Capital expenditures during the 12 months following the date of this Prospectus may include pilot manufacturing equipment, such as tablet presses for proof of principle, and product development and quality control laboratory equipment. In the future the Company may seek lease financing for certain additional equipment. Upon completion of the Offering, the Bridge Notes, the promissory notes issued to the officers of the Company and accrued, unpaid salaries will be paid with a portion of the net proceeds from this Offering. See "Use of Proceeds"

The Company anticipates that the net proceeds from this Offering, will enable it to meet its capital and operational requirements for at least the 12 months following the date of this Prospectus. Cash needs of the Company may vary materially from those now planned because of results of research and development, relationships with possible collaborative partners, changes in the focus and direction of the Company's research and development programs, competitive and technological advances, results of clinical testing, requirements of the FDA and comparable foreign regulatory processes and other factors. The Company will require substantial funds of its own or from third parties to conduct research and development, preclinical and clinical testing, and to manufacture (or have manufactured) and market (or have marketed) the products utilizing the DepoMed Systems. The net proceeds of this Offering are not expected to be sufficient to fund the Company's operations

through commercialization of products yielding sufficient revenues to support the Company's operations. The Company has no credit facility or other committed sources of capital. To the extent capital resources are insufficient to meet future capital requirements, the Company will have to raise additional funds to continue the development of its technologies. There can be no assurance that such funds will be available on favorable terms, or at all. To the extent that additional capital is raised through the sale of equity or convertible debt securities, the issuance of such securities could result in dilution to the Company's shareholders. If adequate funds are not available, the Company may be required to curtail operations significantly or to obtain funds through entering into collaboration agreements on unattractive terms. The Company's inability to raise capital would have a material adverse effect on the Company.

NET OPERATING LOSSES

The Company has not generated any taxable income to date. At December 31, 1996, the net operating losses available to offset future taxable income for federal income tax purposes were approximately $500,000. Because the Company has experienced ownership changes, future utilization of carry forwards may be limited in any fiscal year pursuant to Internal Revenue Code regulations. The carryforwards expire at various dates beginning in 2010 through 2011 if not utilized. As a result of the annual limitation, anticipated and future losses, all or a portion of these carryforwards may expire before becoming available to reduce the Company's federal income tax liabilities.

The Company is a development stage company engaged in the development of new and proprietary oral drug delivery technologies. Utilizing these technologies, the Company has developed two types of oral drug delivery systems, the GR System and the RI System. The GR System is designed to be retained in the stomach for an extended period of time while it delivers the incorporated drug or drugs and the RI System is designed to reduce the GI irritation that is a side effect of many drugs. In addition, the DepoMed Systems are designed to provide continuous, controlled delivery of an incorporated drug.

The Company intends to develop products utilizing the DepoMed Systems in collaboration with pharmaceutical and biotechnology companies, from which the Company expects to receive license fees, research and development funding, milestone payments and royalties. The Company also intends to develop independently certain OTC and generic oral drug products utilizing the DepoMed Systems.

The Company currently has a joint research and development agreement with BMS to develop a product incorporating a BMS proprietary compound into the GR System. In addition, the Company has entered into a feasibility study with GalaGen to use the GR System to enhance local effectiveness and/or provide continuous, controlled delivery of GalaGen's proprietary immunoglobulin products. The Company is also independently developing a reduced irritation aspirin product and enhanced absorption calcium supplement product and has identified certain other product candidates expected to benefit from the DepoMed Systems. In April 1997, the Company and Oakmont signed a letter of intent to enter into an agreement pursuant to which Oakmont will manufacture the Company's reduced irritation aspirin and enhanced absorption calcium supplement products and have rights to distribute and sell these products in territories to be determined. The letter of intent also provides for the Company and Oakmont each to offer rights to future products to the other party.

The DepoMed Systems include proprietary formulations of drug-containing polymeric units that allow multihour delivery of an incorporated drug continuously into the stomach either for prolonged, local treatment in the stomach or for enhanced absorption in the GI tract. The Company believes that the GR System has the ability to enhance the bioavailability (blood levels) of drugs that are preferentially absorbed in the stomach, allow for more effective treatment of local stomach disorders, and provide continuous and extended delivery of drugs to the upper part of the small intestine, the site where many drugs are absorbed most efficiently. The RI System is designed to reduce the irritation to the GI tract caused by many commonly used drugs, including aspirin. The Company believes the RI System has the potential to make such drugs less irritating and therefore more widely used.

In addition to the benefits described above, the Company believes that the DepoMed Systems may offer additional advantages including: multihour release rate patterns for drugs of almost any solubility and the ability to use drug combinations previously not feasible due to pharmacokinetic differences between drugs. The Company believes that by reducing the frequency of drug administration, use of the DepoMed Systems may lead to reduced costs and improved patient compliance. Also, by providing new formulations of existing products using the DepoMed Systems, the Company believes that it will be able to provide its collaborative partners with the ability to extend their patent franchises on such products.

The Company intends to have the DepoMed Systems used with as many pharmaceutical products as possible with an emphasis on pharmaceutical products which command a large market share or are in large market segments and where the Company believes the DepoMed Systems will provide an advantage over other drug delivery systems. The Company's primary strategy for the development and commercialization of the DepoMed Systems involves establishing collaborative relationships with pharmaceutical and biotechnology companies to develop improved therapeutic products. The Company also intends to develop improved generic and/or OTC products that utilize the DepoMed Systems either independently or jointly by entering into collaborative partnerships with pharmaceutical, biotechnology or other health care companies.

THE DRUG DELIVERY INDUSTRY

Drug delivery companies apply proprietary technologies to create new pharmaceutical products utilizing drugs developed by others. These products are generally novel, cost-effective dosage forms that provide any of several benefits including better control of drug concentration in the blood, improved safety and efficacy, improved patient compliance and ease of use. Drug delivery technologies can provide pharmaceutical companies with a means of developing new products as well as extending existing patent franchises.

The increasing need to deliver medication to patients efficiently and with fewer side effects has accelerated the pace of invention of new drug delivery systems and the development and maturation of the drug delivery industry. Today, medication can be delivered to a patient through many different delivery systems including transdermal, injection, implant and oral methods. However, these delivery methods continue to have certain limitations. Transdermal patches are often inconvenient to apply, can be irritating to the skin and the rate of release can be difficult to control. Injections are uncomfortable for most patients. In most cases both injections and implants must be administered in a hospital or physician's office and, accordingly, are frequently not suitable for home use. Oral administration remains the preferred method of administering medication. However, conventional oral drug administration also has limitations. Because capsules and tablets have limited effectiveness in providing controlled drug delivery, they frequently result in drug release that is too rapid, causing incomplete absorption of the drug, irritation to the GI tract and other side effects. In addition, they lack the ability to provide localized therapy. The need for frequent dosing of many drugs administered by capsules and tablets also can impede patient compliance with the prescribed regimen.

In recent years, drug delivery companies have been able to develop innovative and efficient solutions to some of the limitations of conventional oral drug administration. For example, the improved oral delivery system developed by ALZA in the 1980s reduced the side effects and dosing frequency of the hypertension drug, Procardia(R). The improved product, Procardia XL(R), has substantially increased the sales of the drug and, because of the new formulation, the patent franchise on Procardia(R) was extended. The Company believes that the DepoMed Systems have the potential to offer similar opportunities of improved therapy and extended patent life to pharmaceutical and biotechnology companies.

THE DEPOMED SYSTEMS

The DepoMed Systems are based on the Company's proprietary oral drug delivery technologies which are designed to include formulations of drug-containing polymeric units that allow multihour delivery of an incorporated drug. Although the Company's formulations are proprietary, the polymers utilized in the DepoMed Systems are commonly used in the food and drug industries. The Company has formulated these polymers into cylinders and spheres that are contained in gelatin capsules for ease of administration. By using different formulations of the polymers, the Company believes that the DepoMed Systems are able to provide continuous, controlled delivery of drugs of varying molecular complexity and solubility.

The DepoMed Systems are designed to address certain limitations of drug delivery and to provide for orally administered, conveniently dosed, cost-effective drug therapy that provides continuous, controlled delivery of a drug over a multihour period. The Company believes that the DepoMed Systems can provide one or more of the following therapeutic advantages over conventional methods of drug administration:

- Enhance Safety and Efficacy through Controlled Delivery. The Company believes that the DepoMed Systems may improve the ratio of therapeutic effect to toxicity by decreasing the initial peak concentrations of drug associated with toxicity, while maintaining levels of a drug at therapeutic, subtoxic concentrations for an extended period of time. Many drugs demonstrate optimal efficacy when concentrations are maintained at therapeutic levels over an extended period of time. When a drug is administered intermittently, the therapeutic concentration is often exceeded for some period of time, and then the concentration rapidly drops below effective levels. Excessively high concentrations are a major cause of side effects, and subtherapeutic concentrations are ineffective.

- Greater Patient and Caregiver Convenience. The Company believes that the DepoMed Systems may offer once-daily dosing for certain drugs that are currently required to be administered several times daily. Such once-daily dosing promotes compliance to dosing regimens. Patient noncompliance with dosing regimens has been associated with increased costs of medical therapies by prolonging treatment duration, increasing the likelihood of secondary or tertiary disease manifestation and contributing to over-utilization of medical personnel and facilities. By improving patient compliance, providers and third-party payors may reduce unnecessary expenditures and improve therapeutic outcomes.

- Expand Types of Drugs Capable of Oral Delivery. Some drugs, including certain proteins and peptides, because of their large molecular size and susceptibility to degradation in the GI tract, must currently be administered by injection or by continuous infusion, which is typically done in a hospital or other clinical setting. The Company believes the Depomed Systems may be able to deliver some of these drugs orally.

- Proprietary Reformulation of Generic Products. The Company believes that the DepoMed Systems may offer the potential to produce improved formulations of generic products. These proprietary formulations may be differentiated from existing generic products by virtue of reduced dosing requirements, improved efficacy, decreased toxicity or additional indications.

THE GASTRIC RETENTION SYSTEM

The GR System consists of a proprietary formulation of drug-containing polymeric cylinders which remain in the stomach for an extended period of time to provide continuous, controlled delivery of an incorporated drug. The GR System's design is based in part on principles of human gastric emptying and GI transit. Following a meal, liquids and small particles flow continuously from the stomach into the intestine leaving behind the larger nondigested particles until the digestive process is complete. As a result, drugs in liquid form or those consisting of small particles tend to empty rapidly from the stomach and continue into the intestine, often before the drug has time to act locally or to be absorbed. The drug-containing polymeric cylinders of the GR System are formulated into easily swallowed cylinder shapes which are designed to swell rapidly upon ingestion. The cylinders attain a size after ingestion sufficient to be retained in the stomach for multiple hours while delivering the drug content in solution.

The Company has demonstrated multihour gastric retention in humans who have been given the GR System with food. In addition, the Company is currently developing an enhanced version of the GR System designed to be retained in the stomach without the ingestion of food. This process is expected to allow for treatment regimens unrelated to meal times, as well as for retention that is more prolonged and with minimum patient to patient variation in retention time. The Company believes that this feature will make medical treatment less disruptive to a patient's normal schedule.

The expected advantages of the GR System over conventional oral drug delivery systems include the following:

More Efficient GI Drug Absorption. The Company believes that the GR System can be used for improved oral administration of drugs that are currently inadequately absorbed when delivered as conventional tablets or capsules. Many drugs are primarily absorbed in the stomach, duodenum or upper small intestine, through which drugs administered in conventional oral dosage forms pass quickly. In contrast, the GR System is designed to be retained in the stomach allowing for constant multihour flow of drugs to certain areas of the GI tract. Accordingly, for such drugs, the GR System offers a significantly enhanced opportunity for increased absorption. Unlike some insoluble systems, at the end of its useful life the polymer contained in the GR System dissolves and is passed through the GI tract and eliminated. Under its joint research agreement with BMS, the Company currently is developing a product utilizing this feature of the GR System. See "--Collaborative Relationships."

Gastric Delivery for Local Therapy and Absorption. The Company believes that the GR System can be used to deliver drugs which can efficiently eradicate GI-dwelling microorganisms, such as H. pylori, a cause of

ulcers, and C. parvum, the causative agent for cryptosporidiosis, a parasitic intestinal disorder which afflicts late stage AIDS patients. The Company is currently conducting a feasibility study with GalaGen on the use of the GR System for the local gastric delivery of immunoglobulin products which may be effective against these microorganisms. See "--Collaborative Relationships."

The Company is currently developing a calcium supplement product which utilizes the GR System. Calcium supplements are essential in the treatment of osteoporosis. It is estimated that 20 million people in the United States suffer from osteoporosis and that another 17 million people are at risk. New medications for this debilitating condition are effective but calcium supplementation is essential. In addition, it is estimated that 30 million people in the United States are under long-term treatment with corticosteroids, such as prednisone, which can cause significant bone loss. Accordingly, calcium supplementation is recommended as concomitant treatment with these drugs. Current calcium supplement products are mostly in the form of calcium carbonate, which is soluble only in an acidic medium and which consequently must be retained in the stomach for an extended period of time for efficient dissolution and subsequent absorption. However, conventional calcium carbonate products pass through the stomach too quickly for a significant amount of the calcium salt to dissolve. The Company believes that the GR System will provide for the more efficient dissolution and absorption of an orally administered calcium compound by keeping the product in the stomach for an extended period of time.

The Company believes that a possible future application of the GR System is the incorporation of a nonsystemic antacid into the GR System that would be designed to provide sustained local action. Although currently used antacid products are nonsystemic, their duration time is short. Accordingly, individuals who need through-the-night protection from excess stomach acid must resort to systemic antacids, such as Zantac(R) or Tagamet(R), which have a longer on-set of action. The Company believes that the GR System may be designed to provide continuous, controlled local delivery which is expected to allow for a nonsystemic antacid product with more immediate and sustained action. It is estimated that several million people in the United States regularly take antacids.

Rational Drug Combinations. The Company believes that the GR System may allow for rational combinations of drugs with different biological half-lives. Physicians frequently prescribe multiple drugs for treatment of a single medical condition. For example, a physician may prescribe captopril/hydrochlorothiazide or nifedipine/triampterine for a patient with a heart condition. Single product combinations have not been considered feasible because the different biological half-lives of these combination drugs would result in an overdosage of one drug and/or an underdosage of the other. By incorporating different drugs into different polymeric cylinders in the same capsule, the GR System is designed to release each of its incorporated drugs continuously at a rate and duration (dose) appropriately adjusted for the specific biological half-lives of the drugs. The Company believes that future rational drug combination products using the GR System have the potential to simplify drug administration, increase patient compliance, and reduce medical costs.

Potential for Oral Delivery of Peptides and Proteins. Based on laboratory studies conducted by the Company, the GR System is expected to protect drugs prior to their delivery in the stomach. This feature coupled with gastric retention could allow for continuous delivery of peptides and proteins (i.e., labile drugs) into the upper portion of the small intestine, the most likely site of possible absorption for many such drugs. It is expected that this mechanism will allow effective oral delivery of some drugs that currently require administration by injection. In addition, the Company believes that the GR System can be formulated to provide for continuous, controlled delivery of insoluble or particulate matter, including protein or antigen-laden vesicles, such as liposomes, and microspheres or nanoparticles.

THE REDUCED IRRITATION SYSTEM

The RI System is designed to provide for significant reduction in local GI irritation from the effects of certain drugs. Local tissue damage occurs when solid crystals of a drug remain at any one site of the GI tract for long periods of time. The RI System consists of an outer capsule, which is designed to rapidly disintegrate upon ingestion to deliver multiple small, spherical pellets. The pellets are composed of an inert matrix of polymeric

material in which the active ingredient is homogeneously dispersed in its solid state. The pellets persist for a period of time, but ultimately dissolve and the polymer is eliminated.

The RI System is designed to reduce irritation through three distinct mechanisms. First, the small spheres of the RI System are designed to deliver an incorporated drug in solution state, in contrast to a solid or crystalline state which may cause ulcers. Second, the dispersion of the spheres within the stomach contributes further to the dilution of the local drug effects. Third, controlled delivery contributes to the reduction of GI irritation by delivering the incorporated drug over a longer period of time. In addition to the reduced irritation aspirin that the Company is currently developing, the Company believes that other GI irritating compounds such as potassium chloride and erythromycin may benefit from the RI System.

The Company is currently developing an aspirin product which utilizes the RI System and is designed to reduce the GI irritation which is common when aspirin is administered in conventional tablet or capsule form. Aspirin usage has been expanding with important new medical indications, including the prevention and treatment of cardiovascular disease. Aspirin is widely recognized for its ability to cause damage to the GI tract and local irritation of the stomach and intestine which often relates to GI discomfort and a patient's intolerance to this drug. The irritation properties of aspirin are mostly local, not systemic in origin. Local damage begins and is sustained by high local drug concentration against the mucosa, particularly when aspirin is administered in a solid, crystalline state as from a rapidly dissolving tablet. These crystals in contact with the mucosa provide a stagnant pool of saturated drug solution against the cell walls, resulting in damage from both cellular mechanisms and from back diffusion of acid into the mucosal cells and into the submucosal capillaries, causing tissue necrosis and bleeding. To minimize local damage, the RI System is designed to deliver its drug in solution, in a controlled manner from a dispersion of polymeric units.

The figure below shows the results from a preliminary study completed for the Company by SRI International. Using a standard animal model (considered predictive of local GI irritation in humans), the irritant properties of aspirin were reduced by approximately 72% when delivered from the RI System, compared to the same dose of aspirin administered in conventional tablet form.

[FIGURE 2 APPEARS HERE]

PRODUCTS UNDER DEVELOPMENT

The following table summarizes the Company's principal product development initiatives:

DEPOMED SYSTEM	PROGRAM	PARTNER	POTENTIAL INDICATIONS	EXPECTED BENEFIT	STATUS
GR	BMS Proprietary Compound	Bristol-Myers Squibb Company	Confidential(1)	. Less frequent dosing	Phase I
GR	Anti-infective Immunoglobulin	GalaGen Inc.	C. parvum, intestinal infection	. Prolonged, continuous delivery for intestinal therapy	Feasibility
GR	Anti-infective Immunoglobulin	GalaGen Inc.	H. pylori gastric infection	. Prolonged, continuous delivery to gastric mucosa	Feasibility
GR	Calcium Supplement	In-house	Osteoporosis, other calcium deficiencies	. Improved calcium absorption	Pre-clinical
RI	Aspirin	In-house	Multiple, including cardiovascular therapy	. Reduced gastric irritation . Prolonged low dose delivery	Pre-clinical

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(1) The potential indication may not be disclosed pursuant to the terms of the agreement between the Company and BMS. See "--Collaborative Relationships."

BUSINESS STRATEGY

The Company intends to have the DepoMed Systems used with as many pharmaceutical products as possible with an emphasis on pharmaceutical products which command a large market share or are in large market segments and where the Company believes the DepoMed Systems will provide an advantage over other drug delivery systems.

The Company's primary strategy for the development and commercialization of the DepoMed Systems involves establishing collaborative relationships with pharmaceutical and biotechnology companies to develop improved therapeutic products. The products will be jointly developed, with the collaborative partner having primary responsibility to clinically test, manufacture, market and sell the products. The Company has retained and intends to continue to retain ownership of its technologies developed for its collaborative partners. The Company believes this practice will provide the Company with the flexibility of entering into collaborative arrangements with other potential partners should the initial partner decide not to pursue the commercialization of a particular product which utilizes the DepoMed Systems. The Company believes that its partnering strategy will enable it to reduce its cash requirements while developing a larger potential products portfolio. By providing new formulations of existing products using the DepoMed Systems, the Company believes that it will not only be able to offer such partners improved products but also may provide them with the ability to extend their patent franchises on such products. The Company believes that the potential for such renewed franchises will be especially attractive to pharmaceutical companies whose patents on existing products are close to expiration. In addition, the Company believes that the DepoMed Systems may offer pharmaceutical and biotechnology companies formulations for products based on new molecular entities, such as antigens and peptides, that can be safely and effectively administered orally. Collaborations with pharmaceutical and biotechnology companies are expected to provide near-term revenues from sponsored development activities and future revenues from license fees and royalties relating to the sale of products.

The Company also intends to develop improved generic and/or OTC products that utilize the DepoMed Systems either independently or jointly by entering into collaborative partnerships with pharmaceutical, biotechnology or other healthcare companies. To reduce costs and time-to market, the Company intends to select those products that treat indications with clear-cut clinical end-points and that are reformulations of existing compounds already approved by the FDA. The Company believes that products utilizing the DepoMed Systems will provide favorable product differentiation in the highly competitive generic and OTC drug product markets

at costs below those of other drug delivery systems, thereby enabling the Company and its collaborative partners to compete more effectively in marketing improved generic and OTC products. By funding the initial development costs of these improved products, the Company believes that it may be able to enter into collaborative marketing arrangements that provide higher royalty rates or other more favorable payment terms on product sales. The Company is also seeking to establish alliances with overseas sales and marketing partners for the initial sale of the Company's future generic products. The Company believes that due to the more favorable regulatory environments in some foreign countries, it may be able to generate revenues from these markets while awaiting FDA approval in the United States.

COLLABORATIVE RELATIONSHIPS

Bristol-Myers Squibb Company. In July 1996, the Company and BMS entered into a joint research agreement to develop a product incorporating a BMS proprietary compound into the GR System. Pursuant to the agreement, BMS has an option to obtain an exclusive, worldwide license to products incorporating the BMS compound utilizing the GR System. Based on a pharmacokinetic study in humans that was concluded in February, 1997, a dosage level (drug release rate and duration) for the product has been selected. Further clinical testing is now in progress, while process scale-up and manufacturing methodologies are being finalized. If such license is entered into, the Company will receive a royalty on net sales of the products as well as certain milestone payments. The option expires in February 1999. There can be no assurance, however, that BMS will exercise the option or that, if it does, any resulting product will be approved by the FDA or, if approved, will be commercialized.

GalaGen Inc. In May 1996, the Company and GalaGen entered into a feasibility study involving the use of the GR System to deliver oral immunoglobulin products developed by GalaGen. If the outcome of the feasibility study is favorable, the Company may enter into a development agreement with GalaGen. There can be no assurance, however, that such feasibility study will be concluded successfully, and even if successfully concluded that the Company will be able to enter into an agreement with GalaGen on reasonable commercial terms or at all.

Oakmont Pharmaceuticals, Inc. In April 1997, the Company and Oakmont signed a letter of intent to enter into an agreement pursuant to which Oakmont will manufacture the Company's reduced irritation aspirin and enhanced absorption calcium supplement products and have rights to distribute and sell these products in territories to be determined. The letter of intent also provides for the Company and Oakmont each to offer rights to future products to the other party. There can be no assurance that the Company and Oakmont will enter into a definitive agreement or, if they do, that the Company will be successful in developing these products or Oakmont will be successful in manufacturing, distributing or marketing them.

COMPETITION

Competition in the areas of pharmaceutical products and drug delivery systems is intense and is expected to become more intense in the future. Several other companies have developed or are developing novel technologies for oral drug delivery, and these competing technologies may prove superior, either generally or in particular market segments, in terms of factors such as cost, consumer satisfaction or drug delivery profile. The Company's principal competitors in the business of developing and applying drug delivery systems include companies, such as ALZA, Dura and Elan, all of which have substantially greater financial, technological, marketing, personnel and research and development resources than the Company. In addition, the Company may face competition from pharmaceutical and biotechnology companies that may develop or acquire drug delivery technologies. Many of the Company's potential collaborative partners have devoted and are continuing to devote significant resources in the development of their own drug delivery systems and technologies. Products incorporating the Company's technologies will compete both with products employing advanced drug delivery systems and with products in conventional dosage forms. New drugs or future developments in alternate drug delivery technologies may provide therapeutic or cost advantages over any potential products which utilize the DepoMed Systems. There can be no assurance that developments by others will not render any potential products utilizing the DepoMed

Systems noncompetitive or obsolete. In addition, the Company's competitive success will depend heavily on entering into collaborative relationships on reasonable commercial terms, commercial development of products incorporating the DepoMed Systems, regulatory approvals, protection of intellectual property and market acceptance of such products.

PATENTS AND PROPRIETARY RIGHTS

The Company's success will depend in part on its ability to obtain and maintain patent protection for its technologies and to preserve its trade secrets. It is the policy of the Company to file patent applications in the United States and foreign jurisdictions. The Company currently holds two issued United States and two foreign patents and has two United States and two foreign patent applications pending. No assurance can be given that the Company's patent applications will be approved or that any issued patents will provide competitive advantages for the DepoMed Systems or the Company's technologies or will not be challenged or circumvented by competitors. With respect to already issued patents and any patents which may issue from the Company's applications, there can be no assurance that claims allowed will be sufficient to protect the Company's technologies. Patent applications in the United States are maintained in secrecy until a patent issues, and the Company cannot be certain that others have not filed patent applications for technology covered by the Company's pending applications or that the Company was the first to file patent applications for such technology. Competitors may have filed applications for, or may have received patents and may obtain additional patents and proprietary rights relating to, compounds or processes that may block the Company's patent rights or compete without infringing the patent rights of the Company. In addition, there can be no assurance that any patents issued to the Company will not be challenged, invalidated or circumvented, or that the rights granted thereunder will provide proprietary protection or commercial advantage to the Company.

The Company also relies on trade secrets and proprietary know-how which it seeks to protect, in part, through confidentiality agreements with employees, consultants, collaborative partners and others. There can be no assurance that these agreements will not be breached, that the Company will have adequate remedies for any such breach or that the Company's trade secrets will not otherwise become known or be independently developed by competitors. Although potential collaborative partners and the Company's research partners and consultants are not given access to proprietary trade secrets and know-how of the Company until they have executed confidentiality agreements, these agreements may be breached by the other party thereto or may otherwise be of limited effectiveness or enforceability.

The ability to develop the Company's technologies and to commercialize products using such technologies will depend on not infringing the patents of others. Although the Company is not aware of any claim of patent infringement against it, claims concerning patents and proprietary technologies determined adversely to the Company could have a material adverse effect on the Company. In addition, litigation may also be necessary to enforce any patents issued or licensed to the Company or to determine the scope and validity of third-party proprietary rights. There can be no assurance that the Company's issued or licensed patents would be held valid by a court of competent jurisdiction. Whether or not the outcome of litigation is favorable to the Company, the cost of such litigation and the diversion of the Company's resources during such litigation could have a material adverse effect on the Company.

The pharmaceutical industry has experienced extensive litigation regarding patent and other intellectual property rights. Accordingly, the Company could incur substantial costs in defending itself in suits that may be brought against the Company claiming infringement of the patent rights of others or in asserting the Company's patent rights in a suit against another party. The Company may also be required to participate in interference proceedings declared by the United States Patent and Trademark Office for the purpose of determining the priority of inventions in connection with the patent applications of the Company or other parties. Adverse determinations in litigation or interference proceedings could require the Company to seek licenses (which may not be available on commercially reasonable terms) or subject the Company to significant liabilities to third parties, and could therefore have a material adverse effect on the Company.

MANUFACTURING, MARKETING AND SALES

The Company intends to develop products utilizing the DepoMed Systems for its collaborators and, in some cases, retain rights to manufacture commercial quantities of such products. The manufacture and incorporation of drugs into hydrophilic, polymer matrix pellets used in the DepoMed Systems is accomplished by using a variety of standard techniques. These include direct compression, compression using high speed rotary tablet press or, alternatively, by an extrusion/spheronization process. The Company does not have any internal manufacturing, marketing or sales resources. In view of its early stage of development and limited resources, the Company does not anticipate spending a material portion of the net proceeds of this Offering to acquire resources and develop capabilities in these areas. Although the Company intends to acquire pilot manufacturing equipment with a portion of the net proceeds of the Offering, the Company does not intend to acquire or establish its own dedicated manufacturing facilities for the foreseeable future. See "Use of Proceeds." Rather, the Company's manufacturing strategy will be to utilize the facilities of its collaborative partners, or to develop manufacturing relationships with established contract manufacturers to make products utilizing the DepoMed Systems. In addition, the Company does not intend to establish an internal sales and marketing capability, but will seek to rely on its collaborative partners or distributor arrangements to market and sell the products utilizing the DepoMed Systems. In April 1997, the Company and Oakmont signed a letter of intent to enter into an agreement pursuant to which Oakmont will manufacture the Company's reduced irritation aspirin and enhanced absorption calcium supplement products and have rights to distribute and sell these products in territories to be determined. There can be no assurance that the Company will be able to enter into manufacturing, marketing or sales agreements on reasonable commercial terms, or at all, with Oakmont or with another third party. Failure to do so could have a material adverse effect on the Company.

Manufacturers of products utilizing the DepoMed Systems will be subject to applicable cGMP requirements prescribed by the FDA or other rules and regulations prescribed by foreign regulatory authorities. There can be no assurance that the Company will be able to enter into manufacturing agreements either domestically or abroad with companies whose facilities and procedures comply with cGMP or applicable foreign standards. Should such agreements be entered into, the Company will be dependent on such manufacturers for continued compliance with cGMP and applicable foreign standards. Failure by a manufacturer of products utilizing the DepoMed Systems to maintain cGMP or applicable foreign standards could result in significant time delays or the inability of the Company to commercialize the DepoMed Systems and could have a material adverse effect on the Company. At the present time, due to ongoing consolidation in the chemical and pharmaceutical industries, the Company believes there is a worldwide excess of manufacturing capacity available to the Company. As a result, the Company believes that it will be able to enter into agreements with suppliers and manufacturers on reasonable commercial terms. However, there can be no assurance that there will be manufacturing capacity available to the Company at the time the Company is ready to commercialize products utilizing the DepoMed Systems. There also can be no assurance that any products utilizing the DepoMed Systems can be manufactured at a cost or in quantities required to make them commercially viable. The Company's inability to contract on acceptable terms and with qualified suppliers for the manufacture of any products or delays or difficulties in its relationships with manufacturers, would have a material adverse effect on the Company.

Contract manufacturers must adhere to cGMP regulations strictly enforced by the FDA on an ongoing basis through its facilities inspection program. Contract manufacturing facilities must pass a pre-approval plan inspection before the FDA will approve an NDA. Certain material manufacturing changes that occur after approval are also subject to FDA review and clearance or approval. There can be no assurance that the FDA or other regulatory agencies will approve the process or facilities by which any of the products utilizing the DepoMed Systems may be manufactured. The Company's dependence on third parties for the manufacture of products utilizing the DepoMed Systems may adversely affect the Company's ability to develop and deliver such products on a timely and competitive basis.

GOVERNMENT REGULATION

The Company is subject to regulation under various federal laws regarding pharmaceutical products and also various federal and state laws regarding, among other things, occupational safety, environmental protection, hazardous substance control and product advertising and promotion. In connection with its research and development activities, the Company is subject to federal, state and local laws, rules, regulations and policies governing the use, generation, manufacture, storage, air emission, effluent discharge, handling and disposal of certain materials and wastes. The Company believes that it has complied with these laws and regulations in all material respects and it has not been required to take any action to correct any material noncompliance.

FDA Approval Process. In the United States, pharmaceutical products, including any products utilizing the DepoMed Systems, are subject to rigorous regulation by the FDA. If a company fails to comply with applicable requirements, it may be subject to administrative or judicially imposed sanctions such as civil penalties, criminal prosecution of the company or its officers and employees, injunctions, product seizure or detention, product recalls, total or partial suspension of production and FDA refusal to approve pending new drug applications, premarket approval applications, or supplements to approved applications.

Prior to commencement of clinical studies involving human beings, preclinical testing of new pharmaceutical products is generally conducted on animals in the laboratory to evaluate the potential efficacy and the safety of the product. The results of these studies are submitted to the FDA as a part of an IND application, which must become effective before clinical testing in humans can begin. Typically, clinical evaluation involves a time consuming and costly three-phase process. In Phase I, clinical trials are conducted with a small number of subjects to determine the early safety profile and the pharmcokinetic pattern of a drug. In Phase II, clinical trials are conducted with groups of patients afflicted with a specific disease in order to determine preliminary efficacy, optimal dosages and expanded evidence of safety. In Phase III, large-scale, multi-center, comparative trials are conducted with patients afflicted with a target disease in order to provide enough data to demonstrate the efficacy and safety required by the FDA. The FDA closely monitors the progress of each of the three phases of clinical testing and may, at its discretion, re-evaluate, alter, suspend or terminate the testing based upon the data which have been accumulated to that point and its assessment of the risk/benefit ratio to the patient.

The results of the preclinical and clinical testing on a nonbiologic drug and certain diagnostic drugs are submitted to the FDA in the form of an NDA for approval prior to commencement of commercial sales. In responding to an NDA, the FDA may grant marketing approval, request additional information or deny the application if the FDA determines that the application does not satisfy its regulatory approval criteria. There can be no assurance that approvals will be granted on a timely basis, if at all. Failure to receive approval for any products utilizing the DepoMed Systems could have a material adverse effect on the Company.

OTC products subject to final monographs issued by the FDA are subject to various FDA regulations such as those outlining cGMP requirements, general and specific OTC labeling requirements (including warning statements), the restriction against advertising for conditions other than those stated in product labeling, and the requirement that in addition to approved active ingredients OTC drugs contain only suitable inactive ingredients. OTC products and manufacturing facilities are subject to FDA inspection, and failure to comply with applicable regulatory requirements may lead to administrative or judicially imposed penalties, as well as delays.

Other Regulations. Even if required FDA approval has been obtained with respect to a product, foreign regulatory approval of a product must also be obtained prior to marketing the product internationally. Foreign approval procedures vary from country to country and the time required for approval may delay or prevent marketing. In certain instances the Company or its collaborative partners may seek approval to market and sell certain of its products outside of the U.S. before submitting an application for U.S. approval to the FDA. The regulatory procedures for approval of new pharmaceutical products vary significantly among foreign countries. The clinical testing requirements and the time required to obtain foreign regulatory approvals may differ from that required for FDA approval. Although there is now a centralized EU approval mechanism in place, each EU

country may nonetheless impose its own procedures and requirements, many of which are time consuming and expensive, and some EU countries require price approval as part of the regulatory process. Thus, there can be substantial delays in obtaining required approval from both the FDA and foreign regulatory authorities after the relevant applications are filed, and approval in any single country may not be a meaningful indication that the product will thereafter be approved in another country.

PRODUCT LIABILITY

The Company's business involves exposure to potential product liability risks that are inherent in the production and manufacture of pharmaceutical products. Any such claims could have a material adverse effect on the Company. The Company does not currently have any product liability insurance. Although the Company has applied for product liability insurance, there can be no assurance that it will be able to obtain or maintain such insurance on acceptable terms, that the Company will be able to secure increased coverage as the commercialization of the DepoMed Systems proceeds or that any insurance will provide adequate protection against potential liabilities.

ADVISORS TO THE COMPANY

The Company has two groups of advisors that advise the Company on business and scientific issues and on future opportunities. As compensation for these services, the Company has granted the advisors options to purchase shares of the Company's Common Stock. These options vest over four years.

The Policy Advisory Board

Members of the Policy Advisory Board advise management of the Company on medical, regulatory and business issues relating to the Company.

Carl C. Peck, M.D. Dr. Peck is Professor of Pharmacology and Medicine and founding Director of the Center for Drug Development Science at Georgetown University Medical Center, Washington, D.C. Formerly he served as Assistant Surgeon General in the U.S. Public Health Service and as Director of the Center for Drug Evaluation and Research (CDER) at the FDA. Dr. Peck holds an M.D. degree from the University of Kansas. Dr. Peck advises the Company on drug development, experimental design and analysis, and regulatory affairs.

John Urquhart, M.D. Dr. Urquhart is Professor of Pharmacoepidemiology at Maastricht University in Maastricht, The Netherlands. He is also Chief Scientist of AARDEX, Ltd. in Zurich, Switzerland and Adjunct Professor of Biopharmaceutical Sciences at the University of California, San Francisco. Earlier he was Chief Scientist at ALZA, holding various management positions including President of ALZA Research. Dr. Urquhart holds an M.D. degree from Harvard University. Dr. Urquhart advises the Company on new product opportunities and product specifications.

James B. Wiesler. Mr. Wiesler is the retired Vice Chairman of the Bank of America, where he was in charge of global consumer banking. Mr. Wiesler currently serves as a director of Science Applications International Corporation and of the Sidney Kimmel Cancer Center in San Diego. Additionally, he serves on the Board of Trustees of Sharp Memorial Hospital and Alexian Brothers Hospital. Mr. Wiesler advises the Company on financial and business strategy issues.

The Development Advisory Board

Members of the Development Advisory Board provide the Company with expertise on medical, scientific and product development issues, including government regulations, clinical trial design and manufacturing issues related to the DepoMed Systems. In certain cases, the advisors also provide consulting services to the Company in their area of expertise in addition to their roles as advisors and will receive compensation for such consulting services.

Harriet Benson, Ph.D. Dr. Benson, who was until recently Vice President for Regulatory Affairs of ALZA, advises the Company on matters relating to state and federal compliance issues and other regulatory affairs.

Roy Kuramoto, Ph.D. Until his recent retirement, Dr. Kuramoto was Senior Vice President in charge of world-wide manufacturing operations for Syntex Corporation. Dr. Kuramoto advises the Company on issues related to pilot scale-up and manufacturing methodologies.

John Palmer, M.D., Ph.D. Dr. Palmer is Chairman Emeritus and Professor in the Department of Pharmacology, University of Arizona Medical School. Dr. Palmer advises the Company on matters related to preclinical study design and clinical pharmacology.

Virgil Place, M.D. Dr. Place is the founder and Chairman of Vivus, Inc., a medical device company. Dr. Place advises the Company on issues related to product design, regulatory procedures, and medical affairs.

EMPLOYEES

As of April 1, 1997, the Company had seven full-time employees. None of the Company's employees is represented by a collective bargaining agreement, nor has the Company experienced any work stoppage. The Company believes that its relations with its employees are good.

FACILITIES

The Company leases approximately 3,300 square feet in Foster City, California, under a lease which expires on February 28, 1999. The Company will need to lease additional space for laboratory, testing and pilot manufacturing facilities within the next 12 months following the date of this Prospectus. See "Use of Proceeds."

LEGAL PROCEEDINGS

The Company is not a party to any legal proceedings.

MANAGEMENT

EXECUTIVE OFFICERS AND DIRECTORS

The executive officers and directors of the Company and their ages as of March 31, 1997 are as follows:

NAME	AGE	POSITION
John W. Shell, Ph.D.	71	Founder, Chairman of the Board and Chief Scientific Officer
John W. Fara, Ph.D.	54	President, Chief Executive Officer and Director
John N. Shell	43	Vice President, Operations and Director
John F. Hamilton	52	Vice President, Finance and Chief Financial Officer
Judson A. Cooper(1)	38	Director
Joshua Schein, Ph.D.(1)	36	Director

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(1) Member of Audit Committee

John W. Shell, Ph.D., has served as Chairman of the Board of Directors of the Company since its inception in August 1995, and served as the Company's President and Chief Executive Officer from May 1995 to December 1996 when he became the Company's Chief Scientific Officer. Dr. Shell founded DSI in 1991, and served as its Chairman and Chief Executive Officer until its merger with M6 in 1994, and served as President of the DepoMed Division of M6 from March 1994 until May 1995. Prior to founding DSI, from 1987 until 1990 he was Vice President for Research at Johnson & Johnson's IOLAB division. His experience also includes eight years as a Senior Research Scientist at The Upjohn Company, six years as Director of Research for Allergan Pharmaceuticals and fifteen years with ALZA dating from its founding in 1968. Dr. Shell served as Vice President of ALZA Pharmaceuticals, and later as Vice President for Business Development for ALZA. Dr. Shell received B.A., B.S. and Ph.D. degrees from the University of Colorado.

John W. Fara, Ph.D., has served as a director of the Company since November 1995 and as its President and Chief Executive Officer since December 1996. From February 1990 to June 1996 he was President and Chief Executive Officer of Anergen, Inc., a biotechnology company. Prior to February 1990 he was President of Prototek, Inc., a biotechnology company ("Prototek"). Prior to his tenure at Prototek, he was Director of Biomedical Research and then Vice President of Business Development during ten years with ALZA. Dr. Fara received a B.S. from the University of Wisconsin and a Ph.D. from UCLA.

John N. Shell has served as a director of the Company since its inception in August 1995 and Director of Operations for the Company until December 1996, when he was named Vice President, Operations. From May 1994 to August 1995, Mr. Shell served in a similar capacity at the DepoMed Division of M6. Prior to 1994, Mr. Shell served as Materials Manager for Ebara International Corporation, a multi-national semiconductor equipment manufacturer, and as Materials Manager for ILC Technology, an electro-optics and electronics manufacturer. Mr. Shell received his B.A. from the University of California, Berkeley.

John F. Hamilton has served as the Company's Vice President, Finance and Chief Financial Officer since January 1997. Prior to joining the Company, Mr. Hamilton was Vice President and Chief Financial Officer of Glyko, Inc. and Glyko Biomedical Ltd., a carbohydrate instrument and reagents company from May 1992 to September 1996. Previously he was President and Chief Financial Officer of Protos Corporation, a drug design subsidiary of Chiron Corporation, from June 1988 to May 1992 and held various positions with Chiron Corporation, including Treasurer, from September 1987 to May 1992. Mr. Hamilton received a B.A. from the University of Pennsylvania and an M.B.A. from the University of Chicago.

Judson A. Cooper has served as a director of the Company since August 1995. Mr. Cooper has been a private investor since September 1993. Prior to 1993, Mr. Cooper served for two years as a Vice President of D. Blech and Company, a merchant bank. Mr. Cooper is a graduate of the Kellogg School of Management.

Joshua Schein, Ph.D., has served as a director of the Company since December 1995. Since 1994 Dr. Schein has served as a Vice President of Investment Banking at Josephthal Lyon and Ross Incorporated, and from 1991 until 1994 as a Vice President at D. Blech and Company. Dr. Schein received a Ph.D. in neurosciences from the Albert Einstein College of Medicine, and an M.B.A. from Columbia University Graduate School of Business.

BOARD OF DIRECTORS COMMITTEES AND OTHER INFORMATION

All directors are elected at the annual meeting of shareholders and hold office until the election and qualification of their successors at the next annual meeting of shareholders. Officers of the Company serve at the discretion of the Board of Directors. Mr. John N. Shell is Dr. Shell's son. There are no other family relationships.

The Board currently has an Audit Committee. The Audit Committee oversees the actions taken by the Company's independent auditors and reviews the Company's internal financial and accounting controls and policies.

DIRECTOR COMPENSATION

Directors do not currently receive any cash compensation from the Company for their services as members of the Board of Directors, although they are reimbursed for certain expenses in connection with their attendance at meetings of the Board of Directors. Upon his election to the Board of Directors in 1995, John W. Fara received an option to purchase 16,666 shares of Common Stock at an exercise price of $0.09 per share.

EXECUTIVE COMPENSATION

The following table sets forth certain compensation paid by the Company in the fiscal year ended December 31, 1996 to the Company's Chief Executive Officer and former Chief Executive Officer (now the Company's Chairman and Chief Scientific Officer) (collectively, the "Named Executive Officers"). No other executive officer earned in excess of $100,000 during fiscal 1996.

SUMMARY COMPENSATION TABLE

		LONG-TERM COMPENSATION
		AWARDS
	ANNUAL COMPENSATION	COMMON STOCK
NAME AND PRINCIPAL POSITION	SALARY($)	UNDERLYING OPTIONS (#)
John W. Fara, President and Chief Executive Officer(1)	$ 21,917(2)	83,333
John W. Shell, Chairman and Chief Scientific Officer(3)	185,000	--

(1) Dr. Fara became President and Chief Executive Officer in December 1996. Dr. Fara devoted 40% of his time to the Company until February 1997, when he assumed his duties on a full-time basis.
(2) Includes $15,750 that Dr. Fara received in connection with services performed as a consultant to the Company prior to his appointment as President and Chief Executive Officer.
(3) Dr. Shell served as President and Chief Executive Officer of the Company until December 1996.

The following table provides information concerning grants of options to purchase the Company's Common Stock made to each of the Named Executive Officers during the fiscal year ended December 31, 1996.

OPTION GRANTS IN LAST FISCAL YEAR

	INDIVIDUAL GRANTS					
NAME	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED (2)(3)	PERCENT OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN FY-1996 (4)	EXERCISE PRICE ($/SH) (5)	EXPIRATION DATE	POTENTIAL REALIZED VALUE AT ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR OPTION TERM (1) 5%	10%
John W. Fara.....	83,333	96%	$0.90	10/25/06	$ 47,167	$ 119,531
John W. Shell.....	--	--	--	--	--	--

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(1) Amounts represent hypothetical gains that could be achieved for the respective options if exercised at the end of the option term. The assumed 5% and 10% rates of stock price appreciation are mandated by rules of the Securities and Exchange Commission and do not represent the Company's estimate or projection of the future Common Stock price.

(2) The options reflected in this table were all granted under the Stock Plan. The date of grant is 10 years prior to the expiration date listed. For additional material terms of the options, see "Management--1995 Stock Option Plan."

(3) The options vest at a rate of 25% per year over four years from the grant date.

(4) Based on an aggregate of 86,667 options granted to employees of the Company in fiscal 1996.

(5) The exercise price per share of options granted represented the fair value of the underlying shares of Common Stock on the dates the options were granted as determined by the Board of Directors. The Company's Common Stock was not traded publicly at the time of the option grants to the Named Executive Officers.

None of the Named Executive Officers exercised options to purchase Common Stock during the year ended December 31, 1996. The following table sets forth certain information regarding the value of exercised and unexercised stock options held by each of the Named Executive Officers as of December 31, 1996.

AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR AND FISCAL YEAR-END OPTION VALUES

	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT DECEMBER 31, 1996		VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT DECEMBER 31, 1996(1)	
NAME	EXERCISABLE	UNEXERCISABLE	EXERCISABLE	UNEXERCISABLE
John W. Fara.....	4,167	95,883	$27,085	$546,792
John W. Shell.....	--	--	--	--

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(1) The value of the options is based upon the difference between the exercise price and the assumed value of $6.50 per share, the midpoint of the range of the estimated initial public offering price set forth on the cover of this Prospectus.

1995 STOCK OPTION PLAN

The Stock Plan was adopted by the Board of Directors and approved by the shareholders in September 1995 and subsequently amended. As of March 31, 1997, a total of 416,667 shares of Common Stock have been reserved for issuance under the Stock Plan. As of March 31, 1997, options to purchase a total of 91,667 shares of Common Stock had been exercised, options to purchase a total of 196,667 shares at a weighted average exercise price of $1.64 per share were outstanding, and 128,333 shares remain available for future option grants.

The purpose of the Stock Plan is to attract, retain and motivate officers, key employees, consultants and directors of the Company by giving them the opportunity to acquire stock ownership in the Company. The Stock Plan provides for the granting to employees of the Company (including officers and employee directors) of "incentive stock options" within the meaning of Section 422 of the Code and for the grant of nonstatutory stock options to employees and consultants of the Company. To the extent an optionee would have the right in any calendar year to exercise for the first time incentive stock options for shares having an aggregate fair market value (under all plans of the Company and determined for each share as of the grant date) in excess of $100,000, any such excess options shall be automatically converted to a nonstatutory stock option.

The Stock Plan is administered by the Board of Directors or a committee of the Board of Directors (the "Administrator"). The Administrator determines the type and terms of options and purchase rights granted under the Stock Plan, including the number of shares covered, exercise price, term and condition for exercise of the option. The exercise price of all stock options granted under the Stock Plan must be at least 100% of the fair market value of the Common Stock of the Company on the grant date. The term of an incentive stock option may not exceed ten years from the date of grant. With respect to any participant who owns stock possessing more than 10% of the voting power of all classes of stock of the Company, the exercise price of any stock option granted shall be at least 110% of the fair market value of the Common Stock on the grant date and the term of such option may not exceed five years. Payment of the exercise price may be in cash, check, or, at the discretion of the administrator, by promissory notes or shares of stock held by the optionee, or a combination thereof.

No option may be transferred by the optionee other than by will or the laws of descent and distribution or pursuant to a qualified domestic relations order ("QDRO"). During the lifetime of an optionee, only the optionee (or the optionee's spouse pursuant to a QDRO) may exercise an option. An option shall be exercisable on or after each vesting date in accordance with the terms set forth in the option agreement; provided, however, that the right to exercise an option must vest at the rate of at least 20% per year over five years from the grant date.

In the event of certain changes in control of the Company or a sale of substantially all its assets, the Administrator may cancel each outstanding option upon payment in cash to the optionee of the amount by which any cash and any other property which the optionee would have received for the shares of stock covered by the vested portion of the option exceeds the exercise price of the option. The Board may amend, suspend or terminate the Stock Plan as long as such action does not adversely affect any outstanding option or purchase right and provided that shareholder approval shall be required for any amendment to (i) increase the number of shares subject to the Stock Plan, (ii) materially change eligibility for the grant of options or purchase rights, or (iii) materially increase the benefits accruing to participants. If not terminated earlier, the Stock Plan will terminate in 2005.

LIMITATION OF LIABILITY AND INDEMNIFICATION MATTERS

The Company's Articles of Incorporation limit the liability of directors for monetary damages to the maximum extent permitted by California law. Such limitation of liability has no effect on the availability of equitable remedies, such as injunctive relief or recission. The Company is also empowered under its Articles of Incorporation to enter into indemnification agreements with its director and officers and to purchase insurance on behalf of any person whom it is required to indemnify. The Company's Bylaws provide that the Company will indemnify its directors and officers as a contractual obligation and may indemnify its employees and agents against certain liabilities to the fullest extent permitted by California law. The Company has entered into indemnification agreements with each of its current directors and officers.

CERTAIN TRANSACTIONS

In March 1994, DepoMed Systems, Inc. ("DSI") a company founded and principally owned by Dr. John W. Shell was merged into M6 Pharmaceuticals, Inc. ("M6"). In July 1995 DSI and Dr. Shell instituted an action against M6 relating to the merger and related events. In August 1995, pursuant to a settlement agreement (the "Settlement Agreement") between DSI and Dr. Shell, on the one hand, and M6, on the other hand, M6 transferred all of the intellectual property and other technology assets of DSI to the Company, and the Company assumed certain liabilities related thereto.

In September 1995, the Company issued 2,066,667 shares of its Common Stock to Dr. Shell and other shareholders of DSI in cancellation of the M6 stock received in the merger.

In September 1995, the Company issued 1,196,491 shares of Common Stock to CSO Ventures LLC ("CSO") in consideration of the prior agreement of CSO to lend the Company $100,000 to finance the litigation against M6 and to assist the Company in its initial financing. In September 1995, the Company also entered into a consulting agreement with CSO, pursuant to which CSO provided financial advisory services to the Company for an annual fee of $120,000. The consulting agreement terminated in September 1996. In March 1997, the Company entered into a consulting agreement with CSO which provides for business development, operations and financial advisory services to be performed by CSO for an annual fee of $120,000. The agreement has a term of one year and is renewed automatically unless terminated by either party with 60 days written notice. Dr. Schein and Mr. Cooper are members of CSO and also are directors of the Company.

In November 1995, the Company sold 1,025,000 shares of Series A Preferred Stock to David P. Ash and 815,000 shares of Series A Preferred to Amore Perpetuo, Inc., each a principal shareholder of the Company. In February 1997, the Company sold 25,000 shares of Series B Preferred Stock to John F. Hamilton, the Company's Chief Financial Officer. See "Principal Shareholders."

Pursuant to the terms of the Settlement Agreement, the Company assumed two promissory notes issued to Dr. Shell by DSI in December 1992 and December 1993 for the aggregate principal amount of $100,667 (the "DSI Notes"). In November 1996, the Company issued a promissory note to Dr. Shell (the "1996 Note" and together with the DSI Notes the "Shell Notes") for the principal amount of $50,000. The Shell Notes bear interest at 6% per annum. The Shell Notes will become due and payable upon completion of this Offering. As of December 31, 1996, the aggregate principal amount and related interest on the Shell Notes totaled $171,488. The Company intends to repay the Shell Notes with a portion of the net proceeds from this Offering. See "Use of Proceeds."

Pursuant to the terms of the Settlement Agreement, the Company assumed promissory notes (the "Stern Notes") issued to Julian N. Stern, Secretary of the Company, by DSI. The Stern Notes bear interest at 6.5% per annum. The Stern Notes will become due and payable upon completion of this Offering. The Company intends to repay the Stern Notes with a portion of the net proceeds from this Offering. As of December 31, 1996, the aggregate principal amount of the Stern Notes and related interest totaled $122,750. See "Use of Proceeds."

PRINCIPAL SHAREHOLDERS

The following table sets forth certain information regarding the beneficial ownership of the Company's Common Stock as of March 31, 1997 and, as adjusted to reflect the sale of the Securities offered hereby, by (i) each person who is known by the Company to own beneficially more than 5% of the Company's Common Stock, (ii) each of the Company's directors, (iii) each of the Named Executive Officers, and (iv) by all current directors and executive officers as a group.

NAME OF BENEFICIAL OWNER	SHARES BENEFICIALLY OWNED (1)(2)	PERCENT BEFORE OFFERING (2)	PERCENT AFTER OFFERING (2)
CSO Ventures LLC (3).....	1,196,491	28.1%	17.7%
Cygnus Therapeutics Systems (4).....	400,000	9.4	5.9
David P. Ash (5).....	341,667	8.0	5.1
Amore Perpetuo, Inc. (6).....	271,666	6.4	4.0
John W. Shell (7).....	1,566,666	36.7	23.2
John N. Shell (8).....	502,083	11.8	7.4
John W. Fara (9).....	4,167	*	*
Judson A. Cooper (10).....	1,196,491	28.1	17.7
Joshua Schein (10).....	1,196,491	28.1	17.7
All directors and executive officers as a group (6 persons) (11)..	3,277,741	76.8	50.3

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* Less than one percent of the outstanding shares of Common Stock.

(1) Assumes no exercise of the Over-Allotment Option. Except pursuant to applicable community property laws or as indicated in the footnotes to this table, to the Company's knowledge, each shareholder identified in the table possesses sole voting and investment power with respect to all shares of Common Stock shown as beneficially owned by such shareholder.

(2) Applicable percentage of ownership for each shareholder is based on 4,263,447 shares of Common Stock outstanding as of March 31, 1997, together with applicable options for such shareholders. Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission, and includes voting and investment power with respect to the shares. Shares of Common Stock subject to outstanding options are deemed outstanding for computing the percentage of ownership of the person holding such options, but are not deemed outstanding for computing the percentage ownership of any other person.

(3) CSO Ventures LLC's ("CSO") address is 666 3rd Avenue, 30th Floor, New York, New York 10017.

(4) These shares are being held by Dr. John W. Shell for delivery to Cygnus Therapeutics Systems ("Cygnus") if certain conditions are met, including the timely tender for cancellation of certificates representing shares of M6 held by Cygnus.

(5) Includes 30,000 shares of Common Stock held by the children of Mr. Ash.

(6) Amore Perpetuo, Inc.'s address is 4616 West Sahara Avenue #65, Las Vegas, Nevada 89012.

(7) Dr. Shell's address is 1170 B Chess Drive, Foster City, California 94404. Includes 400,000 shares of Common Stock held on behalf of Cygnus, of which Dr. Shell disclaims beneficial ownership. See footnote 4.

(8) Includes 2,083 shares of Common Stock issuable upon exercise of outstanding options which will vest within 60 days of March 31, 1997. Mr. Shell's address is 1170 B Chess Drive, Foster City, California 94404.

(9) Represents 4,167 shares of Common Stock issuable upon exercise of outstanding options which will vest within 60 days of March 31, 1997. Dr. Fara's address is 1170 B Chess Drive, Foster City, California 94404.

(10) Represents shares beneficially owned by CSO, of which Mr. Cooper and Dr. Schein disclaim beneficial ownership.

(11) Includes 6,250 shares of Common Stock issuable upon exercise of outstanding options which will vest within 60 days of March 31, 1997. Also includes 1,196,491 shares owned by CSO, of which Mr. Cooper and Dr. Schein disclaim beneficial ownership and 8,333 shares of Common Stock held by John F. Hamilton, the Company's Chief Financial Officer.

DESCRIPTION OF SECURITIES

The following description of the securities of the Company and certain provisions of the Company's Articles of Incorporation and Bylaws to be effective upon completion of the Offering is a summary and is qualified in its entirety by the provisions of the Articles of Incorporation and Bylaws, which have been filed as exhibits to the Company's Registration Statement, of which this prospectus is a part.

Upon the closing of the Offering, the authorized capital stock of the Company will consist of 25,000,000 shares of Common Stock, no par value and 5,000,000 shares of Preferred Stock, no par value (the "Preferred Stock").

COMMON STOCK

Upon completion of this Offering, there will be 6,763,447 shares of Common Stock issued and outstanding. Holders of Common Stock are entitled to one vote per share on all matters to be voted upon by the shareholders of the Company. Subject to the preferences that may be applicable to any future shares of Preferred Stock outstanding, the holders of Common Stock are entitled to receive ratably such dividends, if any, as may be declared by the Board of Directors out of funds legally available therefor. In the event of liquidation, dissolution or winding up of the Company, the holders of Common Stock are entitled to share ratably in all assets remaining after payment of liabilities, subject to the prior liquidation rights of any future shares of Preferred Stock outstanding. The holders of Common Stock have no preemptive, redemption, conversion, sinking fund or other subscription rights. The outstanding shares of Common Stock are, and the shares offered by the Company in the Offering will be, when issued and paid for, fully paid and nonassessable. The rights, preferences and privileges of holders of Common Stock are subject to, and may be adversely affected by, the rights of the holders of shares of any series of Preferred Stock which the Company may designate and issue in the future.

PREFERRED STOCK

Upon the closing of this Offering, the Board of Directors will have the authority, without further action by the shareholders, to issue up to 5,000,000 shares of Preferred Stock in one or more series and to fix the rights, preferences, privileges and restrictions thereof, including dividend rights, conversion rights, voting rights, terms in redemption, liquidation preferences, sinking fund terms and the number of shares constituting any series or the designation of such series without any further vote or action by the shareholders. The issuance of Preferred Stock could adversely affect the voting power of holders of Common Stock and the likelihood that such holders will receive dividend payments and payments upon liquidation and could have the effect of delaying, deferring or preventing a change in control of the Company. The Company has no present plans to issue any shares of Preferred Stock.

BRIDGE WARRANTS

Each Bridge Warrant entitles the registered holder thereof to purchase, at anytime during the four year period commencing 12 months after the date of this Prospectus, one share of Common Stock at the initial public offering price of the Company's Common Stock, subject to adjustment upon the occurrence of certain events such as combinations or reclassifications of the Common Stock. The holders of the Bridge Warrants are also entitled to certain registration rights. See "--Registration Rights."

WARRANTS

The following is a brief summary of certain provisions of the Warrants, but such summary does not purport to be complete and is qualified in all respects by reference to the actual text of the Warrant Agreement between the Company, and Continental Stock Transfer & Trust Company (the "Warrant Agent"), a copy of which has been filed as an exhibit to the Registration Statement of which this Prospectus is a part.

Exercise Price and Terms. Each Warrant entitles the registered holder thereof to purchase, at any time commencing , 1998 [12 months after the date of this Prospectus], until , 2002 [5 years after the date of this Prospectus], one share of Common Stock at a price of $ per share [140% of the initial public offering price per share of Common Stock], subject to adjustment in accordance with the anti-dilution provisions referred to below. The holder of any Warrant may exercise such Warrant by surrendering the certificate representing the Warrant to the Warrant Agent, with the subscription form thereon properly completed and executed, together with payment of the exercise price. The Warrants may be exercised at any time in whole or in part at the applicable exercise price until the expiration of the Warrants. No fractional shares will be issued upon the exercise of the Warrants. The exercise price of the Warrants bears no relationship to any objective criteria and should in no event be regarded as an indication of any future market price of the securities offered hereby.

Adjustments. The exercise price and the number of shares of Common Stock purchasable upon the exercise of the Warrants are subject to adjustment, upon the occurrence of certain events, including stock dividends, stock splits, combinations or reclassifications of the Common Stock or for a period of two years from the date of this Prospectus, the sale by the Company of shares of its Common Stock or other securities convertible into Common Stock at a price below the initial public offering price of the Common Stock, excluding shares of Common Stock issued in connection with incentive or benefit plans of the Company and strategic alliances. Additionally, an adjustment will be made in the case of a reclassification or exchange of Common Stock, consolidation or merger of the Company with or into another corporation (other than a consolidation or merger in which the Company is the surviving corporation) or sale of all or substantially all of the assets of the Company, in order to enable warrantholders to acquire the kind and number of shares of stock or other securities or property receivable in such event by a holder of the number of shares of Common Stock that might have been purchased upon the exercise of the Warrant.

Redemption Provisions. Commencing , 1998 [18 months after the date of this Prospectus], the Warrants are subject to redemption at $.10 per Warrant on 30 days' prior written notice provided that the average closing sales price of the Common Stock as reported on the AMEX equals or exceeds $ per share [150% of the initial public offering price of the Common Stock] (subject to adjustment for stock dividends, stock splits, combinations or reclassifications of the Common Stock), for any 20 trading days within a period of 30 consecutive trading days ending on the fifth trading day prior to the date of the notice of redemption. In the event the Company exercises the right to redeem the Warrants, such Warrants will be exercisable until the close of business on the business day immediately preceding the date for redemption fixed in such notice. If any Warrant called for redemption is not exercised by such time, it will cease to be exercisable and the holder will be entitled only to the redemption price.

Transfer, Exchange and Exercise. The Warrants are in registered form and may be presented to the Warrant Agent for transfer, exchange or exercise at any time on or prior to their expiration date five years from the date of this Prospectus, at which time the Warrants become wholly void and of no value. If a market for the Warrants develops, the holder may sell the Warrants instead of exercising them. There can be no assurance, however, that a market for the Warrants will develop, or if it develops, that it will continue.

Warrantholders Not Shareholders. The Warrants do not confer upon holders any voting, dividend or other rights as shareholders of the Company.

Modification of Warrants. The Company and the Warrant Agent may make such modifications to the Warrants as they deem necessary and desirable that do not adversely affect the interests of the warrantholders. The Company may, in its sole discretion, lower the exercise price of the Warrants for a period of not less than 30 days on not less than thirty (30) days' prior written notice to the warrantholders and the Representative. Modification of the number of securities purchasable upon the exercise of any Warrant, the exercise price and the expiration date with respect to any Warrant requires the consent of two-thirds of the warrantholders.

The Warrants are not exercisable unless, at the time of the exercise, the Company has a current prospectus covering the shares of Common Stock issuable upon exercise of the Warrants, and such shares have been registered, qualified or deemed to be exempt under the securities laws of the state of residence of the exercising

holder of the Warrants. Although the Company will use its best efforts to have all of the shares of Common Stock issuable upon exercise of the Warrants registered or qualified on or before the exercise date and to maintain a current prospectus relating thereto until the expiration of the Warrants, there can be no assurance that it will be able to do so.

The Warrants are separately transferable immediately upon issuance. Although the Securities will not knowingly be sold to purchasers in jurisdictions in which the Securities are not registered or otherwise qualified for sale, purchasers may buy Warrants in the aftermarket or may move to jurisdictions in which the shares underlying the Warrants are not so registered or qualified during the period that the Warrants are exercisable. In this event, the Company would be unable to issue shares to those persons desiring to exercise their Warrants and holders of Warrants would have no choice but to attempt to sell the Warrants in a jurisdiction where such sale is permissible or allow them to expire unexercised.

REGISTRATION RIGHTS

Certain holders of the Common Stock or their transferees are entitled to certain rights with respect to the registration of shares under the Securities Act. Registration rights are held with respect to 92,834 shares of Common Stock to be issued upon conversion of the Company's Series B Preferred Stock upon consummation of this Offering under the terms of the agreements between the Company and holders of Series B Preferred Stock (the "Registrable Securities"). Subject to certain limitations in such agreements, the holders of Registrable Securities have "piggyback" rights to request that their shares be registered for public resale with respect to up to four registrations of the Company's securities. However, if such piggyback rights are exercised in connection with an underwritten offering of the Company's Common Stock, the underwriter of such offering has the right to reduce to 20% of the total the number of such shares to be included in such public offering or, in the case of the initial public offering, to exclude such shares entirely. In addition, at a time when the Company is eligible to register securities on Form S-3, holders of Registrable Securities not already registered may demand that the Company file a Form S-3, provided that the aggregate offering price of the Registrable Securities would be at least $1,000,000. The Company will pay certain expenses in connection with the exercise of the foregoing rights. These registration rights expire five years after an initial public offering of the Company's securities.

Registration rights are also held with respect to 76,923 shares of Common Stock (assuming an initial public offering price of $6.50) issuable upon exercise of the Bridge Warrants (the "Bridge Shares") under the terms of the agreement between the Company and holders of the Bridge Warrants. Subject to certain limitations in such agreement, the holders of Bridge Shares have the right to require the Company, on one occasion, to register the Bridge Shares under the Securities Act. In addition, the holders of the Bridge Shares have "piggyback" rights to request that their shares be registered for public resale with respect to one registration of the Company's securities. However, if such piggyback registration rights are exercised in connection with an underwritten offering of the Company's Common Stock, the underwriter of such offering has the right to reduce or eliminate such shares to be included in such public offering. The Company will pay certain expenses (excluding underwriting discounts and commissions) relating to such registrations.

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for the Company's Common Stock and the Warrant Agent for the Warrants is Continental Stock Transfer & Trust Company, New York, New York.

SHARES ELIGIBLE FOR FUTURE SALE

Upon completion of this Offering, the Company will have 6,763,447 shares of Common Stock outstanding, of which the 2,500,000 shares offered hereby (and the 1,250,000 Warrants) will be transferable without restriction under the Securities Act. The other 4,263,447 outstanding shares of Common Stock are "restricted securities" (as that term is defined in Rule 144 promulgated under the Securities Act) which may be publicly sold only if registered under the Securities Act or if sold in accordance with an applicable exemption from registration, such as Rule 144. In general, under the revised holding period requirements of Rule 144, subject to the satisfaction of certain other conditions, a person, including an affiliate of the Company, who has beneficially owned restricted securities for at least one year, is entitled to sell (together with any person with whom such individual is required to aggregate sales) within any three-month period, a number of shares that does not exceed the greater of 1% of the total number of outstanding shares of the same class, or, if the Common Stock is quoted on the Nasdaq Stock Market or another national securities exchange, the average weekly trading volume during the four calendar weeks preceding the sale. Sales under Rule 144 are also subject to certain manner of sale provisions, notice requirements, and the availability of current public information regarding the Company. A person who has not been an affiliate of the Company for at least three months, and who has beneficially owned restricted securities for at least two years, is entitled to sell such restricted shares under Rule 144(k) without regard to any of the limitations described above.

Subject to certain limitations on the aggregate offering price of a transaction and other conditions, Rule 701 generally may be relied upon with respect to the sale of shares purchased from the Company by its employees, directors, officers or consultants prior to the date of this Prospectus pursuant to written compensatory benefit plans such as the Stock Plan and written contracts such as option agreements. Rule 701 is also available for sales of shares acquired by persons pursuant to the exercise of options granted prior to the effective date of this Prospectus, regardless of whether the option exercise occurs before or after the effective date of this Prospectus. Securities issued in reliance on Rule 701 are "restricted securities" within the meaning of Rule 144 and, beginning 90 days after the date of this Prospectus, may be sold by persons other than affiliates of the Company subject only to the manner of sale provisions of Rule 144 and by affiliates under Rule 144 without compliance with its one-year minimum holding period requirement.

Options granted under the Stock Plan to purchase a total of 196,667 shares of Common Stock are currently outstanding, and options to purchase an additional 128,333 shares of Common Stock are reserved for future issuance under the Stock Plan. Of the options granted under the Stock Plan, 7,083 of such options were currently exercisable as of March 31, 1997, with the remaining outstanding options to become exercisable at the rate of 28,750 options in 1997 and 49,167 in each of 1998 and 1999, and 62,500 options in 2000 and thereafter. Shares of Common Stock issued upon the exercise of outstanding options will be "restricted securities" and may not be sold in the absence of registration under the Securities Act unless an exemption from registration is available. Potential exemptions include those available under Rule 144 and Rule 701.

No prediction can be made as to the effect that future sales of Common Stock, or the availability of shares of Common Stock for future sale, will have on the market prices of the Common Stock and Warrants prevailing from time to time. Pursuant to the Lock-Up Agreements, the Company, all officers and directors of the Company and all holders of outstanding securities exercisable for or convertible into Common Stock have agreed not to, directly or indirectly, issue, agree or offer to sell, transfer, assign, distribute, grant an option for purchase or sale of, pledge, hypothecate or otherwise encumber or dispose of any beneficial interest in such securities for a period of 12 months following the date of this Prospectus without the prior written consent of the Representative. Assuming that the Representative does not release the shareholders from the Lock-Up Agreements, after the Lock-Up Period all of the shares will be eligible for sale in the public market. Of such shares, 3,355,991 shares of Common Stock will be eligible for sale under Rule 144 (subject to volume limitations imposed by such rule), 815,789 shares of Common Stock will be eligible for sale under Rule 144(k), and 91,667 shares will be eligible for sale under Rule 701. The sale or issuance, or the potential for sale or issuance, of Common Stock after such 12-month period could have an adverse impact on the market prices of the Common Stock and/or the Warrants. Sales of substantial amounts of Common Stock or the perception that such sales could occur could adversely affect prevailing market prices for the Common Stock and/or the Warrants. See "Underwriting."

UNDERWRITING

The Underwriters named below (the "Underwriters"), for whom National Securities Corporation is acting as representative (in such capacity, the "Representative"), have severally agreed, subject to the terms and conditions of the Underwriting Agreement (the "Underwriting Agreement"), to purchase from the Company and the Company has agreed to sell to the Underwriters on a firm commitment basis, the respective number of shares of Common Stock and Warrants set forth opposite their names:

UNDERWRITERS	NUMBER OF SHARES	NUMBER OF WARRANTS
National Securities Corporation.....		
Total.....	2,500,000	1,250,000

The Underwriters are committed to purchase all the shares of Common Stock and Warrants offered hereby, if any of such Securities are purchased. The Underwriting Agreement provides that the obligations of the several Underwriters are subject to conditions precedent specified therein.

The Company has been advised by the Representative that the Underwriters propose initially to offer the Securities to the public at the initial public offering prices set forth on the cover page of this Prospectus and to certain dealers at such prices less concessions not in excess of $ per share of Common Stock and $ per Warrant. Such dealers may reallow a concession not in excess of $ per share of Common Stock and $ per Warrant to certain other dealers. After the commencement of the Offering, the public offering price, concession and reallowance may be changed by the Representative.

The Representative has informed the Company that it does not expect sales to discretionary accounts by the Underwriters to exceed five percent of the Securities offered hereby.

The Company has agreed to indemnify the Underwriters against certain liabilities, including liabilities under the Securities Act, or to contribute to payments that Underwriters may be required to make. The Company has also agreed to pay to the Representative a non-accountable expense allowance equal to 2 1/2% of the gross proceeds derived from the sale of the Securities underwritten, of which $50,000 has been paid to date.

The Company has granted to the Underwriters the Over-Allotment Option, exercisable during the 45-day period from the date of this Prospectus, to purchase from the Company up to an additional 375,000 shares and/or an additional 187,500 Warrants at the initial public offering prices per share and per Warrant, respectively, offered hereby, less underwriting discounts. Such option may be exercised only for the purpose of covering over-allotments, if any, incurred in the sale of the Securities offered hereby. To the extent such option is exercised in whole or in part, each Underwriter will have a firm commitment, subject to certain conditions, to purchase the number of the additional Securities proportionate to its initial commitment.

In connection with this Offering, the Company has agreed to sell to the Representative, for $.0001 per warrant, warrants to purchase from the Company up to 250,000 shares of Common Stock and/or up to 125,000 Warrants (the "Representative's Warrants"). The Representative's Warrants are initially exercisable at a price of $ per share [120% of the initial public offering price per share of Common Stock] and $ per Warrant [120% of the initial public offering price per Warrant] for a period of four years, commencing one year after the date of this Prospectus and are restricted from sale, transfer, assignment or hypothecation for a period of 12 months from the date of this Prospectus, except to officers of the Representative. The Representative's Warrants provide for adjustment in the number of securities issuable upon the exercise thereof as a result of certain subdivisions and combinations of the Common Stock. The Representative's Warrants grant to the holders thereof certain rights of registration for the securities issuable upon exercise thereof.

The Company's directors, and executive officers, and all holders of shares of Common Stock, options, warrants or other securities convertible, exercisable or exchangeable for Common Stock have agreed not to offer, sell, or otherwise dispose of any shares of Common Stock for a period of 12 months following the date of this Prospectus without the prior written consent of the Representative. An appropriate legend shall be placed on the certificates representing such securities.

Upon the exercise of any Warrants more than one year after the date of this Prospectus, which exercise was solicited by the Representative, and to the extent not inconsistent with the guidelines of the National Association of Securities Dealers, Inc. ("NASD") and the Rules and Regulations of the Commission, the Company has agreed to pay the Representative a commission which shall not exceed five percent (5%) of the aggregate exercise price of such Warrants in connection with bona fide services provided by the Representative relating to any warrant solicitation undertaken by the Representative. In addition, the individual must designate the firm entitled to payment of such warrant solicitation fee. A warrant solicitation fee will only be paid to the Representative or another NASD member when such NASD member is specifically designated in writing as the soliciting broker. However, no compensation will be paid to the Representative in connection with the exercise of the Warrants if (i) the market price of the Common Stock is lower than the exercise price, (ii) the Warrants were held in a discretionary account, or (iii) the exercise of Warrants is not solicited by the Representative. Unless granted an exemption by the Commission from its Rule 101 under Regulation M promulgated under the Securities Act, the Representative will be prohibited from engaging in any market making activities with regard to the Company's securities for the period from five business days (or such applicable periods as Rule 101 under Regulation M may provide) prior to any solicitation of the exercise of the Warrants until the later of the termination of such solicitation activity or the termination (by waiver or otherwise) of any right the Representative may have to receive a fee. As a result, the Representative may be unable to continue to provide a market for the Company's securities during certain periods while the Warrants are exercisable. If the Representative has engaged in any of the activities prohibited by Rule 101 under Regulation M during the period described above, the Representative undertakes to waive unconditionally its rights to receive a commission on the exercise of such Warrants.

In connection with this Offering, certain Underwriters and selling group members and their respective affiliates may engage in transactions that stabilize, maintain or otherwise affect the market prices of the Securities. Such transactions may include stabilization transactions effected in accordance with Rule 104 of Regulation M, pursuant to which such persons may bid for or purchase the Common Stock and/or Warrants for the purpose of stabilizing their respective market prices. The Underwriters also may create a short position for the account of the Underwriters by selling more Securities in connection with the Offering than they are committed to purchase from the Company, and in such case may purchase Securities in the open market following completion of the Offering to cover all or a portion of such short position. The Underwriters may also cover all or a portion of such short position, up to 375,000 shares of Common Stock and/or 187,500 Warrants, by exercising the Over-Allotment option referred to above. In addition, the Representative may impose "penalty bids" under contractual arrangements with the Underwriters whereby it may reclaim from an Underwriter (or dealer participating in the Offering) for the account of other Underwriters, the selling concession with respect to the Securities that are distributed in the Offering but subsequently purchased for the account of the Underwriters in the open market. Any of the transactions described in this paragraph may result in the maintenance of the prices of the Securities at a level above that which might otherwise prevail in the open market. None of the transactions described in this paragraph is required, and, if they are undertaken, they may be discontinued at any time.

Prior to this Offering, there has been no public market for the Common Stock or the Warrants. Consequently, the initial public offering prices of the Common Stock and Warrants, and the exercise price of the Warrants has been determined by negotiation between the Company and the Representative and does not necessarily bear any relationship to the Company's asset value, net worth or other established criteria of value. The factors considered in such negotiations, in addition to prevailing market conditions, included the history of

and prospects for the industry in which the Company competes, an assessment of the Company's management, the prospects of the Company, its capital structure, the market for initial public offerings and certain other factors as were deemed relevant.

The foregoing is a summary of the principal terms of the agreements described above and does not purport to be complete. Reference is made to a copy of each such agreement which are filed as exhibits to the Registration Statement of which this Prospectus is a part. For a more complete description thereof, see "Additional Information."

LEGAL MATTERS

The legality of the Securities offered hereby will be passed upon for the Company by Heller Ehrman White & McAuliffe, Palo Alto, California. Julian N. Stern, the Secretary of the Company, is the owner of 83,333 shares of Common Stock and is the sole stockholder and employee of a professional corporation that is a partner of Heller Ehrman White & McAuliffe. Orrick, Herrington & Sutcliffe LLP, New York, New York has acted as counsel to the Underwriters in connection with the Offering.

EXPERTS

The financial statements of DepoMed, Inc. at December 31, 1996 and for the period from inception (August 7, 1995) to December 31, 1995, for the year ended December 31, 1996 and for the period from inception (August 7, 1995) to December 31, 1996 and the statement of direct expenses of DepoMed Systems Division of M6 Pharmaceuticals, Inc. for the period from January 1, 1995 to August 6, 1995 appearing in this Prospectus and Registration Statement have been audited by Ernst & Young LLP, independent auditors, as set forth in their reports thereon appearing elsewhere herein and in the Registration Statement, and are included in reliance upon such reports given upon the authority of such firm as experts in accounting and auditing.

ADDITIONAL INFORMATION

The Company has filed with the Securities and Exchange Commission (the "Commission"), a Registration Statement on Form SB-2 under the Securities Act (the "Registration Statement") with respect to the shares of Common Stock offered hereby. This Prospectus does not contain all the information set forth in the Registration Statement and the exhibits and schedules thereto. For further information with respect to the Company and such Common Stock, reference is made to the Registration Statement and to the exhibits and schedules filed therewith. Statements contained in this Prospectus as to the contents of any contracts or other document referred to are not necessarily complete, and in each instance reference is made to the copy of such contract or other document filed as an exhibit to the Registration Statement, each such statement being qualified in all respects by such reference. A copy of the Registration Statement may be inspected by anyone without charge at the Commission's principal office in Washington, D.C., and copies of all or any part of the Registration Statement may be obtained from the Public Reference Section of the Commission, 450 Fifth Street, N.W. Washington, D.C. 20549, upon payment of certain fees prescribed by the Commission. The Commission maintains an Internet World Wide Web site that contains reports, proxy and information reports and other materials that are filed through the Commission's Electronic Data Gathering, Analysis and Retrieval System. The site can be accessed at http://www.sec.gov.

The Company intends to furnish its shareholders with annual reports containing financial statements audited by its independent auditors.

INDEX TO FINANCIAL STATEMENTS

REPORT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

The Board of Directors DepoMed, Inc.

We have audited the accompanying balance sheet of DepoMed, Inc. (a development stage company) as of December 31, 1996, and the related statements of operations, shareholders' equity (net capital deficiency), and cash flows for the period from inception (August 7, 1995) to December 31, 1995, for the year ended December 31, 1996, and for the period from inception (August 7, 1995) to December 31, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1 to the financial statements, the Company's recurring losses from operations and net capital deficiency raise substantial doubt about its ability to continue as a going concern. Management's plans as to these matters are also described in Note 1. The 1996 financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of DepoMed, Inc. (a development stage company) at December 31, 1996, and the results of its operations and its cash flows for the period from inception (August 7, 1995) to December 31, 1995, for the year ended December 31, 1996, and for the period from inception (August 7, 1995) to December 31, 1996 in conformity with generally accepted accounting principles.

Palo Alto, California January 31, 1997, except for Note 9, as to which the date is April , 1997

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The foregoing report is in the form that will be signed upon completion of the 1 for 3 reverse stock split described in Note 9 to the financial statements.

/s/ Ernst & Young LLP

Palo Alto, California April 17, 1997

DEPOMED, INC.
(A DEVELOPMENT STAGE COMPANY)

BALANCE SHEET

	DECEMBER 31, 1996	PRO FORMA SHAREHOLDERS' EQUITY (NET CAPITAL DEFICIENCY) AT DECEMBER 31, 1996
ASSETS		
Current assets:		
Cash and cash equivalents	$ 10,802	
Accounts receivable	120,898	
Other current assets	31,537	
Total current assets	163,237	
Property and equipment, net	155,139	
Other assets	14,751	
	$ 333,127	
LIABILITIES AND SHAREHOLDERS' EQUITY (NET CAPITAL DEFICIENCY)		
Current liabilities:		
Accounts payable	$ 51,746	
Accrued compensation	291,374	
Notes payable to shareholders	294,238	
Capital lease obligation, current portion	19,803	
Other current liabilities	22,764	
Total current liabilities	679,925	
Capital lease obligation, non-current portion	34,634	
Commitments		
Shareholder's equity (net captial deficiency):		
Preferred stock, no par value, 10,000,000 shares authorized (5,000,000 pro forma); 2,447,368 shares issued and outstanding (none pro forma); aggregate liquidation preference of $750,000 at December 31, 1996	682,759	$ --
Common stock, no par value, 25,000,000 shares authorized; 3,354,825 shares issued and outstanding, (4,170,614 shares pro forma)	284,250	967,009
Deferred compensation	(275,000)	(275,000)
Deficit accumulated during the development stage	(1,073,441)	(1,073,441)
Total shareholders' equity (net capital deficiency)	(381,432)	$ (381,432)
	$ 333,127	

See accompanying notes.

DEPOMED, INC.
(A DEVELOPMENT STAGE COMPANY)

STATEMENTS OF OPERATIONS

	INCEPTION (AUGUST 7, 1995) TO DECEMBER 31, 1995	YEAR ENDED DECEMBER 31, 1996	INCEPTION (AUGUST 7, 1995) TO DECEMBER 31, 1996
Product development revenue	$ --	$ 317,971	$ 317,971
Operating expenses:			
Research and development	138,816	390,496	529,312
General and administrative	155,157	393,676	548,833
Purchase of in-process research and development	298,154	--	298,154
Total operating expenses	592,127	784,172	1,376,299
Loss from operations	(592,127)	(466,201)	(1,058,328)
Interest expense, net	8,541	6,572	15,113
Net loss	$(600,668)	$(472,773)	$(1,073,441)
Pro forma net loss per share		$ (0.11)	
Shares used in computing pro forma net loss per share		4,285,653	

See accompanying notes.

DEPOMED, INC.
(A DEVELOPMENT STAGE COMPANY)

STATEMENT OF SHAREHOLDERS' EQUITY (NET CAPITAL DEFICIENCY)

FROM INCEPTION (AUGUST 7, 1995) TO DECEMBER 31, 1996

	CONVERTIBLE PREFERRED STOCK		COMMON STOCK			DEFICIT ACCUMULATED DURING	TOTAL SHAREHOLDERS' EQUITY
	SHARES	AMOUNT	SHARES	AMOUNT	DEFERRED COMPENSATION	DEVELOPMENT STAGE	(NET CAPITAL DEFICIENCY)
Balances at inception (August 7, 1995).....	--	$ --	--	$ --	$ --	$ --	$ --
Issuance of common shares to founders on August 7, 1995 in exchange for shares held by them in M6 Pharmaceuticals, Inc...	--	--	2,066,667	--	--	--	--
Issuance of common shares for cash to investors at approximately $0.0009 per share on November 15, 1995.....	--	--	1,196,491	1,000	--	--	1,000
Issuance of Series A convertible preferred stock for cash to investors at approximately $0.31 per share on November 15, 1995, net of issuance costs of $67,241.....	2,447,368	682,759	--	--	--	--	682,759
Net loss.....	--	--	--	--	--	(600,668)	(600,668)
Balances at December 31, 1995.....	2,447,368	682,759	3,263,158	1,000	--	(600,668)	83,091
Issuance of common shares for cash at various dates at $0.09 per share to employees and the Company's counsel pursuant to stock option agreements.....	--	--	91,667	8,250	--	--	8,250
Deferred compensation related to grants of certain stock options..	--	--	--	275,000	(275,000)	--	--
Net loss.....	--	--	--	--	--	(472,773)	(472,773)
Balances at December 31, 1996.....	2,447,368	$ 682,759	3,354,825	$ 284,250	$ (275,000)	$ (1,073,441)	$ (381,432)

DEPOMED, INC.
(A DEVELOPMENT STAGE COMPANY)

STATEMENT OF CASH FLOWS

	INCEPTION (AUGUST 7, 1995) TO DECEMBER 31, 1995	YEAR ENDED DECEMBER 31, 1996	INCEPTION (AUGUST 7, 1995) TO DECEMBER 31, 1996
Cash flows from operating activities:			
Net loss	$(600,668)	$(472,773)	(1,073,441)
Adjustments to reconcile net loss to net cash used in in operating activities:			
Depreciation and amortization	12,234	32,878	45,112
Accrued interest expense on shareholder notes	2,930	10,688	13,618
Purchase of in-process research and development	298,154	--	298,154
Changes in assets and liabilities:			
Accounts receivable	--	(120,898)	(120,898)
Other current assets	(9,144)	(22,393)	(31,537)
Other assets	(10,076)	(4,675)	(14,751)
Accounts payable	12,000	39,746	51,746
Accrued compensation	62,283	161,615	223,898
Other current liabilities	38,268	(15,504)	22,764
Net cash used in operating activities	(194,019)	(391,316)	(585,335)
Cash flows from investing activities:			
Expenditures for property and equipment	(49,645)	(28,708)	(78,353)
Purchases of short-term investments	(79,582)	--	(79,582)
Sales of short-term investments	--	79,582	79,582
Net cash provided by (used in) investing activities	(129,227)	50,874	(78,353)
Cash flows from financing activities:			
Payments on capital lease obligations	(22,506)	(45,013)	(67,519)
Proceeds on issuance of notes to shareholders	--	50,000	50,000
Proceeds on issuance of common stock	1,000	8,250	9,250
Proceeds on issuance of preferred stock	682,759	--	682,759
Net cash provided by financing activities	661,253	13,237	674,490
Net increase (decrease) in cash and cash equivalents	338,007	(327,205)	10,802
Cash and cash equivalents at beginning of period	--	338,007	--
Cash and cash equivalents at end of period	$ 338,007	$ 10,802	$ 10,802
Supplementary schedule of noncash financing and investing activities:			
Acquisition of property and equipment under capital leases	$ 65,563	$ 56,393	$ 121,956
Assumption of net liabilities of M6 Pharmaceuticals at inception (August 7, 1995)	$ 298,154	$ --	$ 298,154

Supplemental disclosure of cash flow information:			
Cash paid during the period for interest.....	$ 6,493	$ 5,695	$ 12,188

See accompanying notes.

DEPOMED, INC.
(A DEVELOPMENT STAGE COMPANY)

NOTES TO FINANCIAL STATEMENTS

(1) ORGANIZATION AND BASIS OF PRESENTATION

Organization

DepoMed, Inc. (the "Company"), a development stage company, was incorporated in the State of California on August 7, 1995. The Company is engaged in the research and development of oral drug delivery systems. The Company's primary activities since incorporation have been establishing its offices and research facilities, recruiting personnel, conducting research and development, performing business and strategic planning and raising capital.

Basis of Presentation

In the course of its development activities, the Company has sustained continuing operating losses and expects such losses to continue over the next several years. Management plans to continue to finance the operations with a combination of stock sales, such as the initial public offering contemplated by the Company and, in the longer term, revenues from corporate alliances and technology licenses. The Company's ability to continue as a going concern is dependent upon the successful execution of financings and, ultimately, upon achieving profitable operations. If adequate funds are not available, the Company may be required to delay, reduce the scope of, or eliminate one or more of its development programs. Since December 31, 1996, the Company has raised $278,500 from the private placement of Series B preferred stock (see Note 9).

In March 1994, DepoMed Systems, Inc. ("DSI"), a company founded and principally owned by Dr. John W. Shell, the founder of the Company, was merged into M6 Pharmaceuticals, Inc. ("M6"). In August 1995, pursuant to a settlement agreement (the "1995 Settlement Agreement") among M6, DSI and Dr. Shell, M6 transferred all of the assets related to the research, development, marketing, production and sale of oral drug delivery systems and technology developed by or under the direction of Dr. Shell to the Company, and the Company assumed certain net liabilities totaling $298,154 related thereto. Such amount has been reflected in the statement of operations as a charge for the purchase of in-process research and development.

Unaudited Pro Forma Shareholders' Equity (Net Capital Deficiency)

If the offering contemplated by this Prospectus is consummated, all of the convertible preferred shares outstanding as of the closing date will automatically be converted into 815,789 shares of common stock based on the shares of convertible preferred stock outstanding as of December 31, 1996. Pro forma shareholders' equity at December 31, 1996, as adjusted for the conversion of preferred stock, is disclosed on the balance sheet.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash, Cash Equivalents and Short-Term Investments

The Company considers all highly liquid investments purchased with an original maturity from the date of purchase of three months or less to be cash equivalents. As of December 31, 1995, cash equivalents primarily consist of U.S. treasury bills. All other liquid investments are classified as short-term investments and consist of treasury bills with maturities in excess of three months. The Company places its cash, cash equivalents and short-term investments with high quality, U.S. financial institutions and to date has not experienced losses on any of its balances.

Depreciation and Amortization

Property and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation is provided using the straight-line method over the estimated useful lives of the respective assets, generally three to five years. Leasehold improvements are amortized over the lesser of the lease term or the estimated useful lives of the related assets, generally four years.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Stock-Based Compensation

In October 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"). Under SFAS 123, stock-based compensation expense is measured using either the intrinsic value method as prescribed by Accounting Principles Board Opinion No. 25 ("APBO 25") or the fair-value method described in SFAS 123. Beginning in 1996, the Company implemented SFAS 123 using the intrinsic-value method. Accordingly, adoption of the SFAS 123 had no material effect on the Company's financial position or results of operations.

Net Loss Per Share

Except as noted below, historical net loss per share is computed using the weighted average number of common shares outstanding. Common equivalent shares are excluded from the computation as their effect is antidilutive, except that pursuant to the Securities and Exchange Commission ("SEC") Staff Accounting Bulletins, common and common equivalent shares issued during the 12-month period prior to the initial filing of the proposed offering at prices below the assumed public offering price have been included in the calculation as if they were outstanding for all periods presented (using the treasury stock method for stock options at the estimated public offering price).

Historical net loss per share information is as follows:

	PERIOD FROM INCEPTION (AUGUST 7, 1995) TO DECEMBER 31, 1995	YEAR ENDED DECEMBER 31, 1996
Net loss per share	$ (0.10)	$ (0.14)
Shares used in computing net loss per share	3,044,109	3,469,864

Pro forma net loss per share has been computed as described above and also gives effect to the conversion of convertible preferred shares not included above that will automatically convert upon completion of the Company's initial public offering (using the as-if-converted method) from the original date of issuance.

Revenue Recognition

Product development revenue relates to the reimbursement of costs incurred for research and development and the achievement of milestones as specified in the related agreement and are recorded as earned.

(3) BRISTOL MYERS SQUIBB RESEARCH AGREEMENT

In July 1996, the Company and Bristol Myers Squibb Company ("BMS") entered into a joint research agreement to develop a product using a BMS proprietary compound and the DepoMed Gastric Retentive System. Pursuant to the agreement, the Company has achieved all the specified milestones and has, therefore, recorded approximately $198,000 in product development revenues in 1996, the entire fee specified in the agreement. The amounts receivable under the agreement totaled $57,778 as of December 31, 1996.

Pursuant to the agreement, BMS has an option to obtain an exclusive, worldwide license to products incorporating the BMS compound utilizing the GR System. If such license is entered into, the Company will receive a royalty on net sales of the products as well as certain milestone payments. The option expires in February 1999.

Also in 1996, the Company performed contract research services for BMS under an arrangement whereby BMS reimbursed specific research costs relating to the same product. Revenue recognized in accordance with this arrangement amounted to $110,000 in 1996 and the amount receivable under the arrangement totaled $63,120 as of December 31, 1996.

(4) PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	DECEMBER 31, 1996
Furniture and office equipment	$ 15,590
Laboratory equipment	153,957
Leasehold improvements	30,704
	200,251
Less accumulated depreciation and amortization	(45,112)
	$155,139

Property and equipment includes assets under capitalized leases of $121,956 at December 31, 1996. Accumulated amortization related to assets under capital leases totaled $33,412 at December 31, 1996, respectively.

(5) LEASES

The Company leases its facilities under a noncancelable operating lease. The facilities lease expires in 1999 and includes an option to renew the lease for an additional five years. Future minimum lease payments under the capital leases and operating leases at December 31, 1996, together with the present value of the minimum lease payments, are as follows:

	OPERATING LEASES	CAPITAL LEASES
Year ending December 31,		
1997	$ 38,676	$ 27,272
1998	39,468	23,316
1999	6,600	19,820
Total minimum payments required	$ 84,744	70,408
Less amount representing interest		(15,971)
Present value of future lease payments		54,437
Less current portion		(19,803)
Noncurrent portion		$ 34,634

Rent expense for the period from inception (August 7, 1995) to December 31, 1995, for the year ended December 31, 1996 and for the period from inception (August 7, 1995) to December 31, 1996 was approximately $15,840, $36,960 and $52,800, respectively.

(6) RELATED PARTY TRANSACTIONS

Promissory Note to Chairman of the Board

DSI entered into a promissory note with an individual who is the Company's founder, a shareholder and the Chairman of the Board of Directors, in each of December 1992 and December 1993 in the aggregate principal amount of $100,667. These notes are among the liabilities assumed by the Company pursuant to the 1995 Settlement Agreement. In November 1996, the Company entered into a promissory note with the same individual in the aggregate principal amount of $50,000. All the notes bear interest at 6% per annum on the outstanding principal balance. The notes are due upon the Company's receipt of at least $1 million in net proceeds in additional equity financing to the Company. The aggregate principal balance of all outstanding notes including the related interest due the Chairman as of December 31, 1996 is $171,488.

Promissory Note to Shareholder

In July 1993, DSI signed two promissory notes with a shareholder who is also the secretary to the Board of Directors. These notes are among the liabilities assumed by the Company pursuant to the 1995 Settlement Agreement. The principal of the notes aggregates $100,000, bears interest at 6.5% per annum, and is due at the earlier of the Company's receipt of at least $500,000 in net proceeds from additional equity financing, but not later than December 31, 1997. The entire amount and related interest of $122,750 is outstanding as of December 31, 1996.

(7) SHAREHOLDERS' EQUITY

Convertible Preferred Stock

The Company is authorized to issue 10,000,000 shares of preferred, designated as Series A convertible preferred stock (2,505,000 shares designated) and Series B preferred stock (500,000 shares designated). Preferred shareholders are entitled to receive noncumulative dividends at the rate of $0.02451616 and $0.08 per annum, for each share of Series A, and Series B preferred shares outstanding, respectively, when and if declared by the Board of Directors, payable in preference to common stock dividends. No dividends have been declared or paid by the Company.

In the event of any liquidation, dissolution, or winding up of the Company, the holders of the Series A and Series B preferred shares shall be entitled to receive, prior to and in preference to any distribution of any of the assets or surplus funds of the Company to the common shareholders, $0.306452 and $1.00, respectively, for each share of Series A and Series B preferred stock, respectively, held by them, and all declared but unpaid dividends on the preferred shares.

The holders of each share of preferred stock shall be entitled to the number of votes equal to the number of shares of common stock into which such shares of preferred stock could be converted at the record date for determination of the shareholders entitled to vote on such matter.

Each share of preferred stock is convertible at any time at the option of the holder into shares of common stock at the then effective conversion price. The conversion price per share of Series A and Series B preferred stock shall be $0.919356 and $3.00, respectively, and is subject to adjustment as specified in the articles of incorporation. Conversion of preferred shares is automatic upon the closing of a public offering registered under the Securities Act of 1933, with aggregate proceeds of not less than $3,500,000. Such conversion shall be deemed to have been made immediately prior to the closing of such underwritten public offering of securities.

Common Shares

The Company is authorized to issue 25,000,000 shares of common stock. Holders of common stock are entitled to one vote per share on all matters to be voted upon by the shareholders of the Company.

Subject to the preferences that may be applicable to any outstanding shares of preferred stock, the holders of common stock are entitled to receive ratably such dividends, if any, as may be declared by the Board of Directors.

1995 Stock Option Plan

The Company's 1995 Stock Option Plan (the "Plan") was adopted by the Board of Directors and approved by the shareholders in September 1995, and has subsequently been amended. As of December 31, 1996 a total of 416,667 shares of common stock have been reserved for issuance under the Plan. The Plan provides for the granting to employees of the Company, including officers and employee directors, of incentive stock options, and for the granting of nonstatutory stock options to employees and consultants of the Company.

The exercise price of all stock options granted under the Plan must be at least 100% of the fair value of the common stock of the Company on the grant date. The term of an incentive stock option may not exceed ten years from the date of grant. An option shall be exercisable on or after each vesting date in accordance with the terms set forth in the option agreement; provided, however, that the right to exercise an option generally vests at the rate of at least 25% per year over four years from the grant date.

Stock-Based Compensation

During 1996, the Company adopted SFAS 123. In accordance with the Statement, the Company applies APBO 25 in accounting for option grants to employees under the Plan and, accordingly, does not recognize compensation expense for options granted to employees at fair value, only those options granted at prices below fair value. The valuation related to stock options granted to non-employees was immaterial and, therefore, no value was recorded in the financial statements.

The Company used the minimum value method to determine the fair value of stock options at the grant date issued in 1995 and 1996 using the following weighted average assumptions for 1995 and 1996, respectively: risk free interest rates of 6.6% and 6.4%, respectively, and a weighted average expected option life of 2 and 4 years, respectively. The weighted average estimated fair value of employee stock options granted during 1995 and 1996 was $0.0014 and $1.13 per share, respectively.

The effect of applying the minimum value method of SFAS 123 in determining the fair values of stock options in 1995 and 1996 did not result in pro forma net loss and loss per share that are materially different from historical amounts reported. Therefore, such pro forma information is not presented herein. Future pro forma results of operations may be materially different from actual amounts reported.

A summary of the Company's stock option activity, and related information for the period from inception (August 7, 1995) to December 31, 1995 and for the year ended December 31, 1996 follows:

	PERIOD FROM INCEPTION (AUGUST 7, 1995) TO DECEMBER 31, 1995		YEAR ENDED DECEMBER 31, 1996	
	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding at beginning of period	--	$ --	120,000	$ 0.09
Granted at fair value	120,000	0.09	3,334	0.09
Granted below fair value	--	--	83,333	0.90
Exercised	--	--	(91,667)	0.09
Forfeited	--	--	--	--
Outstanding at December 31	120,000	$ 0.09	115,000	$ 0.68

Exercise prices for options outstanding as of December 31, 1996 ranged from $0.09 to $0.90. The following table summarizes information about options outstanding at December 31, 1996:

	OUTSTANDING OPTIONS			EXERCISABLE OPTIONS	
RANGE OF EXERCISE PRICES	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE	REMAINING CONTRACTUAL LIFE (IN YEARS)	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
$0.09	31,667	$0.09	8.87	7,083	$ 0.09
$0.90	83,333	0.90	9.83	--	--
	115,000				

In December 1996, the Company granted an option to purchase 83,333 shares of common stock at $0.90 per share. Deferred compensation of $275,000 was recorded on this option grant based on the deemed fair value of common stock on the date of grant of approximately $4.20. In January 1997, the Company granted options to purchase 81,667 shares of common stock at $3.00 per share and additional deferred compensation of approximately $98,000 will be recorded in the quarter ending March 31, 1997 based on the deemed fair value of common stock on the grant date of $4.20.

(8) INCOME TAXES

As of December 31, 1996 the Company had federal net operating loss carryforwards of approximately $500,000. The primary difference between the accumulated deficit and the net operating loss carryforwards relates to the exclusion of deferred compensation which will not be paid prior to March 15, 1997 for tax purposes. The net operating loss carryforwards will expire at various dates beginning on 2010 through 2011 if not utilized.

Utilization of the net operating losses and credits may be subject to an annual limitation due to the ownership change limitations provided by the Internal Revenue Code of 1986. The annual limitations may result in the expiration of net operating losses before utilization.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting and the amount used for income tax purposes.

Significant components of the Company's deferred tax assets as of December 31 are as follows:

	INCEPTION (AUGUST 7, 1995) TO DECEMBER 31, 1995	DECEMBER 31, 1996
Net operating loss carryforward	$ 65,000	$ 380,000
Deferred compensation	50,000	120,000
Total deferred tax assets	115,000	500,000
Valuation allowance for deferred tax assets	(115,000)	(500,000)
Total	$ --	$ --

(9) SUBSEQUENT EVENTS

In January 1997, the board of directors authorized management of the Company to file a registration statement with the SEC permitting the Company to sell shares of its common stock and warrants to the public. If the initial public offering is consummated under the terms currently anticipated, all of the preferred stock outstanding will automatically convert into 815,789 shares of common stock. Unaudited pro forma shareholders' equity, as adjusted for the assumed conversion of the preferred shares, is set forth on the balance sheet.

Also in January 1997, the board of directors of the Company authorized a 3-for-1 reverse stock split, in which three shares of common stock will be exchanged for one share of common stock. Following shareholder approval, the stock split was effected on , 1997. Effective upon closing of the initial public offering, the Company will become authorized to issue 5,000,000 shares of preferred stock and 25,000,000 shares of common stock. All share and per share amounts, as well as the dividend and liquidation preferences from preferred stock, included in the accompanying financial statements have been retroactively adjusted to reflect the reverse stock split.

In the first quarter of fiscal 1997, the Company issued 278,500 shares of Series B preferred stock to accredited investors at a purchase price of $1.00 per share of Series B Preferred Stock. If the initial public offering is consummated under the terms currently anticipated, all of the preferred stock outstanding will automatically convert into 92,834 shares of Common Stock.

In April 1997, the Company arranged a financing facility of up to $1,000,000 of one-year notes to accredited investors (the "Bridge Financing"). The terms of the borrowing include a mandatory payment requirement upon the closing of an initial public offering prior to the Bridge Financing's maturity. The Bridge Financing bears interest at the rate of 6% per annum and further provides for the issuance of warrants upon the closing of an initial public offering (the "Bridge Warrants"). The Bridge Warrants entitle the investors to purchase the number of shares of Common Stock which equals 50% of their investment divided by the initial public offering price of the Common Stock, exercisable at a price equal to the initial public offering price of the Common Stock. The Bridge Warrants may be exercised during the 4 year period beginning one year after the date of the initial public offering.

REPORT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

The Board of Directors
DepoMed, Inc.

We have audited the accompanying statement of direct expenses of DepoMed Systems Division of M6 Pharmaceuticals, Inc. for the period from January 1, 1995 to August 6, 1995. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the statement referred to above presents fairly, in all material respects, the direct expenses of DepoMed Systems Division of M6 Pharmaceuticals, Inc. for the period from January 1, 1995 to August 6, 1995, in conformity with generally accepted accounting principles.

/s/ Ernst & Young LLP

Palo Alto, California
January 31, 1997

DEPOMED SYSTEMS DIVISION OF M6 PHARMACEUTICALS, INC.

STATEMENT OF DIRECT EXPENSES

FOR THE PERIOD FROM JANUARY 1, 1995 TO AUGUST 6, 1995

Operating expenses:	
Research and development	$ 175,096
General and administrative	164,688
Total operating expenses	339,784
Net loss	$(339,784)

DEPOMED DIVISION OF M6 PHARMACEUTICALS, INC.

NOTES TO STATEMENT OF DIRECT EXPENSES

(1) BASIS OF PRESENTATION

In March 1994, DepoMed Systems, Inc. ("DSI"), a company founded and principally owned by Dr. John W. Shell, the inventor of the DSI's proprietary technology related to drug delivery systems, was merged into M6 Pharmaceuticals, Inc. ("M6"). During the period that DepoMed was controlled by M6, it was operated as a division, and, therefore, had no separate legal status. As a result, separate financial statements were not maintained by M6 for the DepoMed division ("Division") during that time.

The accompanying statement of direct expenses were prepared to present the direct expenses for the Division for period from January 1, 1995 to August 6, 1995. There were no revenues for the Division during the period. The statement is not intended to be a complete presentation of the results of operations of the Division during that period.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

(2) SIGNIFICANT ACCOUNTING POLICY--DIRECT EXPENSES

The accompanying statements include only direct expenses during the period presented. No allocations of corporate expenses have been presented as management believes any allocations would be subjective and not fairly present the results of operations of the Division. This statement of direct expenses is not necessarily indicative of the expenses that would have been incurred had DepoMed Systems operated as a stand-alone business.

NO DEALER, SALESPERSON OR OTHER PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS OTHER THAN THOSE CONTAINED IN THIS PROSPECTUS AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATION MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE COMPANY OR ANY UNDERWRITER. NEITHER THE DELIVERY OF THIS PROSPECTUS NOR ANY SALE MADE HEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE COMPANY SINCE THE DATE HEREOF OR THAT THE INFORMATION CONTAINED HEREIN IS CORRECT AS OF ANY DATE SUBSEQUENT TO THE DATE HEREOF. THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY ANY SECURITIES OFFERED HEREBY BY ANYONE IN ANY JURISDICTION IN WHICH SUCH OFFER OR SOLICITATION IS NOT AUTHORIZED OR IN WHICH THE PERSON MAKING SUCH OFFER OR SOLICITATION IS NOT QUALIFIED TO DO SO OR TO ANYONE TO WHOM IT IS UNLAWFUL TO MAKE SUCH OFFER OR SOLICITATION.

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UNTIL , 1997 (25 DAYS AFTER THE DATE OF THIS PROSPECTUS), ALL DEALERS EFFECTING TRANSACTIONS IN THE REGISTERED SECURITIES, WHETHER OR NOT PARTICIPATING IN THIS DISTRIBUTION, MAY BE REQUIRED TO DELIVER A PROSPECTUS. THIS DELIVERY REQUIREMENT IS IN ADDITION TO THE OBLIGATIONS OF DEALERS TO DELIVER A PROSPECTUS WHEN ACTING AS UNDERWRITERS AND WITH RESPECT TO THEIR UNSOLD ALLOTMENTS OR SUBSCRIPTIONS.

DEPOMED, INC.

2,500,000 SHARES
OF COMMON STOCK

AND

1,250,000 REDEEMABLE
COMMON STOCK
PURCHASE WARRANTS

PROSPECTUS

NATIONAL SECURITIES
CORPORATION

, 1997

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PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 24. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

The registrant has the power to indemnify its directors and officers against liability for certain acts pursuant to Section 317 of the California Corporations Code. Article IV of the registrant's Third Amended and Restated Articles of Incorporation provides as follows:

"The liability of the directors of this corporation for monetary damages shall be eliminated to the fullest extent permissible under California law. This corporation is also authorized, to the fullest extent permissible under California law, to indemnify its agents (as defined in Section 317 of the California Corporations Code), whether by by-law, agreement or otherwise, for breach of duty to this corporation and its shareholders in excess of that expressly permitted by Section 371 and to advance defense expenses to its agents in connection with such matters as they are incurred, subject to the limits on such excess indemnification set forth in Section 204 of the California Corporations Code. If, after the effective date of this Article, California law is amended in a manner which permits a corporation to limit the monetary or other liability of its directors or to authorize indemnification of, or advancement of such defense expenses to, its directors or other persons, in any such case to a greater extent than is permitted on such effective date, the references in this Article to "California law" shall to that extent be deemed to refer to California law as so amended."

ITEM 25. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION.

The following-table sets forth the costs and expenses, other than underwriting discounts and commissions, payable by the registrant in connection with the sale of the Common Stock being registered. All amounts are estimated except the Commission Registration Fee, the NASD Filing Fee and the American Stock Exchange Application Fee.

SEC Registration Fee	$ 11,370
NASD Filing Fee	4,252
American Stock Exchange Application Fee	42,500
Blue Sky Qualification Fees and Expenses	20,000
Accounting Fees and Expenses	140,000
Legal Fees and Expenses	175,000
Transfer Agent and Registrar Fees	5,000
Directors' and Officers' Insurance	115,000
Printing and Engraving	120,000
Miscellaneous	22,516
Total	$655,638

ITEM 26. RECENT SALES OF UNREGISTERED SECURITIES.

During the past three years, the registrant has issued the securities set forth below which were not registered under the Securities Act of 1933, as amended (the "Securities Act").

In March 1994, DepoMed Systems, Inc. ("DSI") a company founded and principally owned by Dr. John W. Shell was merged into M6 Pharmaceuticals, Inc. ("M6"). In August 1995, pursuant to a settlement agreement between DSI and Dr. Shell, on the one hand, and M6, on the other hand, M6 transferred all of the intellectual property and other technology assets attributable to DSI to the Company, and the Company assumed certain liabilities related thereto. In September 1995, the Company issued 2,066,667 shares of its Common Stock to Dr. Shell and other prior shareholders of DSI in cancellation of the M6 stock received in the merger. The shares were issued under section 4(2) of the Securities Act.

In September 1995, the Company also issued 1,196,491 shares of Common Stock to CSO Ventures LLC ("CSO") in consideration of the prior agreement of CSO to lend the Company $100,000 to finance the litigation against M6 and to assist the Company in its initial financing. The shares were issued under section 4(2) of the Securities Act.

In November 1995, the Company sold 2,447,368 shares of Series A Preferred Stock to certain accredited investors. The shares were issued under section 4(2) of the Securities Act.

In the first quarter of 1997, the Company sold 278,500 shares of Series B Preferred Stock to eight accredited investors. The shares were issued under section 4(2) of the Securities Act. See "Principal Shareholders."

ITEM 27. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(a) Exhibits

*1.1	Form of Underwriting Agreement
3.1	Third Amended and Restated Articles of Incorporation
*3.2	Form of Amended and Restated Articles of Incorporation (to become effective upon closing of the Offering)
3.3	Bylaws
*3.4	Form of Amended and Restated Bylaws (to become effective upon closing of the Offering)
*4.1	Specimen Common Stock Certificate
*4.2	Specimen Warrant Certificate
*4.3	Form of Representative's Warrant Agreement including form of Representative's Warrant
*4.4	Form of Warrant Agreement
*5.1	Opinion of Heller Ehrman White & McAuliffe
10.1	1995 Incentive Stock Plan, as amended
+10.2	Agreement dated July 11, 1996 between the Company and Bristol-Myers Squibb Company
+10.3	Feasibility Agreement dated May 13, 1996 between the Company and GalaGen Inc.
10.4	Agreement dated March 18, 1997 between the Company and CSO Ventures LLC
10.5	Lease Agreement between the Company and 1170 Chess Drive Limited Partnership dated September 2, 1992
10.6	First Amendment to lease agreement dated January 1, 1996 between the Company and SKW II Real Estate Partnership
11.1	Statement re: computation of net loss per share
23.1	Consent of Ernst & Young LLP, Independent Auditors
*23.2	Consent of Heller Ehrman White & McAuliffe (included in Exhibit 5.1)
24.1	Power of Attorney (included on pages II-4 and II-5)
27.1	Financial Data Schedule

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* To be filed by amendment.

\+ Confidential treatment requested.

ITEM 28. UNDERTAKINGS.

(1) The undersigned Registrant hereby undertakes that it will:

(a) File, during any period in which offers or sales are being made, a post-effective amendment to this registration statement to:

(i) Include any prospectus required by Section 10(a)(3) of the Securities Act,

(ii) Reflect in the prospectus any facts or events which, individually or together, represent a fundamental change in the information in the registration statement, and

(iii) Include any additional or changed material information on the plan of distribution.

(b) For determining liability under the Securities Act, treat each post-effective amendment as a new registration statement of the securities offered, and the offering of the securities at that time to be the initial bona fide offering.

(c) File a post-effective amendment to remove from registration any of the securities that remain unsold at the end of this offering.

(2) The undersigned Registrant hereby undertakes to provide to the Underwriter at the closing specified in the Underwriting Agreement certificates in such denominations and registered in such names as required by the Underwriter to permit prompt delivery to each purchaser.

(3) Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of each issue.

(4) The undersigned Registrant hereby undertakes that it will:

(a) For determining any liability under the Securities Act, treat the information omitted from the form of prospectus filed as part of this Registration Statement in reliance upon Rule 430A and contained in a form of prospectus filed by the Registrant pursuant to Rule 424(b)(1) or (4), or 497(h) under the Securities Act as part of this registration statement as of the time it was declared effective.

(b) For determining any liability under the Securities Act, treat each post-effective amendment that contains a form of prospectus as a new registration statement for the securities offered in the registration statement, and the offering of such securities at that time as the initial bona fide offering of those securities.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form SB-2 and has duly caused this Registration Statement on Form SB-2 to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Foster City, California on April 18, 1997.

DEPOMED, INC.

/s/ John W. Fara
By: _____
John W. Fara
President Chief Executive Officer and Director

POWER OF ATTORNEY

Each person whose signature appears below constitutes and appoints John W. Fara, John W. Shell and John F. Hamilton his true and lawful attorneys-in-fact and agents, each acting alone, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any or all amendments (including post-effective amendments) to the Registration Statement, and to sign any registration statement for the same offering covered by this Registration Statement that is to be effective upon filing pursuant to Rule 462(b) under the Securities Act of 1933, as amended, and all post-effective amendments thereto, and to file the same, with all exhibits thereto, and all documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, each acting alone, or his or her substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement on Form SB-2 has been signed by the following persons in the capacities and on the dates indicated.

/s/ John W. Shell - ---------- John W. Shell, Ph.D.	Chairman of the Board of Directors and Chief Scientific Officer	April 18, 1997
/s/ John W. Fara - ---------- John W. Fara, Ph.D.	President, Chief Executive Officer and Director (Principal Executive Officer)	April 18, 1997
/s/ John N. Shell - ---------- John N. Shell	Vice President, Operations and Director	April 18, 1997

/s/ John F. Hamilton John F. Hamilton	Vice President, Finance Chief Financial Officer (Principal Financial Officer)	April 18, 1997
/s/ Judson A. Cooper Judson A. Cooper	Director	April 18, 1997
/s/ Joshua Schein Joshua Schein, Ph.D.	Director	April 18, 1997

INDEX TO EXHIBITS

EXHIBIT PAGE	DESCRIPTION	SEQUENTIALLY NUMBERED PAGE
*1.1	Form of Underwriting Agreement	
3.1	Third Amended and Restated Articles of Incorporation	
*3.2	Form of Amended and Restated Articles of Incorporation (to become effective upon closing of the Offering)	
3.3	Bylaws	
*3.4	Form of Amended and Restated Bylaws (to become effective upon closing of the Offering)	
*4.1	Specimen Common Stock Certificate	
*4.2	Specimen Warrant Certificate	
*4.3	Form of Representative's Warrant Agreement including form of Representative's Warrant	
*4.4	Form of Warrant Agreement	
*5.1	Opinion of Heller Ehrman White & McAuliffe	
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* To be filed by amendment.

\+ Confidential treatment requested.

EXHIBIT 3.1

THIRD AMENDED AND RESTATED ARTICLES OF INCORPORATION OF DEPOMED, INC.

Dr. John W. Fara and Julian N. Stern hereby certify that:

1. They are the President and Secretary, respectively, of DepoMed, Inc. (the "Corporation").

2. The Articles of Incorporation of the Corporation are hereby amended and restated to read in full as follows:

I.

The name of this Corporation is DEPOMED, INC.

II.

The purpose of this Corporation is to engage in any lawful act or activity for which a corporation may be organized under the General Corporation Law of California other than the banking business, the trust company business or the practice of a profession permitted to be incorporated by the California Corporations Code.

III.

3.1 Authorized Capital Stock. This Corporation is authorized to issue two classes of stock, which shall be known as Common Stock and Preferred Stock. The total number of shares of Common Stock which this Corporation is authorized to issue is 35,000,000 shares and the total number of shares of Preferred Stock which this Corporation is authorized to issue is 10,000,000. This Corporation is authorized to issue a series of Preferred Stock which shall be designated Series A Convertible Preferred Stock (the "Series A Preferred") and shall consist of 2,505,000 shares of Preferred Stock and a series of Preferred Stock which shall be designated Series B Convertible Preferred Stock (the "Series B Preferred") and shall consist of 500,000 shares of Preferred Stock. The remaining shares of Preferred Stock may be issued from time to time in one or more series. The rights, privileges, preferences and restrictions applicable to the Preferred Stock are set forth in Section 3.3.

3.2 The Board of Directors shall determine the designation of each additional series of Preferred Stock and the authorized number of shares of each series. The Board of Directors is authorized to determine and alter the rights, preferences, privileges and restrictions granted to or imposed upon any wholly unissued series of shares of Preferred Stock and to increase or decrease (but not below the number of shares of

such series then outstanding) the number of shares of any such series subsequent to the issue of shares of that series. If the number of shares of any series of Preferred Stock shall be so decreased, the shares constituting such decrease shall resume the status which they had prior to the adoption of the resolution originally fixing the number of shares of such series.

3.3 The rights, privileges, preferences and restrictions of the Preferred Stock are as follows:

3.3.1 Dividend Rights.

(a) Dividend Rights of Preferred Stock. The holders of Preferred Stock shall be entitled to receive, out of any funds legally available therefor, when and as declared by the Board of Directors noncumulative dividends on each outstanding share of Preferred Stock as follows:

(i) Before any amount shall be paid to the holders of Common Stock, the holders of Series A Preferred and Series B Preferred shall be entitled to receive an amount equal to $0.02451616 and $0.08, respectively, per annum for each share of Series A Preferred and Series B Preferred held by them.

(ii) No dividends (other than those payable solely in shares of Common Stock) shall be payable on any Common Stock during any fiscal year of this Corporation until dividends in the full respective preferential amount per share set forth above, and in the full respective preferential amount per share specified for any series of Preferred Stock authorized in the future, shall have been paid or declared and set apart for payment to Preferred Stock during that fiscal year. The right to such dividends on shares of Preferred Stock shall not be cumulative and no right shall accrue to holders of Preferred Stock by reason of the fact that dividends on such shares are not declared or paid in any prior year.

(b) Dividend Rights of Common Stock. At any time after the full preferential dividend per share on Preferred Stock shall have been declared and paid or set apart for payment in accordance with the provisions of Section 3.3.1(a), dividends may be paid on the outstanding Common Stock out of any funds legally available therefor. The holders of Preferred Stock shall not be entitled to participate in any dividends other than as provided in Section 3.3.1(a).

3.3.2 Liquidation Preference. In the event of any liquidation, dissolution, or winding up of the Corporation, either voluntary or involuntary, distributions to the shareholders of this Corporation shall be made in the following manner:

(a) The holders of the Series A Preferred and Series B Preferred shall be entitled to receive, prior and in preference to any distribution of any of the assets or surplus

funds of the Corporation to the holders of the Common Stock by reason of their ownership of such stock, the amount of $0.306452 and $1.00, respectively, for each share of Series A Preferred and Series B Preferred then held by them, adjusted for any combinations, consolidations, or stock distributions or dividends which respect to such shares and, in addition, an amount equal to all declared but unpaid dividends on the Series A Preferred and Series B Preferred.

(b) If upon the occurrence of such event, if the assets and funds available to be distributed among the holders of the Preferred Stock shall be insufficient to permit the payment to such holders of the full aforesaid preferential amounts, then the assets and funds of the Corporation available for distribution shall be distributed ratably among the holders of the Series A Preferred and Series B Preferred in proportion to the preferential amount each such holder is otherwise entitled to receive.

(c) After payment has been made to the holders of the Series A Preferred and Series B Preferred of the full amounts to which they shall be entitled as provided in paragraphs (a) and (b) above, and after the payment to the holders of any series of Preferred Stock authorized in the future of the full preferential amount specified therefor, the remaining assets of the Corporation available for distribution to shareholders shall be distributed among the holders of Common Stock ratably in proportion to the numbers of shares of Common Stock held by them.

(d) For purposes of this Section 3.3.2, a merger or consolidation of the Corporation with or into any other corporation or corporations, or the merger of any other corporation or corporations into the Corporation, in which consolidation or merger the shareholders of the Corporation receive distributions in cash or securities of another corporation or corporations as a result of such consolidation or merger, or a sale of all or substantially all of the assets of the Corporation, shall be treated as a liquidation, dissolution or winding up of the Corporation.

(e) Any securities to be delivered to the holders of the Preferred Stock pursuant to Section 3.3.2(d) above shall be valued as follows:

(i) Securities not subject to investment letter or other similar restrictions on free marketability:

(1) If traded on a securities exchange or on the Nasdaq National Market, the value shall be deemed to be the average of the closing prices of the securities on such exchange or system over the 30-day period ending three (3) days prior to the closing;

(2) If actively traded over-the-counter, the value shall be deemed to be the average of the closing bid or sale prices (whichever are applicable) over the 30-day period ending three (3) days prior to the closing; and

(3) If there is no active public market, the value shall be the fair market value thereof, as mutually determined by the Corporation and the holders of a majority-in-interest of the Preferred Stock that would have been entitled to receive such securities or the same type of securities.

(ii) The method of valuation of securities subject to investment letter or other restrictions on free marketability shall be to make an appropriate discount from the market value determined as above in subparagraphs 3.3.2(e)(1), (2) or (3) to reflect the approximate fair market value thereof, as mutually determined by the Corporation and the holders of a majority-in-interest of the Preferred Stock that would be entitled to receive such securities or the same type of securities.

(f) As authorized by Section 402.5(c) of the California Corporations Code, the provisions of Sections 502 and 503 of the California Corporations Code shall not apply with respect to repurchase by the Corporation of shares of Common Stock issued to or held by employees or consultants of the Corporation or its subsidiaries upon termination of their employment or services pursuant to agreement providing for the right of said repurchase.

3.3.3 Voting Rights. Except as otherwise required by law or by Section 3.3.5, the holder of each share of Common Stock shall be entitled to one vote for each share held and the holder of each share of Preferred Stock shall be entitled to the number of votes equal to the number of shares of Common Stock into which such share of Preferred Stock could be converted at the record date for determination of the shareholders entitled to vote on such matter, or, if no such record date is established, at the date such vote is taken or any written consent of shareholders is solicited, such votes to be counted together with all other shares of stock of the Corporation having general voting power and not separately as a class. Fractional votes by the holders of Preferred Stock shall not, however, be permitted and any fractional voting rights shall (after aggregating all shares into which shares of Preferred Stock held by each holder could be converted) be rounded to the nearest whole number. Holders of Common Stock and Preferred Stock shall be entitled to notice of any shareholders' meeting in accordance with the Bylaws of the Corporation.

3.3.4 Conversion. The holders of the Preferred Stock have conversion rights as follows (the "Conversion Rights"):

(a) Right to Convert. Each share of Preferred Stock shall be convertible, at the option of the holder thereof, at any time after the date of issuance of such share at the office of the Corporation or any transfer agent for the Preferred Stock. Each share of Preferred Stock shall be convertible into the number of shares of Common Stock which results from dividing the "Conversion Price" per share in effect for such series of Preferred Stock at the time of conversion into the "Conversion Value" per share of such series of Preferred Stock. The number of shares of Common Stock into which each series of Preferred Stock is convertible is hereinafter collectively referred to as the "Conversion Rate" for such series. The initial Conversion Price per share of Series A and Series B Preferred shall be $0.306452 and $1.00, respectively. The initial Conversion Price of each series of Preferred Stock shall be subject to adjustment as hereinafter provided. The Conversion Value per share of Series A Preferred and Series B Preferred shall be $0.306452 and $1.00, respectively.

(b) Automatic Conversion. Each share of Preferred Stock shall automatically be converted into shares of Common Stock at the then effective Conversion Rate (i) upon the closing of a firm commitment underwritten public offering pursuant to an effective registration statement under the Securities Act of 1933, as amended, covering the offer and sale of Common Stock for the account of the Corporation to the public at an aggregate offering price to the public of not less than $3,500,000 (prior to deduction of underwriter commissions and offering expenses); (ii) immediately upon the receipt by the Corporation of a written request for conversion duly executed by holders of at least 60% of the then outstanding shares of such series of Preferred Stock; or (iii) at such time as 60% of the shares of such series of Preferred Stock ever outstanding have converted into Common Stock.

(c) Mechanics of Conversion.

(i) Before any holder of Preferred Stock shall be entitled to convert the same into Common Stock, the holder shall surrender the certificate or certificates representing the Preferred Stock to be converted, duly endorsed for transfer, at the office of the corporation or of any transfer agent for Preferred Stock, and shall give written notice to the corporation at such office that the holder elects to convert the same and shall state therein the name or names in which the holder wishes the certificate or certificates for shares of Common Stock to be issued. The Corporation shall, as soon as practicable thereafter, issue and deliver at such office to such holder of Preferred Stock, a certificate or certificates for the number of shares of Common Stock to which the holder shall be entitled as aforesaid and a check payable to the holder in the amount of any cash amounts payable as the result of a conversion into fractional shares of Common Stock pursuant to Section 3.3.4(c)(iv) hereunder and any declared but unpaid dividends on the converted Preferred Stock to which the holder may be

entitled. In the case of any conversion pursuant to Section 3.3.4(a), such conversion shall be deemed to have been made immediately prior to the close of business on the date of surrender of the shares of Preferred Stock to be converted, and the person or persons entitled to receive the shares of Common Stock issuable upon such conversion shall be treated for all purposes as the record holder or holders of such shares of Common Stock on such date.

(ii) In the case of any conversion pursuant to Section 3.3.4(b)(i), the conversion shall be conditioned upon the closing of the underwritten public offering, in which event the person(s) entitled to receive the Common Stock issuable upon such conversion of Preferred Stock shall not be deemed to have converted such Preferred Stock until immediately prior to such closing. Written notice of such conversion shall be given by the Corporation to the holders of Preferred Stock at least ten (10) days prior to the closing of the sale of such securities. On or after the closing date as specified in such notice, each holder of Preferred Stock shall surrender the certificate or certificates representing such Preferred Stock, duly endorsed for transfer, at the office of the Corporation or any transfer agent for Preferred Stock. The Corporation shall as soon as practicable thereafter, issue and deliver at such office to such holder of Preferred Stock, a certificate or certificates for the number of shares of Common Stock to which he or she shall be entitled as aforesaid and a check payable to the holder in the amount of any cash amounts payable as a result of a conversion into a fractional share of Common Stock pursuant to Section 3.3.4(c)(iv) hereunder and any declared but unpaid dividends on the converted Preferred Stock. Such conversion shall be deemed to have been made immediately prior to the closing of such underwritten public offering of securities, and, notwithstanding that any certificate representing the Preferred Stock shall not have been surrendered, each holder of such Preferred Stock shall thereafter be treated for all purposes as the record holder of the number of shares of Common Stock issuable to such holder upon such conversion.

(iii) In the case of any conversion pursuant to Section 3.3.4(b)(ii) or 3.3.4(b)(iii), such conversion shall be deemed to have been made as of the date of receipt by the Corporation of a written request for conversion duly executed by holders of at least 60% of the then outstanding shares of such series of Preferred Stock, or as of the date as of which 60% of the shares of such series of Preferred Stock ever outstanding has converted to Common Stock. Written notice of such conversion shall be given by the Corporation to the holders of such series of Preferred Stock within twenty (20) days following the date on which conversion shall be deemed to have occurred. As promptly as possible after receipt of such notice, each holder of such series of Preferred Stock shall surrender the certificate or certificates representing such Preferred Stock, duly endorsed for transfer, at the office of the Corporation or any transfer agent for Preferred Stock. The corporation shall,

as soon as practicable thereunder, issue and deliver at such office to such holder of Preferred Stock, a certificate or certificates for the number of shares of Common Stock to which the holder shall be entitled as aforesaid and a check payable to the holder in the amount of any cash amounts payable as a result of a conversion into a fractional share of Common Stock pursuant to Section 3.3.4(c)(iv) hereunder and any declared but unpaid dividends on the converted Preferred Stock. Such conversion shall be deemed to have been made as of the date aforesaid and, notwithstanding that any certificate representing such series of Preferred Stock shall not have been surrendered, each holder of such series of Preferred Stock shall thereafter be treated for all purposes as the record holder of the number of shares of Common Stock issued to such holder upon such conversion.

(iv) No fractional shares of Common Stock shall be issued upon conversion of Preferred Stock. In lieu of any fractional share to which the holder would otherwise be entitled, the Corporation shall pay cash equal to such fraction multiplied by the then effective Conversion Price.

(d) Adjustment to Conversion Price for Diluting Issues.

(i) Special Definitions. For purposes of this Section 3.3.4(d), the following definitions apply:

(A) "Options" shall mean rights, options or warrants to subscribe for, purchase or otherwise acquire either Common Stock or Convertible Securities other than rights, options or warrants issued or issuable to directors or employees of or consultants to the Company pursuant to a stock grant, option plan or other incentive program approved by the Board of Directors but not exceeding the rights, options or warrants to subscribe for or purchase in the aggregate not more than 2,500,000 shares of Common Stock, subject to adjustment for all subdivisions and combinations and for repurchases of shares previously issued.

(B) "Shares" shall mean shares of Preferred.

(C) "Original Issue Date" shall mean the date on which Shares of were first issued.

(D) "Convertible Securities" shall mean any evidence of indebtedness, shares (other than Common Stock and Shares) or other securities convertible into or exchangeable for Common Stock.

(E) "Additional Shares of Common Stock" shall include all shares of Common Stock issued (or, pursuant to Section 3.3.4(d)(iii), deemed to be issued) by the Company after the Original Issue Date, other than shares of Common Stock issued or issuable: (1) upon the conversion of the

Shares; (2) to Directors or employees of, or consultants to, the Company pursuant to a stock grant, option plan or other incentive program approved by the Board of Directors but not exceeding 2,500,000 shares of Common Stock, subject to adjustment for all subdivisions and combinations and for repurchases of shares previously issued; (3) as a dividend or distribution on the Shares; or (4) by way of a dividend or other distribution on shares of Common Stock excluded from the definition of Additional Shares of Common Stock by the foregoing clauses (1), (2) and (3), or this clause (4), or on the shares of Common Stock so excluded.

(ii) No Adjustment of the Conversion Price. No adjustment in the Conversion Price for any series of Preferred Stock shall be made in respect of the issuance of Additional Shares of Common Stock unless the consideration per share for an Additional Share of Common Stock issued or deemed to be issued by the Company is less than the Conversion Price of such series of Preferred Stock in effect, on the date of and immediately prior to such issuance. No adjustment in the Conversion Price for any series of Preferred Stock will be made unless such adjustment would require a change of at least one percent of the Conversion Price then in effect, but any adjustment that would otherwise be required to be made shall be carried forward and taken into account in any subsequent adjustment.

(iii) Deemed Issue of Additional Shares of Common Stock.

(A) Stock Dividends and Subdivisions. In the event that the Company at any time or from time to time after the Original Issue Date shall declare or pay any dividend on the Common Stock payable in Common Stock, or effect a subdivision of the outstanding shares of Common Stock into a greater number of shares of Common Stock (otherwise than by payment of a dividend in Common Stock), then in any such event, Additional Shares of Common Stock shall be deemed to have been issued:

(1) in the case of any such dividend, immediately after the close of business on the record date for the determination of holders of any class of securities entitled to receive such dividend; or

(2) in the case of any subdivision, at the close of business on the date immediately prior to the date upon which such corporate action becomes effective.

(B) Options and Convertible Securities. In the event the Company at any time or from time to time after the Original Issue Date shall issue any Options or Convertible Securities or shall fix a record date for the determination of holders of any class of securities then issued to receive any such Options or Convertible Securities, then the

maximum number of shares (as set forth in the resolution relating thereto without regard to any provisions contained therein designed to protect against dilution) of Common Stock issuable upon the exercise of such Option or, in the case of Convertible Securities and Options therefore, the conversion or exchange of such Convertible Securities, shall be deemed to be Additional Shares of Common Stock issued as of the time of such issue or, in case such a record date shall have been fixed, as of the close of business on such record date, provided that Additional Shares of Common Stock shall not be deemed to have been issued unless the consideration per share (determined pursuant to Section 3.3.4(v) hereof) of such Additional Shares of Common Stock would be less than the Conversion Price for a series of Preferred Stock in effect on the date of and immediately prior to such issue, or such record date, as the case may be, and provided further that in any such case in which Additional Shares of Common Stock are deemed to be issued:

(1) no further adjustment in the Conversion Price of such series of Preferred Stock shall be made upon the subsequent issue of Convertible Securities or shares of Common Stock upon the exercise of such Options or conversion or exchange of such Convertible Securities;

(2) if such Options or Convertible Securities by their terms provide, with the passage of time or otherwise, for any increase in the consideration payable to the Company or decrease in the number of shares of Common Stock issuable, upon the exercise, conversion or exchange thereof, the Conversion Price for a series of Preferred Stock computed upon the original issue thereof (or upon the occurrence of a record date with respect thereto), and any subsequent adjustments based thereon, shall, upon any such increase or decrease becoming effective, be recomputed to reflect such increase or decrease in so far as it affects such Options or the rights of conversion or exchange under such Convertible Securities (provided, however, that no such adjustment of the Conversion Price of such series of Preferred Stock shall effect the Common Stock previously issued upon conversion of Shares); and

(3) no readjustment pursuant to clause (2) above shall have the effect of increasing the Conversion Price for a series of Preferred Stock to an amount which exceeds the lower of (i) the Conversion Price for such series of Preferred Stock on the original adjustment date, or (ii) the Conversion Price for a series of Preferred Stock that would have resulted from any issuance of Additional Shares of Common Stock between the original adjustment date and such readjustment date.

(iv) Adjustment of Conversion Price upon issuance of Additional Shares of Common Stock. In the event the Company shall issue Additional Shares of Common Stock (including Additional Shares of Common Stock deemed to be issued pursuant to

Section 3.3.4(iii)) without consideration or for a consideration per share less than the Conversion Price of a series of Preferred Stock in effect on the date of and immediately prior to such issue, then in such event, such Conversion Price shall be reduced, concurrently with such issue, to a price (calculated to the nearest U.S. cent) determined by multiplying such Conversion Price by a fraction, the numerator of which shall be the number of shares of Common Stock outstanding immediately prior to such issue, plus the number of shares of Common Stock that could be purchased for the aggregate consideration to be received for the Additional Shares of Common Stock at the then existing Conversion Price of such series of Preferred Stock, and the denominator of which shall be the number of shares of Common Stock outstanding immediately prior to such issue plus the number of such Additional Shares of Common Stock so issued. For the purpose of the preceding sentence, all shares of Common Stock issuable upon conversion of all of the outstanding Shares and Convertible Securities and exercise of Options shall be deemed to be outstanding, and immediately after any Additional Shares of Common Stock are deemed issued pursuant to Section 3.3.4(iii) such Additional Shares of Common Stock shall be deemed to be outstanding.

(v) Determination of Consideration. For purposes of this

Section 3.3.4, the consideration received by the Company for the issue of any Additional Shares of Common Stock shall be computed as follows:

(A) Cash and Property: Such consideration shall
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(1) insofar as it consists of cash, include the aggregate amount of cash received by the Company exclusive of amounts paid or payable for accrued interest or accrued dividends;

(2) insofar as it consists of property other than cash, be computed at the fair market value thereof at the time of such issue, as determined in good faith by the Board of Directors; and

(3) in the event Additional Shares of Common Stock are issued together with other shares or securities or other assets of the Company for consideration which covers both, be the proportion of such considerations so received computed as provided in clauses (1) and (2) above, as determined in good faith by the Board of Directors.

(B) Options and Convertible Securities. The
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consideration per share received by the Company for Additional Shares of Common Stock deemed to have been issued pursuant to Section 3.3.4(d)(iii)(B), relating to Options and Convertible Securities, shall be determined by dividing:

(1) if the total amount, if any, received or receivable by the Company as consideration for the issue of such Options or Convertible Securities, plus the minimum aggregate amount of additional consideration (as set forth in the resolutions relating thereto, without regard to any provision contained therein designed to protect against dilution) payable to the Company upon the exercise of such Options or the conversion or exchange of such Convertible Securities, or in the case of Options for Convertible Securities, the exercise of such Options for Convertible Securities and the conversion or exchange of such Convertible Securities; by

(2) the maximum number of shares of Common Stock (as set forth in such resolutions relating thereto, without regard to any provision contained therein designed to protect against dilution) issuable upon the exercise of such Options or the conversion or exchange of such Convertible Securities.

(C) Stock Dividends. Any Additional Shares of Common Stock deemed to have been issued relating to stock dividends shall be deemed to have been issued for no consideration.

(e) Adjustments for Combinations of Common Stock. In the event the outstanding shares of Common Stock shall be combined by reclassification or otherwise into a lesser number of shares of Common Stock, the Conversion Price of each series of Preferred Stock in effect immediately prior to such combination, or consolidation shall, concurrently with the effectiveness of such combination or consolidation, be proportionately increased.

(f) Adjustments for Other Distributions. In the event the Corporation at any time or from time to time makes, or fixes a record date for the determination of holders of Common Stock entitled to receive any distribution payable in securities of the Corporation other than shares of Common Stock and other than as otherwise adjusted in this Section 3.3.4, then and in each such event provision shall be made so that the holders of Preferred Stock shall receive upon conversion thereof, in addition to the number of shares of Common Stock receivable thereupon, the amount of securities of the Corporation which they would have received had their Preferred Stock been converted into Common Stock on the date of such event and had they thereafter, during the period from the date of such event to and including the date of conversion, retained such securities receivable by them as aforesaid during such period, subject to all other adjustments called for during such period under this Section 3.3.4 with respect to the rights of the holders of the Preferred Stock.

(g) Adjustment for Reclassification, Exchange and Substitution. If the Common Stock issuable upon conversion of the Preferred Stock shall be changed into the same or a different number of shares of any other class or classes of

stock, whether by capital reorganization, reclassification or otherwise (other than a subdivision or combination of shares provided for above), the Conversion Rate of each series of Preferred Stock then in effect shall, concurrently with the effectiveness of such reorganization or reclassification, be proportionately adjusted such that the Preferred Stock shall be convertible into, in lieu of the number of shares of Common Stock which the holders would otherwise have been entitled to receive, a number of shares of such other class or classes of stock equivalent to the number of shares of Common Stock that would have been subject to receipt by the holders upon conversion of the Preferred Stock immediately before that change.

(h) No Impairment. This Corporation will not, by amendment of its Articles of Incorporation or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed hereunder by the Corporation but will at all times in good faith assist in the carrying out of all the provisions of this Section 3.3.4 and in the taking of all such action as may be necessary or appropriate in order to protect the conversion rights of the holders of Preferred Stock against impairment.

(i) Certificate as to Adjustments. Upon the occurrence of each adjustment or readjustment of the Conversion Price of a series of Preferred Stock pursuant to this Section 3.3.4, the Corporation at its expense shall promptly compute such adjustment or readjustment in accordance with the terms hereof and furnish to each holder of such series of Preferred Stock a certificate setting forth such adjustment or readjustment and showing in detail the facts upon which such adjustment or readjustment is based. The Corporation shall, upon the written request at any time of any holder of such series of Preferred Stock, furnish or cause to be furnished to such holder a like certificate setting forth (i) such adjustments and readjustments, (ii) the Conversion Price at the time in effect, and (iii) the number of shares of Common Stock and the amount, if any, of other property which at the time would be received upon the conversion of such series of Preferred Stock.

(j) Issue Taxes. The Corporation shall pay any and all issue and other taxes that may be payable in respect of any issuance or delivery of shares of Common Stock on conversion of shares of Preferred Stock pursuant hereto; provided, however, that the Corporation shall not be obligated to pay any transfer taxes resulting from any transfer requested by any holder in connection with any such conversion .

(k) Reservation of Common Issuable Upon Conversion. The Corporation shall at all times reserve and keep available out of its authorized but unissued shares of Common Stock, solely for the purpose of effecting the conversion of the shares of Preferred Stock, such number of its shares of Common

Stock as shall from time to time be sufficient to effect the conversion of all outstanding shares of the Preferred Stock; and if at any time the number of authorized but unissued shares of Common Stock shall not be sufficient to effect the conversion of all the then outstanding shares of Preferred Stock, the Corporation will take such corporate action as may, in the opinion of its counsel, be necessary to increase its authorized but unissued shares of Common Stock to such number of shares as shall be sufficient for such purpose.

(l) Notices of Record Date. In the event that this Corporation shall propose at any time:

(i) to declare any dividend or distribution upon its Common Stock, whether in cash, property, stock or other securities, whether or not a regular cash dividend and whether or not out of earnings or earned surplus;

(ii) to offer for subscription pro rata to the holders of any class or series of its stock any additional shares of stock of any class or series or other rights;

(iii) to effect any reclassification or recapitalization of its Common Stock outstanding involving a change in the Common Stock; or

(iv) to merge or consolidate with or into any other corporation, or sell, lease or convey all or substantially all its property or business, or to liquidate, dissolve or wind up; then, in connection with each such event, this Corporation shall send to the holders of the Preferred Stock:

(1) at least 20 days' prior written notice of the date on which a record shall be taken for such dividend, distribution or subscription rights (and specifying the date on which the holders of Common Stock shall be entitled thereto) or for determining rights to vote in respect of the matters referred to in (iii) and (iv) above; an d

(2) in the case of the matters referred to in (iii) and (iv) above, at least 20 days' prior written notice of the date when the same shall take place (and specifying the date on which the holders of Common Stock shall be entitled to exchange their Common Stock for securities or other property deliverable upon the occurrence of such event or the record date for the determination of such holders if such record date is earlier).

Each such written notice shall be delivered personally or given by first class mail, postage prepaid, addressed to the holders of the Preferred Stock at the address for each such holder as shown on the books of this Corporation.

3.3.5 Covenants. In addition to any other rights provided by law, so long as shares of Preferred Stock are outstanding, this Corporation shall not without first obtaining the affirmative vote or written consent of the holders of not less than a majority of the outstanding shares of Preferred Stock, voting together as one class:

(a) amend or repeal any provision of, or add any provision to, this Corporation's Articles of Incorporation if such action would materially and adversely directly alter or change the preferences, rights, privileges or powers of, or the restrictions provided for the benefit of, the Preferred Stock, or increase or decrease the authorized number of shares of Preferred Stock;

(b) authorize or issue shares of any class or series of stock having any preferences or priority as to dividends or assets superior to any such preference or priority of the Preferred Stock;

(c) reclassify any class or series of Common Stock into shares having any preference or priority as to dividends or assets superior to or on a parity with any such preference or priority of any series of Preferred Stock;

(d) merge with any other corporation if after such merger the shareholders of the corporation shall own less than fifty percent (50%) of the voting shares of the surviving corporation in such merger, or sell all or substantially all of the assets of the Corporation; or

(e) pay or declare any dividend on, or redeem (other than stock repurchases pursuant to contractual arrangements with employees, officers, directors or consultants) any shares of Common Stock.

IV.

The liability of the directors of this corporation for monetary damages shall be eliminated to the fullest extent permissible under California law. This corporation is also authorized, to the fullest extent permissible under California law, to indemnify its agents (as defined in Section 317 of the California Corporations Code), whether by by-law, agreement or otherwise, for breach of duty to this corporation and its shareholders in excess of that expressly permitted by Section 317 and to advance defense expenses to its agents in connection with such matters as they are incurred, subject to the limits on such excess indemnification set forth in Section 204 of the California Corporations Code. If, after the effective date of this Article, California law is amended in a manner which permits a corporation to limit the monetary or other liability of its directors or to authorize indemnification of, or advancement of such defense expenses to, its directors or other persons, in any such case to a greater extent than is permitted on such effective date, the

references in this Article to "California law" shall to that extent be deemed to refer to California law as so amended.

3. The foregoing Third Amended and Restated Articles of Incorporation have been duly approved by the Board of Directors.

4. The foregoing Third Amended and Restated Articles of Incorporation have been duly approved by the required vote of the shareholders of this Corporation in accordance with Sections 902 and 903 of the California Corporations Code. The total number of outstanding shares of Common Stock is 10,049,474 shares. The total number of outstanding shares Series A Preferred is 2,447,368 shares. There are no other shares outstanding. The number of shares voting in favor of the amendment equaled or exceeded the vote required, such required vote being more than fifty percent (50%) of the outstanding shares of the Common Stock and Series A Preferred, each voting separately as a class.

John W. Fara and Julian N. Stern further declare under penalty of perjury under the laws of the State of California that the matters set forth in these Third Amended and Restated Articles of Incorporation are true and correct of their own knowledge.

Executed at Foster City, California, this 30th day of December, 1996.

/s/ John W. Fara

JOHN W. FARA, President

/s/ Julian N. Stern

JULIAN N. STERN, Secretary

EXHIBIT 3.3

BYLAWS

OF

DEPOMED, INC.

SHAREHOLDERS

1. Annual Meeting. Unless the Board of Directors or the President of the corporation selects a different time or date, the annual meeting of shareholders shall be held at 11:00 a.m. on the first Tuesday of the fifth calendar month following the end of the corporation's fiscal year. The annual meeting shall be for the purpose of electing a Board of Directors and transacting such other business as may properly be brought before the meeting.

2. Special Meeting. Special meetings of shareholders may be called at any time by the Board of Directors, the Chairman of the Board, the President or the holders of shares entitled to cast not less than one-tenth of the votes at the meeting.

3. Place. Meetings of shareholders shall be held at the principal executive office of the corporation or at any other place, within or without California, which is designated by the Board of Directors or the President.

4. Notice.

(a) Annual and Special Meetings. A written notice of each meeting of shareholders shall be given not more than 60 days and, except as provided below, not less than 10 (or, if sent by third-class mail, 30) days before the meeting to each shareholder entitled to vote at the meeting. The notice shall state the place, date and hour of the meeting and, if directors are to be elected at the meeting, the names of the nominees intended to be presented by the Board of Directors for election. The notice shall also state (i) in the case of an annual meeting, those matters which the Board of Directors intends to present for action by the shareholders, and (ii),in the case of a special meeting, the general nature of the business to be transacted and that no other business may be transacted. Notice shall be delivered personally, by mail or other means addressed to each such shareholder at the address of the shareholder appearing on the books of the corporation, the address given by the shareholder to the corporation for the purpose of notice or as otherwise provided by law. Upon written request to the Chairman of the Board, the President, the Secretary or any Vice President of the corporation by any person (other than the Board of Directors) entitled to call a special meeting of shareholders, the person receiving such request shall cause notice to be given

to the shareholders entitled to vote that a meeting will be held at a time requested by the person calling the meeting not less than 35 nor more than 60 days after receipt of the request.

(b) Adjourned Meetings. Notice of an adjourned meeting need not be given if (i) the meeting is adjourned for 45 days or less, (ii) the time and place of the adjourned meeting are announced at the meeting at which the adjournment is taken and (iii) no new record date is fixed for the adjourned meeting. otherwise, notice of the adjourned meeting shall be given as in the case of an original meeting.

5. Record Date. The Board of Directors may fix in advance a record date for the determination of the shareholders entitled to notice of any meeting, to vote, to receive any dividend or other distribution or allotment of rights or to exercise any rights. The record date shall be not more than 60 nor less than 10 days prior to the date of the meeting nor more than 60 days prior to such other action. If no record date is fixed, the record date for determining shareholders entitled to notice of or to vote at a meeting of shareholders shall be at the close of business on the business day next preceding the day on which notice is given or, if notice is waived, the close of business on the business day next preceding the day on which the meeting is.held. The record date for determining shareholders entitled to give consent to corporate action in writing without a meeting, when no prior action by the Board of Directors has been taken, shall be the day on which the first written consent is given. The record date for determining shareholders for any other purpose shall be at the close of business on the day on which the Board of Directors adopts the resolution relating thereto, or the 60th day prior to the date of such other action, whichever is later. Except as otherwise provided by law, only shareholders at the close of business on the record date are entitled to notice and to vote, to receive the dividend, distribution or allotment of rights or to exercise rights, as the case may be, notwithstanding any transfer of shares on the books of the corporation occurring after the record date. Except as otherwise provided by law, the corporation shall be entitled to treat the holder of record of any shares as the holder in fact of such shares and shall not be bound to recognize any equitable or other claim to or interest in such shares on the part of any other person, whether or not the corporation shall have express or other notice of such claim or interest. A determination of shareholders of record entitled to notice of or to vote at a meeting of shareholders shall apply to any adjournment of the meeting unless the Board of Directors fixes a new record date. The Board of Directors shall fix a-new record date if the adjourned meeting takes place more than 45 days after the date set for the original meeting.

6. Meeting Without Regular Call and Notice. The transactions of any meeting of shareholders, however called and noticed and wherever held, are as valid as though had at a meeting duly held after regular call and notice if a quorum is

present in person or by proxy and if, either before or after the meeting, each of the persons entitled to vote who is not present at the meeting in person or by proxy signs a written waiver of notice, a consent to the holding of the meeting or an approval of the minutes of the meeting. Attendance of a shareholder at a shareholders' meeting shall constitute a waiver of notice of such meeting unless, at the beginning of the meeting, the shareholder objects to the transaction of any business because the meeting was not properly called or convened or, with respect to the consideration of a matter required to be included in the notice for the meeting which was not so included, the shareholder expressly objects to such consideration at the meeting.

7. Quorum and Required Vote. A majority of the shares entitled to vote, represented in person or by proxy, constitutes a quorum for the transaction of business. No business may be transacted at a meeting in the absence of a quorum other than the adjournment of the meeting, except that if a quorum is present at the commencement of the meeting, business may be transacted until the meeting is adjourned even though the withdrawal of shareholders results in less than a quorum. If a quorum is present at a meeting, the affirmative vote of the holders of shares having a majority of the voting power of the shares represented and voting at the meeting on any matter shall be the act of the shareholders unless the vote of a larger number or voting by classes is required by law or the Articles of Incorporation. If a quorum is present at the commencement of a meeting but the withdrawal of shareholders results in less than a quorum, the affirmative vote of a majority of shares required to constitute a quorum shall be the act of the shareholders unless the vote of a larger number is required by law or the Articles of Incorporation. Any meeting of shareholders, whether or not a quorum is present, may be adjourned by the vote of a majority of the shares represented at the meeting.

8. Proxies. A shareholder may be represented at any meeting of shareholders by a written proxy signed by the person entitled to vote or by such persons duly authorized attorney-in-fact. A proxy must bear a date within 11 months prior to the meeting, unless the proxy specifies a different length of time. A revocable proxy is revoked by a writing delivered to the Secretary of the corporation stating that the proxy is revoked or by a subsequent proxy executed and delivered to the Secretary by, or by attendance at the meeting and voting in person by, the person executing the proxy.

9. Voting. Except as provided below or as otherwise provided by the Articles of Incorporation or by law, a shareholder shall be entitled to one vote for each share held of record on the record date fixed for the determination of the shareholders entitled to vote or, if no such date is fixed, the date determined in accordance with law. Upon the demand of any shareholder made at a meeting before the voting begins, the election of directors shall be by ballot. At any election of directors, shareholders may cumulate votes and give one candidate

a number of votes equal to the number of directors to be elected multiplied by the number of votes to which the shares are entitled or distribute votes according to the same principle among as many candidates as desired. No shareholder shall be entitled to cumulate votes for any one or more candidates unless such candidate or candidates' names have been placed in nomination prior to the voting and at least one shareholder has given notice at the meeting prior to the voting of such shareholder's intention to cumulate votes.

10. Election Inspectors. One or three election inspectors may be appointed by the Board of Directors in advance of a meeting of shareholders or at the meeting by the chairman of the meeting. If not previously chosen, one or three inspectors shall be appointed by the chairman of the meeting if a shareholder or proxyholder so requests. When inspectors are appointed at the request of a shareholder or proxyholder, the majority of shares represented in person or by proxy shall determine whether one or three inspectors shall be chosen. The election inspectors shall determine all questions concerning the existence of a quorum and the right to vote, shall tabulate and determine the results of voting and shall do all other acts necessary or helpful to the expeditious and impartial conduct of the vote. If there are three inspectors, the decision, act or certificate of a majority of the inspectors is effective as if made by all.

11. Action Without Meeting. Except as provided below or by the Articles of Incorporation, any action which may be taken at a meeting of shareholders may be taken without a meeting and without prior notice if a consent in writing setting forth the action so taken is signed by the holders of outstanding shares having not less than the minimum number of votes which would be necessary to authorize or take such action at a meeting at which all shares entitled to vote on such action were present and voted. Unless the consents of all shareholders entitled to vote have been solicited in writing, the corporation shall give to those shareholders entitled to vote who have not consented in writing (i) a written notice at least 10 days before consummation of an action authorized by shareholders without a meeting covered by the following sections of the California corporations Code: 310 (certain transactions involving interested directors), 317 (indemnification of corporate agents), 1201 (reorganizations) and 2007 (certain distributions of assets) and (ii) a written notice promptly after the taking of any other action approved by shareholders without a meeting. Subject to Section 305(b) of the California Corporations Code, directors may not be elected by written consent except by unanimous written consent of all shares entitled to vote for the election of directors.

12. Reports. The annual report to shareholders specified in Section 1501 of the California Corporations Code is dispensed with, except as the Board of Directors may otherwise determine, as long as there are less than 100 holders of record of the corporation's shares. Any such annual report sent to

shareholders shall be sent at least 15 (or, if sent by third-class mail, 35) days prior to the next annual meeting of shareholders and not later than 120 days after the close of the fiscal year.

13. Lost Stock Certificates. The corporation may cause a new stock certificate to be issued in place of any certificate previously issued by the corporation alleged to have been lost, stolen or destroyed. The corporation may, at its discretion and as a condition precedent to such issuance, require the owner of such certificate to deliver an affidavit stating that such certificate was lost, stolen or destroyed or to give the corporation a bond or other security sufficient to indemnify it against any claim that may be made against it, including any expense or liability, on account of the alleged loss, theft or destruction or the issuance of a new certificate.

BOARD OF DIRECTORS

14. Number. The authorized number of directors of this corporation shall not be less than three nor more than five. The exact number of directors shall be fixed by resolution of the Board of Directors. The indefinite number of directors may be changed or a definite number fixed without provision for an indefinite number by an amendment to the Articles of Incorporation or by amendment to these bylaws duly adopted by the vote or written consent of holders of a majority of the outstanding shares entitled to vote. An amendment reducing the minimum number of directors to a number less than five cannot be adopted if the votes cast against its adoption at a meeting of the shareholders, or the shares not consenting in the case of action by written consent, are equal to more than 16-2/3% of the outstanding shares entitled to vote.' No amendment may change the maximum number of authorized directors to a number greater than two times the minimum number of directors minus one.

15. Powers. Subject to the limitations imposed by law or contained in the Articles of Incorporation, the business and affairs of the corporation shall be managed and all corporate powers shall be exercised by or under the ultimate direction of the Board of Directors.

16. Election, Term of Office and Vacancies. At each annual meeting of shareholders, directors shall be elected to hold office until the next annual meeting. Each director, including a director elected to fill a vacancy, shall hold office until the expiration of the term for which the director was elected and until a successor has been elected. The Board of Directors may declare vacant the office of any director who has been declared to be of unsound mind by court order or convicted of a felony. Vacancies on the Board of Directors not caused by removal may be filled by a majority of the directors then in office, regardless of whether they constitute a quorum, or by a sole remaining director. The shareholders may elect a director

at any time to fill any vacancy not filled, or which cannot be filled, by the Board of Directors. No reduction in the authorized number of directors shall have the effect of removing any director prior to the expiration of his term of office.

17. Removal. Except as provided below, any or all of the directors may be removed without cause if such removal is approved by the affirmative vote or written consent of a majority of the outstanding shares entitled to vote. Unless the entire Board of Directors is so removed, no director may be removed if (i) the votes cast against removal, or not consenting in writing to such removal in the case of written consent, would be sufficient to elect such director if voted cumulatively at an election at which the same total number of votes was cast or, if such action is taken by written consent, all shares entitled to vote were voted and (ii) the entire number of directors authorized at the time of the director's most recent election were then being elected.

18. Resignation. Any director may resign by giving notice to the Chairman of the Board, the President, the Secretary or the Board of Directors. The resignation of a director shall be effective when given unless the director specifies a later time. The resignation shall be effective regardless of whether it is accepted by the corporation.

19. Compensation. If the Board of Directors so resolves, the directors, including the Chairman of the Board, shall receive compensation and expenses of attendance for meetings of the Board of Directors and of committees of the Board. Nothing herein shall preclude any director from serving the corporation in another capacity and receiving compensation for such service.

20. Committees. The Board of Directors may, by resolution adopted by a majority of the authorized number of directors, designate one or more committees, each consisting of two or more directors, to serve at the pleasure of the Board. The Board may designate one or more directors as alternate members of a committee who may replace any absent member at any meeting of the committee. To the extent permitted by the resolution of the Board of Directors, a committee may exercise all of the authority of the Board except:

(a) the approval of any action which, under the California Corporations Code, must be approved by the outstanding shares or approved by the shareholders;

(b) the filling of vacancies on the Board or any committee;

(c) the fixing of compensation of the directors for serving on the Board or any committee;

(d) the adoption, amendment or repeal of By-laws;

(e) the amendment or repeal of any resolution of the Board which by its express terms is not so amendable or repealable;

(f) a distribution to the shareholders of the corporation, except at a rate, in a periodic amount or within a price range determined by the Board; and

(g) the appointment of any other committees of the Board or the members of such committees.

21. Inspection of Records and Properties. Each director may inspect all books, records, documents and physical properties of the corporation and its subsidiaries at any reasonable time. Inspections may be conducted either by the director or the director's agent or attorney. The right of inspection includes the right to copy and make extracts.

22. Time and Place of Meetings and Telephone Meetings. Unless the Board of Directors determines otherwise, the Board shall hold a regular meeting during each quarter of the corporation's fiscal year. one such meeting shall take place immediately following the annual meeting of shareholders. All meetings of directors shall be held at the principal executive office of the corporation or at such other place, within or without California, as shall be designated in the notice of the meeting or in a resolution of the Board of Directors. Directors may participate in a meeting through use of conference telephone or similar communications equipment, provided that all members so participating can hear each other.

23. Call. Meetings of the Board of Directors, whether regular or special, may be called by the Chairman of the Board, the President, the Secretary, any Vice President or any two directors.

24. Notice. Regular meetings of the Board of Directors may be held without notice if the time of such meetings has been fixed by the Board. Special meetings shall be held upon four days' notice by mail or 48 hours' notice delivered personally or by telephone or telegraph, and regular meetings shall be held upon similar notice if notice is required for such meetings. Neither a notice nor a waiver of notice must specify the purpose of any regular or special meeting. Notice of the time and place of holding an adjourned meeting need not be given to absent directors if the time and place of the adjourned meeting is announced at the meeting at which the adjournment is taken, but if a meeting is adjourned for more than 24 hours, notice of the adjourned meeting shall be given prior to the time of such meeting to the directors who were not present at the time of the adjournment.

25. Meeting Without Regular Call and Notice. The transactions of any meeting of the Board of Directors, however called and noticed or wherever held, are as valid as though had

at a meeting duly held after regular call and notice if a quorum is present and if, either before or after the meeting, each of the directors not present signs a written waiver of notice, a consent to the holding of the meeting or an approval of the minutes of the meeting. For such purposes, a director shall not be considered present at a meeting if, although in attendance at the meeting, the director protests the lack of notice prior to the meeting or at its commencement.

26. Action Without Meeting. Any action required or permitted to be taken by the Board of Directors may be taken without a meeting, if all of the members of the Board individually or collectively consent in writing to such action.

27. Quorum and Required Vote. A majority of the authorized number of directors shall constitute a quorum for the transaction of business. Subject to the provisions of Section 310 (relating to certain transactions involving interested directors) and Section 317(e) (relating to indemnification of corporate agents) of the California Corporations Code, every act or decision done or made by a majority of the directors present at a meeting duly held at which a quorum is present is the act of the Board. A meeting at which a quorum is initially present may continue to transact business notwithstanding the withdrawal of directors, if any action taken is approved by at least a majority of the required quorum for such meeting. A majority of the directors present.at a meeting, whether or not a quorum is present, may adjourn the meeting to another time and place.

28. Committee Meetings. The principles set forth in Sections 22 through 27 of these By-laws shall apply to committees of the Board of Directors and to actions taken by such committees.

29. Indemnification of Directors and Officers.

(a) Indemnification. To the fullest extent permissible under California law, the corporation shall indemnify its directors and officers against all expenses, judgments, fines, settlements and other amounts actually and reasonably incurred by them in connection with any proceeding, including an action by or in the right of the corporation, by reason of the fact that such person is or was a director or officer of the corporation, or is or was serving at the request of the corporation as a director, officer, trustee, employee or agent of another corporation, or of a partnership, joint venture, trust or other enterprise (including service with respect to employee benefit plans). To the fullest extent permissible under California law, expenses incurred by a director or officer seeking indemnification under this By-law in defending any proceeding shall be advanced by the corporation as they are incurred upon receipt by the corporation of an undertaking by or on behalf of the director or officer to repay such amount if it shall ultimately be determined that the director or officer is not entitled to be indemnified by the corporation for those

expenses. If, after the effective date of this By-law, California law is amended in a manner which permits the corporation to authorize indemnification of or advancement of expenses to its directors or officers, in any such case to a greater extent than is permitted on such effective date, the references in this By-law to "California law" shall to that extent be deemed to refer to California law as so amended. The rights granted by this By-law are contractual in nature and, as .such, may not be altered with respect to any present or former director or officer without the written consent of that person.

(b) Procedure. Upon written request to the Board of Directors by a person seeking indemnification under this By-law, the Board shall promptly determine in accordance with Section 317(e) of the California Corporations Code whether the applicable standard of conduct has been met and, if so, the Board shall authorize indemnification. If the Board cannot authorize indemnification because the number of directors who are parties to the proceeding with respect to which indemnification is sought prevents the formation of a quorum of directors who are not parties to the proceeding, then, upon written request by the person seeking indemnification, independent legal counsel (by means of a written opinion obtained at the corporation's expense) or the corporation's shareholders shall determine whether the applicable standard of conduct has been met and, if so, shall authorize indemnification.

(c) Definitions. The term "proceeding" means any threatened, pending or completed action or proceeding, whether civil, criminal, administrative or investigative. The term "expenses" includes, without limitation, attorneys' fees and any expenses of establishing a right to indemnification.

OFFICERS

30. Titles and Authority. The officers of the corporation shall include a Chairman of the Board or a President or both, a Secretary and a Treasurer. The Board of Directors may also choose one or more Vice Presidents, Assistant Secretaries, Assistant Treasurers or other officers. Any number of offices may be held by the same person. All officers shall perform their duties and exercise their powers subject to the direction of the Board of Directors. Deeds, notes, contracts, and any other instrument or document may be executed on behalf of this corporation by the single signature of the Chairman of the Board or the President or by the signatures of any two officers, provided that the signing officers shall not both be Assistant Vice Presidents, Assistant Secretaries, Assistant Treasurers or other subordinate officers. Notwithstanding the foregoing, any officer is authorized to sign (i) a proxy or consent solicited by the directors or management of any company in which this corporation owns shares or (ii) any notice given by this corporation to any other person.

31. Election, Term of Office and Vacancies. At its regular meeting after each annual meeting of shareholders, the Board of Directors shall choose the officers of the corporation. The Board may choose additional officers or fill vacant offices at any other time. No officer must be a member of the Board of Directors except the Chairman of the Board. The officers shall hold office until their successors are chosen, except that the Board of Directors may remove any officer at any time.

32. Resignation. Any officer may resign at any time upon notice to the corporation without prejudice to the rights, if any, of the corporation under any contract to which the officer is a party. The resignation of an officer shall be effective when given unless the officer specifies a later time. The resignation shall be effective regardless of whether it is accepted by the corporation.

33. Chairman of the Board; President. If the Board of Directors elects a Chairman of the Board, such officer shall preside over all meetings of the Board of Directors and of shareholders. If there be no Chairman of the Board, the President shall perform such duties. The Board of Directors shall designate either the Chairman of the Board or the President as the chief executive officer and may prescribe the duties and powers of the chief executive officer. If there be no Chairman of the Board, the President shall be the chief executive officer.

34. Secretary. Unless otherwise determined by the Board of Directors or the chief executive officer, the Secretary shall have the following powers and duties:

(a) Record of Corporate Proceedings. The Secretary shall attend meetings of shareholders and the Board of Directors and its committees and shall record all votes and the minutes of such meetings in a book to be kept at the principal executive office of the corporation or at such other place as the Board may determine. The Secretary shall keep at the corporation's principal executive office, if in California, or at its principal business office in California if the principal executive office is not in California, the original or a copy of these By-laws, as amended.

(b) Record of Shares. Unless a transfer agent is appointed by the Board of Directors to keep a share register, the Secretary shall keep a share register at the principal executive office of the corporation showing the names of the shareholders and their addresses, the number and class of shares held by each, the number and date of certificates issued and the number and date of cancellation of each certificate surrendered for cancellation.

(c) Notices. The Secretary shall give such notices as may be required by law or these By-laws.

35. Treasurer. Unless the Board of Directors

designates another chief financial officer, the Treasurer shall be the chief financial officer of the corporation. Unless otherwise determined by the Board of Directors or the chief executive officer, the Treasurer shall have custody of the corporate funds and securities, shall keep adequate and correct accounts of the corporation's properties and business transactions, shall disburse such funds of the corporation as may be ordered by the Board or the chief executive officer (taking proper vouchers for such disbursements), and shall render to the chief executive officer and the Board, at regular meetings of the Board or whenever the Board may require, an account of all transactions and the financial condition of the corporation.

36. Other officers. The other officers of the corporation, if any, shall exercise such powers and perform such duties as the Board of Directors or the chief executive officer shall prescribe.

37. Salaries. The Board of Directors shall fix the salary of the chief executive officer and may fix the salaries of other employees of the corporation, including the other officers. If the Board does not fix the salaries of the other officers, the chief executive officer shall fix such salaries.

AMENDMENT OF BYLAWS

38. Bylaws may be adopted, amended or repealed by the affirmative vote of a majority of the outstanding shares entitled to vote or by the Board of Directors, except that an amendment changing the authorized number of directors may only be adopted as provided in Section 14.

CERTIFICATION

This is to certify that the foregoing is a true and correct copy of the bylaws of the corporation named in the title of these bylaws and that such bylaws were duly adopted by the Board of Directors of such corporation effective August 8, 1995.

/s/ Julian N. Stern

Julian N. Stern, Secretary

EXHIBIT 10.1

1995 STOCK OPTION PLAN

OF

DEPOMED, INC.

1. PURPOSES OF THE PLAN

The purposes of the 1995 Stock Option Plan (the "Plan") of DepoMed, Inc., a California corporation (the "Company"), are to:

(a) Encourage selected employees, directors and consultants to improve operations and increase profits of the Company;

(b) Encourage selected employees, directors and consultants to accept or continue employment or association with the Company or its Affiliates; and

(c) Increase the interest of selected employees, directors and consultants in the Company's welfare through participation in the growth in value of the common stock of the Company (the "Common Stock").

Options granted under this Plan ("Options") may be "incentive stock options" ("ISOs") intended to satisfy the requirements of Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"), or "nonstatutory options" ("NSOs").

2. ELIGIBLE PERSONS

Every person who at the date of grant of an Option is a full-time employee of the Company or of any Affiliate (as defined below) of the Company is eligible to receive NSOs or ISOs under this Plan. Every person who at the date of grant is a consultant to, or non-employee director of, the Company or any Affiliate (as defined below) of the Company is eligible to receive NSOs under this Plan. The term "Affiliate" as used in the Plan means a parent or subsidiary corporation as defined in the applicable provisions (currently Sections 424(e) and (f), respectively) of the Code. The term "employee" includes an officer or director who is an employee, of the Company. The term "consultant" includes persons employed by, or otherwise affiliated with, a consultant.

3. STOCK SUBJECT TO THIS PLAN

Subject to the provisions of Section 6.1.1 of the Plan, the total number of shares of stock which may be issued under

options granted pursuant to this Plan shall not exceed 750,000 shares of Common Stock. The shares covered by the portion of any grant under the Plan which expires unexercised shall become available again for grants under the Plan.

4. ADMINISTRATION

(a) This Plan shall be administered by the Board of Directors of the Company (the "Board") or, either in its entirety or only insofar as required pursuant to Section 4(b) hereof, by a committee (the "Committee") of at least two Board members to which administration of the Plan, or of part of the Plan, is delegated (in either case, the "Administrator").

(b) From and after such time as the Company registers a class of equity securities under Section 12 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), it is intended that this Plan shall be administered in accordance with the disinterested administration requirements of Rule 16b-3 promulgated by the Securities and Exchange Commission ("Rule 16b-3"), or any successor rule thereto.

(c) Subject to the other provisions of this Plan, the Administrator shall have the authority, in its discretion: (i) to grant Options; (ii) to determine the fair market value of the Common Stock subject to Options; (iii) to determine the exercise price of Options granted; (iv) to determine the persons to whom, and the time or times at which, Options shall be granted, and the number of shares subject to each Option; (v) to interpret this Plan; (vi) to prescribe, amend, and rescind rules and regulations relating to this Plan; (vii) to determine the terms and provisions of each Option granted (which need not be identical), including but not limited to, the time or times at which Options shall be exercisable; (viii) with the consent of the optionee, to modify or amend any Option; (ix) to defer (with the consent of the optionee) the exercise date of any Option; (x) to authorize any person to execute on behalf of the Company any instrument evidencing the grant of an Option; and (xi) to make all other determinations deemed necessary or advisable for the administration of this Plan. The Administrator may delegate nondiscretionary administrative duties to such employees of the Company as it deems proper.

(d) All questions of interpretation, implementation, and application of this Plan shall be determined by the Administrator. Such determinations shall be final and binding on all persons.

(e) With respect to persons subject to Section 16 of the Exchange Act, if any, transactions under this Plan are intended to comply with the applicable conditions of Rule 16b-3, or any successor rule thereto. To the extent any provision of this Plan or action by the Administrator fails to so comply, it shall be deemed null and void, to the extent permitted by law and deemed advisable by the Administrator. Notwithstanding the

above, it shall be the responsibility of such persons, not of the Company or the Administrator, to comply with the requirements of Section 16 of the Exchange Act; and neither the Company nor the Administrator shall be liable if this Plan or any transaction under this Plan fails to comply with the applicable conditions of Rule 16b-3 or any successor rule thereto, or if any such person incurs any liability under Section 16 of the Exchange Act.

5. GRANTING OF OPTIONS; OPTION AGREEMENT

(a) No Options shall be granted under this Plan after ten years from the date of adoption of this Plan by the Board.

(b) Each Option shall be evidenced by a written stock option agreement, in form satisfactory to the Company, executed by the Company and the person to whom such Option is granted; provided, however, that the failure by the Company, the optionee, or both to execute such an agreement shall not invalidate the granting of an Option, although the exercise of each option shall be subject to Section 6.1.3.

(c) The stock option agreement shall specify whether each Option it evidences is a NSO or an ISO.

(d) Subject to Section 6.3.3 with respect to ISOs, the Administrator may approve the grant of Options under this Plan to persons who are expected to become employees, directors or consultants of the Company, but are not employees, directors or consultants at the date of approval.

6. TERMS AND CONDITIONS OF OPTIONS

Each Option granted under this Plan shall be subject to the terms and conditions set forth in Section 6.1. NSOs shall be also subject to the terms and conditions set forth in Section 6.2, but not those set forth in Section 6.3. ISOs shall also be subject to the terms and conditions set forth in Section 6.3, but not those set forth in Section 6.2.

6.1 Terms and Conditions to Which All Options Are Subject. All Options granted under this Plan shall be subject to the following terms and conditions:

6.1.1 Changes in Capital Structure. Subject to Section 6.1.2, if the stock of the Company is changed by reason of a stock split, reverse stock split, stock dividend, or recapitalization, combination or reclassification, appropriate adjustments shall be made by the Board in (a) the number and class of shares of stock subject to this Plan and each Option outstanding under this Plan, and (b) the exercise price of each outstanding Option; provided, however, that the Company shall not be required to issue fractional shares as a result of any such adjustments. Each such adjustment shall be subject to approval by the Board in its sole discretion.

6.1.2 Corporate Transactions. In the event of the proposed dissolution or liquidation of the Company, the Administrator shall notify each optionee at least 30 days prior to such proposed action. To the extent not previously exercised, all Options will terminate immediately prior to the consummation of such proposed action. In the event of a merger or consolidation of the Company with or into another corporation or entity in which the Company does not survive, or in the event of a sale of all or substantially all of the assets of the Company in which the stockholders of the Company receive securities of the acquiring entity or an affiliate thereof, all Options shall be assumed or equivalent options shall be substituted by the successor corporation (or other entity) or a parent or subsidiary of such successor corporation (or other entity). If such successor does not agree to assume the Options or to substitute equivalent options therefor, unless the Administrator shall determine otherwise, the Options will expire upon such event.

6.1.3 Time of Option Exercise. Subject to Section 5 and Section 6.3.4, Options granted under this Plan shall be exercisable (a) immediately as of the effective date of the stock option agreement granting the Option, or (b) in accordance with a schedule related to the date of the grant of the Option, the date of first employment, or such other date as may be set by the Administrator (in any case, the "Vesting Base Date") and specified in the written stock option agreement relating to such Option; provided, however, that the right to exercise an Option must vest at the rate of at least 20% per year over five years from the date the option was granted. In any case, no Option shall be exercisable until a written stock option agreement in form satisfactory to the Company is executed by the Company and the optionee.

6.1.4 Option Grant Date. Except in the case of advance approvals described in Section 5(d), the date of grant of an Option under this Plan shall be the date as of which the Administrator approves the grant.

6.1.5 Nonassignability of Option Rights. No Option granted under this Plan shall be assignable or otherwise transferable by the optionee except by will or by the laws of descent and distribution. During the life of the optionee, an Option shall be exercisable only by the optionee.

6.1.6 Payment. Except as provided below, payment in full, in cash, shall be made for all stock purchased at the time written notice of exercise of an Option is given to the Company, and proceeds of any payment shall constitute general funds of the Company. At the time an Option is granted or exercised, the Administrator, in the exercise of its absolute discretion after considering any tax or accounting consequences, may authorize any one or more of the following additional methods of payment:

(a) Acceptance of the optionee's full recourse promissory note for all or part of the Option price, payable on such terms and bearing such interest rate as determined by the Administrator (but in no event less than the minimum interest rate specified under the Code at which no additional interest would be imputed and in no event more than the maximum interest rate allowed under applicable usury laws), which promissory note may be either secured or unsecured in such manner as the Administrator shall approve (including, without limitation, by a security interest in the shares of the Company); and

(b) Delivery by the optionee of Common Stock already owned by the optionee for all or part of the Option price, provided the value (determined as set forth in Section 6.1.11) of such Common Stock is equal on the date of exercise to the Option price, or such portion thereof as the optionee is authorized to pay by delivery of such stock; provided, however, that if an optionee has exercised any portion of any Option granted by the Company by delivery of Common Stock, the optionee may not, within six months following such exercise, exercise any Option granted under this Plan by delivery of Common Stock without the consent of the Administrator.

6.1.7 Termination of Employment. If for any reason other than death or disability, an optionee ceases to be employed by the Company or any of its Affiliates (such event being called a "Termination"), Options held at the date of Termination (to the extent then exercisable) may be exercised in whole or in part at any time within one (1) month of the date of such Termination, or such other period of not less than thirty (30) days after the date of such Termination as is specified in the Option Agreement (but in no event after the Expiration Date); provided, that if such exercise of the Option would result in liability for the optionee under Section 16(b) of the Exchange Act, then such one-month period automatically shall be extended until the tenth (10th) day following the last date upon which optionee has any liability under Section 16(b) (but in no event after the Expiration Date). If an optionee dies or becomes disabled (within the meaning of Section 22(e)(3) of the Code) while employed by the Company or an Affiliate or within the period that the Option remains exercisable after Termination, Options then held (to the extent then exercisable) may be exercised, in whole or in part, by the optionee, by the optionee's personal representative or by the person to whom the Option is transferred by devise or the laws of descent and distribution, at any time within twelve (12) months after the death or twelve (12) months after the disability of the optionee, or such other period of not less than six (6) months from the date of Termination as is specified in the Option Agreement (but in no event after the Expiration Date). For purposes of this Section 6.1.7, "employment" includes service as a director or as a consultant. For purposes of this Section 6.1.7, an optionee's employment shall not be deemed to terminate by reason of sick leave, military leave or other leave of absence approved by the

Administrator, if the period of any such leave does not exceed 90 days or, if longer, if the optionee's right to reemployment by the Company or any Affiliate is guaranteed either contractually or by statute.

6.1.8 Repurchase of Stock. At the option of the Administrator, the stock to be delivered pursuant to the exercise of any Option granted to an employee, director or consultant under this Plan may be subject to a right of repurchase in favor of the Company with respect to any employee, or director or consultant whose employment, or director or consulting relationship with the Company is terminated. Such right of repurchase either:

(a) shall be at the Option exercise price and (i) shall lapse at the rate of at least 20% per year over five years from the date the Option is granted (without regard to the date it becomes exercisable), and must be exercised for cash or cancellation of purchase money indebtedness within the later of (x) 30 days after the acquisition of stock upon exercise of such Option or (y) 90 days after such termination, and (ii) if the right is assignable by the Company, the assignee must pay the Company upon assignment of the right (unless the assignee is a 100% owned subsidiary of the Company or is an Affiliate) cash equal to the difference between the Option exercise price and the value (determined as set forth in Section 6.1.11) of the stock to be purchased if the Option exercise price is less than such value; or

(b) shall be at the higher of the Option exercise price or the value (determined as set forth in Section 6.1.11 or as otherwise provided in the grant of Option) of the stock being purchased on the date of termination, and must be exercised for cash or cancellation of purchase money indebtedness within the later of (x) 30 days after the acquisition of stock upon exercise of such Option or (y) 90 days after such termination, and such right shall terminate when the Company's securities become publicly traded.

Determination of the number of shares subject to any such right of repurchase shall be made as of the date the employee's employment as an employee, consultant or director of the Company terminates, not as of the date that any Option granted to such employee, director or consultant is thereafter exercised.

6.1.9 Withholding and Employment Taxes. At the time of exercise of an Option or at such other time as the amount of such obligations becomes determinable (the "Tax Date"), the optionee shall remit to the Company in cash all applicable federal and state withholding and employment taxes. If authorized by the Administrator in its sole discretion after considering any tax or accounting consequences, an optionee may elect to (i) deliver a promissory note on such terms as the Administrator deems appropriate, (ii) tender to the Company

previously owned shares of Stock or other securities of the Company, or (iii) have shares of Common Stock which are acquired upon exercise of the Option withheld by the Company to pay some or all of the amount of tax that is required by law to be withheld by the Company as a result of the exercise of such Option, subject to the following limitations:

(a) Any election pursuant to clause (iii) above by an optionee subject to Section 16 of the Exchange Act shall either (x) be made at least six months before the Tax Date and shall be irrevocable; or (y) shall be made in (or made earlier to take effect in) any ten-day period beginning on the third business day following the date of release for publication of the Company's quarterly or annual summary statements of earnings and shall be subject to approval by the Administrator, which approval may be given at any time after such election has been made. In addition, in the case of (y), the Option shall be held at least six months prior to the Tax Date.

(b) Any election pursuant to clause (ii) above, where the optionee is tendering Common Stock issued pursuant to the exercise of an Option, shall require that such shares be held at least six months prior to the Tax Date.

Any of the foregoing limitations may be waived (or additional limitations may be imposed) by the Administrator, in its sole discretion, if the Administrator determines that such foregoing limitations are not required (or that such additional limitations are required) in order that the transaction shall be exempt from Section 16(b) of the Exchange Act pursuant to Rule 16b-3, or any successor rule thereto. In addition, any of the foregoing limitations may be waived by the Administrator, in its sole discretion, if the Administrator determines that Rule 16b-3, or any successor rule thereto, is not applicable to the exercise of the Option by the optionee or for any other reason.

Any securities tendered or withheld in accordance with this Section 6.1.9 shall be valued by the Company as of the Tax Date.

6.1.10 Other Provisions. Each Option granted under this Plan may contain such other terms, provisions, and conditions not inconsistent with this Plan as may be determined by the Administrator, and each ISO granted under this Plan shall include such provisions and conditions as are necessary to qualify the Option as an "incentive stock option" within the meaning of Section 422 of the Code. If Options provide for a right of first refusal in favor of the Company with respect to stock acquired by employees, directors or consultants, such Options shall provide that the right of first refusal shall terminate upon the earlier of (i) the closing of the Company's initial registered public offering to the public generally, or (ii) the date ten years after the grant date as set forth in Section 6.1.4.

6.1.11 Determination of Value. For purposes of the Plan, the value of Common Stock or other securities of the Company shall be determined as follows:

(a) If the stock of the Company is listed on any established stock exchange or a national market system, including without limitation the National Market System of the National Association of Securities Dealers, Inc. Automated Quotation System, its fair market value shall be the closing sales price for such stock or the closing bid if no sales were reported, as quoted on such system or exchange (or the largest such exchange) for the date the value is to be determined (or if there are no sales for such date, then for the last preceding business day on which there were sales), as reported in the Wall Street Journal or similar publication.

(b) If the stock of the Company is regularly quoted by a recognized securities dealer but selling prices are not reported, its fair market value shall be the mean between the high bid and low asked prices for the stock on the date the value is to be determined (or if there are no quoted prices for the date of grant, then for the last preceding business day on which there were quoted prices).

(c) In the absence of an established market for the stock, the fair market value thereof shall be determined in good faith by the Administrator, with reference to the Company's net worth, prospective earning power, dividend-paying capacity, and other relevant factors, including the goodwill of the Company, the economic outlook in the Company's industry, the Company's position in the industry and its management, and the values of stock of other corporations in the same or a similar line of business.

6.1.12 Option Term. Subject to Section 6.3.5, no Option shall be exercisable more than ten years after the date of grant, or such lesser period of time as is set forth in the stock option agreement (the end of the maximum exercise period stated in the stock option agreement is referred to in this Plan as the "Expiration Date").

6.1.13 Exercise Price. The exercise price of any Option granted to any person who owns, directly or by attribution under the Code currently Section 424(d), stock possessing more than ten percent of the total combined voting power of all classes of stock of the Company or of any Affiliate (a "Ten Percent Stockholder") shall in no event be less than 110% of the fair market value (determined in accordance with Section 6.1.11) of the stock covered by the Option at the time the Option is granted.

6.2 Terms and Conditions to Which Only NSOs Are Subject. Options granted under this Plan which are designated as NSOs shall be subject to the following terms and conditions:

6.2.1 Exercise Price. Except as set forth in Section 6.1.13, the exercise price of a NSO shall be not less than 85% of the fair market value (determined in accordance with Section 6.1.11) of the stock subject to the Option on the date of grant.

6.3 Terms and Conditions to Which Only ISOs Are Subject. Options granted under this Plan which are designated as ISOs shall be subject to the following terms and conditions:

6.3.1 Exercise Price. Except as set forth in Section 6.1.13, the exercise price of an ISO shall be determined in accordance with the applicable provisions of the Code and shall in no event be less than the fair market value (determined in accordance with Section 6.1.11) of the stock covered by the Option at the time the Option is granted.

6.3.2 Disqualifying Dispositions. If stock acquired by exercise of an ISO granted pursuant to this Plan is disposed of in a "disqualifying disposition" within the meaning of Section 422 of the Code, the holder of the stock immediately before the disposition shall promptly notify the Company in writing of the date and terms of the disposition and shall provide such other information regarding the Option as the Company may reasonably require.

6.3.3 Grant Date. If an ISO is granted in anticipation of employment as provided in Section 5(d), the Option shall be deemed granted, without further approval, on the date the grantee assumes the employment relationship forming the basis for such grant, and, in addition, satisfies all requirements of this Plan for Options granted on that date.

6.3.4 Vesting. Notwithstanding any other provision of this Plan, ISOs granted under all incentive stock option plans of the Company and its subsidiaries may not "vest" for more than $100,000 in fair market value of stock (measured on the grant dates(s)) in any calendar year. For purposes of the preceding sentence, an option "vests" when it first becomes exercisable. If, by their terms, such ISOs taken together would vest to a greater extent in a calendar year, and unless otherwise provided by the Administrator, ISOs with lower exercise prices shall vest before ISOs with higher exercise prices, regardless of the grant date.

6.3.5 Term. Notwithstanding Section 6.1.12, no ISO granted to any Ten Percent Stockholder shall be exercisable more than five years after the date of grant.

7. MANNER OF EXERCISE

(a) An optionee wishing to exercise an Option shall give written notice to the Company at its principal executive office, to the attention of the officer of the Company designated by the Administrator, accompanied by payment of the exercise

price as provided in Section 6.1.6. The date the Company receives written notice of an exercise hereunder accompanied by payment of the exercise price will be considered as the date such Option was exercised.

(b) Promptly after receipt of written notice of exercise of an Option, the Company shall, without stock issue or transfer taxes to the optionee or other person entitled to exercise the Option, deliver to the optionee or such other person a certificate or certificates for the requisite number of shares of stock. An optionee or permitted transferee of an optionee shall not have any privileges as a stockholder with respect to any shares of stock covered by the Option until the date of issuance (as evidenced by the appropriate entry on the books of the Company or a duly authorized transfer agent) of such shares.

8. EMPLOYMENT OR CONSULTING RELATIONSHIP

Nothing in this Plan or any Option granted thereunder shall interfere with or limit in any way the right of the Company or of any of its Affiliates to terminate any optionee's employment or consulting at any time, nor confer upon any optionee any right to continue in the employ of, or consult with, the Company or any of its Affiliates.

9. FINANCIAL INFORMATION

The Company shall provide to each optionee during the period such optionee holds an outstanding Option, and to each holder of Common Stock acquired upon exercise of Options granted under the Plan for so long as such person is a holder of such Common Stock, annual financial statements of the Company as prepared either by the Company or independent certified public accountants of the Company. Such financial statements shall include, at a minimum, a balance sheet and an income statement, and shall be delivered as soon as practicable following the end of the Company's fiscal year.

10. CONDITIONS UPON ISSUANCE OF SHARES.

Shares of Common Stock shall not be issued pursuant to the exercise of an Option unless the exercise of such Option and the issuance and delivery of such shares pursuant thereto shall comply with all relevant provisions of law, including, without limitation, the Securities Act of 1933, as amended (the "Securities Act").

11. NONEXCLUSIVITY OF THE PLAN.

The adoption of the Plan shall not be construed as creating any limitations on the power of the Company to adopt such other incentive arrangements as it may deem desirable, including, without limitation, the granting of stock options other than under the Plan.

12. MARKET STANDOFF.

Each Optionee, if so requested by the Company or any representative of the underwriters in connection with any registration of the offering of any securities of the company under the Securities Act shall not sell or otherwise transfer any shares of Common Stock acquired upon exercise of Options during the 180-day period following the effective date of a registration statement of the company filed under the Securities Act; provided, however, that such restriction shall apply only to the first two registration statements of the Company to become effective under the Securities Act which includes securities to be sold on behalf of the Company to the public in an underwritten public offering under the Securities Act. The Company may impose stop-transfer instructions with respect to securities subject to the foregoing restriction until the end of such 180-day period.

13. AMENDMENTS TO PLAN

The Board may at any time amend, alter, suspend or discontinue this Plan. Without the consent of an optionee, no amendment, alteration, suspension or discontinuance may adversely affect outstanding Options except to conform this Plan and ISOs granted under this Plan to the requirements of federal or other tax laws relating to incentive stock options. No amendment, alteration, suspension or discontinuance shall require stockholder approval unless (a) stockholder approval is required to preserve incentive stock option treatment for federal income tax purposes, or (b) the Board otherwise concludes that stockholder approval is advisable.

14. EFFECTIVE DATE OF PLAN

This Plan shall become effective upon adoption by the Board provided, however, that no Option shall be exercisable unless and until written consent of the stockholders of the Company, or approval of stockholders of the Company voting at a validly called stockholders' meeting, is obtained within 12 months after adoption by the Board. If such stockholder approval is not obtained within such time, Options granted hereunder shall terminate and be of no force and effect from and after expiration of such 12-month period. Options may be granted and exercised under this Plan only after there has been compliance with all applicable federal and state securities laws.

THE SYMBOL '**' IS USED THROUGHOUT THIS EXHIBIT TO INDICATE THAT A PORTION OF THE EXHIBIT HAS BEEN OMITTED AND FILED SEPARATELY WITH THE COMMISSION

EXHIBIT 10.2

July 11, 1996

Dr. John W. Shell
President and Chief Executive Officer
DepoMed, Inc.
1170 B Chess Drive
Foster City, CA 94404-1167

Dear Dr. Shell:

This Letter Agreement ("Agreement") sets forth the terms and conditions under which Bristol-Myers Squibb Company ("BMS") and DepoMed, Inc. ("DepoMed") will collaborate in a joint research project (the "Research") to determine optimal conditions for the production of a product (the "Product") consisting of formulations of the chemical compound known as [**] ("[**]") incorporated in the DepoMed GR System (the "DP System"). The specific terms and conditions of this Agreement are as follows:

1. THE RESEARCH

A. DepoMed agrees to use its diligent efforts to implement and complete the Research Plan attached herewith and fully incorporated herein as Appendix A. Specific milestones and targets of the Research Plan are also summarized in Appendix A. Said milestones and targets may be modified, but only by mutual written agreement of BMS and DepoMed (the "Parties") at any time during the term of this Agreement.

B. BMS agrees to collaborate with and assist DepoMed in the implementation and completion of the Research Plan set forth in Appendix A by providing to DepoMed:

1. Bulk [**] in sufficient quantities to perform the Research Plan;

2. Appropriate analytical and handling procedures for [**]; and

3. Such other technology and expertise possessed by BMS which may be deemed necessary, by subsequent mutual agreement of the Parties, to achieve the objectives of this Agreement.

C. All [**] shall remain the sole property of BMS. DepoMed agrees not to make any modifications of the BMS Materials provided by BMS hereunder, except as required in the performance of the Research Plan.

D. The [**] shall be used solely to conduct the Research Plan, and not for any other purpose. The [**] shall not be made available to anyone other than employees of DepoMed working in furtherance of the Research Plan, shall not be transferred to any other persons outside of DepoMed for any purpose, and shall not be transferred to another institution or company without the prior written consent of

** CONFIDENTIAL TREATMENT REQUESTED

BMS, except to authorize subcontractors as provided in Article I.H hereinbelow. The [**] shall not be used by DepoMed for research, testing or treatment involving human subjects or for making any decisions relating to human diagnosis or care.

E. Nothing herein shall create or imply any license in intellectual property rights related to [**] owned or controlled by BMS to DepoMed, except for the non-exclusive license to use the [**] for the research purposes expressly set forth herein.

F. Upon conclusion of the Research Plan, or upon request by BMS, DepoMed shall discontinue use of the [**] and will arrange for the return to BMS of all unused [**].

G. DepoMed will take appropriate steps to inform all Research Plan personnel of their obligations under this Agreement and to obtain their agreement to abide by the terms and conditions of this Agreement in the same manner as DepoMed.

H. DepoMed shall have no right to subcontract portions of the Research Plan to be performed by it without the prior written consent of BMS, except for the gastric retention study described in Appendix A, Section II.B2; provided, however, that (a) any such subcontracts shall
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not involve the transfer of confidential information of BMS to the subcontracted third party; (b) the subcontracted third party shall enter into a written confidentiality agreement with DepoMed adequate to preserve the confidentiality of [**] formulations developed pursuant to the Research Plan and DepoMed Project Proprietary Information, and the rights granted to BMS under this Agreement; and (c) promptly after entering into such subcontract, DepoMed shall give written notice thereof to BMS.

II. TERM

A. This Agreement is effective as of April 15, 1996, and shall continue in effect for a period of eight and one-half months, until December 31, 1996, or until DepoMed notifies BMS in writing that the milestones and targets set forth in Appendix A have been realized, if earlier.

B. The term of this Agreement may be extended at the same rate of compensation as is then in effect (pro rated) for up to six (6) months at BMS' election, if the aforementioned milestones and targets are not realized at the end of the Agreement term. This election shall be made by written notice to DepoMed at least fifteen (15) days prior to December 31, 1996, specifying the desired term of the extension. The term of this Agreement may also be extended by an amendment in writing executed by both Parties.

** CONFIDENTIAL TREATMENT REQUESTED

III COSTS/PAYMENTS

A. DepoMed agrees to perform and complete the Research Plan for a total fee of one hundred ninety-seven thousand, seven hundred seventy-eight dollars ($197,778.00) in accordance with this Paragraph 3.

B. BMS therefore agrees to make the following payments to DepoMed as full and complete consideration for the performance and completion of the Research Plan by DepoMed:

1. A payment of seventy thousand dollars ($70,000.00) which shall be paid to DepoMed by BMS within thirty (30) days of the complete execution of this Agreement by the Parties.

2. A second payment of seventy thousand dollars ($70,000.00) which shall be paid to DepoMed by BMS upon completion by DepoMed of the work described in Appendix A, Section II.

3. A final payment of fifty-seven thousand, seven hundred seventy-eight dollars ($57,778.00), payable upon release by BMS of formulation for a clinical pharmacokinetic study.

C. BMS and DepoMed understand that developments, unforeseen circumstances beyond the reasonable control of DepoMed or changes in the scope of the Research or DepoMed's responsibilities for the Research may increase the funding requirements for the Research. BMS will consider requests for additional funding should such a need arise. The decision to supply such additional funding shall be in the sole discretion of BMS.

IV. PROGRESS REPORTS/JOINT MEETINGS

A. Commencing with the first day of the first month following the effective date of this Agreement, and for each subsequent month for the duration of the term of this Agreement, DepoMed shall submit to BMS monthly progress reports containing summaries of all Research Plan tasks completed or still in progress at the date of such progress report. The Parties agree that information contained in the aforementioned progress reports shall be general rather than detailed in nature. All of such information contained in such progress reports shall be and shall remain non-enabling proprietary information ("Non-Enabling Project Proprietary Information"). It is the express intent of the Parties that all Non-Enabling Project Proprietary Information provided to BMS by DepoMed shall be in such reasonable detail as shall permit BMS to assess DepoMed's progress versus the Research Plan and milestones and targets but shall not contain such information or detail as might reasonably be expected to enable BMS to reproduce or utilize in any way (other than the assessment as aforesaid) DepoMed's Enabling Project Proprietary Information (as defined in Paragraph V,

hereinbelow). Progress reports submitted to BMS by DepoMed may also contain and address any conclusions, problems or issues, which, in the opinion of DepoMed are significant matters requiring the attention of BMS and, if appropriate, recommendations for necessary action by BMS.

B. At least twice during the term of this Agreement and at more frequent intervals if deemed necessary by mutual agreement, representatives of BMS and DepoMed shall meet at mutually acceptable times and places to discuss and evaluate the status and progress of the Research which is the subject of this Agreement.

V. PROPRIETARY/CONFIDENTIAL INFORMATION

A. DepoMed and BMS agree that, with the exception of Non-Enabling Project Proprietary Information (as defined in Paragraph IV.A, hereinabove), any and all data, information, materials and technology produced, developed or generated by DepoMed as a result of the Research which specifically relates to the DepoMed technology for the formulation of [**] shall be enabling proprietary information of DepoMed ("DepoMed Enabling Project Proprietary Information"). DepoMed agrees to fully disclose to BMS any and all DepoMed Enabling Project Proprietary Information referred to in Appendix A, and upon written request from BMS, any and all additional DepoMed Enabling Project Proprietary Information to BMS.

B. BMS and DepoMed agree that all DepoMed Project Proprietary Information (i.e. Non-Enabling Project Proprietary Information and Enabling Project Proprietary Information) transferred to BMS shall be governed by the provision of the [**] Confidentiality Agreement dated February 8, 1996, among the Bristol-Myers Squibb Pharmaceutical Research Institute, DepoMed, Inc., and [**] (hereinafter, the "Prior Agreement"). DepoMed understands and agrees that all DepoMed Project Proprietary Information transferred to BMS may be transferred by BMS to [**] pursuant to the provisions of the Prior Agreement.

C. The transfer of all confidential information of the Parties other than DepoMed Project Proprietary Information shall be governed by the provisions of the Prior Agreement.

D. Notwithstanding anything to the contrary contained in this Agreement or the Prior Agreement, DepoMed shall have no right to disclose any DepoMed Project Proprietary Information to any third party, or use such DepoMed Project Proprietary Information for any purpose other than for the purpose of collaborating with BMS.

VI. OPTION

A. DepoMed hereby grants to BMS an option (on terms provided or to be negotiated in accordance with Paragraph VI.B) for two (2) years following completion of the

clinical pharmacokinetic study referred to in Article III.B.3 hereinabove, but in no event later than three (3) years from the date of this Agreement, to obtain an exclusive, worldwide license under the DepoMed Project Proprietary Information and DepoMed Intellectual Property (i.e., any patents, patent applications, know-how, trade secrets, licenses or any other intellectual property rights of whatever nature, owned or controlled by DepoMed, including without limitation DepoMed Patent Rights as defined below) to make, have made, use, import, offer for sale and sell the Product incorporating formulations of [**]. Such license shall include the right of BMS to sublicense any license granted to BMS under DepoMed Project Proprietary Information and DepoMed Intellectual Property. Such license shall also include the right of BMS to utilize any improvements to DepoMed Project Proprietary Information and DepoMed Intellectual Property developed by DepoMed during the two (2) years following the completion of work under the Research Plan.

B. The terms and conditions of any license acquired by BMS from DepoMed under the option provided for in Paragraph VI.A., above, shall be as agreed by BMS and DepoMed in good faith negotiations regarding the terms and conditions of a definitive license agreement consistent with this Article VI.B which shall commence upon DepoMed's receipt of BMS' written notice of its intention to exercise its option and acquire said license. Any license agreement entered into by BMS and DepoMed shall be in a form reasonably acceptable to DepoMed and BMS, and shall be consistent with industry standards and permit BMS to fully exploit the licensed rights in a manner consistent with this Agreement. Any license agreement entered into between BMS and DepoMed shall provide for the following:

1. BMS shall be required to pay to DepoMed the following royalty amounts:

   a. [**] of net sales of Licensed Product sold by BMS, its affiliates or sublicensees for the first [**] of net sales of Licensed Product per calendar year within the United States, and [**] of net sales of Licensed Product sold by BMS, its affiliates or sublicensees for net sales of Licensed Product greater than [**] per calendar year within the United States; and

   b. [**] of net sales of Licensed Product sold by BMS, its affiliates or sublicensees for the first [**] of net sales of Licensed Product per calendar year outside of the United States, and [**] of net sales of Licensed Product sold by BMS, its affiliates or sublicensees for net sales of Licensed Product greater than [**] per calendar year outside of the United States.

"Licensed Product" shall mean a Product, the manufacture, use or sale of which is covered within a country by a claim of an issued and unexpired patent included within the DepoMed Intellectual Property licensed to BMS by DepoMed which has not been

held permanently revoked, unenforceable or invalid by a decision of a court or other government agency of competent jurisdiction, unappealable or unappealed within the time allowed for appeal and which has not been abandoned, or admitted to be invalid or unenforceable through reissue, disclaimer or otherwise. The obligation to pay royalties will expire on a country-by-country basis upon the expiration, invalidity or abandonment of all patents included within the DepoMed Intellectual Property covering any such Licensed Product within such a country, and not withstanding the number of patents included within the DepoMed Intellectual Property licensed to BMS by DepoMed, only a single royalty will be due with respect thereto.

2. BMS shall be required to pay to DepoMed the following milestone payments upon the first occurrence of each event set forth below:

   a. [**] upon complete execution by DepoMed and BMS of the license agreement;

   b. [**] upon filing by BMS with the United States Food and Drug Administration or the successor thereto of the first New Drug Application for a Licensed Product; and

   c. [**] upon receipt by BMS of the required marketing approval from the United States Food and Drug Administration or the successor thereto of the first New Drug Application for a Licensed Product.

3. Except for such royalties and milestone payments as provided in this Agreement, no other payments, royalties, or other consideration will be payable with respect to any license granted to BMS by DepoMed. Such royalty and milestone payments shall be reduced by the amount of any fees, royalties or other consideration (not to exceed [**] of such royalties and milestone payments payable to DepoMed) payable by BMS to any third parties having dominant rights to DepoMed Project Proprietary Information or to DepoMed Intellectual Property.

4. BMS shall have the right to terminate any license agreement upon sixty (60) days prior written notice to DepoMed. Termination of any such license agreement shall not relieve BMS of the obligation to make payments of royalties or milestone payments accruing prior to the effective date of such termination.

C. Notwithstanding anything to the contrary contained in this Agreement, in the event that BMS does not elect to exercise its option as aforesaid, or in the event the parties are unable to reach agreement on license terms, DepoMed shall have no right, whether by itself or with or by any affiliate or third party, to make, have made, use, import, offer for sale, sell, develop or otherwise commercialize any formulations of [**] developed pursuant to this Agreement, any DepoMed Project Proprietary

Information related solely to [**], or any Inventions related solely to [**].

D. The decision as to whether to proceed with the preclinical and clinical development and marketing of any Product containing formulations of [**] developed pursuant to this Agreement shall be in the sole discretion of BMS. Nothing contained in this Agreement shall be interpreted as requiring BMS to develop or market any such formulations of [**].

VII. PATENTS

A. All rights, title and interest to inventions, discoveries or improvements first conceived or made as a result of the performance of the Research Plan ("Inventions")

(i) shall belong solely to DepoMed, if made solely by DepoMed or its employees,

(ii) shall be jointly owned by DepoMed and BMS, if made jointly by DepoMed or one or more employees of DepoMed and by one or more employees of BMS ("Joint Inventions"), and

(iii) shall belong solely to BMS, if made solely by BMS.

Determinations of inventorship shall be made in accordance with U.S. law. DepoMed's interest in any Inventions and patent rights pertaining thereto described under (i) and (ii) above is referred to hereinafter as "DepoMed Patent Rights." BMS's interest in any Inventions and patent rights pertaining thereto described under (ii) and (iii) above shall not be subject to the terms and conditions of this Agreement.

B. DepoMed represents and warrants to BMS that any Inventions that may be made by its employees in the performance of the Research Plan are owned by and shall be assigned to DepoMed, wholly and completely.

C. DepoMed will promptly notify BMS in writing of any Inventions that relate solely to [**], including without limitation formulations of [**], conceived and/or made by DepoMed as a result of the performance of the Research Plan. Such notice shall describe the substance of any such Invention in writing in sufficient detail so as to enable BMS to determine if a patentable Invention has been made.

D. BMS shall have the sole right to have prepared, filed and prosecuted the necessary papers for obtaining patent protection for any Inventions that relate solely to [**], including without limitation formulations of [**], in any and all countries of the world which BMS, in its sole judgment, determines are of sufficient interest to merit such filing. BMS shall bear all costs incurred in connection with the preparation, filing, prosecution, issuance and maintenance of any such U.S.

and foreign patent applications. DepoMed agrees that it will cooperate and do whatever is necessary to assist BMS in obtaining and maintaining such patent rights at the request and expense of BMS. In the event that BMS, in its sole discretion, decides it is not appropriate to file a patent application which constitutes a DepoMed Patent Right that relates solely to [**], including without limitation formulations of [**], DepoMed shall have no right to file any patent applications thereon.

E. Except as provided in Article VII.D hereinabove, DepoMed shall have the sole right to have prepared, filed and prosecuted the necessary papers for obtaining patent protection for any Inventions that relate to the DP System in any and all countries of the world which DepoMed, in its sole judgment, determines are of sufficient interest to merit such filing. DepoMed shall bear all costs incurred in connection with the preparation, filing, prosecution, issuance and maintenance of any such U.S. and foreign patent applications.

VIII. PUBLICITY

A. Neither BMS or DepoMed shall disclose any material terms of this Agreement or any of the information contained in the Appendix to this Agreement to any third party other than their professional advisors and third parties whose rights are or may be affected thereby without the prior written permission of the other Party, except where such disclosure is required by law. [**]. Such permission shall not be unreasonably withheld or delayed, and shall be deemed given unless the party from whom permission is requested responds to a request with consent or specific reasons for objection within fourteen (14) days after the request is received.

B. Neither BMS nor DepoMed shall use the name of the other Party in any advertising or promotional context in any medium, provided, that upon execution of this Agreement by both Parties, a mutually agreeable press release may be jointly published by the Parties.

IX. COVENANT AND WARRANTY

DepoMed hereby covenants that it will use its diligent efforts to conduct and complete the Research Plan set forth in Appendix A in accordance with the milestones and targets set forth therein. DepoMed hereby warrants, as of the date hereof, and covenants that (a) it has all necessary rights and is legally entitled to grant the rights it has agreed to grant to BMS hereunder, and (b) its entry into this Agreement and its performance of its obligations hereunder do not and will not conflict with any other restrictions or obligations of whatsoever nature by which DepoMed is bound.

X. ASSIGNMENT

This Agreement may not be assigned by either party without the prior written consent of the other Party. No obligations or rights under this Agreement may be assigned or delegated by DepoMed without the prior written consent of BMS. This Agreement shall be binding upon and inure to the benefit of and be enforceable by the Parties hereto and their respective heirs, legal and personal representatives, successors and permitted assigns.

XI. NOTICES

All notices permitted or required under this Agreement shall be deemed effective upon receipt by the Party to whom it is addressed, if made in writing and deposited, postage prepaid in a facility for the collection of mail maintained by the United States Post Office or if deposited with Federal Express or any other generally recognized expedited delivery service, or if personally delivered, or if transmitted by fax, addressed as follows:

To Bristol-Myers Squibb Company:

A. Scientific and Technical Matters:

Dr. Peter Timmins
Director, International Development Laboratories
Bristol-Myers Squibb Pharmaceutical Research Institute
Reeds Lane, Moreton, Wirral
Merseyside L46 1QW, England
FAX: 011-44-151-677-0869

B. All Business and Other Matters:

Ms. Mary Furlong
Director, Business Development, U.S.
Bristol-Myers Squibb Company
P.O. Box 4000
Princeton, New Jersey 08543-4000
FAX: (609) 252-3974

To DepoMed:

A. Scientific and Technical Matters:

Dr. John W. Shell
President and Chief Executive Officer
DepoMed, Inc.
1170 B Chess Drive
Foster City, CA 94404-1167
FAX: (415) 513-0999

B. All Business and Other Matters:

Dr. John W. Shell
President and Chief Executive Officer
DepoMed, Inc.
1170 B Chess Drive
Foster City, CA 94404-1167
FAX: (415) 513-0999

XII. GOVERNING LAW

This Agreement shall be governed by and construed in accordance with the laws of the State of New Jersey. Caption and paragraph headings are for convenience only and shall not form an interpretive part of this Agreement. This Agreement shall not be strictly construed against either Party hereto.

XIII. TERMINATION

A. This Agreement may be terminated by BMS, with or without cause, upon thirty (30) days written notice to DepoMed.

B. Upon any material breach by a party to the Agreement, the other party may terminate this Agreement by thirty (30) days written notice to the breaching party, specifying the material breach, default or other defect. The termination becomes effective, at the option of the non-breaching party, at the end of the thirty (30) day period unless the breaching party cures the breach during the thirty (30) day period.

C. Upon expiration or termination of this Agreement, the provisions of Articles I.F, V, VI, VII, VIII, IX and XII shall continue in full force and effect, as well as any other provision herein which, by its intent or meaning, is intended to survive such expiration or termination.

D. Any expiration or early termination of this Agreement shall not affect the rights and obligations of the parties accruing under this Agreement prior to the effective date of such expiration or termination, including, but not limited to, any rights and obligations accruing under Articles I.F, V, VI, VII, VIII, IX and XII.

XIV. INDEPENDENT CONTRACTOR

For purposes of this Agreement, and in the performance of all services hereunder, the relationship of BMS to DepoMed is, and shall be deemed to be, one of independent contractors and not as agents or employees of one to the other.

XV. SEVERABILITY

The provisions of this Agreement are severable. If any item or provision of this Agreement shall to any extent be invalid or unenforceable, the remainder of this Agreement shall not be affected thereby, and each term and provision of this Agreement shall be valid and shall be enforced to the fullest extent permitted by law.

XVI. ENTIRE AGREEMENT

This Agreement and the Prior Agreement constitute the entire agreement between BMS and DepoMed with respect to the subject matter hereof and supersede any and all previous understandings or agreements between the Parties, whether written or verbal. No terms or provisions of this Agreement may be varied or modified by the parties hereto except by a written instrument specifically referring to and executed in the same manner as this Agreement. No provision of this Agreement may be waived by any act, omission or knowledge of a Party or its agents or employees, except by a writing expressly waiving such provision and signed by the waiving Party. The failure of a Party at any time or times to require performance of any provision hereof shall in no manner affect its rights at a later time to enforce the same. No waiver by a Party of any condition, remedy or term in any one or more instance shall be construed as a continuing waiver of such condition, remedy or term or any other condition, remedy or term on any successive occasion. Any inconsistency between the terms of this Agreement and any Appendix shall be resolved in favor of the text of this Agreement.

If this Letter correctly sets forth the terms and conditions of our Agreement, please indicate the acceptance thereof by DepoMed in the space provided below and return an original counterpart of this Agreement to the address first shown above. The other original counterpart should be retained in your files. Thank you.

Sincerely,

BRISTOL-MYERS SQUIBB COMPANY

By: /s/ Robert A. Lipper

Title: Vice President, Biopharmaceutics R&D

Accepted and agreed this 15th
day of July, 1996

DEPOMED, INC.

By: /s/ John W. Shell

Title: President

RESEARCH PLAN
[**] FORMULATION DEVELOPMENT

[**]

** CONFIDENTIAL TREATMENT REQUESTED

[**]

** CONFIDENTIAL TREATMENT REQUESTED

THE SYMBOL '**' IS USED THROUGHOUT THIS EXHIBIT TO INDICATE THAT A PORTION OF THE EXHIBIT HAS BEEN OMITTED AND FILED SEPARATELY WITH THE COMMISSION

EXHIBIT 10.3

FEASIBILITY AGREEMENT

This Agreement is by and between DepoMed, Inc., 1170 B Chess Drive, Foster City, CA 94404 (DepoMed), and GalaGen Inc., 4001 Lexington Avenue North, Arden Hills, Minnesota 55126-2998 (GalaGen).

Whereas, both parties have entered into a Mutual Nondisclosure Agreement dated April 3, 1995;

The parties hereto agree as follows:

1. GalaGen will provide a quantity of their [**]to DepoMed for the purpose of certain feasibility studies to be conducted by DepoMed and GalaGen according to the Protocol and Research Plan (the "Studies") in Schedule A, and not for any other purposes.

2. The parties will perform such Studies and provide results of such Studies to each other.

3. Results of such Studies will be kept confidential from any third party by DepoMed and GalaGen in accordance with the terms and conditions of the Mutual Nondisclosure Agreement. However, the parties may disclose the results from the Studies to potential development and commercialization partners and investors bound by similar terms of confidentiality as the Mutual Nondisclosure Agreement.

4. DepoMed grants to GalaGen the right to use its proprietary technology and know-how for testing purposes during the term of this Agreement and any extensions. Except as provided in Section 5.(c) below, rights to use DepoMed's proprietary technology and know-how do not extend beyond the term of this Agreement.

5.(a) Rights to any invention invented by either party (including persons obligated to assign inventions to either party) and resulting from such Studies shall be assigned to DepoMed if pertaining solely to the drug delivery technology of DepoMed or to GalaGen if pertaining solely to the [**] technology of GalaGen. Any invention involving the use of DepoMed technology to deliver an [**] shall be a "Joint Invention" assigned to DepoMed. None of the present patent rights of either party shall be affected by this Agreement. Neither Party shall receive any rights to use or

** Confidential Treatment Requested

license any Products or technology of the other Party other than to perform the Studies.

5.(b) Should the results of this Agreement lead to a mutual decision to conduct additional product development studies between the parties, then the parties shall enter into an appropriate agreement that includes applicable intellectual property and an exclusive option for a commercial license. The terms of this option to license and commercial license shall include, but not be limited to, the following:

5(b)i Payments: Reasonable costs mutually agreed prior to the start of the Studies and related directly to the product development and incurred by DepoMed will be paid by GalaGen on a reimbursement basis. The Parties shall mutually agree to appropriate milestone payments made by GalaGen to DepoMed.

5(b)ii Field: FIELD shall be the use or delivery of any [**] formulated with DepoMed technology delivered orally in humans and non-human animals.

5(b)iii Territory: TERRITORY shall be all countries of the world.

5(b)iv Rights: RIGHTS shall be exclusive and royalty bearing.

5.(c) Should the results of this Agreement lead to a decision by either party not to conduct additional product development studies between the parties, DepoMed agrees to offer to GalaGen an exclusive license of any patent or technology based on a Joint Invention under commercially reasonable terms to be negotiated in good faith. Such offer shall be held open for a period of one (1) year from the effective date of this Agreement. Such license shall provide that if during the two (2) year period following the effective date of the license, GalaGen has not taken reasonable steps to commercially develop a product based on such Joint Invention such license shall be renegotiated in good faith between the parties.

6. Neither party may, without the prior written consent of the other, file or prosecute any patent application that effectively discloses Proprietary Information received from the other, provided such consent shall not be unreasonably withheld.

7. GalaGen and DepoMed agree to use diligent efforts to complete the research activities outlined in Schedule A.

8. This Agreement shall be binding upon and inure to the benefit of the successors and assignees of the parties hereto, but neither of the parties hereto shall assign this Agreement without the prior written consent of the other.

** Confidential Treatment Requested

9. This Agreement may be terminated at any time by either party with written notice to the other party and unless so terminated shall remain in effect for a period of two (2) years from the date hereof. The obligations regarding use of transferred material and confidentiality shall survive termination of this Agreement for the same period defined in the Mutual Nondisclosure Agreement.

10. No modification or waiver of any of the provisions of this Agreement shall be valid unless in writing and signed by both parties hereto.

11. Each party receiving information under this Agreement or the Mutual Nondisclosure Agreement agrees not to analyze or have a third party analyze any tangible products or materials including Proprietary Information except for the studies set forth in Schedule A, and all results of any such analysis shall be considered results of the studies for the purposes of this Agreement and subject to the obligations of Section 3 above.

12. This Agreement embodies the entire understanding between the parties and supersedes all previous Agreements, commitments, and writings with respect thereto, excepting the Mutual Nondisclosure Agreement.

13. The effective date of this Agreement is the date of the last signature below.

AGREED

for DepoMed:

/s/ John W. Shell
- ----------
John W. Shell, Ph.D.
President & CEO

13 May 1996
- ----------
(Date)

for GalaGen:

/s/ Peter N. Gray
- ----------
Peter N. Gray, Ph.D.
Vice President, Research and Development

11 May 1996
- ----------
(Date)

SCHEDULE A

PROTOCOL AND RESEARCH PLAN

[**]

** Confidential Treatment Requested

[**]

** Confidential Treatment Requested

[**]

** Confidential Treatment Requested

[**]

** Confidential Treatment Requested

Notes: [**]

** Confidential Treatment Requested

EXHIBIT 10.4

March 18, 1997

CSO Ventures, LLP
666 3/rd/ Avenue, 30/th/ Floor
New York, NY 10017

Attention: Mr. Judson Cooper

Dear Judson:

This will confirm the retention of CSO Ventures, LLC ("CSO") by DepoMed, Inc. (the "Company") as a consultant to the Company to provide business development, operations and financial advisory services. This consulting engagement is effective upon the closing of a $1 million bridge loan. Consulting services shall be provided for a fixed minimum annual fee of $120,000 and for a term of not less that one year, payable quarterly.

It is also understood that subsequent to the closing of the Company's initial public offering, CSO will agree to continue its representation on the Company's Board of Director's with one seat.

This agreement shall commence upon the closing of the bridge loan and shall automatically be renewed for successive one-year periods unless either party elects in writing to the other, at least 60 days before the anniversary date, not to renew the term of this agreement. We also agree to negotiate in good faith additional success fees for work performed in connection with financings, merger and acquisition activity, strategic alliances and other corporate transactions. Success fees for merger and acquisition activity, strategic alliances and other corporate transactions shall be based on the standard Lehman formula as follows: 5% of the first $1,000,000; 4% of the second $1,000,000; 3% of the third $1,000,000; 2% of the next $7,000,000; and 1% of all amounts in excess of $10,000,000.

Very truly yours,

DepoMed, Inc.

By:

/s/ John W. Shell
_____
John W. Shell, Ph.D.
Chairman

Agreed:

CSO Ventures, LLC

By:

/s/ Judson Cooper
_____
Judson Cooper

EXHIBIT 10.5

W I T N E S S E T H:

THAT WHEREAS, Owner, as Landlord, did execute a Lease dated September 2, 1992 with Lessee, as Tenant, covering a portion of that certain real property described in Exhibit "A" attached hereto and by this reference incorporated herein; and

WHEREAS, Owner has previously executed, a deed of trust and note in the sum of $7,225,000.00 dated October 4, 1988, in favor of UNION BANK (hereinafter referred to as "Lender"), payable with interest and upon the terms and conditions described therein, which deed of trust was recorded October 6, 1988, as instrument No. 88135299 in the official Records of San Mateo County, California;

WHEREAS, it is to the mutual benefit of the parties hereto that Lender has made such loan to Owner;

NOW, THEREFORE, in consideration of the mutual benefits accruing to the parties hereto and other valuable consideration, the receipt and sufficiency of which consideration are hereby acknowledged, it is hereby declared, understood and agreed as follows:

1. That Lender would not have made the loan described above without the right to have Lessee enter into this Agreement.

2. That this Agreement shall be the whole and only agreement between the parties hereto and shall supersede and cancel any prior agreements as to those provisions contained in the Lease above mentioned, which may or do provide for the subordination of the Lease and leasehold interest of Lessee to the deed or deeds of trust or a mortgage or mortgages to be thereafter executed.

3. Lessee and Owner hereby agree and the recordation of this Agreement by or on behalf of Lender shall constitute Lender's agreement as follows:

   (a) In the event of foreclosure of said deed of trust, Lender will not join Lessee in any summary proceedings so long as Lessee is not in default under any of the terms, covenants or conditions of the Lease.

   (b) It is the express intent of the parties hereto that a foreclosure of said deed of trust, the exercise of the power of sale, or the exercise of any other remedies provided therein, or provided in any other instruments securing the indebtedness

secured by said deed of trust, or the delivery of a deed to the subject premises in lieu of foreclosure, shall not, of itself, result in the termination of or otherwise affect the Lease, but Lender and any purchaser or other grantee upon foreclosure of said deed of trust or conveyance in lieu of foreclosure shall thereby automatically succeed to the position of Owner under the Lease.

(c) If, by dispossession, foreclosure, exercise of the power of sale, or otherwise, Lender, its successors or assigns, or any purchaser at the foreclosure sale, or otherwise, shall come into possession of or become the owner of the premises demised by the Lease, such person shall succeed to the interest of Owner under the Lease, and, if no default then exists under the terms, conditions and provisions of the Lease, the Lease shall remain in effect as a lease of said demised premises, together with all of the rights and privileges therein contained, between such person and Lessee for the balance of the term of the Lease between Owner and Lessee.

Lessee agrees to attorn to accept such person as Lessor under the Lease and to be bound by and to perform all of the obligations imposed by the Lease upon the Lessee therein, and Lender, its successors or assigns, or any purchaser at a foreclosure or trustee's sale, or otherwise, will not disturb the possession of Lessee and will be bound by all of the obligations imposed by the Lease upon the Lessor therein; provided, however, that Lender, or any purchaser at a foreclosure or trustee's sale or otherwise shall not be

(i) liable for any act or omission of a prior lessor (including Owner); or

(ii) subject to any offsets or defenses which Lessee might have against any prior lessor (including Owner); or

(iii) bound by any rent or additional rent which Lessee might have paid in advance to any prior lessor (including Owner) for any period beyond the month in which the foreclosure, sale termination or conveyance occurs; or

(iv) bound by any agreement or modification of the Lease made without the consent of Lender.

(d) Upon the written request of either Lessee or Lender given to the other at the time of a foreclosure of said deed of trust or sale under power of sale therein contained or conveyance in lieu of foreclosure, and if no default then exists under the terms, conditions and provisions of the Lease, Lessee and Lender agree to execute a lease of the premises demised by the Lease upon the same terms and conditions as the Lease between Owner and Lessee, which lease shall cover any unexpired terms of the Lease existing prior to such foreclosure, trustee's sale or conveyance in lieu of foreclosure.

4. This Agreement shall be binding upon and inure to the benefit of Lender and the parties hereto and their respective successors and assigns upon recordation by or on behalf of Lender.

LESSEE

DepoMed Systems, Inc.,
a California Corporation

BY:/s/ John W. Shell

OWNER

1170 Chess Drive Limited Partnership,
a Texas Limited Partnership

BY:

J. McDonald Williams,
General Partner

BY: Trammell Crow Foundation, Ltd., a Texas Limited Partnership,
General Partner

UNION BANK

BY_____
Daniel L. Rosenbaum,
Assistant Vice President

BY_____
Kathleen A. Ormseth,
Vice President & Manager

BY: TCF, Inc., a Texas Corporation, General Partner

BY:_____
Trammell Crow,
President

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EXHIBIT A

Attached to and made a part of Non-Disturbance and Attornment Agreement

All that property situated in the State of California, County of San Mateo, City of Foster City described as follows:

PARCEL I

Lots 23, 24 and a portion of Lot 29, as designated on the map entitled "Tract No. 820 Foster City- Industrial Park No. 1 in unincorporated territory San Mateo County, California", which map was filed in the office of the recorder of the County of San Mateo, State of California on January 15, 1964 in Book 59 of Maps at Pages 35, 36 and 37, said portion of Lot 29 being are particularly described as follows:

Beginning at the most Southerly Corner of said Lot 29; thence from said point of beginning along the Southwesterly Line of said Lot 29, North 47 degrees 48' 14" West 218.63 feet; thence North 3 degrees 33' 57" West 134.12 feet; thence along the Northerly line of said Lot 29 North 86 degrees 26' 03" East 33.97 feet; thence crossing Lot 29, South 35 degrees 47' 43" East 297.54 feet to a point on the Northwesterly line of Chess Drive as shown on said Map; thence along said Northwesterly line South 42 degrees 11' 46" West 56.00 feet to the point of beginning.

This deed is made and accepted upon the covenants and restrictions set forth in that Declaration of Restrictions recorded January 15, 1964 in Book 4628 of Official Records, San Mateo County at Page 1, and the amendment thereto recorded March 18, 1966 in Book 5130 of Official Records, San Mateo County at Page 138, all of which are incorporated herein by reference to said Declaration with the sam effect as though fully set forth herein.

PARCEL 2

Parcel A as said Parcel is shown on the certain map entitled "Parcel Map 8-73 in the incorporated territory of the City of Foster City, County of San Mateo, State of California, being a resubdivision of Parcels A & B of parcel map recorded in Book 12 of parcel maps at Page 21, and also being a resubdivision of Lots 25 and 26 Tract No. 820, Foster City, Industrial Park Unit No. 1, recorded in Book 59 of Maps at Pages 35 to 37 inclusive, San Mateo County Records", which map was filed in the office of the Recorder of the County of San Mateo, State of California on July 6, 1973 in Book 21 of Parcel Maps, Page 19.

PARCEL 3

Parcel "B" as said parcel is shown on that certain nor entitled "Parcel Map 8-73 in the incorporated territory of the City of

Foster City, County of San Mateo, State of California being a resubdivision of Parcel A & B of parcel map recorded in Book 12 of parcel maps at Page 21 and also being a resubdivision of Lots 25 & 26 Tract No. 820, Foster City-Industrial Park Unit No. 1 recorded in Volume 59 of Maps at Page 35 to 37 inclusive, San Mateo County Records", which map was filed in the Office of the Recorder of the County of San Mateo, State of California on July 6, 1973 in Volume 21 of parcel maps at Page 19.

PARCEL 4

Together with a non-exclusive easement for ingress and egress over and across the South 10 feet of the West 62 feet of Parcel "C" as said Parcel is shown on that certain map entitled "Parcel Map 8-73 in the incorporated territory of the City of Foster City, County of San Mateo, State of California being a resubdivision of Parcels A & B of parcel map recorded in Book 12 of parcel maps at Page 21 and also being a resubdivision of Lots 25 and 26 Tract No. 820, Foster City-Industrial Park Unit No. 1 recorded in Volume 59 of Maps at Pages 35 to 37 inclusive, San Mateo County Records", which map was filed in the Office of the Recorder of the County of San Mateo, State of California on July 6, 1973 in Volume 21 of parcel maps at Page 19.

State of California)
County of California)

On February 2, 1993 before me, Judith I. Berrett, personally appeared JOHN W. SHELL, President of DepoMed Systems, Inc. personally known to me (or proved to me on the basis of satisfactory evidence) to be the person whose name is subscribed to the within instrument and acknowledged to me that he executed the same in his authorized capacity, and that by his signature on the instrument the person, or the entity upon behalf of which the person acted, executed the instrument.

WITNESS my hand and official seal.

Signature: /s/ Judith I. Berrett

[OFFICIAL STAMP]

State of California)
County of _____)

On _____ __ ____, before me, _____, personally appeared _____ personally known to me (or proved to me on the basis of satisfactory evidence) to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

WITNESS my hand and official seal.

Signature:

State of California)
County of _____)

On _____ __ ____, before me, _____, personally appeared _____ personally known to me (or proved to me on the basis of satisfactory evidence) to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

WITNESS my hand and official seal.

Signature:

EXHIBIT B

TENANT ESTOPPEL CERTIFICATE

Tenant: Depomed Systems, Inc.

THIS IS TO CERTIFY:

1. That the undersigned is the Tenant under that certain Lease dated September 15, 1992, by and between 1170 Chess Drive Limited Partnership ("Landlord") and the undersigned ("Tenant") covering those certain premises as more particularly described in the Lease (the "Premises").

2. A true and correct copy of the Lease and all amendments thereto is attached hereto as Exhibit A. The Lease is in full force and effect and is the only lease or agreement between the Tenant and the Landlord affecting the Premises.

3. To the best of Tenant's knowledge, the information set forth below is true and correct:

(a)	Square footage of the premises:	3,300
(b)	Annual rent as of the commencement of Lease:	31,680
(c)	Current annual rent (if different than at commencement):	
(d)	Lease term commenced:	9/15/92
(e)	Lease termination date:	3/31/95
(f)	Rent is paid to and including:	4/30/93
(g)	Security Deposit:	3,389
(h)	Prepaid rent for and in amount of:	0
(i)	Current charges outstanding as of 4/8/93	

DATE	AMOUNT	DESCRIPTION
3/26/93	$455.89	Electric billback (2/2-3/4)
3/26/93	$122.93	Gas billback (2/2-3/4)

4. The Tenant, unless otherwise stated on Exhibit B, now occupies the Premises, accepts the Premises in their current condition, and is not aware of any defect in the Premises. No rent has been collected in the current month other than disclosed in Paragraph 3 above. No free rent or other concessions benefits, or inducements other than as specified in the lease have been granted to Tenant or undertaken by Landlord.

5. The Tenant has not been granted any renewal, expansion or purchase options and has not been granted any rights of first refusal except as disclosed in writing in the Lease.

6. Neither Tenant nor Landlord is in default under the Lease and there has not occurred any event, which by notice or lapse of time or both or otherwise, will result in any default.

7. As of the date hereof and except as set forth in the Lease, the undersigned is entitled to no credit, offset, or deduction in rent. Tenant knows of no liabilities or obligations of Landlord which have accrued but are unsatisfied under the Lease as of the date of this Certificate.

8. To the best of Tenant's knowledge, there are no actions, whether voluntary or otherwise, pending against the undersigned under the Bankruptcy laws or other laws for the relief of debtors of the United States or any state thereof.

DATED this 21st day of April, 1993.

Tenant

Depomed Systems Inc.

a California corporation

By: /s/ John W. Shell

Its: President & CEO

EXHIBIT 10.6

FIRST AMENDMENT TO LEASE

THIS FIRST AMENDMENT TO LEASE ("First Amendment") is effective as of January 1, 1996, by and between SKW II Real Estate Limited Partnership, a Delaware limited partnership ("Landlord"), and DepoMed, Inc., a California corporation ("Tenant").

RECITALS

A. Original Lease. Pursuant to that certain Lease dated as of September 2, 1992 (the "Original Lease"), Landlord's predecessor-in-interest, 1170 Chess Drive Limited Partnership, a Texas limited partnership, leased to Tenant's predecessor in interest, DepoMed Systems, Inc., a California corporation, certain premises consisting of approximately 3,300 rentable square feet commonly known as and located at 1170 B Chess Drive, Foster City, California (the "Premises"), more particularly described in the Original Lease. Unless defined otherwise in this First Amendment, all defined terms used in this First Amendment shall have the same meaning and definition as given them in the Original Lease.

B. Lease. The Original Lease, as amended by this First Amendment, shall be referred to herein as the "Lease."

C. Purpose. Landlord and Tenant desire to amend the Original Lease as more fully set forth herein.

AGREEMENT

NOW, THEREFORE, for good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, Landlord and Tenant hereby agree that the Original Lease shall be amended as follows:

1. Term. The Basis Lease Information and paragraph 3 of the Original Lease are hereby amended by addition of the following:

> The term of the Lease is extended for a period of 36 months, commencing March 1, 1996 and terminating February 28, 1999.

2. Base Rent. The Basic Lease Information and paragraphs 6 and 38 of the Original Lease are hereby amended by addition of the following:

The Base Rent for the Premises payable by Tenant hereunder shall be as follows:

Monthly Period	Monthly Rate	Base Rent Per Month
03/01/96-02/28/97	$0.96 NNN/Square Feet	$3,168.00
03/01/97-02/28/98	$0.98 NNN/Square Feet	$3,234.00
03/01/98-02/28/99	$1.00 NNN/Square Feet	$3,300.00

3. Tenant Improvements. Paragraph 39 of the Original Lease is deleted in its entirety and the following is substituted in its place:

Tenant shall lease the Premises in an "as-is, where-is" condition, with all faults.

4. Landlord's Address. The paragraph in the Basis Lease Information of the Original Lease entitled "Landlord's Address" is deleted in its entirety and the following is substituted in its place:

Landlord's Address: SKW II Real Estate Limited Partnership
c/o Lincoln Property Company
101 Lincoln Centre Drive
Foster City, California 94404-1167
Telephone: (415) 571-2200
Facsimile: (415) 571-2211

5. Brokers. The paragraph in the Basis Lease Information of the Original Lease entitled "Broker" is deleted in its entirely and the following is substituted in its place:

Broker: CB Commercial and Lincoln Property Company. Landlord shall pay a brokerage commission to Broker in accordance with a separate agreement between Landlord and Broker. Tenant hereby makes to Landlord the warranty set forth in paragraph 36 of the Original Lease with respect to the Broker referenced above.

6. Security Deposit. Landlord and Tenant hereto acknowledge and agree that upon execution of this First Amendment, Landlord is holding a deposit in the sum of $3,389.00 as security for the performance and observance by Tenant of all Tenant's obligations under the Original Lease.

7. Full Force And Effect. Except as expressly provided in this First Amendment, the Original Lease shall remain in full force and effect for the entire remaining Term and any extensions thereof, and the terms and provisions of the Original Lease shall remain unchanged except as modified by this First Amendment.

8. First Amendment Shall Prevail. In the event of any conflict or inconsistency between the terms and provisions of the Original Lease and the terms and provisions of this First Amendment,the terms and provisions of this First Amendment shall prevail.

IN WITNESS WHEREOF, the parties have executed this First Amendment effective as of the date first set forth above.

LANDLORD;	TENANT:
SKW II REAL ESTATE LIMITED PARTNERSHIP, a Delaware limited partnership	DEPOMED, INC. a California corporation
By: SKW II GEN-PAR, INC., a Delaware corporation, General Partner	By: /s/ John W. Shell Name: John W. Shell Title: President
By: /s/ Derrick E. McGavis Derrick E. McGavic Assistant Vice President	

EXHIBIT 11.1

DEPOMED, INC.
STATEMENT RE: COMPUTATION OF NET LOSS PER SHARE

	PERIOD FROM INCEPTION (AUGUST 7, 1995) TO DECEMBER 31, 1995	YEAR ENDED DECEMBER 31, 1996
Weighted average common shares outstanding	2,859,992	3,285,747
Common equivalent shares pursuant to Staff Accounting Bulletin Nos. 55, 64 and 83	184,117	184,117
Shares used in computing net loss per share	3,044,109	3,469,864
Shares used in computing pro forma net loss per share:		
Shares from above		3,469,864
Assumed conversion of preferred stock at the date of issuance		815,789
Shares used in computing pro forma net loss per share		4,285,653

EXHIBIT 23.1

CONSENT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

We consent to the references to our firm under the captions "Selected Financial Data"and "Experts" and to the use of our report dated January 31, 1997 (except for Note 9, as to which the date is April , 1997) with respect to the financial statements of DepoMed, Inc. and our report dated January 31, 1997 with respect to the statement of direct expenses of DepoMed Systems Division of M6 Pharmaceuticals, Inc., in the Registration Statement (Form SB-2) and related Prospectus of DepoMed, Inc., for the registration of shares of its common stock.

Palo Alto, California
1997

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The foregoing consent is in the form that will be signed upon completion of the one-for-three reverse common stock split as described in Note 9 to the financial statements of DepoMed, Inc.

/s/ Ernst & Young LLP

Palo Alto, California
April 17, 1997

YEAR
DEC-31-1996
JAN-01-1996
DEC-31-1996
10,802
0
120,898
0
0
163,237
200,251
45,112
333,127
679,925
0
0
682,759
284,250
(275,000)
333,127
0
317,971
0
784,172
0
0
6,572
(472,773)
0
0
0
0
0
(472,773)
(0.11)
(0.11)