

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report: November 4, 1996

Commission file number 0-20772

CYPROS PHARMACEUTICAL CORPORATION  
(Exact name of registrant as specified in its charter)

California  
(State or other jurisdiction of incorporation or organization)

33-0476164  
(I.R.S. Employer Identification No.)

2714 Loker Avenue West  
Carlsbad, California 92008  
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code:  
(619) 929-9500

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\* No information provided due to inapplicability of item.

#### Item 2. Acquisition or Disposition of Assets.

On November 4, 1996, the Company acquired the New Drug Application and U.S. trademark for Ethamolin Injection (the "Ethamolin Assets") and the finished goods inventory on hand at closing from Schwarz Pharma, Inc., a Delaware corporation. The acquisition was accomplished in an arm's length negotiation through a purchase of assets and accounted for using the purchase method of accounting. The total purchase price was \$3,286,642, of which the Company paid \$2,086,642 in cash and issued a \$1,200,000 note bearing interest at 8% per annum at closing. The principal and accrued interest on the note are due and payable on November 3, 1997. Repayment of the principal and interest on the note is secured by the Ethamolin Assets. The Company used its working capital to make the cash payment at closing.

Item 7. Financial Statements and Exhibits.

(a) Financial statements of businesses acquired.  
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Schwarz Pharma, Inc. Ethamolín Product Line

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(b) Proforma financial information.  
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Financial Statements of  
Cypros Pharmaceutical Corporation  
and Schwarz Pharma, Inc. Ethamolín Product Line

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(c) Exhibits.

None

Financial Statements

Schwarz Pharma, Inc.  
Ethamolín Product Line  
For the year ended July 31, 1996

Schwarz Pharma, Inc.  
Ethamolín Product Line

Financial Statements  
For the year ended July 31, 1996

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Report of Ernst & Young LLP, Independent Auditors

Board of Directors and Shareholders  
Schwarz Pharma, Inc.

We have audited the accompanying statement of assets acquired of the Schwarz Pharma, Inc. Ethamolin Product Line (the Product Line) as of July 31, 1996, and the related statement of operating revenue and expenses directly related to the acquired business, for the year then ended. These financial statements are the responsibility of the Product Line'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.

As described in Note 2, these financial statements were prepared solely to present the assets acquired by Cypros Pharmaceutical Corporation pursuant to a product line purchase agreement and are not intended to be a complete presentation of the Product Line's assets, operating revenues and expenses.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets acquired of the Product Line at July 31, 1996, and its operating revenue and its expenses directly related to the acquired business for the year then ended.

ERNST & YOUNG LLP

San Diego, California  
November 27, 1996

Schwarz Pharma, Inc.  
Ethamolin Product Line

Statement of Assets Acquired  
Year ended July 31, 1996

Assets

Inventory	\$59,127
Total assets acquired	\$59,127

See accompanying notes.

Schwarz Pharma, Inc.  
Ethamolin Product Line

Statement of Operating Revenue and Expenses  
Directly Related to Acquired Business

Year ended July 31, 1996

Net sales	\$1,126,766
Cost of sales	142,116
Promotion/royalties	153
Excess of operating revenue over expenses directly related to acquired business	\$ 984,497

See accompanying notes.

Schwarz Pharma, Inc.  
Ethamolin Product Line

Notes to Financial Statements

1. Nature of Business

Ethamolin is a product being distributed by Schwarz Pharma, Inc., a Delaware Corporation. Ethamolin is an acute-care injectable drug approved by the U.S. Food and Drug Administration for the treatment of bleeding esophageal varices.

2. Significant Accounting Policies

Basis of Accounting

The financial statements were prepared in accordance with Securities and Exchange Commission Rule 3-05 of Regulation S-X for acquired businesses not accounted for as a separate product line by the previous owner. Accordingly, the statement of assets acquired reflects only those assets purchased and does not include allocations for such items as intangible property, accounts receivable, accounts payable and debt. The statement of operating revenue and expenses directly related to the acquired business does not include allocations for overhead, selling and general administration expenses, interest expense and income taxes.

Inventory

Inventory consists entirely of finished goods and is valued at the lower of first-in, first-out cost or market value.

3. Significant Customers

In 1996, approximately 84% of net sales was to three customers.

4. Subsequent Events

On November 4, 1996, the Ethamolin product line was sold to Cypros Pharmaceutical Corporation, including all inventory on hand as of that date.

Cypros  
Pharmaceutical  
Corporation

PROFORMA CONDENSED  
BALANCE SHEETS

July 31, 1996

The  
Ethamoli  
n  
Product

	Cypros Pharmaceuti cal Corporation	Line of Schwarz Pharma, Inc.	Proforma Adjustments	Proforma Adjusted
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ASSETS

Cash and cash equivalents	\$ 8,306,752	\$ -	\$(2,086,690)	(1) \$6,220,062
Short-term investments	7,690,297	-	-	7,690,297
Purchased technology, net	2,629,427	-	3,214,048	(2) 5,843,475
Other assets	1,120,038	59,127	13,515	(3) 1,192,680
Total Assets	\$ 19,746,514	\$ 59,127	\$ 1,140,873	\$ 20,946,514

LIABILITIES	AND	SHAREHOLDER S'	EQUITY
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Total liabilities	\$ 1,236,064	\$ -	1,200,000	\$ (4) \$2,436,064
Shareholders' equity:				
Common stock	21,838,493	-	-	21,838,493
Mandatorily convertible notes	7,458,498	-	-	7,458,498
Deferred compensation	(304,309)	-	-	(304,309)
Retained earnings/ (Accumulated deficit)	(10,482,232)	-	-	(10,482,232)
Total shareholders' equity	18,510,450	-	-	18,510,450
Total liabilities and shareholders' equity	\$ 19,746,514	\$ -	\$ 1,200,000	\$ 20,946,514

(1) Assumes that the transaction closed on July 31, 1996 and represents the value of cash consideration paid at closing for Ethamolin.

(2) Represents the full price of the acquisition, including a \$1,200,000 promissory note issued to Schwarz Pharma, Inc. at closing (the "Note"), net of the Ethamolin inventory received at closing. This asset will be amortized by the Company over seven (7) years.

(3) Represents the value of Ethamolin inventory acquired at closing.

(4) Represents the Company's obligation to pay the Note.

Cypros  
Pharmaceutical  
Corporation

PROFORMA  
CONDENSED STATEMENTS  
OF OPERATIONS  
Year Ended July 31,  
1996

The  
Ethamolin  
Product  
Cypros

	Pharmaceuti cal Corporation	Line of Schwarz Pharma, Inc.	Proforma Adjustmen ts	Proforma Adjusted
Sales	\$ 1,275,240	\$ 1,126,766	\$ -	\$ 2,402,006
Cost of Goods Sold	405,142	142,116	-	547,258
Gross Margin	870,098	984,650		1,854,748
Selling, general and administrative	2,597,054	153	458,997 (1 )	3,056,204
Clinical testing and regulatory	1,389,128	-	-	1,389,128
Research and development	1,002,226	-	-	1,002,226
Income (Loss) from operations	(4,118,310)	984,497		(3,592,810 )
Other income (expense):				
Research grant income	270,510	-	-	270,510
Interest income, net	757,692	-	(210,768) (2 )	642,924
Net Loss	\$ (3,090,108)	\$ 984,497	\$ 344,229	\$ \$(2,679,376)
Loss per share	\$ (0.27)			\$ (0.23)
Weighted average shares outstanding	11,518,169			11,518,169

(1) Represents the substitution of the historical selling, general and administrative expenses for the amortization of purchased technology for the year ended July 31, 1996.

(2) Represents the decrease in interest income resulting from an assumed closing of the transaction at the beginning of the year instead of at the end of the year, and thus, less funds available for investment during the year. Also includes \$96,000 of interest expense related to the Note.

#### SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Carlsbad, County of San Diego, State of California, on the 16th day of January, 1997.

CYPROS PHARMACEUTICAL CORPORATION

(Signature)

David W. Nassif

Vice President, Chief Financial Officer and Secretary

(Principal Financial and Accounting Officer)