UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q

(Mark One)
[X] Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the period ended January 31, 1998
OR
[ ] Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from __________ to _________

Commission file number 0-20772

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

California	33-0476164
(State or other jurisdiction of incorporation or organization)	(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:
(760) 929-9500

Indicate by mark whether the Registrant (1) has filed all reports required to be filed by Section 13 of 15(d) of the Securities Exchange Act 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
[X] YES [ ] NO

As of March 9, 1998, the Registrant had 15,660,655 shares of Common Stock, no par value, outstanding.

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* No information provided due to inapplicability of item.

PART I.
Item 1. Financial Statements

Cypros Pharmaceutical Corporation
Balance Sheets

	January 31, 1998	July 31, 1997

	(Unaudited)	(Note)
Assets		
Current assets:		
Cash and cash equivalents	$5,526,986	$5,101,710
Short-term investments, held to maturity	10,018,440	9,465,561
Accounts receivable	429,228	355,425
Inventories	128,168	93,177
Prepaid expenses and other current assets	113,394	75,038
Total current assets	16,216,216	15,090,911
Property, equipment and leasehold improvements, net	1,001,369	675,686
Purchased technology, net	4,612,181	5,060,875
Deferred financing costs, net	33,437	259,127
Licenses and patents, net	189,038	162,592
Other assets	316,636	95,525
Total assets	$22,368,877	$ 21,344,716
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable	$ 341,746	$ 365,386
Accrued compensation	127,544	121,605
Other accrued liabilities	29,439	118,658
Purchased asset obligations	-	1,272,000
Current portion of long-term debt	45,735	41,367
Current portion of capital lease obligations	98,712	106,206
Current portion of sublease obligations,net	11,326	13,142
Total current liabilities	654,502	2,038,364
Long-term debt	107,633	-
Capital lease obligations	102,755	148,787
Sublease obligation	49,963	59,407
Deferred rent	78,910	44,789
Mandatorily convertible notes	514,400	4,027,461
Shareholders' equity:		
Common stock, 30,000,000 shares authorized, 15,538,952 and 13,650,405 shares issued and outstanding as of January 31, 1998 and July 31,1997, respectively	40,689,312	32,344,793
Deferred compensation	(110,770)	(161,950)
Accumulated deficit	(19,717,828)	(17,156,935)
Total shareholders' equity	20,860,714	15,025,908
Total liabilities and shareholders' equity	$22,368,877	$21,344,716

Note: The balance sheet at July 31, 1997 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

See accompanying notes

Statements of Operations
(Unaudited)

	Three Months Ended January 31		Six Months Ended January 31,	
	1998	1997	1998	1997
Net sales	$ 916,045	$ 587,665	$1,687,461	$954,796
Cost of sales	207,698	134,741	375,642	239,862
Gross profit	708,347	452,924	1,311,819	714,934
Operating expenses:				
Sales and marketing	321,137	257,182	677,833	419.638
General and administrative	791,136	699,423	1,492,876	1,320,934
Clinical testing and regulatory	552,476	561,299	1,009,378	900,433
Research and development	197,659	270,688	450,632	486,090
Depreciation and amortization	310,707	290,154	611,138	478,040
Total operating expenses	2,173,115	2,078,746	4,241,857	3,605,135
Loss from operations	(1,464,768)	(1,625,822)	(2,930,038)	(2,890,201)
Research grant income	47,471	32,090	72,508	79,490
Interest and other income, net	287,736	100,217	522,327	384,713
Amortization of discount and costs on mandatorily convertible notes	(39,001)	(674,184)	(225,690)	(1,350,699)
Net loss	$(1,168,562)	(2,167,699)	$(2,560,893)	(3,776,697)
Net loss per share:				
Basic and Diluted	$ (0.08)	$ (0.19)	$ (0.17)	$ (0.33)
Weighted average shares outstanding:				
Basic and Diluted	15,412,010	11,613,748	14,718,360	11,613,748

See accompanying notes.

Cypros Pharmaceutical Corporation
Statements of Cash Flows
(Unaudited)

	Six Months Ended January 31,	
	1998	1997
Operating activities		
Net loss	$(2,560,893)	$(3,776,697)
Adjustments to reconcile net loss to net cash used in operating activities:		
Amortization of deferred compensation	175,062	174,854
Depreciation and amortization	613,919	478,040
Amortization of discount and costs on mandatorily convertible notes	225,690	1,350,699
Deferred rent	34,121	7,758
Changes in operating assets and liabilities, net of effects from acquisitions:		
Accounts receivable	(73,803)	(130,477)
Inventories	(34,991)	31,406
Prepaid expenses and other current	(38,356)	(112,061)
Accounts payable	(23,640)	197,969
Accrued liabilities	(155,280)	100,671
Net cash flows used in operating activities	(1,838,171)	(1,677,838)
Investing activities		
Payment for business acquisition	-	(2,286,642)
Short-term investments	(552,879)	27,367
Installment payment for purchased		

technology	(1,200,000)	-
Purchase of property, equipment and leasehold improvements	(470,545)	(59,269)
(Decrease)/increase in licenses and patents	(46,809)	2,266
Increase in other assets	(221,111)	(40,209)
Net cash flows used in investing activities	(2,491,344)	(2,356,487)
Financing activities		
Decrease in sublease obligation, net	(11,260)	(7,642)
Proceeds from exercise of B Warrants	4,707,576	-
Issuance of long-term debt	112,001	(49,641)
Repayments of capital lease obligations	(53,526)	(43,137)
Net cash flows provided by (used in) by financing activities	4,754,791	(100,420)
Increase/decrease in cash and cash equivalents	425,276	(4,134,745)
Cash and cash equivalents at beginning of period	5,101,710	8,306,752
Cash and cash equivalents at end of period	$ 5,526,986	$ 4,172,007
Supplemental disclosures of cash flow information:		
Cash paid for interest	$ 113,569	$ 26,932
Noncash investing and financing activities:		
Equipment financed under capital leases	$ -	$ 79,992
Issuance of purchased asset obligation in business acquisitions	$ -	$ 1,200,000
Notes converted to common stock	$ 3,513,061	$ -

See accompanying notes.

CYPROS PHARMACEUTICAL CORPORATION

NOTES TO FINANCIAL STATEMENTS

1. Organization and Summary of Significant Accounting Policies

Organization and Business Activity

Cypros Pharmaceutical Corporation (the "Company") is engaged in the development and marketing of acute-care, hospital-based products. The Company is currently marketing three products, Ethamolin, Glofil and Inulin, and developing two drugs, CPC-111 and Ceresine. The Company's pre-clinical and clinical development programs focus on cytoprotective drugs designed to reduce ischemia (low blood flow) induced tissue damage in acute-care settings. The Company expects to be in late-phase clinical trials with CPC-111 and Ceresine in 1998.

Basis of Presentation

The unaudited financial statements for the three and six months ended January 31, 1998 and 1997 have been prepared on the same basis as the Company's audited financial statements for the year ended July 31, 1997 and reflect all adjustments (consisting only of normal recurring accruals) which are, in the opinion of management, necessary for the fair presentation of the results of the interim periods presented. Results for the interim periods are not necessarily indicative of the results for the entire year.

For more complete financial information, these financial statements should be read in conjunction with the audited financial statements and the related notes thereto for the year ended July 31, 1997 included in the Company's Annual Report on Form 10-K.

The Company has experienced significant quarterly fluctuations in operating results and increases in expenses and losses since inception and it expects these fluctuations, expenses and losses will continue.

Inventory

Inventory is stated at the lower of cost (first-in, first-out method) or market and is comprised of raw materials of $3,856 and finished goods of $124,312.

Revenue Recognition

Revenues from product sales of whole vials of Glofil and Inulin are recognized upon shipment. Revenues from Glofil unit sales are recognized upon receipt by the Company of monthly sales reports from Syncor, the exclusive marketing agent for Glofil in this form.

Sales are reported when products are shipped. These sales are subsequently adjusted for discounts and allowances due to contractual discounts on certain pharmaceuticals under contracts with hospitals and hospital buying groups. At January 31, 1998, such discounts and allowances totaled $55,921.

The Company's policy is not to accept returns of product sold. Certain contracts with wholesale drug distributors provide for product returns if the product is within a certain number of months of expiration. To date, the Company has experienced few returns.

Net Loss Per Share Data

In the second quarter of fiscal years ended January 31, 1998 and 1997, the Company adopted the provisions of Financial Accounting Standards Board Statement No. 128, "Earnings Per Share". This statement redefines the standards for computing and presenting earnings per share, previously promulgated by Accounting Principles Board Opinion No. 15, "Earnings Per Share". Under Statement 128, basic loss per share is based on net loss for the relevant period, divided by the weighted average number of common shares outstanding during the period. Diluted loss per share is based on net loss for the relevant period, divided by the weighted average number of common shares outstanding during the period. Diluted earnings per share also gives effect to all potential dilutive common shares outstanding during the period such as options, warrants, and convertible securities, and contingently issuable shares. All potential dilutive common stock equivalents have been excluded from the calculation of diluted loss per share as their inclusion would have been antidilutive.

Reclassifications

Certain previously reported amounts have been reclassified to conform with the 1998 presentation.

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 disclosures made in the accompanying notes to the financial statements. Actual results could differ from those estimates.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Except for the historical information contained herein, the following discussion contains forward-looking statements that involve risks and uncertainties, including statements regarding the period of time during which the Company's existing capital resources and income from various sources will be adequate to satisfy its capital requirements. The Company's actual results could differ materially from those discussed herein. Factors that could cause or contribute to such differences include but are not limited to, those discussed in this section, as well as in the sections entitled "Business", "Licenses", "Manufacturing", "Sales and Marketing", "Competition", "Government Regulation", "Patents and Proprietary Rights" of the Company's Annual Report (Form 10-K) for the fiscal year ended July 31, 1997 and those discussed in the S-3 Registration Statement File No. 333-25661 filed with U.S. Securities and Exchange Commission, as well as those discussed in any documents incorporated by reference herein or therein.

The Company was founded in 1990, commenced its research and development activities in 1991, completed an initial public offering (the "IPO") in November 1992, commenced clinical trials in December 1994 acquired two FDA-cleared products, Glofil and Inulin, in August 1995, and acquired a third FDA-cleared product, Ethamolin, in November 1996.. The Company has sustained an accumulated deficit of $19,717,828 from inception through January 31, 1998. As the Company will not have positive net operating cash flow for the next few years and the Company's sales and marketing, research and development, clinical testing and regulatory and general and administrative expenses during these years will be substantial and increasing, the Company expects to incur increasing losses for the foreseeable future.

Results of Operations

Three Months Ended January 31, 1998 Versus Three Months Ended January 31, 1997

During the quarter ended January 31, 1998, the Company reported sales of $916,045, a 55.9% increase over the $587,665 reported in the prior-year period, principally due to the acquisition of Ethamolin, and a gross profit on sales of $708,347, a 56.4% increase over the $452,924 reported in the prior-year period. As a percent of sales, the gross margin in the current quarter was 77.3% compared to 77.1% in the prior-year period.

Total operating expenses increased only 4.5% during the quarter to $2,173,115 from $2,078,746 during the prior-year quarter. Sales and marketing expense increased by more than 24.9% principally due to the expansion of the field sales force, sales-related commissions and advertising costs. General and administrative expense increased 13.1% principally due to the acquisition of the Dimac drug delivery technology during November, the hiring of a project manager to establish and scale-up the manufacturing for the Dimac products and consulting and other expenses related to the manufacturing scale-up.

During the current quarter, research grant income increased 47.9%, due to increased income from a Phase I Small Business Innovation Research Grant during the current quarter.

In addition, net interest and other income for the current quarter increased more than 187.1% to $287,736 from $100,217 during the prior-year quarter, principally because the Company had a larger investment portfolio during the current quarter (as a result of the March 1997 common stock private placement and the November 1997 exercises of the Company's Redeemable Class B Warrants) which yielded more interest income.

Amortization of discount and costs on mandatorily convertible notes (the "Notes") decreased 94.2% to $39,001 in the current quarter from $674,184 in the prior-year quarter principally as a result of the fact that the amortization of discounts on the Notes was allocated over the lock-up periods for the Noteholders which began on the date of closing of the transactions in April and July 1996 and ended on the first possible conversion dates which ranged from January 1997 to July 1997. Thus, all of the amortization of the discount was recognized by the end of fiscal 1997, and the current quarter's amortization relates completely to deferred financing costs.

The financing costs of the Notes are amortized as Notes are converted in proportion to the percentage of outstanding Notes converted, but no less than on a straight-line basis over the three-year maturity of the Notes. At the end of the current quarter only $33,437 of these costs remained to be amortized. The decline in this amortization expense is the principal reason for the decreased net loss for the quarter of $1,168,562 (or $.08 per share), compared to a loss of $2,167,699 (or $.19 per share) for the prior-year quarter.

During the current quarter, $600,000 in principal amount of the Notes was exercised into 161,805 shares of Common Stock and $514,400 in principal amount remained outstanding as of January 31, 1998.

Six Months Ended January 31, 1998 Versus Six Months Ended January 31, 1997

During the six months ended January 31, 1998, the Company reported sales of $1,687,461, a 76.7% increase over the $954,796 reported in the prior-year period, principally due to the acquisition of Ethamolin, and a gross profit on sales of $1,311,819, an 83.5% increase over the $714,934 reported in the prior-year period. As a percent of sales, the gross margin in the current period was 77.7% compared to 74.9% in the prior-year period.

During the six months ended January 31, 1998, the Company sustained a loss of $2,560,893 (or $.17 per share), compared to a loss of $3,776,697 (or $.33 per share) for the prior-year period, as operating expenses increased overall. Total operating expenses increased 17.7% during the current period to $4,241,857 from $3,605,135 during the prior-year period. Sales and marketing expense accounted for 40.6% of the increase in total operating expenses, as it increased 61.5% to $677,833 from $419,638 for the reasons set forth in the three-month analysis above. General and administrative expense accounted for 27.0% of the increase in total operating expenses, as it increased 13.0% to $1,492,876 from $1,320,934 for the reasons set forth in the three-month analysis above. Clinical testing and regulatory expense increased by more than 12.1% to $1,009,378 form $900,433, principally due to increased payroll and related benefits. Depreciation and amortization expense increased more than 27.8% to $611,138 from $478,040, principally due to increased amortization of purchased technology related to the acquisition of Ethamolin. The current period expense reflects six months of such amortization, while the prior period only reflects three months of such expense, since the acquisition occurred halfway through that period in November 1996.

In addition, net interest and other income for the current period increased more than 35.8% to $522,327 from $384,713 during the prior-year period for the reasons set forth in the three-month analysis.

Amortization of discount and costs on mandatorily convertible notes (the "Notes") decreased 83.3% to $225,690 in the current period from $1,350,699 in the prior-year period for the same reason discussed above in the three-month analysis. The decline in this expense is the principal reason for the decreased net loss for the quarter of $2,560,893 (or $.17 per share), compared to a loss of $3,776,697 (or $.33 per share) for the prior-year period.

Liquidity and Capital Resources

The Company has principally funded its activities to date through various issuances of equity securities, which have raised total net proceeds of $30.3 million, as well as product sales.

At January 31, 1998, the Company had cash, cash equivalents and short-term investments of $15,544,426 compared to $14,567,271, at July 31, 1997. At January 31, 1998, working capital was $15,561,714, compared to $13,052,547 at July 31, 1997. The increase in both balance sheet items was principally due to the receipt of the proceeds from the exercise of the Redeemable Class B Warrants.

The Company expects that its cash needs will increase significantly in future periods due to expansion of research and development programs, increased clinical testing activity, growth of administrative, clinical and laboratory staff and expansion of facilities to accommodate increased numbers of employees. The Company's management believes that the Company's working capital will be sufficient to fund the operations of the Company for more than two years dependent, in part, on the timing of the commencement of each phase of the clinical trials on CPC-111 and Ceresine and the funding priorities that it gives its various research programs, the results of clinical tests and research programs; competing technological and market developments; the time and costs involved in obtaining regulatory approvals and in obtaining, maintaining and enforcing patents; the cost of product acquisitions and their resulting cash flows and other factors.

The Company is funding a significant portion of its operating expenses through cash flow from product sales, but expects to seek additional funds through exercises of its currently outstanding options and warrants, public or private equity financings, collaborations or from other sources. There can be no assurance that additional funds can be obtained on desirable terms or at all. The Company may seek to raise additional capital whenever conditions in the financial markets are favorable, even if the Company does not have an immediate need for additional cash at that time.

Part II.

Item 4. Submission of Matters to a Vote of Security Holders

The Company held its annual meeting of shareholders on February 10, 1998. The following matters received the votes for, votes against, abstentions and broker non-votes set forth across from them at the meeting:

	Votes For	Votes Against	Abstentio	Broker Non-Votes
(1) Election of Directors to hold office until 1999 Annual Meeting of Shareholders				
Paul Marangos	12,859,502	181,594	0	0
Robert F. Allnutt	12,867,902	173,194	0	0
Digby Barrios	12,849,302	191,794	0	0
Virgil Thompson	12,856,902	183,194	0	0
Robert A. Vukovich	12,838,802	201,244	0	0
(2) Amendment of the Company's 1992 Stock Option Plan (the "Plan") to increase the aggregate number of shares of the Company's Common Stock authorized for issuance under the Plan from 2,266,288 to 2,766,288	12,368,263	494,602	65,791	112,440
(3) Ratification of the selection of Ernst & Young LLP as the Company's independent auditors for the fiscal year ending July 31, 1999	12,842,612	168,859	29,625	0

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits.

No exhibits are included in this report.

(b) Reports on Form 8-K.

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, in the City of Carlsbad, County of San Diego, State of California, on the 6th day of March, 1998.

CYPROS PHARMACEUTICAL CORPORATION

By /s/ Paul J. Marangos
- ------------------------
Paul J. Marangos
Chairman of the Board,
President and Chief Executive Officer

/s/ David W. Nassif
- ------------------------
David W. Nassif
Senior Vice President, Chief Financial Officer
and Secretary
(Principal Financial and Accounting Officer)

[ARTICLE] 5

[PERIOD-TYPE]	6-MOS	
[FISCAL-YEAR-END]		JUL-31-1998
[PERIOD-END]		JAN-31-1998
[CASH]		5,526,986
[SECURITIES]		10,018,440
[RECEIVABLES]		429,228
[ALLOWANCES]		0
[INVENTORY]		128,168
[CURRENT-ASSETS]		113,394
[PP&E]		8,331,682
[DEPRECIATION]		(2,529,094)
[TOTAL-ASSETS]		22,368,877
[CURRENT-LIABILITIES]		654,502
[BONDS]		853,661
[PREFERRED-MANDATORY]		0
[PREFERRED]		0
[COMMON]		40,689,312
[OTHER-SE]		(19,717,828)
[TOTAL-LIABILITY-AND-EQUITY]		22,368,877
[SALES]		1,311,819
[TOTAL-REVENUES]		1,311,819
[CGS]		4,241,857
[TOTAL-COSTS]		4,241,857
[OTHER-EXPENSES]		(413,389)
[LOSS-PROVISION]		0
[INTEREST-EXPENSE]		44,244
[INCOME-PRETAX]		(2,560,893)
[INCOME-TAX]		0
[INCOME-CONTINUING]		(2,560,893)
[DISCONTINUED]		0
[EXTRAORDINARY]		0
[CHANGES]		0
[NET-INCOME]		(2,560,893)
[EPS-PRIMARY]		(0.17)
[EPS-DILUTED]		(0.17)