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 April 30, 1997
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 or 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 June 12, 1997, the Registrant had 13,484,691 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

Assets	April 30, 1997 (Unaudited	July 31, 1996 (Note)
Current assets:		
Cash and cash equivalents	$3,013,404	8,306,752
Short-term investments	12,520,893	7,690,297
Accounts receivable	425,831	149,626
Inventory	98,251	63,386
Prepaid expenses	124,253	61,409
Total current assets	16,182,632	16,271,470
Property, equipment and leasehold improvements, net	656,619	608,206
Purchased technology, net	5,285,222	2,629,427
Licenses and patents, net	159,825	111,231
Deposits and other assets, net	127,160	126,180
Total assets	$22,411,458	$19,746,514
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable	$ 289,718	119,092
Other accrued liabilities	451,033	387,612
Purchased asset obligation	1,248,000	200,000
Current portion of capital lease obligations	107,113	81,035
Current portion of long-term debt	66,188	99,282
Total current liabilities	2,162,052	887,021
Capital lease obligations	173,368	187,265
Deferred rent	130,407	120,411
Long-term debt	-	41,367
Shareholders' equity:		
Common stock, 30,000,000 shares authorized, 13,460,097 and 11,613,748 shares issued and outstanding as of April 30, 1997 and July 31, 1996, respectively	29,758,707	21,838,493
Mandatorily convertible notes	4,398,173	7,458,498
Deferred compensation	(154,352)	(304,309)
Accumulated deficit	(14,056,897)	(10,482,232)
Total shareholders' equity	19,945,631	18,510,450
Total liabilities and shareholders' equity	$ 2,411,458	$ 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 April 30		Nine Months Ended April 30,	
	1997	1996	1997	1996
Net sales	$ 717,658	$324,859	$1,672,454	$ 903,577
Cost of sales	148,154	98,883	388,016	293,952
Gross profit	569,504	225,976	1,284,438	609,625
Operating expenses:				
Sales and marketing	287,212	95,473	706,850	209,805
General and administrative	599,111	452,192	1,920,045	1,225,196
Clinical testing and regulatory	441,767	298,521	1,342,200	1,010,295
Research and development	234,578	273,254	720,668	688,183
Depreciation and amortization	293,989	152,368	772,029	448,160
Total operating espenses	1,856,657	1,271,808	5,461,792	3,581,639
Loss from operations	(1,287,153)	(1,045,832)	(4,177,354)	(2,972,014)
Research grant income	-	83,074	79,490	249,000
Interest and other income, net	138,486	175,339	523,199	554,655
Net loss	$(1,148,667)	$(787,419)	$(3,574,665)	$(2,168,359)
Net loss per share	$ (0.09)	$ (0.07)	$ (0.30)	$ (0.19)
Shares used in computing net loss per share	12,431,095	11,604,373	11,880,209	11,457,199

See accompanying notes.

Cypros Pharmaceutical Corporation

Statements of Cash Flows (Unaudited)

	Nine Months Ended April 30,	
	1997	1996
Operating activities		
Net loss	$(3,574,665)	$(2,168,359)
Adjustments to reconcile net loss to net cash used in operating activities:		
Amortization of deferred compensation	283,519	208,296
Compensation expense related to warrant issuances	-	74,082
Depreciation and amortization	772,029	448,160

Deferred rent expense	9,996	20,451
Changes in operating assets and liabilities, net of effects from acquisitions:		
Accounts receivable	(276,205)	(206,855)
Inventory	37,729	(27,030)
Prepaid expenses	(62,844)	(71,530)
Accounts payable	170,626	131,203
Other current liabilities	116,679	91,033
Net cash flows used in operating activities	(2,523,136)	(1,500,549)
Investing activities		
Payment for purchase of acquired businesses	(2,286,642)	(1,835,356)
Short-term investments	(4,830,596)	2,741,435
Note receivable	-	(200,000)
Purchase of property, equipment and leasehold improvements	(152,298)	(169,877)
Increase in licenses and patents	(71,533)	(27,182)
(Increase)/decrease in deposits and other assets	(7,940)	38,442
Net cash flows from/(used in) investing activities	(7,349,009)	547,462
Financing activities		
Issuance of common stock, net	4,721,069	902,036
Issuance of mandatorily convertible notes	-	939,825
Repurchase and retirement of common stock	-	(1,540,000)
Repayments of long-term debt	(74,461)	(74,462)
Principal payments under capital lease obligations	(67,811)	(25,390)
Net cash flows from financing activities	4,578,797	202,009
Decrease in cash and cash equivalents	(5,293,348)	(751,078)
Cash and cash equivalents at beginning of period	8,306,752	5,026,745
Cash and cash equivalents at end of period	$3,013,404	$4,275,667
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 40,362	$ 34,261
Non-cash investing and financing activities:		
Issuance of common stock in business acquisition	$ -	$ 1,032,309
Issuance of purchased asset obligation in business acquisitions	$ 1,200,000	200,000
Equipment financed under capital leases	$ 79,992	76,553

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. It is currently marketing three products, Glofil, Inulin and Ethamolin and developing two drugs, CPC-111 and Ceresine (formerly CPC-211), which are in various Phase II clinical trials for cardiovascular and neurological disorders. The Company's clinical and pre-clinical development programs focus on cytoprotective drugs designed to reduce ischemia (low blood flow) induced tissue damage in acute-care settings.

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 accounted for using the purchase method. 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 (the "Schwarz Note") bearing interest at 8% per annum at closing. The principal and accrued interest on the Schwarz Note are due and payable on November 3, 1997. Repayment of the principal and interest on the Schwarz Note is secured by the Ethamolin Assets. The Company used its working capital to make the cash payment at closing.

Basis of Presentation

The unaudited financial statements for the three and nine months ended April 30, 1997 and 1996 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/A.

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 $5,818 and finished goods of $92,433.

Revenue Recognition

Revenues from product sales of Ethamolin and 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 net of returns during the period in which product is shipped. These sales are subsequently adjusted for discounts on certain pharmaceuticals under contracts with hospitals and hospital buying groups. For the nine months ended April 30, 1997, such discounts totalled $34,923.

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 1997 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 10K/A) for the fiscal year ended July 31, 1996 and those discussed in the S-3 Registration Statement (File No. 333-17501) 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 and a third FDA-cleared product, Ethamolin, in November 1996. The Company has sustained an accumulated deficit of $14,056,897 from inception through April 30, 1997. 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

Three Months Ended April 30, 1997 Versus Three Months Ended April 30, 1996

During the quarter ended April 30, 1997, the Company reported sales of $717,658, a 121% increase over the $324,859 reported in the prior-year period, and a gross profit on sales of $569,504, a 152% increase over the $225,976 reported in the prior-year period, both increases resulting principally from the acquisition of Ethamolin. For this same reason, the gross margin in the current quarter as a percent of sales was 79% compared to 70% in
the prior-year period.

For the quarter, the Company sustained a loss of $1,148,667 (or $.09 per share), compared to a loss of $787,419 (or $.07 per share) for the prior-year quarter, as expenses increased in all operating areas, except research and development. Sales and marketing expense increased by more than 200%, principally due to the tripling of the field sales force and the hiring of a product manager during the second quarter, increased travel expense by sales and marketing personnel and increased promotional expense. General and administrative expense increased more than 32%, principally due to the continuation of the substantial investor relations program begun during the second quarter and the increased insurance premiums from the product liability insurance coverage obtained during the second quarter. Clinical testing and regulatory expense increased more than 47%, principally due to increased enrollment at the various sites for the Phase II trials of CPC-111 and Ceresine and increased usage of consultants to perform clinical monitoring, data base management and statistical analysis functions. Depreciation and amortization expense increased by $141,621, or nearly 93%, $114,788 of which was due to the

amortization of the purchased technology related to the acquisition of Ethamolin during the current quarter.

During the current quarter, research grant income decreased 100% due to the prior-year quarter receiving income from a Phase II SBIR grant that was completed in September 1996. The research and development expense for the quarter includes expenses incurred in connection with the grant.

In addition, net interest and other income for the current quarter declined more than 21% principally due to interest income received in the prior-year quarter from fees and interest on a loan that the Company made during that quarter which was subsequently repaid, coupled with interest expense during the current quarter accruing on the Schwarz Note.

Nine Months Ended April 30, 1997 Versus Nine Months Ended April 30, 1996

During the nine months ended April 30, 1997, the Company reported sales of $1,672,454, an 85% increase over the $903,577 reported in the prior-year period, principally due to the acquisition of Ethamolin. Gross profit on sales was $1,284,438, a 111% increase over the $609,625 reported in the prior-year period, principally due to the acquisition of Ethamolin and because the gross profit in the prior-year period was adversely affected by the recall of a lot of Inulin. As a percent of sales, the gross margin in the current period was 77% compared to 67% in the prior-year period. Without the effect of the recall of the Inulin lot, the gross margin for the prior-year period would have been 72%.

During the nine months ended April 30, 1997, the Company sustained a loss of $3,574,665 (or $.30 per share), compared to a loss of $2,168,359 (or $.19 per share) for the prior-year period, as expenses increased in all operating areas. Sales and marketing expense increased more than 237% for the reasons set forth in the three-month analysis above, plus executive search fees related to the hiring of the previously-mentioned sales and marketing personnel. General and administrative expense increased 57% for the reasons set forth in the three-month analysis above, in addition to a one-time payment of $100,000 to a financial advisor in September 1996, the payment of 1996 and 1997 annual product user fees to the Food and Drug Administration for Glofil and Inulin and increased rent (related to leasing the Company's new executive offices). Clinical testing and regulatory expense increased by nearly 33% for the reasons set forth in the three month analysis above. Depreciation and amortization expense increased by $323,869, or more than 72%, $229,575 of which was due to the amortization of the purchased technology related to the acquisition of Ethamolin during the current nine-month period.

During the current nine-month period, research grant income declined more than 68% for the reason set forth in the three month analysis above. The research and development expense for the current nine-month period includes expenses incurred in connection with the SBIR grants.

Liquidity and Capital Resources

The Company has principally funded its activities to date through its initial public offering ("IPO") in November 1992, which raised net proceeds of $5,951,000, subsequent exercises of its Redeemable Class A Warrants in 1994 and early 1995, which raised net proceeds of $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 net proceeds of $1,681,000, three private placements of mandatorily convertible notes during April and July 1996, which raised net proceeds of $7,464,000 (the "Notes") and a private placement of Common Stock to the President and Fellows of Harvard College and another institutional investor during March 1997, which raised net proceeds of $4,714,000.

During the current quarter, $3,326,938 in principal amount of the Notes was converted into 769,849 shares of Common Stock, no par value, of the Company.

At April 30, 1997, the Company had cash, cash equivalents and short-term investments of $15,534,297 compared to $15,997,049 at July 31, 1996. At April 30, 1997, working capital was $14,020,580, compared to $15,384,449 at July 31, 1996.

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.

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 June, 1997.

CYPROS PHARMACEUTICAL CORPORATION

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

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

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APR-30-1997	
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