

U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549
FORM 10-QSB

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 or 15 (d) OF THE SECURITIES EXCHANGE ACT
OF 1934

For the quarterly period ended March 31, 1997

TRANSITION REPORT UNDER SECTION 13 OR 15 (d) OF THE EXCHANGE ACT

For the transition period from _____ to _____

Commission file number 0-26918

CYTOCLONAL PHARMACEUTICS INC.

(Exact Name of Small Business Issuer as Specified in Its Charter)

Delaware

75-2402409

(State or Other jurisdiction of
incorporation or Organization)

(I.R.S. Employer
Identification Number)

9000 Harry Hines Boulevard, Suite 330, Dallas, Texas 75235

(Address of Principal Executive Offices)

(214)-353-2922

(Issuer's Telephone Number, Including Area Code)

(Former Name, Former Address and Former Fiscal Year,
if changed since last report)

Check whether the issuer: (1) filed all reports required to be filed by
Section 13 or 15(d) of the Exchange Act during the past 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.

Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes
of common equity, as of the latest practicable date: 8,211,944 shares of common
stock, \$.01 par value, outstanding as of May 8, 1996.

Transitional Small Business Disclosure Format (check one):

Yes No

CYTOCLONAL PHARMACEUTICS INC.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CYTOCLONAL PHARMACEUTICS INC.
(a development stage company)

BALANCE SHEETS

<TABLE>
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	December 31, 1996	March 31, 1997
		(unaudited)
	<C>	<C>
ASSETS		
Current assets:		
Cash	\$2,858,000	\$2,657,000
Prepaid expenses and other current assets		35,000
		38,000
Total current assets	2,893,000	2,695,000
Equipment, net	104,000	123,000
Patent rights, less accumulated amortization of \$386,000 and \$405,000	864,000	845,000
Investment in joint venture - at equity		16,000
		10,000
Other assets	4,000	4,000
TOTAL	\$3,881,000	\$3,677,000

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LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities:

Accounts payable and accrued expenses	319,000	341,000
Current portion of royalties payable	31,000	62,000
	-----	-----
Total current liabilities	350,000	403,000
	-----	-----
Royalties payable less current portion	1,219,000	1,188,000
	-----	-----
Total liabilities	1,569,000	1,591,000
	-----	-----

Stockholders' equity:

Preferred stock - \$.01 par value, 10,000,000 shares authorized; 1,228,629 and 1,242,776 shares of Series A convertible preferred issued and outstanding at December 31, 1996 and March 31, 1997, respectively (liquidation value \$3,072,000 and \$3,107,000 at December 31, 1996 and March 31, 1997, respectively)	12,000	12,000
Common Stock - \$.01 par value, 30,000,000 shares authorized: 7,730,546 and 8,139,187 shares issued and outstanding at December 31, 1996 and March 31, 1997, respectively	78,000	81,000
Additional paid-in capital	14,074,000	14,583,000
Deficit accumulated during the development stage	(11,852,000)	(12,590,000)
	-----	-----
Total Stockholders' Equity	2,312,000	2,086,000
	-----	-----
TOTAL	\$3,881,000	\$3,677,000
	=====	=====

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CYTOCLONAL PHARMACEUTICS INC.
(a development stage company)

STATEMENTS OF OPERATIONS
(unaudited)

<TABLE>

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	Three Months Ended		September 11, 1991
	March 31,		(inception)
	1996	1997	through
	-----	-----	March 31,
	-----	-----	1997
	-----	-----	-----
<S>	<C>	<C>	<C>
Operating Expenses:			
Research and development	\$339,000	\$322,000	\$6,629,000
General and administrative	380,000	447,000	5,773,000
	-----	-----	-----
	719,000	769,000	12,402,000
	-----	-----	-----

Other (Income) expenses:

Interest (income)	(62,000)	(32,000)	(451,000)
Interest expense	--	1,000	560,000
	<u>(62,000)</u>	<u>(31,000)</u>	<u>109,000</u>
NET (LOSS)	<u>(\$657,000)</u>	<u>(\$738,000)</u>	<u>(\$12,511,000)</u>
Net loss per common share	<u>(\$0.13)</u>	<u>(\$0.10)</u>	-
Weighted average number of shares outstanding	<u>7,569,918</u>	<u>7,934,488</u>	-

</TABLE>

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CYTOCLONAL PHARMACEUTICS INC.
(a development stage company)

STATEMENTS OF CASH FLOWS
(unaudited)

<TABLE>
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	September 11, 1991		
	Three Months Ended March 31,	(Inception) through March 31,	
	1996	1997	1997
	<u>-----</u>	<u>-----</u>	<u>-----</u>
<S>	<C>	<C>	<C>
Cash flows from operating activities:			
Net (loss)	(\$ 657,000)	(\$ 738,000)	(\$12,511,000)
Adjustments to reconcile net (loss) to net cash (used in) operating activities:			
Depreciation and amortization	28,000	28,000	597,000
Amortization of debt discount	--	--	269,000
Amortization of debt costs	--	--	554,000
Value assigned to warrants and options	--	12,000	200,000
Equity in loss of joint venture	6,000	6,000	222,000
Changes in operating assets and liabilities:			
(Increase) decrease in other assets	15,000	(3,000)	(46,000)
Increase in accounts payable and accrued expenses	88,000	22,000	331,000
	<u>-----</u>	<u>-----</u>	<u>-----</u>
Net cash (used in) operating activities	(520,000)	(673,000)	(10,384,000)
Cash flows from investing activities:			
Purchase of equipment	(17,000)	(28,000)	(224,000)
Investment in joint venture	--	--	(233,000)
	<u>-----</u>	<u>-----</u>	<u>-----</u>
Net cash (used in) investing activities	(17,000)	(28,000)	(457,000)
Cash flows from financing activities:			
Net proceeds from sales of preferred and common stock	--	--	13,750,000
Proceeds from exercise of options	--	500,000	500,000

Proceeds from bridge loans, net of expenses	--	--	2,684,000
Repayment of bridge loans	--	--	(3,238,000)
Principal payments of equipment notes	--	--	(76,000)
Dividends paid	--	--	(122,000)
	-----	-----	-----
Net cash provided by financing activities	--	500,000	13,498,000
	-----	-----	-----
NET (DECREASE) IN CASH		(537,000)	(201,000)
Cash at beginning of period	5,442,000	2,858,000	--
	-----	-----	-----
CASH AT END OF PERIOD	\$ 4,905,000	\$ 2,657,000	2,657,000
	=====	=====	=====

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CYTOCLONAL PHARMACEUTICS INC.
NOTES TO FINANCIAL STATEMENTS
March 31, 1997
(unaudited)

(1) Financial Statement Presentation

The unaudited financial statements of Cytoclonal Pharmaceuticals Inc., a Delaware corporation (the "Company"), included herein have been prepared in accordance with the rules and regulations promulgated by the Securities and Exchange Commission and, in the opinion of management, reflect all adjustments (consisting only of normal recurring accruals) necessary to present fairly the results of operations for the interim periods presented. Certain information and footnote disclosures normally included in financial statements, prepared in accordance with generally accepted accounting principles, have been condensed or omitted pursuant to such rules and regulations. However, management believes that the disclosures are adequate to make the information presented not misleading. These financial statements and the notes thereto should be read in conjunction with the financial statements and the notes thereto included in the Company's Annual Report on Form 10-KSB for the fiscal year ended December 31, 1996. The results for the interim periods are not necessarily indicative of the results for the full fiscal year.

(2) Stock Option Plan

In April 1996, the Board of Directors of the Company adopted the Cytoclonal Pharmaceuticals Inc. 1996 Stock Option Plan (the "1996 Plan") subject to stockholder approval. The 1996 Plan, which was approved by a majority of stockholders on June 3, 1996, authorizes 750,000 shares of common stock to be reserved for issuance to the Company's officers, employees, consultants and advisors. As of May 12, 1997, options to acquire 365,000 shares of common stock are available for future grant and options to acquire 385,000 shares of common stock remain outstanding pursuant to the 1996 Plan. The 1996 Plan provides for the grant of incentive stock options intended to qualify as such under Section 422 of the Internal Revenue Code of 1986, as amended, and nonstatutory stock options which do not so qualify.

(3) Placement Agent Purchase Option Exercise

On February 21, 1997, the Company received aggregate proceeds of \$500,000 from the exercise of outstanding placement agent purchase options and, in connection therewith, issued 50,000 shares of its preferred stock and 250,000 shares of its common stock.

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

The following discussion should be read in conjunction with, and is qualified in its entirety by, the Financial Statements and the Notes thereto included in this report. This discussion contains certain forward-looking statements that involve substantial risks and uncertainties. When used in this report, the words "anticipate," "believe," "estimate," "expect" and similar expressions as they relate to the Company or its management are intended to identify such forward-looking statements. The Company's actual results, performance or achievements could differ materially from those expressed in, or implied by, these forward-looking statements. Historical operating results are not necessarily indicative of the trends in operating results for any further period.

Cytoclonal Pharmaceuticals Inc., a Delaware corporation (the "Company"), was duly organized and commenced operations in September 1991. The Company is in the development stage, and its efforts have been principally devoted to research and development activities and organizational efforts, including the development of products for the treatment of cancer and infectious diseases, recruiting its scientific and management personnel and advisors and raising capital.

The Company's plan of operation for the next 12 months will consist of research and development and related activities aimed at:

- o further optimizing the Paclitaxel production from the Fungal Paclitaxel Production System using alternative fermentation technologies, inducers, strain improvements and using Paclitaxel-specific genes.
 - o further development of a diagnostic test using the patented LCG gene and related MAb to test in vitro serum, tissue or respiratory aspirant material for the presence of cells which may indicate a predisposition to, or early sign of, lung or other cancers.
 - o developing a humanized antibody specific for the protein associated with the LCG gene and, if successful, submission of an IND for clinical trials.
 - o testing the TNF-PEG technology as an anti-cancer agent in animal studies.
 - o further development of proprietary vectors which have been constructed for the expression of specific proteins that may be utilizable for vaccines for different diseases.
 - o initiating animal studies of IL-P and, if successful, submission of an IND for clinical trials.
 - o continuing the funding of the research on anti-sense technology currently being conducted at the University of Texas at Dallas.
 - o making modest improvements to the Company's laboratory facilities.
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- o hiring additional research technicians and a financial vice president.
 - o seeking to establish strategic partnerships for the development, marketing, sales and manufacturing of the Company's proposed products.

The actual research and development and related activities of the Company may vary significantly from current plans depending on numerous factors, including changes in the cost of such activities from current estimates, the results of the Company's research and development programs, the results of clinical studies, the timing of regulatory submissions, technological advances, determinations as to commercial potential and the status of competitive products. The focus and direction of the Company's operations will also be

dependent upon the establishment of collaborative arrangements with other companies, the availability of financing and other factors.

For the period from January 1, 1997 to March 31, 1997, the Company incurred a net loss of \$738,000. The Company expects to incur additional losses in the foreseeable future.

The Company incurred a net loss of \$657,000 for the three months ended March 31, 1996. The increase from the previous year was attributable to increased operating expenses and decreased interest income.

The Company incurred general and administrative expenses of \$380,000 and \$447,000 for the three months ended March 1996 and March 1997, respectively. The increase from the previous year was attributable to increased technology marketing costs, consulting fees and legal and professional fees. The increase in legal and professional fees was primarily attributable to increased patent expenses.

The Company incurred research and development expenses of \$339,000 and \$322,000 for the three months ended March 1996 and March 1997, respectively. The decrease was attributable to completion of its funding obligation to Research and Development, Inc. under the collaboration agreement, partially offset by an increase in research salaries.

The Company believes that the net proceeds from its initial public offering of November 1995 and the exercise of the placement agent purchase options in February 1997 will be sufficient to finance the Company's plan of operation through the end of 1997. There can be no assurance that the Company will generate sufficient revenues to fund its operations after such period or that any required financings will be available, through bank borrowings, debt or equity offerings, or otherwise, on acceptable terms or at all.

PART II. OTHER INFORMATION

Item 2. CHANGES IN SECURITIES

In January 1997, the Company issued 122,788 shares of Series A Preferred Stock as full payment of the dividend due on the Series A Preferred Stock for the year ended December 31, 1996 to the holders of such preferred stock. Such issuance was pursuant to Section 3(a)(9) promulgated under the Securities Act of 1933, as amended, based on the fact that it involved an exchange by the issuer exclusively with its existing security-holders and no commission or other remuneration was paid or given directly or indirectly for soliciting such exchange.

In February 1997, the Company issued 250,000 shares of Common Stock and 50,000 shares of Preferred Stock upon the exercise of placement agent purchase options and in April 1997, the 250,000 shares of Common Stock were registered pursuant to the Securities Act of 1933, as amended. Such issuances were made in reliance upon an exemption from the registration provisions of the Securities Act of 1933, as amended, set forth in Section 4(2) thereof relative to sales by an issuer not involving any public offering.

Item 6. EXHIBITS AND REPORTS ON FORM 8-K

- (a) Exhibit 11 Computation of net (loss) per share
Exhibit 27 Financial Data Schedule
- (b) Reports on Form 8-K - None

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.

CYTOCLONAL PHARMACEUTICS INC.

Date: May 15, 1997

/s/ Daniel M. Shusterman

Daniel M. Shusterman
Vice President of Operations,
Treasurer and Chief Financial
Officer

CYTOCLONAL PHARMACEUTICS INC.

COMPUTATION OF NET (LOSS) PER COMMON SHARE
(unaudited)

Primary

<TABLE>
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	Three Months Ended March 31, 1996	Three Months Ended March 31, 1997
	-----	-----
<S> Net (loss)	<C> (\$657,000)	<C> (\$738,000)
Add cumulative preferred dividend		(345,000) (78,000)
NET (LOSS) USED FOR COMPUTATION	-----	----- (\$1,002,000) (\$816,000)
Weighted average number of common shares outstanding		7,569,918 7,934,488
Net (loss) per common share	-----	----- (\$0.13) (\$0.10)

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