FORM 10-K/A

Annual report pursuant to section 13 and 15(d) [amend]

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FILER

CIRCA PHARMACEUTICALS INC

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K/A

AMENDMENT NO. 2 TO
ANNUAL REPORT

PURSUANT TO SECTION 13 or 15 (d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 1994	Commission file number 0-8049

CIRCA PHARMACEUTICALS, INC.

Incorporated under the laws of the State of New York	11-1966265 (I.R.S. Employer Identification Number)
33 Ralph Avenue Copiague, New York 11726 (address of principal executive offices)	516-842-8383 (telephone number)

Securities registered pursuant to Section 12(g) of the Act:

Title of Class	Name of Each Exchange on Which Registered
Common Stock, $.01 par value per share	American Stock Exchange

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirement for the past 90 days.   Yes [X]   No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein and will not be contained, to the best of Registrant's knowledge, in the Proxy Statement incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

The aggregate market value of the voting stock of the Registrant held by non-affiliates was approximately $356,540,337 as of March 17, 1995 (assuming solely for purposes of this calculation that all directors and officers of the Registrant are "affiliates").

The number of shares of Common Stock outstanding was 21,745,912 as of March 17, 1995.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the Circa Pharmaceuticals, Inc. Annual Report to Shareholders are incorporated by reference into Parts I, II, and IV.

CIRCA PHARMACEUTICALS, INC.

1994 ANNUAL REPORT

CIRCA PHARMACEUTICALS, INC.
SELECTED FINANCIAL DATA

Statements of Operations

	Years ended December 31,				
	1994	1993	1992	1991	1990
Net sales	$ 7,801,481	$3,291,280	$ 89,015	$1,321,649	$15,567,784
Net income (loss)	17,259,045	8,395,248	(9,684,860)	(56,777,340)	(27,423,841)
Net income (loss) per share*	.79	.38	(.44)	(2.62)	(1.28)
Cash dividends per share**					.04

Balance Sheets

	December 31,				
	1994	1993	1992	1991	1990
Current assets	$57,656,175	$47,828,864	$41,134,525	$28,528,357	$94,188,048
Current liabilities	6,218,615	13,011,998	18,140,466	12,167,962	29,034,737
Working capital	51,437,560	34,816,866	22,994,059	16,360,395	65,153,311

Total

assets	103,857,032	102,409,285	99,301,982	98,332,541	151,944,389
Shareholders' equity	82,001,343	64,030,612	58,112,834	65,457,906	121,305,483

* Net income (loss) per share is computed based on the weighted average number of shares outstanding.
** The Company has not declared a dividend since 1990.

CIRCA PHARMACEUTICALS, INC.
LETTER TO SHAREHOLDERS

Dear Shareholders,

Success in the healthcare industry, in the next few years and into the next century, will require companies to reevaluate goals and objectives much more frequently than they have done in the past. In our industry, the changes are dramatic and occurring so quickly that mission statements and long-range plans can become obsolete overnight. Management must have the courage to respond rapidly and take advantage of opportunities that, by nature, surface with changing environments.

In this era of real-time information, and just-in-time manufacturing, reaction time will determine the winners. The great hockey players are above the rest of the field because they skate to where the hockey puck will be, not where it is now. Being able to categorize a company as generic, proprietary, or consumer-oriented may be comfortable, but will not guarantee success, and may allow opportunities outside the "defined" business to be overlooked. The ongoing consolidations have resulted in a new playing field. We will grow and prosper by aggressively and quickly seeking opportunities without predetermined boundaries and considering all possible strategic alliances.

In my 1993 letter to shareholders, I promised we would continue to diversify, and in 1994, we moved forward with that plan. Our first drug approval since 1989 occurred on November 23, 1994, for glipizide, based on an Abbreviated New Drug Application (ANDA). This approval validated our facility as being in compliance with current Good Manufacturing Practices (cGMP) and was a result of our staff's dedicated efforts. We shipped the product to our customers on the same day we received the approval letter, the day before Thanksgiving, because we knew that in order to be competitive we could not afford complacency. We view the approval and the sales it will generate as a "shot in the arm." It did not make us a generic pharmaceutical company. It is one small part of an entire program of diversification.
In November of 1994, we also filed a New Drug Application (NDA) for

a well-known and frequently-used cardiovascular agent. This proprietary product has a new strength and dosage form and should receive three years of exclusivity when approved. We hope this agent will fill a need for patients and be well received once approval is obtained. Although a proprietary product, it alone does not make us a proprietary company.

In 1994, we filed an application with the FDA for a nicotine gum. We believe that smoking cessation is an area of important health concern. We believe an alternative to the currently marketed product should exist. We will be pursuing the registration of this product in other countries over the next several years. We have worked for over four years on gum technology, and are committed to

the delivery of a number of pharmaceuticals through this process, both as over-the-counter and prescription products. We have also submitted an application to obtain a patent for a process that describes a dissolvable chewable dosage form. In our research and development program we have shifted our emphasis to more difficult and more technology-driven products, specifically sustained-release. In an effort to enter the race for the sustained-release opportunity with commitment, we purchased a 7.5% equity position in Andrx Corporation for $6 million. Additionally, the Company and Andrx entered into a joint venture (Ancirc) to develop six products utilizing Andrx's sustained-release technology.

We initially considered contract manufacturing in an effort to cover overhead while we awaited the lengthy research, development, and approval process for pharmaceuticals of our own. We quickly realized that pharmaceutical services, represented by product development, regulatory affairs, analytical services, manufacturing, and packaging, appeared to be a viable business opportunity. Companies are increasingly outsourcing these functions, and we are positioning ourselves through an all-out effort in 1995 to service the industry.

Somerset, our 50% owned joint venture with another pharmaceutical company, had another record year in sales, generating $125 million in net sales, which resulted in $25 million in earnings and $21 million in cash to Circa. We anticipate another good year in 1995 for the sales of Eldepryl, a treatment for Parkinson's disease, as progress is made in the clinical development program for the Eldepryl patch for new indications, as well as the development program for ipriflavone, indicated for osteoporosis. We believe the opportunity at Somerset goes well beyond the current Eldepryl tablet, and we expect Somerset's pipeline to have a significant impact on Circa for years to come.

Dilacor XR, the once-a-day calcium antagonist marketed by Rhone-

Poulenc Rorer, Inc., had net sales of $120 million in 1994 which generated a royalty to Circa of $1.2 million. Our royalty on net sales increased from one percent in 1994 to twenty percent on January 1, 1995 through 1996, and increases to twenty-two percent of net sales in 1997 through the year 2000. Although the product loses exclusivity on May 29, 1995, at this time we are unaware of any pending generic applications.

CIRCA PHARMACEUTICALS, INC.
LETTER TO SHAREHOLDERS

We ended the year with a strong balance sheet, with cash and marketable securities of $50 million. We generated net income of $17 million for 1994, and ranked fifth on the American Stock Exchange for return to investors, recording a 90% return in stock price from December 31, 1993 to December 31, 1994. We have emerged from our past in a full sprint and will seek out opportunities wherever they may be, in an effort to continue to deliver quality products and increasing profitability.

Yours truly,
Melvin Sharoky, M.D.
President and Chief Executive Officer

CIRCA PHARMACEUTICALS, INC.

During 1994, Circa Pharmaceuticals, Inc. proceeded with its plan to diversify into various areas of the healthcare industry. Management sought opportunities that would build on the Company's experience as a manufacturer of pharmaceutical products, as well as take advantage of the dramatic changes occurring in the healthcare field. It is important to recognize that during the process of the Company's diversification, classical definitions of the pharmaceutical industry such as generic, proprietary, or consumer-oriented business operations will no longer apply. Circa is a company that delivers quality products and services, and is oriented towards increasing profitability.

The Company's future success will derive from the foundation offered by a strong balance sheet, manufacturing facilities in full compliance with current Good Manufacturing Practices (cGMP), pharmaceutical services, diversified strategic partnerships for niche products, novel methods of drug delivery, and a team of trained and responsive personnel.

Circa's Financial Resources Offer Opportunities for Growth

Circa's financial resources include a strong balance sheet, a 50% interest in Somerset Pharmaceuticals, Inc. (Somerset), and a royalty stream from the sales of Dilacor XR.

Circa's balance sheet includes cash and marketable securities of approximately $50 million, working capital of $51 million and shareholders' equity of $82 million with no long-term debt.

Circa's 50% interest in Somerset, which manufactures and markets Eldepryl for the treatment of Parkinson's disease, provided $25 million in earnings in 1994, $24 million in 1993 and $21 million in 1992. Exclusivity expires for the Eldepryl tablet in June of 1996; however, Somerset is committed to the development of other products. Somerset continues with its development program for the Eldepryl patch. During 1995, phase II clinical studies are being conducted on the patch for multiple neurological disorders. Somerset is also developing ipriflavone, a product for the treatment of osteoporosis. Ipriflavone is currently marketed in Japan, Italy, Hungary, and Argentina. An Investigational New Drug Application (IND) was filed in January 1995 for this product. It is expected that Somerset's research and development pipeline will have a significant impact on Circa for many years.

Another positive contribution to Circa is the royalty stream generated from the sales of Dilacor XR, a treatment for hypertension and angina, which is marketed by Rhone-Poulenc Rorer, Inc. (RPR). Circa's royalty from the sales of Dilacor XR increased from 1% in 1994 to 20% on January 1, 1995. The Dilacor XR product loses exclusivity in May of 1995; however, at this time we are unaware of any pending generic applications. In February 1995, RPR

announced that the U.S. International Trade Commission (ITC) rejected a patent claim filed by Marion Merrell Dow, Inc. (MMD) and Tanabe Seiyaku Company, Ltd. (Tanabe) concerning diltiazem hydrochloride. The ITC ruling supports RPR's original position that Dilacor XR does not infringe the MMD/Tanabe patent under any circumstances.

With these financial resources, in addition to the income provided by the recent approval of glipizide, Circa can vigorously pursue strategic partnerships and acquisitions that will enable it to complement our existing capabilities.

Generic and Proprietary Product Development

Among the most exciting developments of 1994 was the Food and Drug Administration (FDA) approval of our Abbreviated New Drug Application (ANDA) for glipizide, a treatment for non-insulin-dependent diabetes (Type II diabetes). Glipizide is the generic version of Glucotrol. The market for the brand name and generic products has been estimated at $200 million annually. There can be no assurance that the sale of glipizide will contribute materially to the Company's future operating results. While this approval does not indicate that we are a generic pharmaceutical company, it does signify that our diligence and commitment in rehabilitating Circa over the past several years has met with success, and that approvals of generic products will be one aspect of our operations.

The Company has evaluated the generic industry and the narrowing margins of generic commodity products. Therefore, a number of products in our development program have been eliminated.

The Company has shifted its efforts to more technology driven products, such as sustained-release dosage forms and chewing gum technology.

In November 1994, Circa filed a New Drug Application (NDA) for a widely-used cardiovascular agent, seeking approval for a new strength and dosage form of this product. This agent is expected to receive three years of exclusivity, and will be manufactured at our Copiague facility if approved. This product is an example of the Company's strategy for targeting unique products and technologies that will face less competition.

Circa's Manufacturing and Personnel Resources Offer Myriad Services to Customers

Circa's manufacturing facilities are currently utilized to manufacture products for both Circa and others in the

pharmaceutical industry. In an effort to cover Circa's overhead, contract manufacturing has been evaluated. Since it has become evident that companies are increasingly outsourcing functions, a decision was made to enter the business of providing services to the pharmaceutical industry. Circa's manufacturing resources include a 160,000 square foot facility in Copiague, New York. In addition, Circa has a 60% interest in a 26,000 square foot microencapsulation facility in Dayton, Ohio. Both facilities, which are in full compliance with the FDA's cGMP requirements, enable Circa to provide small and large-scale contract manufacturing services to clients worldwide.

At Copiague, Circa can provide analytical, stability, and packaging services to our customers. Our skilled staff can assist with pharmaceutical product development, as well as regulatory and quality assurance activities. We can manufacture product lines using solid dosage and gum drug-delivery systems. The solid dosage products manufactured at Copiague include tablets, capsules, and sustained-release products. At Dayton, Circa can provide microencapsulation capabilities via a coacervation technology; roto-granulations and drying; and solvent and non-solvent based coatings.

At these facilities, we expect to address the needs of a variety of customers in the next several years. For example, prospective customers might be companies affected by downsizing in the industry, or they might be small-to-medium size pharmaceutical or biotechnology companies without their own full-scale manufacturing facilities.

Additionally, Circa expects to assist foreign companies requiring a manufacturing presence in the United States, as well as foreign companies needing our regulatory expertise as they prepare to meet stringent FDA guidelines.

Circa's Exploration into Novel Dosage Forms

Success in our research efforts directed at drug delivery is demonstrated by our progress with gum-delivery technology during the past four years. The Company has been working on a number of products in this area, including over-the-counter (OTC) and prescription products. In 1994, an application was filed with the FDA for nicotine chewing gum. The Company is excited about this product and will pursue its registration in other countries over the next few years. The gum development group has also created a number of other OTC products.

In the fourth quarter of 1994, the gum development group filed a patent application for Quick Dissolve Chewables (QDC). The group is currently evaluating three OTC products using this technology, and strategic partners will be sought to help promote this product line.

CIRCA PHARMACEUTICALS, INC.

Strategic Partnerships and Niche Product Development

Circa's additional strategic partnerships include those with Andrx Corporation, Hi-Tech Pharmacal, Generics Group BV, and Packaging Concepts, Inc. These relationships demonstrate Circa's emphasis on niche products and our commitment to developing alternative dosage forms and drug-delivery systems.

In a strategic alliance formed in 1994, Circa announced it had

acquired a 7.5% equity interest in Andrx. It also announced plans to jointly develop, manufacture, and market at least six controlled-release generic pharmaceutical products with Andrx.

The Andrx joint venture illustrates Circa's response to current trends in the pharmaceutical industry. Our agreement with Andrx will enable Circa to develop products facing less competition, in this case because they utilize a challenging delivery system. We will continue to pursue similar arrangements with other companies.

In the agreement with Hi-Tech Pharmacal, ANDAs for five generic solutions/suspensions are being developed. Currently, one ANDA application is pending approval and two ANDA submissions are anticipated shortly. The joint venture agreement entered with Generics Group BV is for the co-development of several solid-dosage generic products and an aerosol product. An ANDA application was submitted to the FDA for one of the solid-dosage forms during the fourth quarter of 1994.

Circa is also working jointly with Packaging Concepts to develop OTC products in aerosol, solution, foam and powder form. This collaboration has yielded a number of OTC products, including items such as Miconazole Spray Powder, which is an antifungal used to treat athlete's foot.

With respect to any product currently being developed by the Company internally or with joint venture partners, or any product for which a NDA, IND or patent application has been filed, there can be no assurance that such applications shall be approved, or if approved, that such product will contribute materially to the Company's future operating results.

Our diversified strategic partnerships enable us to reach a wide variety of market segments with a broad product portfolio.

Circa Prepares to Meet Market Challenges

Success in the healthcare industry in the next few years will depend on a company's ability to respond to market pressures, demographic trends, and even governmental legislation quickly and

efficiently. A company will need to have enough working capital to pursue partnerships and dedicate resources as required.

At Circa, we not only recognize the challenges that lie ahead, we have the resources required to meet these challenges.

CIRCA PHARMACEUTICALS, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL

In November 1994, the Company received its first product approval from the Food and Drug Administration (FDA) since 1989. This approval confirmed the acknowledgement by the FDA in April 1993 that the Company had been successfully rehabilitated and validated that the Copiague facility is in compliance with "current Good Manufacturing Practices".

During 1994, the Company recognized $1.2 million of royalty income, generated from the sales of Dilacor XR, which is marketed by Rhone-Poulenc Rorer, Inc. (RPR). During 1993, the Company restructured its agreement with RPR which allows Circa to earn royalties on the sales of Dilacor XR at the rate of 1% in 1994, 20% in 1995 and 1996, 22% from 1997 to 2000 and 3% thereafter. As royalties are earned, they first offset the outstanding partnership liability before providing cash flow to the Company. At December 31, 1994, the outstanding partnership liability was approximately $14 million.

The Company has resolved virtually all of its lawsuits and believes that any remaining unsettled litigation will not have a material impact upon the Company's financial position and future operations.

RESULTS OF OPERATIONS

Year Ended December 31, 1994

The Company reported net income of $17,259,000 for the year ended December 31, 1994, compared to net income of $8,395,000 for the year ended December 31, 1993. Income in 1994 and 1993 was primarily attributable to $25,100,000 and $23,800,000, respectively, of income from Somerset Pharmaceuticals, Inc. (Somerset), a 50% owned joint venture. The primary reasons for the increase in net income in 1994 were sales of a generic prescription product, royalty income from the sale of Dilacor XR, the absence of a loss recognized from the partnership with RPR and a gain from a settlement with a former officer. These increases were offset by a decrease in investment income, principally the sale of shares of Marsam Pharmaceuticals, Inc. ("Marsam") common stock.

Net sales were $7,801,000 in 1994, compared to $3,291,000 in 1993, an increase of $4,510,000 or 137%. The increase resulted from the sale of glipizide which commenced immediately after the Company received approval from the FDA on November 23, 1994. Additionally, during 1994, RPR reported net sales of Dilacor XR of approximately $120 million which generated $1,200,000 of royalty income to the Company. Net sales for 1993 were attributable to sales of nitroglycerin transdermal patches. Glipizide sales and the royalties from Dilacor XR also had the effect of increasing the gross profit percentage from 23% in 1993 to 53% in 1994.

Research and development expenses were $7,891,000 in 1994,

compared to $4,983,000 in 1993, representing an increase of $2,908,000 or 58%. The primary reason for the increase was the Company's expansion of its research and development program following the rehabilitation by the FDA in April 1993. Manufacturing overhead was $3,955,000 in 1994, compared to $3,999,000 in 1993. As the Company increases its operations, including production of its own products, contract services and services to joint ventures, these costs will be absorbed into cost of sales. Selling and administrative expenses were $7,653,000 in 1994, compared to $10,595,000 in 1993, representing a decrease of $2,942,000 or 28%. The decrease was primarily attributable to a reduction in legal expenses, as a significant portion of pending litigation was resolved in 1993.

In November 1994, the Company settled its litigation with a former President, who resigned in 1990. The former President sold all of the 528,108 shares of Circa's common stock owned by him. The proceeds from the sale of a substantial portion of such shares, after payment of expenses and various taxes, were utilized to settle the Company's claim that his conduct damaged the Company and also to reimburse the Company for $1,331,000 in legal expenses paid on his behalf in past years. The Company recognized a gain from settlement of approximately $2,299,000.

Investment income was $6,143,000 in 1994, compared to $18,535,000 in 1993, representing a decrease of $12,392,000. In 1994, the Company recognized gains of $3,180,000 on the sale of 302,000 shares of its investment in Marsam common stock as compared

to gains of $14,491,000 on the sale of 847,000 shares in 1993.

In 1993, the Company recognized a loss from the partnership with RPR of $7,644,000. In April 1993, the Company restructured its agreement with RPR which provides that the Company will no longer share in the profits and losses of the partnership and allows the Company to earn royalties from the sale of Dilacor XR.

Other expenses, net were $715,000 in 1994, compared to $2,070,000 in 1993, representing a decrease of $1,355,000. The decrease is attributable to the recording of reserves on the realization of certain assets in 1993, with no such reserves recorded in 1994.

For the year ended December 31, 1994, the Company has provided $110,000 for federal and state taxes. At December 31, 1994, the Company's net operating loss carryforward, for federal income tax purposes was approximately $77,500,000, which, if not utilized, will begin to expire in the year 2006.

Year Ended December 31, 1993

The Company reported net income of $8,395,000 for the year ended December 31, 1993, compared to a net loss of $9,685,000 for the year ended December 31, 1992. The primary reason for the increase in net income in 1993 was the increase in investment income which in 1993 included gains of $14,491,000 on the sales of shares of Marsam common stock as compared to $1,085,000 in 1992. Included in the Company's statements of operations for 1993 and 1992 were $23,800,000 and $20,600,000, respectively, of income from Somerset.

Net sales were $3,291,000 during 1993, compared to $89,000 for 1992. The increase resulted from the sale of transdermal patches for which the Company became a distributor in January 1993.

Research and development expenses were $4,983,000 in 1993, compared to $2,861,000 in 1992, representing an increase of $2,122,000 or 74%. The primary reason for the increase was the Company's expansion of its research and development program following the rehabilitation by the FDA in April 1993. Manufacturing overhead was $3,999,000 in 1993, compared to $3,892,000 in 1992. As the Company increases operations, these costs will be absorbed into cost of sales. Selling and administrative expenses were $10,595,000 in 1993, compared to $11,385,000 in 1992, representing a decrease of $790,000 or 7%. Included in selling and administrative expenses were legal costs of $4,000,000 in 1993 and $4,100,000 in 1992.

The Company resolved several material lawsuits during 1993, including its alleged violation of Federal Antitrust statutes, which was settled with the Justice Department for $1,100,000. In addition, the Company settled separate actions with KV Pharmaceuticals and Barr Laboratories for an aggregate amount of $3,690,000. In September 1993, Circa received a $1,100,000 refund from a settlement fund established in 1991 for a class action lawsuit against the Company. In October 1993, the Company settled its suit against a former officer which resulted in the officer returning 367,308 shares of the Company's common stock for repayment of legal expenses incurred on his behalf as well as general damages and recorded a gain of $2,500,000 on the transaction. Income from these settlements was offset during the third and fourth quarters of 1993 by an increase in the allowance for possible future legal settlements.

Investment income was $18,535,000 in 1993 as compared to $4,069,000 in 1992, representing an increase of $14,466,000. In 1993, the Company recognized a gain of $14,491,000 on the sale of 847,000 shares of its investment in Marsam as compared to a gain of

$1,085,000 on the sale of 105,000 shares in 1992.

In 1993, the Company recognized a loss from the partnership with RPR of $7,644,000 as compared to $15,598,000 in 1992. In April 1993, the Company restructured its agreement with RPR effective September 1, 1993, which allows the Company to earn royalties from the sale of Dilacor XR.

Other expenses, net were $2,070,000 in 1993, as compared to $780,000 in 1992, representing an increase of $1,290,000. The increase is attributable to the recording of reserves on the realization of certain assets in 1993.

At December 31, 1993, the Company's net operating loss carryforward, for federal income tax purposes was approximately $76,000,000, which, if not utilized, will begin to expire in the year 2006.

LIQUIDITY AND CAPITAL RESOURCES

Working capital increased from $34,800,000 at December 31, 1993 to $51,400,000 at December 31, 1994. The increase of $16,600,000 was primarily attributable to $18,000,000 and $2,900,000 of Somerset dividends and management fee, respectively, $8,000,000 on the sale of the Company's 50% interest in a joint venture, and $3,900,000 from sales of shares of Marsam common stock. These increases were offset by investments in joint ventures of $7,500,000 and working capital used for operating activities.

At December 31, 1994, the Company had commitments of approximately $2,600,000 to third parties for research and development. The Company anticipates capital expenditures relating to its expansion into alternative delivery systems, including chewables and sustained release products. Research and development commitments and capital expenditures will be funded through current working capital. Primary sources of working capital for 1995 will continue to be dividends and management fees from Somerset. Additionally, a source of working capital in 1995 will be proceeds from the sale of the Company's products and services. The Company anticipates that its existing capital resources are sufficient to meet its requirements based on its current business plans.

CIRCA PHARMACEUTICALS, INC.
CONSOLIDATED BALANCE SHEETS

December 31,

	1994	1993
ASSETS		
Current assets:		
Cash and cash equivalents	$ 19,666,933	$ 2,410,819
Marketable securities	30,533,630	36,182,077
Securities held as collateral		5,000,000
Accounts receivable, net	3,629,728	638,242
Inventory	1,697,710	1,820,883
Other current assets	2,128,174	1,776,843
Total current assets	57,656,175	47,828,864
Property, plant and equipment, net	12,488,120	12,535,586
Investments in joint ventures	31,824,227	29,473,160
Securities held as collateral		9,147,156
Other assets	1,888,510	3,424,519
	$103,857,032	$102,409,285

CIRCA PHARMACEUTICALS, INC.

CONSOLIDATED BALANCE SHEETS
(Continued)

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:		
Accounts payable and accrued expenses	$ 6,218,615	$ 5,102,659
Current portion of legal settlements		7,909,339
Total current liabilities	6,218,615	13,011,998
Deferred partnership liability	14,032,912	15,242,000
Legal settlements		7,603,845
Deferred income	1,604,162	2,520,830
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, par value $.01 per share; authorized 10,000,000 shares Common stock, par value $.01 per share; authorized 70,000,000 shares; issued and outstanding 22,110,120 in 1994 and 22,083,420 in 1993	221,101	220,834
Capital in excess of par value	62,825,255	62,570,547
Retained earnings	25,745,891	8,486,846
Less:		
Unrealized loss on marketable securities	(808,542)	
Treasury stock, at cost; 367,308 shares	(3,168,031)	(3,168,031)
Unearned compensation-stock awards	(2,814,331)	(4,079,584)
Total shareholders' equity	82,001,343	64,030,612
	$103,857,032	$102,409,285

See accompanying notes to consolidated financial statements

CIRCA PHARMACEUTICALS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended December 31,		
	1994	1993	1992
Net sales	$ 7,801,481	$3,291,280	$ 89,015
Operating costs and expenses:			
Cost of goods sold	3,629,297	2,530,630	38,497
Research & development	7,890,549	4,982,720	2,861,195
Manufacturing overhead	3,955,245	3,999,075	3,891,644
Selling and administrative	7,653,303	10,595,150	11,384,847
Loss from operations	(15,326,913)	(18,816,295)	(18,087,168)
Equity in earnings of joint ventures	24,968,460	24,687,636	20,711,672
Gain from (provision for) legal settlements	2,298,921	(6,296,969)	
Investment income	6,143,469	18,535,100	4,068,783
Partnership loss		(7,644,000)	(15,598,000)
Other expenses, net	(714,892)	(2,070,224)	(780,147)
Income (loss) before income taxes	17,369,045	8,395,248	(9,684,860)
Income taxes	110,000		
Net income (loss)	$17,259,045	$8,395,248	($9,684,860)
Net income (loss) per share	$.79	$.38	($.44)
Weighted average shares outstanding	21,725,531	22,047,209	22,152,329

See accompanying notes to consolidated financial statements

CIRCA PHARMACEUTICALS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOW

	Years Ended December 31,		
	1994	1993	1992
CASH FLOW FROM OPERATING ACTIVITIES			
Net income (loss)	$17,259,045	$8,395,248	($9,684,860)
Items not affecting cash:			
Depreciation	1,434,796	1,496,023	1,661,753
Amortization of unearned compensation, net	1,491,191	1,470,724	2,593,581
Amortization of deferred income	(916,668)	(916,668)	(916,668)
Equity in net earnings of joint ventures	(20,944,863)	(20,796,016)	(17,193,221)
Dividends received from joint venture	18,000,000	17,688,078	18,692,124
Decrease in joint venture liability	(1,209,088)		
Partnership loss		7,644,000	15,598,000
Gain on sale of shares of Marsam common stock	(3,179,697)	(14,490,801)	(1,085,595)
Gain on settlements with former officers	(2,298,921)	(3,415,531)	
Gain on sale of Puerto Rico facility			(950,000)
Allowance for recalled products		750,000	(2,271,529)
Change in assets and liabilities:			
Increase in accounts receivable, net	(2,991,486)	(638,242)	
(Increase) decrease in inventory	123,173	(795,507)	(322,440)
(Increase) decrease in other assets	(27,774)	1,062,740	(893,478)
Increase in accounts payable and accrued expenses	114,507	3,243,182	2,493,911
Legal settlements	(10,881,062)	(5,255,990)	(6,864,201)
Decrease in income			

taxes refundable			8,885,357
Receipt of deferred income			2,750,000
Cash provided by (used for) operating activities	($4,026,847)	($4,558,760)	$12,492,734

CIRCA PHARMACEUTICALS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOW
(Continued)

	Years Ended December 31,		
	1994	1993	1992
CASH FLOW FROM INVESTING ACTIVITIES			
(Increase) decrease in marketable securities and securities held as collateral	18,297,727	(4,478,991)	(20,086,764)
(Additions to) disposals of property, plant and equipment, net	(1,387,330)	(528,639)	322,645
(Increase) decrease in investments in joint ventures	(7,517,987)	676,416	574,416
Proceeds from sale of shares of Marsam common stock	3,869,031	16,428,074	1,325,625
Proceeds from sale of a joint venture	7,992,483		
Payment to partnership		(8,000,000)	
Proceeds from sale of Puerto Rico facility			7,000,000
Cash provided by (used for) investing activities	21,253,924	4,096,860	(10,864,078)
CASH FLOW FROM FINANCING ACTIVITIES			
Exercise of stock options	29,037	17,338	107,907
Purchase and retirement of stock		(825,000)	(86,700)

Cash provided by (used for) financing activities	29,037	(807,662)	21,207
Increase (decrease) in cash and cash equivalents	17,256,114	(1,269,562)	1,649,863
Cash and cash equivalents at beginning of year	2,410,819	3,680,381	2,030,518
Cash and cash equivalents at end of year	$19,666,933	$ 2,410,819	$ 3,680,381

CIRCA PHARMACEUTICALS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOW
(Continued)

Cash paid during the year for:			
Interest (imputed)	$591,448	$483,000	$236,000
Income taxes			

See accompanying notes to consolidated financial statements

CIRCA PHARMACEUTICALS, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Common Stock Shares	Amount	Capital in excess of Par Value	Retained Earnings	Unrealized Loss on Marketable Securities
Balance December 31, 1991	22,096,198	$220,962	$61,890,936	$9,776,458	
Shares issued upon exercise of stock options	12,022	120	107,787		
Shares issued to employees	55,000	550	738,825		
Cancellation of shares issued to employees	(6,800)	(68)	(86,632)		
Amortization of unearned compensation					
Net loss				(9,684,860)	
Balance December 31, 1992	22,156,420	221,564	62,650,916	91,598	
Shares issued upon exercise of stock options	4,500	45	17,293		
Shares issued to					

employees	400,000	4,000	2,858,500	
Cancellation of shares issued to employees	(477,500)	(4,775)	(2,956,162)	
Amortization of unearned compensation				
Stock settlement with former officer				
Net income				8,395,248
Balance December 31, 1993	22,083,420	220,834	62,570,547	8,486,846

CIRCA PHARMACEUTICALS, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(Continued)

	Common Stock Shares	Amount	Capital in excess of Par Value	Retained Earnings	Unrealized Loss on Marketable Securities
Shares issued upon exercise of stock options	4,200	42	28,995		
Shares issued to employees	30,000	300	325,950		
Cancellation of shares issued to employees	(7,500)	(75)	(100,237)		
Amortization of unearned compensation					
Unrealized loss on marketable securities					($808,542)
Net income				17,259,045	
Balance December 31, 1994	22,110,120	$ 221,101	$62,825,255	$25,745,891	($808,542)

CIRCA PHARMACEUTICALS, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(Continued)

	Treasury Stock	Unearned Compensation Stock Awards	Total Shareholders' Equity
Balance December 31, 1991		($6,430,450)	$65,457,906
Shares issued upon exercise of stock options			107,907
Shares issued to employees		(739,375)	
Cancellation of shares issued to employees			(86,700)
Amortization of unearned compensation		2,318,581	2,318,581
Net loss			(9,684,860)
Balance December 31, 1992		(4,851,244)	58,112,834
Shares issued upon exercise of stock options			17,338
Shares issued to			

employees		(2,862,500)	
Cancellation of shares issued to employees		2,163,437	(797,500)
Amortization of unearned compensation		1,470,723	1,470,723
Stock settlement with former officer	($3,168,031)		(3,168,031)
Net income			8,395,248
Balance December 31, 1993	(3,168,031)	(4,079,584)	64,030,612

CIRCA PHARMACEUTICALS, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(Continued)

	Treasury Stock	Unearned Compensation Stock Awards	Total Shareholders' Equity
Shares issued upon exercise of stock options			29,037
Shares issued to employees			326,250
Cancellation of shares issued to employees		80,249	(20,063)
Amortization of unearned compensation		1,185,004	1,185,004
Unrealized loss on marketable securities			(808,542)
Net income			17,259,045
Balance December 31, 1994	($3,168,031)	($2,814,331)	$82,001,343

See accompanying notes to consolidated financial statements

CIRCA PHARMACEUTICALS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1.SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES

Consolidation

The consolidated financial statements include the accounts of Circa Pharmaceuticals, Inc. and its wholly owned subsidiaries (the "Company" or "Circa"). All significant intercompany transactions and balances have been eliminated.

Cash Equivalents

The Company considers money market funds and highly liquid debt instruments purchased with original maturities of three months or less, to be cash equivalents.

Marketable Securities

In May 1993, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities",which is effective for fiscal years beginning after December 15, 1993. SFAS No. 115 requires that marketable equity securities and all debt securities be classified into three categories; (i) held to maturity securities, (ii) trading securities and (iii) available for sale securities. The Company's marketable securities are classified as available for sale and accordingly, unrealized gains and losses are reported as a separate component of shareholders' equity. The cost related to marketable securities sold is determined utilizing the specific identification method.

Inventory

Inventory is stated at the lower of cost or market. The cost of raw materials is determined on the specific identification method. Labor and overhead costs included in inventory are determined on the average cost basis.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Expenditures for major renewals and improvements to property and equipment are capitalized, and expenditures for maintenance and repairs are charged to operations as incurred. When assets are retired or otherwise disposed of, their cost and related accumulated depreciation are eliminated from the accounts. Any resulting gain or loss is included in the consolidated statements of operations. Depreciation is provided using the straight-line method. Estimated lives are between five and thirty-three years.

Unearned Compensation

The Company maintains stock award plans which provide for the issuance of shares of common stock to key employees and officers.

If the recipients of such shares leave the Company's employment prior to certain agreed upon dates, they must return some or all of the awarded shares to the Company. Unearned compensation is recorded as a separate component of shareholders' equity for the fair market value of the shares issued and such amounts are charged on a straight-line basis to selling and administrative expenses over the related vesting periods.

Income Taxes

Provision for income taxes is based on income and expenses reported in the consolidated financial statements. Deferred income taxes result from differences in recording assets and liabilities for financial reporting and tax purposes. The Company adopted SFAS No. 109 "Accounting for Income Taxes" for the year ended December 31, 1993. The effect of adopting SFAS No. 109 in 1993 was not material to the Company's financial position.

Research and Development

Research and development costs are expensed as incurred.

Net Income (Loss) Per Share

Net income (loss) per share is based on the weighted average number of common shares and equivalents outstanding for each year. The effect of stock options was less than 3% of the weighted average shares outstanding in 1994 and 1993, and was antidilutive in 1992. Accordingly, all common share equivalents were excluded in earnings per share for the years ended December 31, 1994, 1993 and 1992.

Concentration of Credit Risk

For the year ended December 31, 1994, sales to three customers were approximately 23%, 19% and 11% of net sales. For the years ended December 31, 1993 and 1992 sales to one customer were approximately 28% and 18%, respectively, of net sales. During the year ended December 31, 1994, the Company sold pharmaceuticals and related over-the-counter products primarily to distributors throughout the United States.

Reclassifications

Certain prior year amounts have been reclassified to conform with the 1994 presentation. Dividends received from joint venture have been reclassified from cash flow from investing activities to cash flow from operating activities.

2. MARKETABLE SECURITIES

Effective January 1, 1994, the Company adopted the provisions of SFAS No. 115. The Company's marketable securities are classified as available for sale, and accordingly, the unrealized loss at December 31, 1994 was recorded as a separate component of

shareholders' equity. If the Company had adopted SFAS No. 115 as of December 31, 1993, shareholders' equity would have increased by approximately $12 million. SFAS No. 115 would not have resulted in a material impact on the consolidated statement of operations for the year ended December 31, 1993.

Prior to January 1, 1994, the Company accounted for marketable securities under the provisions of SFAS No. 12 "Accounting for Certain Marketable Securities". Investments in United States government securities, municipal bonds and other investments were valued at cost. Investments in equity securities were valued at the lower of aggregate cost or market.

At December 31, 1994 and 1993, the Company owned approximately 334,000 and 635,000 shares, respectively, of Marsam

Pharmaceuticals, Inc. ("Marsam") common stock, a publicly traded company formed to develop and manufacture injectable generic pharmaceutical products. During the years ended December 31, 1994, 1993 and 1992 the Company sold approximately 302,000, 847,000 and 105,000 shares of Marsam common stock and recorded gains of approximately $3,180,000, $14,491,000 and $1,085,000 included as investment income within the consolidated statements of operations.

Marketable securities at December 31, 1994 and 1993 are summarized as follows:

	December 31, 1994		
	COST	MARKET VALUE	UNREALIZED HOLDING GAIN (LOSS)
Fixed income securities	$25,931,312	$23,321,036	($2,610,276)
Equity securities	4,648,296	3,876,794	(771,502)
Marsam	762,564	3,335,800	2,573,236
	$31,342,172	$30,533,630	($ 808,542)

	December 31, 1993	
	CARRYING VALUE	MARKET VALUE
Fixed income securities	$17,654,441	$17,790,301
Equity securities	17,075,761	17,075,761
Marsam	1,451,875	13,652,500
	$36,182,077	$48,518,562

As of December 31, 1994, gross unrealized gains and losses on fixed income securities were $21,856 and $2,632,132, respectively. As of December 31, 1994, excluding Marsam common stock, gross

unrealized gains and losses on equity securities were $74,820 and $846,322, respectively.

At December 31, 1994 maturity dates on fixed income securities ranged from 1995 to 2024.

As of December 31, 1993, marketable securities with an aggregate cost of $14,147,156 and aggregate market value of $14,286,836 were classified as securities held as collateral, pursuant to the provisions of two prior and then outstanding legal settlements.

3. INVENTORY

Components of inventory are summarized as follows:

	December 31, 1994	December 31, 1993
Raw materials	$ 152,434	$ 132,841
Work in process	268,223	67,207
Finished goods	1,277,053	1,620,835
	$1,697,710	$1,820,883

4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are summarized as follows:

	December 31, 1994	December 31, 1993
Land	$ 1,049,189	$ 1,049,189
Buildings	12,612,158	12,434,245
Vehicles	92,836	92,836
Machinery and equipment	14,593,506	13,496,285
Furniture and fixtures	1,784,514	1,672,318
	30,132,203	28,744,873
Less, accumulated depreciation	(17,644,083)	(16,209,287)
	$ 12,488,120	$ 12,535,586

5. INVESTMENTS IN JOINT VENTURES

Somerset Pharmaceuticals, Inc. ("Somerset")

In June 1989, the Company acquired a 50% interest in the outstanding common stock of Somerset following their approval from the Food and Drug Administration ("FDA") to market the product Eldepryl. Sales of this product, which is used in the treatment

of Parkinson's Disease, commenced in August 1989. The Company utilizes the equity method of accounting for its investment in Somerset.

The Company has recognized income from Somerset of approximately $25,089,000, $23,787,000 and $20,563,000 for the years ended December 31, 1994, 1993 and 1992, respectively. Income includes 50% of Somerset's earnings, ongoing management fees, and amortization of deferred income, offset by amortization of goodwill. At December 31, 1994 and 1993, the remaining excess cost of this investment over its net assets was $9,411,000 and $10,400,000, respectively, which is being amortized on a straight-line basis over fifteen years.

Condensed balance sheets and statements of operations information of Somerset is as follows:

	December 31, 1994	1993
Current assets	$ 48,770,000	$35,248,000
Non-current assets	6,380,000	6,165,000
Total assets	$ 55,150,000	$41,413,000
Current liabilities	$29,211,000	$23,417,000
Non-current liabilities	292,000	458,000
Shareholders' equity	25,647,000	17,538,000
Total liabilities and equity	$ 55,150,000	$41,413,000

	Years Ended December 31, 1994	1993	1992
Net revenues	$124,566,000	$118,998,000	$104,071,000
Costs and expenses	$ 59,557,000	$55,825,000	$47,266,000
Income taxes	$ 20,900,000	$21,408,000	$20,736,000
Net income	$ 44,109,000	$41,765,000	$36,069,000

American Triumvirate Insurance Company ("ATIC")

Prior to December 21, 1994, the Company had a 50% ownership with another pharmaceutical company in ATIC, a captive insurance company, which underwrote product liability insurance policies for each of the companies and Somerset. This investment was being accounted for utilizing the equity method. The Company recognized $759,000, $901,000 and $848,000 for the years ended December 31, 1994, 1993 and 1992, respectively, as its equity in ATIC's earnings.

On December 21, 1994, the Company sold its 50% interest in ATIC to the other owner for a selling price valued at 50% of ATIC's shareholders' equity at December 31, 1994 or $8,166,000. The Company received $7,992,000 in cash and established a receivable

for $174,000. For financial reporting purposes, the sale of ATIC did not result in a gain or loss to the Company.

Andrx Corporation ("Andrx")

In July 1994, the Company acquired a 7.5% interest in Andrx for $6,000,000. In addition, the Company may acquire a further interest by exercise of certain warrants. The Company utilizes the cost method to account for its investment in Andrx. The Company and Andrx also entered into a joint venture ("Ancirc"), which will develop generic pharmaceuticals for worldwide markets utilizing Andrx's controlled-release technology. Within Ancirc, Andrx will be

responsible for continuing development of the products, and marketing and sales upon approval. Circa will manufacture the controlled-release products and be responsible for regulatory services. Andrx and Circa will be responsible for sixty and forty percent, respectively, of all future costs to develop, manufacture and market the products with the same percentages applicable to the sharing of income from the joint venture. Circa made an initial equity contribution into Ancirc of $200,000 and utilizes the equity method to account for this joint venture. For the year ended December 31, 1994, Circa recorded $220,000 as its equity in Ancirc's loss.

BQ Pharmaceutical Realty Co., Inc. ("BQ")

Circa holds a 60% equity interest in a company that owns a facility designed to produce sustained-release products. The Company's net investment of $2,616,000 as of December 31, 1994 and 1993 is being accounted for using the equity method as neither company controls BQ due to equal representation on its board of directors.

COMBINED RESULTS FOR UNCONSOLIDATED INVESTMENTS IN JOINT VENTURES

The following aggregate information is provided for unconsolidated investments in joint ventures accounted for utilizing the equity method:

	December 31, 1994	December 31, 1993
Current assets	$49,473,000	$50,735,000
Non-current assets	6,516,000	6,165,000
Total assets	$55,989,000	$56,900,000
Current liabilities	$30,201,000	$24,000,000
Non-current liabilities	292,000	458,000
Shareholders' equity	25,496,000	32,442,000
Total liabilities and equity	$55,989,000	$56,900,000

Years Ended December 31, 1994	1993	1992

Net revenues	$126,726,000	$121,202,000	$106,210,000
Gross profit	$109,979,000	$107,158,000	$93,539,000
Net income	$ 44,409,000	$ 43,567,000	$37,766,000

6. PARTNERSHIP WITH RHONE-POULENC RORER, INC. ("RPR")

In July 1989, the Company and RPR formed a partnership to develop and market a pharmaceutical product used in the treatment of hypertension. Dilacor XR was launched by RPR during 1992. Circa's share of the partnership's loss for the years ended December 31, 1993 and 1992 was $7,644,000 and $15,598,000, respectively. The partnership agreement was amended in April 1993, such that after September 1, 1993 the Company's financial participation would be to earn a royalty from the future sales of the branded product, Dilacor XR. For the year ended December 31, 1994, the Company earned a royalty of 1% on the net sales of Dilacor XR which will increase to 20% for the years ending December 31, 1995 and 1996, 22% for the years ending December 31, 1997 through 2000 and 3% thereafter. Royalties are initially applied to repay the Company's partnership liability to RPR. On September 1, 1993, the Company made the only required payment to RPR of $8,000,000. For the year ended December 31, 1994 the Company earned royalties of $1,209,000 which are included in net sales in the consolidated statements of operations. Additionally, the partnership agreement provides for the partnership to develop a generic version of Dilacor XR to be launched as the partners consider appropriate. The profits and losses from the sale of the generic product are to be shared equally by the Company and RPR.

7. INCOME TAXES

Effective January 1, 1993, the Company adopted SFAS No. 109. There was no effect on the Company's financial position as of December 31, 1993 related to the adoption of SFAS No. 109 as the Company established a valuation allowance for the amount of the deferred tax asset at January 1, 1993 of $36,000,000. The principal deferred tax asset was approximately $71,000,000 of net operating loss carryforward for federal income taxes which will expire beginning in 2006.

For the year ended December 31, 1994, the Company provided $110,000 for federal alternative minimum taxes and state taxes. The Company's income before taxes of approximately $17,400,000 was reduced to a federal operating loss of $1,500,000 primarily due to non-taxable joint venture income of $19,200,000, attributable to the federal dividend exclusion. The Company's taxable income was additionally reduced by deductible expenses for tax purposes of $4,000,000 which was offset by not currently deductible allowances of $1,300,000 and a taxable gain on the sale of ATIC of $3,000,000.

For the year ended December 31, 1993, the Company was not required to provide for federal or state taxes. The Company's net income of approximately $8,400,000 was reduced to a federal net operating loss of $5,000,000 primarily due to non-taxable joint venture income of $19,300,000, attributable to the federal dividend exclusion. The Company's taxable income was additionally reduced by deductible expenses for tax purposes of $3,300,000 which was offset by not currently deductible allowances of $9,200,000.

For the year ended December 31, 1992, the Company was not required to provide for federal or state taxes due to its net operating loss.

Deferred taxes arise due to differences in the basis of assets and liabilities for financial reporting and income tax purposes. The significant components of net deferred tax assets and liabilities as of December 31, 1994 and 1993 are as follows:

	Years ended December 31, 1994	1993
Operating loss carryforward	$ 30,469,000	$ 29,856,000
Tax credit carryforward	3,048,000	3,048,000
Expenses not currently deductible	3,139,000	3,495,000
Other	744,000	401,000
Total deferred tax assets	37,400,000	36,800,000
Valuation allowance	(37,400,000)	(36,800,000)
Net deferred tax asset	$ 0	$ 0

At December 31, 1994, the Company has a net operating loss carryforward of approximately $77,500,000 for federal income tax purposes which, if not utilized, will begin to expire in 2006. At December 31, 1994, the Company has $3,048,000 of federal tax credits available for use in future years which expire beginning in 2001.

8. COMMITMENTS AND CONTINGENCIES

Settlements

On November 30, 1994, the Company settled its litigation with a former President, who resigned in 1990. Under the terms of the agreement, the former President, through an escrow agent, sold all of the 528,108 shares of Circa's common stock owned by him. The proceeds from the sale of a substantial portion of such shares, after payment of expenses and various taxes, were utilized to settle the Company's claim that his conduct damaged the Company and also to reimburse the Company for $1,331,000 of legal expenses paid on his behalf in past years. The Company recognized a gain on settlement of $2,298,921.

In July 1994, the Company settled civil antitrust claims brought against it in a class action in the U.S. District Court in Maryland with respect to the sale of generic Dyazide. Under the settlement agreement, the Company paid $1,350,000 into a settlement fund for the benefit of the class of plaintiffs, and will issue $2,500,000 of coupons permitting the class of former customers to purchase products from the Company at a predetermined discount from market prices. The settlement agreement was accepted by the class of plaintiffs and implementation was approved by the court. The cost of such settlement was provided for in 1993.

In December 1994, the Company paid its outstanding installment obligations related to two prior legal settlements with total cash disbursements of $7,560,000. The Company did not recognize a gain or loss on the settlement of the installment obligations. Marketable securities collateralizing the installment obligations were released from the trusts.

In October 1993, the Company settled its case with the Antitrust Division of the Justice Department. The Company entered a plea of Nolo Contendere and paid a fine of $1,100,000. Also, during 1993 the Company settled actions against it by KV Pharmaceuticals and Barr Laboratories. These separate actions were settled in the total amount of $3,690,000.

In September 1993, Circa received a $1,100,000 refund from a settlement fund established in 1991 for a class action lawsuit against the Company. In November 1993, the Company settled its action against a former officer who returned to the Company 367,308 shares of Circa's common stock which was placed in treasury and was valued at $3,168,000 on the date of transfer to the Company. A gain of $2,500,000, net of legal expenses paid by the Company, was included within the consolidated statements of operations for this settlement. Income from these events was offset by the Company during the third and fourth quarters of 1993 by an increase in the liability for future legal settlements.

Contingencies

Certain product liability claims have been filed against the Company relating to products sold prior to the cessation of sales by the Company in February 1990.

As of December 31, 1993, the Company had provided an

allowance for the estimated cost of pending litigation. Based upon information it presently possesses, the Company believes that the outcome of these cases will not have a material adverse effect on the Company's consolidated financial position and future operations.

Commitments

As of December 31, 1994, the Company had commitments of approximately $2,600,000 for research and development projects to third parties, which will be expended over the next three years.

9. SHAREHOLDERS' EQUITY

Stock Award Plans

The Company maintains a Restricted Stock Award Plan which provides for the issuance of shares of common stock to key employees which was adopted by the Board in 1984. A total of 464,000 shares of common stock were reserved for issuance under the plan. The plan provides that if recipients leave the Company's active employment prior to age 62 they must return previously awarded shares to the Company. As of December 31, 1994, there were 157,000 shares issued under this plan. In 1994, the Board of Directors elected to discontinue the issuance of awards from this plan.

The Company maintains a Deferred Compensation Plan for the benefit of eligible key employees and officers. A total of 1,300,000 shares of common stock were reserved for issuance under the plan. If the recipients of such shares leave the Company's employment prior to certain agreed upon vesting dates, they must return some or all of the awarded shares to the Company. The Company awarded 30,000, 400,000 and 55,000 shares of common stock to certain employees during the years ended December 31, 1994, 1993, and 1992, respectively. During the years ended December 31, 1994, and 1993, 7,500 and 477,500 shares, respectively, were canceled. As of December 31, 1994, 2,015,000 shares were issued, 830,000 shares were canceled and 115,000 shares were available for future issuance.

Stock Option Plans

At the 1994 Annual Meeting, the shareholders approved the 1994 Long-Term Incentive Plan ("1994 Incentive Plan"). A total of 1,400,000 shares of common stock were reserved for stock option grants, stock appreciation rights and stock awards to officers and selected employees. The 1994 Incentive Plan provides that the exercise price of each option will be 100% of the fair market value of the common stock on the date of grant. As of December 31, 1994, 537,200 options were issued, 35,000 options were forfeited and

897,800 shares were available for future issuance.

The Company maintains a Directors' Stock Option Plan ("Directors' Plan") for the benefit of directors of the Company who are not eligible to receive options under any other plan adopted by the Company. This non-qualified plan was adopted by the Board and approved by the shareholders in 1990. The Directors' Plan provides that the exercise price of each option will be 100% of the fair market value of the common stock on the date of grant and is exercisable in full on the first anniversary of the date of grant. A total of 500,000 shares of common stock were reserved for issuance under the plan. During the year ended December 31, 1994, options for 20,000 shares of the Company's common stock were issued under the plan. As of December 31, 1994, 107,500 options were issued under the plan, of which 2,500 options have been exercised and 392,500 options were available for future issuance.

At the 1988 Annual Meeting, the shareholders approved an Incentive Compensation Plan ("1988 Plan") which provided for annual contingent awards of stock options to officers, directors and key employees to be granted only if earnings per share of the Company's common stock exceeded pre-established goals set by the Compensation Committee. The 1988 Plan provides that the exercise price of each option is no less than 100% of the fair market value of the Company's common stock at date of grant. A total of 900,000 shares of the Company's common stock are subject to options under this plan. During the year ended December 31, 1994, 26,937 options expired. As of December 31, 1994, 214,445 options were issued under the plan, of which 57,381 options have been exercised and 157,064 options were canceled. In 1994, the Board of Directors elected to discontinue the issuance of awards from this plan.

The Company has an Employee Stock Purchase Plan ("Employee Plan") for employees other than officers, directors or key employees. The Employee Plan is intended to be a "Qualified Plan" within the meaning of Section 423 of the Internal Revenue Code. A total of 628,980 shares of the Company's common stock were reserved for purposes of this Plan. The options have a life of five years from the date of each grant and are exercisable on or before the option expiration date. During the year ended December 31, 1994, 7,300 options were issued, 4,200 were exercised and 2,500 expired. As of December 31, 1994, 151,355 options were issued under the plan, of which 98,776 options have been exercised and 35,479 options were canceled. In 1994, the Board of Directors elected to discontinue the issuance of awards from this plan.

Other non-qualified options of 50,000 and 21,250 were issued during the years ended December 31, 1994 and 1993, respectively, and are still outstanding.

A summary of changes in outstanding options is summarized as follows:

	Number of Shares under Option	Option Price Per Share
Outstanding December 31, 1991	329,482	$ 2.50- 26.25
Options granted	37,200	$ 8.88- 9.50
Options exercised	12,022	$ 4.63- 22.25
Options expired or forfeited	230,145	$ 4.63- 22.25
Outstanding December 31, 1992	124,515	$ 2.50- 26.25
Options granted	56,450	$ 5.75- 6.88
Options exercised	4,500	$ 2.50- 9.50
Options expired or forfeited	26,778	$ 4.63- 26.25
Outstanding December 31, 1993	149,687	$ 2.50- 26.25
Options granted	614,500	$10.88- 17.75
Options exercised	4,200	$ 4.63- 11.50
Options expired or forfeited	64,437	$ 5.75- 26.25
Outstanding December 31, 1994	695,550	$ 2.50- 17.75

10.OTHER INCOME (EXPENSE)

	Years Ended December 31,		
	1994	1993	1992
Imputed interest expense on legal settlements	($591,448)	($997,025)	($1,515,016)
Gain on sale of property, plant and equipment	39,964		962,160
(Increase) decrease in provision for recalled products		(750,000)	391,686
Allowance for inventory obsolescence		(481,984)	(351,000)
Other, net	(163,408)	158,785	(267,977)
	($714,892)	($2,070,224)	($780,147)

CIRCA PHARMACEUTICALS, INC.
REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders of Circa Pharmaceuticals, Inc.,

We have audited the accompanying consolidated balance sheets of Circa Pharmaceuticals, Inc. and Subsidiaries as of December 31, 1994 and 1993, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended December 31, 1994. 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 did not audit the financial statements of Somerset Pharmaceuticals, Inc. (Somerset), an entity which is 50% owned by the Company. The Company's investment in Somerset constitutes 22% and 19% of consolidated total assets in 1994 and 1993, respectively. In 1994, 1993 and 1992, the Company has recorded income from Somerset of $25,089,000, $23,787,000 and $20,563,000, respectively. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Somerset, is based solely on the report of other auditors.

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.

In our opinion, based on our audits and the report of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Circa Pharmaceuticals, Inc. and Subsidiaries as of December 31, 1994 and 1993, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1994, in conformity with generally accepted accounting principles.

As discussed in notes 1 and 2, the Company changed its method of accounting for investments in marketable securities effective January 1, 1994.

Coopers & Lybrand L.L.P.

Melville, New York
February 7, 1995

CIRCA PHARMACEUTICALS, INC.
REPORT OF MANAGEMENT

To the Shareholders of Circa Pharmaceuticals, Inc.,

Management of Circa is responsible for preparing the accompanying consolidated financial statements and for assuring their integrity and objectivity. The financial statements were prepared in accordance with generally accepted accounting principles and fairly represent the transactions and financial position of the Company. The financial statements include amounts that are based on management's best estimates and judgements.

The Company's financial statements have been audited by Coopers & Lybrand L.L.P., independent auditors, selected by the Audit Committee and approved by shareholders. Management has made available to Coopers & Lybrand L.L.P. all of the Company's financial records and related data, as well as the minutes of shareholders' and directors' meetings.

Management of the Company has established and maintains a system of internal accounting controls that is designed to provide reasonable assurance that assets are safeguarded, transactions are properly recorded and executed in accordance with management's authorization, and the books and records accurately reflect the disposition of assets. The system of internal controls includes appropriate division of responsibility.

The Audit Committee is composed of Directors who are not officers or employees of the Company. It meets regularly with members of management and the independent accountants to discuss the adequacy of the Company's internal controls, financial statements and the nature, extent and results of the audit effort. The independent accountants have free and direct access to the Audit Committee without the presence of management.

Melvin Sharoky, M.D.	Angelo C. Malahias
President and	Vice President and
Chief Executive Officer	Chief Financial Officer

CIRCA PHARMACEUTICALS, INC.
STOCK MARKET INFORMATION

1994	High	Low
First Quarter	15 1/8	8 5/8
Second Quarter	12 1/8	8 3/4
Third Quarter	15 3/8	9 1/8
Fourth Quarter	18 1/8	14 1/8

1993	High	Low
First Quarter	9	5 3/4
Second Quarter	7 7/8	4 1/8
Third Quarter	8 7/8	5 7/8
Fourth Quarter	13 5/8	8 1/4

The common stock of Circa Pharmaceuticals, Inc. is traded on the American Stock Exchange, trading symbol: RXC. As of February 28, 1995, the Company had 2,269 shareholders of record. There are a significant number of beneficial owners of Circa stock whose shares are held in "street name." No cash dividends have been declared by the Company for the fiscal years 1994 and 1993, and the Company does not intend to declare cash dividends in the foreseeable future.

CIRCA PHARMACEUTICALS, INC.
QUARTERLY DATA (UNAUDITED)

	1994	1993
March 31st		
Net sales	$1,234,209	$357,716
Gross profit	449,358	51,310
Net income (loss)	3,874,480	(4,411,739)
Income (loss) per share	$.18	($.20)
June 30th		
Net sales	$ 961,289	$837,148
Gross profit	341,328	216,711
Net income (loss)	2,308,590	(1,194,425)
Income (loss) per share	$.11	($.06)
September 30th		
Net sales	$1,320,178	$1,002,833
Gross profit	676,227	231,102
Net income	3,598,904	6,656,877
Income per share	$.17	$.30
December 31st		
Net sales	$4,285,805	$1,093,583
Gross profit	2,705,271	261,526
Net income	7,477,071	7,344,535
Income per share	$.34	$.34

CIRCA PHARMACEUTICALS, INC.
OFFICERS OF THE COMPANY

Melvin Sharoky, M.D.
President and
Chief Executive Officer
Director

Dr. Sharoky, 44, joined the Company in 1988 as Medical Director and subsequently served as Executive Vice President, Director of Research and Development before being appointed by the Board of Directors to President and Chief Executive Officer in 1993. Prior to joining Circa, Dr. Sharoky was Senior Vice President of Contract Development for a drug research and testing organization. He currently serves on the Board of Directors of Circa and Somerset Pharmaceuticals, Inc.

Thomas P. Rice
Executive Vice President and
Chief Operating Officer
Director

Mr. Rice, 44, joined Circa in July 1993. Prior to joining Circa, Mr. Rice served as Vice President and Chief Financial Officer for a pharmaceutical research organization, and as a senior manager with Deloitte & Touche LLP. He currently serves on the Board of Directors of Circa and Somerset Pharmaceuticals, Inc.

John Botek
Vice President
Operations and Administration

Mr. Botek, 38, joined Circa in April 1994. Prior to joining Circa, Mr. Botek held senior management positions with a management and systems consulting company and a pharmaceutical research organization.

Gwen Gerrick
Corporate Secretary
Director of Investor Relations

Ms. Gerrick, 29, joined the Company in 1988 and currently serves as Corporate Secretary and Director of Investor Relations. She previously served as Assistant to the President.

Ed Haley
Vice President
Sales and Marketing

Mr. Haley, 51, joined Circa in May 1994. Prior to joining Circa, Mr. Haley was Vice President of Sales with Bausch & Lomb Oral Care and held various key management positions with Colgate-Palmolive Company.

Nicholas A. LaBella, Jr.
Vice President
Director of Research and Development

Mr. LaBella, 39, joined Circa in 1989 as the Director of Regulatory Affairs, and in 1993 he became Vice President, Director of Research and Development. Prior to joining Circa, Mr. LaBella held various positions in Regulatory Affairs and Project Coordination for research based pharmaceutical organizations. He also serves on the Board of Directors of Somerset Pharmaceuticals, Inc.

Angelo C. Malahias
Vice President
and Chief Financial Officer

Mr. Malahias, 33, joined Circa in July 1994 as Controller and in January 1995 became Vice President and Chief Financial Officer. Prior to joining Circa, Mr. Malahias served as a senior manager with KPMG Peat Marwick LLP.

Steve Martinez
Vice President
and General Manager

Mr. Martinez, 45, joined Circa in December 1994 as General Manager and Vice President. Prior to joining Circa, he worked for eighteen years for several major drug and device manufacturers, rising to director level positions.

CIRCA PHARMACEUTICALS, INC.

BOARD OF DIRECTORS

Melvin Sharoky, M.D.
President and
Chief Executive Officer

Thomas P. Rice
Executive Vice President and
Chief Operating Officer

Michael Fedida
Registered Pharmacist
Consultant and Owner of Retail Pharmacies

Stanley Grey
Certified Public Accountant
Trustee and Treasurer, Long Island Jewish Medical Center

Bruce Hausman

Attorney
Director, Plastigone Technologies, Inc.
Honorary Trustee, Beth Israel Medical Center
Director, Daltex Medical Sciences, Inc.

Kenneth Siegel
Managing Director
Wertheim Schroder & Co., Incorporated

CIRCA PHARMACEUTICALS, INC.

FORM 10-K
A copy of the Company's annual report on form 10-K filed with the Securities and Exchange Commission is available to shareholders upon request. For a copy of Form 10-K, please write to Investor Relations.

SHAREHOLDER INFORMATION
Investor Relations
Circa Pharmaceuticals, Inc.
33 Ralph Ave.
P.O. Box 30
Copiague, NY 11726-0030
(516) 842-8383

STOCK TRANSFER AGENT AND REGISTRAR
American Stock Transfer & Trust Company
New York, New York

INDEPENDENT AUDITORS
Coopers & Lybrand L.L.P.
Melville, New York

SIGNATURES

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

CIRCA PHARMACEUTICALS, INC.

Dated: June 12, 1995

by:/s/ Melvin Sharoky, M.D.

MELVIN SHAROKY, M.D., President

Chief Executive Officer

by:/s/ Angelo C. Malahias

ANGELO C. MALAHIAS, Vice President

and Chief Financial Officer

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