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 October 31, 1996
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:(619) 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 December 9, 1996, the Registrant had 11,613,748 shares of Common Stock, no par value, outstanding.

TABLE OF CONTENTS

* No information provided due to inapplicability of item.

PART I.

Item 1. Financial Statements

Cypros Pharmaceutical Corporation

Balance Sheets

Assets	October 31, 1996 (Unaudited)	July 31, 1996 (Note)
Current assets:		
Cash and cash equivalents	$ 5,680,741	$ 8,306,752
Short-term investments	9,264,383	7,690,297
Accounts receivable	179,855	149,626
Inventory	65,717	63,386
Prepaid expenses	24,611	61,409
Total current assets	15,215,307	16,271,470
Property, equipment and leasehold improvements, net	631,589	608,206
Purchased technology, net	2,519,868	2,629,427
Licenses and patents, net	118,518	111,231
Deposits and other assets, net	119,159	126,180
Total assets	$ 18,604,441	$ 19,746,514
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable	$ 113,599	$ 119,092
Other accrued liabilities	266,009	387,612
Purchased asset obligation	-	200,000
Current portion of capital lease obligations	101,839	81,035
Current portion of long-term debt	99,282	99,282
Total current liabilities	580,729	887,021
Capital lease obligations		

	227,205	187,265
Long-term debt	16,547	41,367
Deferred rent	122,464	120,411
Shareholders' equity:		
Common stock, 30,000,000 shares authorized, 11,613,748 shares issued and outstanding as of October 31, 1996 and July 31, 1996	21,871,343	21,838,493
Mandatorily convertible notes	7,463,756	7,458,498
Deferred compensation	(262,887)	(304,309)
Accumulated deficit	(11,414,716)	(10,482,232)
Total shareholders' equity	17,657,496	18,510,450
Total liabilities and shareholders' equity	$ 18,604,441	$ 19,746,514

Note: The balance sheet at July 31, 1996 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.

Cypros Pharmaceutical Corporation

Statements of Operations
(Unaudited)

	Three Months Ended October 31, 1996	1995
Net sales	$ 367,131	$ 224,728
Cost of sales	105,122	53,725
Gross profit	262,009	171,003
Operating expenses:		
Sales and marketing	162,456	37,622
General and administrative	756,962	503,844
Clinical testing and regulatory	376,325	330,434
Research and development	230,646	202,658
Total operating expenses	1,526,389	1,074,558
Loss from operations	(1,264,380)	(903,555)
Research grant income	47,400	74,492
Interest income, net	284,496	188,583

Net loss	$ (932,484)	$ (640,480)
Net loss per share	$ (0.08)	$ (0.06)
Shares used in computing net loss per share	11,613,748	11,364,881

See accompanying notes.

Cypros Pharmaceutical Corporation

Statements of Cash Flows
(Unaudited)

	Three Months Ended October 31, 1996	1995
Operating activities		
Net loss	$ (932,484)	$ (640,480)
Adjustments to reconcile net loss to net cash used in operating activities:		
Amortization of deferred compensation	74,272	55,736
Compensation expense related to warrant issuances	-	74,082
Depreciation and amortization	187,886	147,445
Deferred rent expense	2,053	(3,889)
Changes in operating assets and liabilities:		
Accounts receivable	(30,229)	(123,910)
Inventory	(2,331)	(79,476)
Prepaid expenses	36,798	79,671
Accounts payable	(5,493)	41,808
Other accrued liabilities	(116,345)	(11,527)
Net cash flows used in operating activities	(785,873)	(460,540)
Investing activities		
Payment for purchase of acquired business	(200,000)	(1,635,356)
Short-term investments	(1,574,086)	876,027
Purchase of property, equipment and leasehold improvements	(12,513)	(50,366)
Increase in licenses and patents	(14,172)	(6,123)
(Increase)/decrease in deposits and other assets	4,701	(56,076)
Net cash flows used in investing activities	(1,796,070)	(871,894)

Financing activities		
Issuance of common stock, net	-	943,831
Repurchase and retirement of common stock	-	(1,540,000)
Repayments of long-term debt	(24,820)	(24,821)
Principal payments under capital lease obligations	(19,248)	(7,039)
Net cash flows used in financing activities	(44,068)	(628,029)
Decrease in cash and cash equivalents	(2,626,011)	(1,960,463)
Cash and cash equivalents at beginning of period	8,306,752	5,026,745
Cash and cash equivalents at end of period	$ 5,680,741	$ 3,066,282
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 12,723	$ 9,560
Non-cash investing and financing activities:		
Equipment financed under capital leases	$ 79,992	$ 26,553
Purchased asset obligation	$ -	$ 400,000
Common stock issued for business acquisitions	$ -	$ 1,032,309

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. Through July 31, 1995, the Company was considered to be in the development stage. In connection with the acquisitions of Glofil and Inulin, two injectable renal diagnostic products, on August 9, 1995, the Company commenced product sales and became an operating company.

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's two clinical programs are currently in six Phase II trials, which include four for CPC-111 (acute complications of angioplasty, coronary artery bypass grafting surgery, congestive heart failure and sickle cell anemia crises), and two for CPC-211 (stroke and head injury).

Basis of Presentation

The unaudited financial statements for the three months ended

October 31, 1996 and 1995 have been prepared on the same basis as the Company's audited financial statements for the year ended July 31, 1996 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, 1996 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 $24,663 and finished goods of $41,054.

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. The Company is not obligated to accept returns of products sold that have reached their expiration date.

Net Loss Per Share

Net loss per share is computed using the weighted average number of common shares outstanding during the periods.

Reclassifications

Certain previously reported amounts have been reclassified to conform with the 1996 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.

2. Subsequent Event

On November 4, 1996, the Company acquired the New Drug Application, the 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 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, 1996 and those discussed in the S-3 Registration Statement File No. 333-3507 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 and acquired two FDA-cleared products, Glofil and Inulin, in August 1995. The Company has sustained an accumulated deficit of $11,414,716 from inception through October 31, 1996. As the Company will not have significant 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

During the fiscal quarter ended October 31, 1996, the Company sustained a loss of $932,484 (or $.08 per share) compared to a loss of $640,480 (or $.06 per share) for the prior-year quarter. Sales for the current quarter were $367,131, a 63% increase over the $224,728 in sales reported in the prior-year quarter. Sales and marketing expense increased by 332% to $162,456 in the current quarter due to increased payroll expense related to additional field sales representatives, their travel and related expense and increased promotional expense.

General and administrative expense increased by 50% to $756,962 in the current quarter. While increases were recorded in payroll, rent (related to leasing the Company's new executive offices), investor relations, business development and travel related to investor relations and business development, a one-time payment of $100,000 to a financial advisor accounted for nearly 40% of the increase.

During the current quarter, research grant income decreased by 36% to $47,400, as a result of the Phase II SBIR Grant for the Company's NCCB program coming to an end.

In addition, net interest and other income for the current quarter increased by 51% to $284,496 during the prior-year quarter due principally to the interest income from a larger investment portfolio.

Liquidity and Capital Resources

The Company has principally funded its activities to date through its initial public offering ("IPO") in November 1992, in which it raised net proceeds of $5,951,000, subsequent exercises of its Redeemable Class A Warrants in 1994 and early 1995, which raised $10,497,000, exercises by the underwriter of the IPO of its unit purchase options (and the Redeemable Class A Warrants within such options), which raised $1,681,000, that it had received as part of its compensation for the IPO, and two private placements of mandatorily convertible notes during July 1996, which raised $7,000,000. through the issuance of 1,150,000 units, each comprising a share of Common Stock, a Redeemable Class A Warrant ("Class A Warrant") and a Redeemable Class B Warrant ("Class B Warrant"). In October 1993, the Company received proceeds of $725,625 from the exercise of "bridge" warrants for 537,500 shares of Common Stock (the "Bridge Warrant Exercise") which had been issued in connection with a bridge loan to the Company prior to the IPO.

From December 1993 to March 1994, the Company conducted a special program designed to encourage holders of Class A Warrants to exercise their warrants immediately (the "Class A Warrant Program") in order to provide the Company with additional working capital prior to commencing clinical testing. The holders of the Class A Warrants were offered one-half of a Class B Warrant and 1.175 shares of Common Stock upon exercise of each Class A Warrant at an adjusted price of $9.253 (equal to 117.5% of the original exercise price of $7.875). This program resulted in the Company's receipt of net proceeds of $2,355,123 from the

exercise of 258,831 Class A Warrants and the Company's issuance of 304,123 shares of Common Stock and 129,414 Class B Warrants.

At October 31, 19964, the Company had cash, cash equivalents and short-term investments of $14,945,124, compared to $15,997,049, compared to $4,444,259 at July 31, 19936. Bridge Warrant Exercise and the At October 31, 1996, working capital was $14,634,578, compared to $15,384,449, compared to $4,311,350 at July 31, 19963.

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 CPC-211 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 6. Exhibits and Reports on Form 8-K.

(a) Exhibits.

No exhibits are included in this report.

(b) Reports on Form 8-K.

A report on Form 8-K was filed by the Company on November 18, 1996.

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 12th day of December, 1996.

CYPROS PHARMACEUTICAL CORPORATION
(Signature)
Paul J. Marangos
Chairman of the Board,
President and Chief Executive Officer

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