U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

(MARK ONE)
[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2001

[ ] 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)

<Table>
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DELAWARE	75-2402409
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(I.R.S. EMPLOYER IDENTIFICATION NUMBER)

</Table>

2110 RESEARCH ROW, SUITE 621, 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 X 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: 16,174,173 SHARES OF COMMON STOCK, $.01 PAR VALUE, OUTSTANDING AS OF AUGUST 1, 2001.

CYTOCLONAL PHARMACEUTICS INC.
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CYTOCLONAL PHARMACEUTICS, INC.
BALANCE SHEET

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Cytoclonal Pharmaceutics Inc.
Balance Sheet
(unaudited)

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ASSETS	June 30, 2001 (unaudited)	December 31, 2000
<S>	<C>	<C>
Current assets:		
Cash (principally money market)	$ 10,632,000	$ 35,408,000
Investments	20,070,000	
Prepaid expenses and other current assets	514,000	495,000
Total current assets	31,216,000	35,903,000
Equipment, net	801,000	512,000
Leasehold Improvements, net	63,000	
Patent rights, less accumulated amortization of $820,000 and $654,000	614,000	670,000
Notes receivable-officer/stockholder-9.75% due April 30, 2003	278,000	278,000
Other assets	5,000	15,000
TOTAL	$ 32,977,000	$ 37,378,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued expenses	$ 616,000	$ 633,000
Accrued restructuring expenses	465,000	
Taxes payable	50,000	95,000

Deferred revenue from research and development collaborative contract	222,000	
Current portion of royalties payable	125,000	125,000
Total current liabilities	1,478,000	853,000
Royalties payable less current portion	687,000	750,000
Total liabilities	2,165,000	1,603,000
Stockholders' equity:		
Preferred stock - $.01 par value, 10,000,000 shares authorized; 762,712 and 718,353 shares of Series A convertible preferred issued and outstanding at June 30, 2001 and December 31, 2000, respectively (liquidation value $1,906,800 and $1,795,900 at June 30, 2001 and December 31, 2000, respectively)	8,000	7,000
Common Stock - $.01 par value, 30,000,000 shares authorized: 16,174,173 and 16,146,730 shares issued and outstanding at June 30, 2001 and December 31, 2000, respectively	162,000	162,000
Additional paid-in capital	67,284,000	67,083,000
Subscription receivable	(351,000)	(51,000)
Deferred stock-based compensation	(300,000)	(70,000)
Accumulated deficit	(33,821,000)	(29,354,000)
Treasury stock, 411,200 shares of common stock and 260,600 shares at cost June 30, 2001 and December 31, 2000, respectively	(2,170,000)	(2,002,000)
Total stockholders' equity	30,812,000	35,775,000
TOTAL	$ 32,977,000	$ 37,378,000

</Table>

See notes to financial statements.

CYTOCLONAL PHARMACEUTICS, INC.
STATEMENTS OF OPERATIONS
(unaudited)

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	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	2000	2001	2000
		(note 4)		(note 4)
<S>	<C>	<C>	<C>	<C>
Revenue:				
Licensing & research collaborative agreement	$ 334,000	$ 343,000	$ 667,000	$ 687,000
Operating Expenses:				
Research and development	1,858,000	608,000	3,006,000	1,185,000
General and administrative	1,791,000	1,464,000	2,776,000	3,729,000
	3,649,000	2,072,000	5,782,000	4,914,000
Operating (loss)	(3,315,000)	(1,729,000)	(5,115,000)	(4,227,000)

Other (Income) expense:				
Interest (income)	(367,000)	(435,000)	(828,000)	(516,000)
Interest expense	1,000	1,000	1,000	3,000
	(366,000)	(434,000)	(827,000)	(513,000)
NET (LOSS)	(2,949,000)	(1,295,000)	(4,288,000)	(3,714,000)
Preferred stock dividend	(0)	(43,000)	(180,000)	(87,000)
Net (loss) attributable to common shareholders	$ (2,949,000)	$ (1,338,000)	$ (4,468,000)	$ (3,801,000)
Net (loss) per share-basic and diluted	(0.18)	(0.09)	(0.28)	(0.29)
Weighted average number of shares outstanding - basic and diluted	16,154,427	15,197,000	16,160,388	13,177,000

</Table>

See notes to financial statements

CYTOCLONAL PHARMACEUTICS INC.
STATEMENTS OF CASH FLOWS
(unaudited)

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	Six Months Ended June 30,	
	2001	2000
<S>	<C>	<C>
Cash flows from operating activities:		
Net (loss)	$ (4,288,000)	$ (3,714,000)
Adjustments to reconcile net (loss) to net cash used in operating activities:		
Depreciation and amortization	136,000	85,000
Value stock-based compensation	234,000	1,813,000
Changes in:		
Other assets	47,000	(16,000)
Deferred revenue	222,000	(140,000)
Accounts payable and accrued expenses	340,000	43,000
Net cash used in operating activities	(3,309,000)	(1,929,000)
Cash flows from investing activities:		
Notes receivable - officer/shareholder	--	(63,000)
Purchase of securities	(20,070,000)	--
Purchase of equipment	(461,000)	(27,000)
Net cash used in investing activities	(20,531,000)	(90,000)
Cash flows from financing activities:		
Proceeds from exercise of options and warrants	--	38,423,000
Payment of royalties	--	(73,000)
Purchase of treasury stock	(936,000)	(743,000)
Net cash (used in) provided by financing activities	(936,000)	37,607,000

NET INCREASE (DECREASE) IN CASH	(24,776,000)	35,588,000
Cash at beginning of period	35,408,000	3,213,000
CASH AT END OF PERIOD	$ 10,632,000	$ 38,801,000

Supplemental disclosures of cash flow information:

Noncash investing activities:		
Equipment acquired included in accounts payable and accrued expenses:	--	$ 15,000

</Table>

See notes to financial statements

CYTOCLONAL PHARMACEUTICS INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(unaudited)

(1) FINANCIAL STATEMENT PRESENTATION

The unaudited financial statements of Cytoclonal Pharmaceutics 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-K for the fiscal year ended December 31, 2000. The results for the interim periods are not necessarily indicative of the results for the full fiscal year.

(2) RESEARCH AND COLLABORATIVE AGREEMENT

In June 1998, the Company entered into a license and research agreement with Bristol-Myers Squibb ("BMS") on two technologies related to production of paclitaxel, the active ingredient in BMS's largest selling cancer product, Taxol(R). The agreement includes fees, milestone payments, research and development support and minimum and sales based royalties.

(3) LOSS PER COMMON SHARE

Basic and diluted loss per common share is based on the net loss increased by dividends on preferred stock divided by the weighted average number of common shares outstanding during the period. No effect has been given to outstanding options, warrants or convertible preferred stock in the diluted computation, as their effect would be antidilutive.

(4) STOCK BASED COMPENSATION

The Company accounts for its stock-based compensation plans under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." In October 1995, the Financial Accounting Standards Board issued Statement No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123"), which establishes a fair value-based method of accounting for stock-based compensation plans. The Company has adopted the disclosure-only alternative under SFAS No. 123. The Company accounts for stock based compensation to nonemployees using the fair value method in accordance with SFAS No. 123 and Emerging Issues Task Force (EITF) Issue No. 96-18. The Company has recognized deferred stock compensation related to certain stock option and warrant grants.

During the six months ended June 30, 2001 the Company granted 5,000 options to purchase shares of its Common Stock at $7.188 per share, in return for consulting services. The Company valued these warrants based on the Black-Scholes option-pricing model. In connection therewith, the Company recorded a non-cash charge of $2,784 during the six months ended June 30, 2001. In connection with other option grants to consultants in

previous years, the Company recorded a non-cash charge of $231,388 during the six months ended June 30, 2001.

(5) DEFERRED REVENUE

The Company recognizes revenue from development agreements over the stated life of the agreement. Amounts received in advance of the services to be performed are recorded as deferred revenue. Accordingly, funds of $1,000,000 received February 2001, net of $777,000 in revenues recognized in the quarters ending December 31, 2000, March 31, 2001 and June 30,2001, are recorded as deferred revenue of $222,000 as of June 30, 2001.

(6) ACCRUED RESTRUCTURING EXPENSES

The Company generally recognizes operating expenses as incurred. As a part of its efforts to redirect Company resources for its projects, the company restructured its organizational structure and eliminated four positions in various divisions. The entire anticipated costs, ($460,000) was charged to operations in the quarter ending June 30,2001. The Company will continue to refine its plans regarding other potential changes and anticipates completion by December 31, 2001. Any further effect on revenue or net operating losses from the restructure is expected to be minimal.

(7) SALE OF TREASURY STOCK

In May 2001, the Company sold 100,000 shares of treasury stock to President/CEO Ronald L. Goode for a purchase price of $3.25 per share of common stock, the fair market value at the time of the purchase, and provided financing of $300,000 from the Company. The transaction was classified as a loan and the unpaid balance of $300,000 is reflected as subscriptions receivable in stockholder's equity. The Company values its investment in its common stock at a weighted average cost of approximately $7.67 per share, and accordingly, reflected a reduction of Additional Paid in Capital of $442,000, or the difference between and the weighted average price of $767,000 and the purchase price of $325,000.

(8) OTHER ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Boards issued Statement No. 141 Business Combinations, and Statement No. 142 Goodwill and Other Intangible Assets, effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to annual impairment tests in accordance with the new rules. Other intangible assets will continue to be amortized over their useful lives. The Company will apply the new rules on accounting for goodwill and other intangible assets beginning in the first quarter of 2002. The Company will perform the first of the required impairment tests of goodwill and other intangible assets during 2002. The Company has not yet determined what the effect of the new statements and required impairment tests will be on the earnings and financial position of the Company.

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.

We were organized and commenced operations in September 1991. Our 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. For the past three years we have acquired advanced drug creation software and technology, recruited competent experienced scientific and management personnel and advisors and raised capital. Our strong financial position has provided the necessary resources to become a fully operational and profitable drug creation company. We are currently engaged in a strategic planning process designed to identify and implement the changes necessary to complete that task.

We have strengthened our Board of Directors, elected a new Chairman, and enhanced our executive staff with the addition of a new President/CEO, and two vice-presidents, one as controller and one in business development. Our former President and CEO, also a founder of the Company, has taken on the role of Executive Vice President and remains a director.

Since the beginning of the second quarter, our management team has, with the assistance of other staff members as well as expert scientific and business consultants, reviewed and analyzed all the existing operations of the Company, its projections, assumptions and future plans. This rigorous analysis is driven by a renewed focus to achieve future profitability and to ensure that existing resources will be adequate to achieve that purpose. An integral part of this process has been a review of the current marketplace for our proposed products and services, an updated evaluation of our competitors and their products, and a realistic evaluation of the viability of the products we have in development. As we progress towards the completion of this comprehensive strategic planning process, we have implemented improvements to the organization of our personnel. As a result of this process the Company has established a reserve for restructure that recognizes $460,000 in operating expenses for current positions that have been eliminated in order to allow for the hiring of highly skilled scientists.

We expect to make additional revisions to our operations to eliminate non-productive activities and to appropriately balance short and long-term profitability. We have reviewed our past performance in establishing reasonable timetables and are refocusing our efforts to accurately estimate a realistic timeframe.

We continue to focus on the expansion of our two drug design platform technologies: Quantum Core Technologies(TM) (QCT(TM)) and OASIS(TM) as well as the other activities described below. We have strengthened and expanded our affiliations with universities and other research institutions to ensure that we obtain the most advanced scientific knowledge available. In addition, we have increased our emphasis of identifying opportunities for collaborations, strategic alliances and joint ventures with pharmaceutical and biotechnology companies for the commercial development of our products.

We believe that we have a capable, focused Board and management team, promising technology and strong financial resources. We intend to take the steps as identified in our strategic planning process, eliminating the less productive activities and concentrating our efforts and resources on the projects with the most promise. During the next twelve months we plan on concentrating our efforts in the following areas:

- Designing drugs (using QCT(TM)) that inhibit specific, targeted proteins;
- Designing gene-regulating antisense reagents (using our OASIS(TM) genome library);
- Continuing our collaboration with Bristol-Myers Squibb Company, Inc.

pursuant to our license and research and development agreements to utilize microbial fermentation and genetic engineering to develop Paclitaxel in commercial quantities at lower costs; and

- Seeking to establish additional partnerships and strategic alliances for the development, manufacturing, marketing and sales of vaccines and pharmaceuticals for treatment and prevention of cancer and infectious diseases.

Our actual research and development and related activities may vary significantly from current plans depending on numerous factors, including changes in the costs of such activities from current estimates, the results of our 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 our operations will also be dependent upon the establishment of collaborative arrangements with other companies, the availability of financing and other factors.

RESULTS OF OPERATIONS

Revenue

We recognized revenues of $667,000 and $687,000 for the six months ended June 30, 2001, and June 30, 2000, respectively. Revenues were $334,000 and $343,000 for the three months ended June 30, 2001 and June 30, 2000 respectively. Revenues in both periods were attributable to license and research and development payments from our agreements with Bristol-Myers Squibb.

Research and Development Expenses

We incurred research and development expenses of $3,006,000 and $1,185,000 for the six months ended June 30, 2001 and 2000, respectively. For the quarter, ended June 30, 2001 and 2000, research and development expenses were $1,858,000 and $608,000, respectively. The increase in research and development expenses in 2001 from 2000 was related to increases in research and development salaries due to additional scientific staff, increases in expenses for contract research and research consultants as well as increases in laboratory expenses as we expanded our research and development activities. Expenses related to restructuring our scientific staff also contributed to the increase of research and development costs. In addition, $300,000 in costs for research consultants, which in prior years were charged to general and administrative expenses, has now been classified as research cost.

We anticipate that we will incur increased research and development expenses as we move products from pre-clinical to clinical trials and as we expand our drug discovery efforts. We also expect to hire additional technical staff to aid in the fulfillment of these goals.

General and Administrative Expenses

We incurred general and administrative expenses of $2,776,000 and $3,729,000 for the six months ended June 30, 2001, and 2000, respectively. The primary decrease in these expenses was attributable to a decrease in public and financial relations expenses, which included $1,613,000 in non-cash charges in 2000 related to issuance of warrants to financial advisors offset by increases in salaries and other operating expenses in 2001 related to the addition of personnel and corporate activities. For the quarter ended June 30, 2001 and 2000, general and administrative expenses were $1,791,000 and $1,464,000, respectively. The primary increase in general and administrative expenses in 2001 from 2000 is a result of the restructuring efforts of the Company which included hiring additional senior staff members, consultant fees for business and scientific experts and other related activities.

We anticipate that we will incur increased general and administrative expenses as we expand our administrative staff to aid in our business development efforts.

Interest Income

Interest income was $828,000 and $516,000 for the six months ended June 2001 and 2000, respectively. Interest income was $367,000 and $435,000 for the three months ended June 30, 2001 and 2000, respectively. The increase in interest income is due to the increase in available cash balances resulting from the conversion of approximately 5,000,000 in C and D warrants which resulted in the receipt of approximately $40,000,000 during the first six months of 2000.

Net Loss

We incurred net losses of $4,288,000 and $3,714,000 for the six months ended June 30, 2001 and 2000, respectively. Net losses were $2,949,000 and $1,295,000 for the three months ended June 30, 2001 and 2000, respectively. The increase in net loss in 2001 to 2000 was attributable to an increase in costs for hiring both scientific and management personnel, costs related to restructuring the operations of the Company as well as increased

operating costs for research and development as we expand our drug creation efforts.

Liquidity and Capital Resources

At June 30, 2001, we had cash and cash equivalents of approximately $10,632,000 and investments in marketable securities of $20,070,000. Since inception we have financed our operations from debt and equity financings as well as fees received from licensing and research and development agreements. During the six months ended June 2001, we used cash of approximately $3,309,000 to fund our operating activities, principally caused by the net loss of $4,468,000. In addition, during the three months ended June 30, 2001 we used approximately $20,070,000 to fund investing activities, which primarily consisted of the purchase of securities and financing expenses of $936,000 for the purchase of treasury stock.

The Company accounts for its stock-based compensation plans under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." In October 1995, the Financial Accounting Standards Board issued Statement No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123"), which establishes a fair value-based method of accounting for stock-based compensation plans. The Company has adopted the disclosure-only alternative under SFAS No. 123. The Company accounts for stock based compensation to nonemployees using the fair value method in accordance with SFAS No. 123 and Emerging Issues Task Force (EITF) Issue No. 96-18. The Company has recognized deferred stock compensation related to certain stock option and warrant grants. During the six months ended June 30, 2001 the Company granted 5,000 options to purchase shares of its Common Stock at $7.188 per share, in return for consulting services. The Company valued these warrants based on the Black-Scholes option pricing model. In connection therewith the Company recorded a non-cash charge of $2,784 during the six months ended June 30, 2001. In connection with other option grants to consultants in previous years the Company recorded a non-cash charge of $231,388 during the six months ended June 30, 2001.

We have agreed to fund scientific research at academic institutions and/or to make minimum royalty payments for licensing and collaborative agreements of approximately $800,000 for the two quarters remaining in 2001. We do not expect these arrangements to have a significant impact on our liquidity and capital resources. We intend to continue to maintain and develop relationships with academic institutions and to establish licensing and collaborative agreements.

We have no material capital commitments for the year ending December 31, 2001.

We believe that we have sufficient cash and cash equivalents at June 30, 2001 to finance our plan of operation through December 31, 2002. However, there can be no assurance that we will generate sufficient revenues, if any, to fund our 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 AND USE OF PROCEEDS

For the quarter ended June 30, 2001, the Company sold 100,000 shares of Company stock held as Treasury stock to President/CEO Ronald L. Goode at a purchase price of $3.25. The shares of Common Stock were granted and sold pursuant to the exemption afforded by Section 4(2) promulgated under the Securities Act since such issuances did not involve a public offering.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Company held its Annual Meeting of Stockholders ("Annual Meeting") on June 4, 2001 which was adjourned until June 15, 2001. The purpose of the Annual Meeting was (i) to elect seven directors each for a term of one year or until their respective successors are elected and qualified; (ii) to ratify the selection of Ernst & Young LLP as independent auditors of the Company for its fiscal year ending December 31, 2001; and (iii) to approve amendments to the Company's 2000 Stock Option Plan to (a) increase the number of incentive stock options and nonqualified stock options available for grant from 1,500,000 to 2,750,000 options, and the number of shares of common stock reserved for issuance thereunder from 1,500,000 to 2,750,000; (b) change the vesting period for options, such that one-third of the options vest on the first anniversary of the date of grant, one-third vest on the second anniversary of the date of grant and the final third vest on the third anniversary of the date of grant; and (c) permit new option holders and existing option holders to exercise their options by cashless exercise of their options or other means.

At the Annual Meeting, Arthur P. Bollon, Robert J. Easton, Gary E. Frashier, Ira J. Gelb, Irwin C. Gerson, Ronald L. Goode and Walter M. Lovenberg were elected as directors of the Company. The number of votes for each of the nominees was 14,825,901 for and 292,202 withheld. The stockholders voted 14,845,254 shares to ratify the selection of Ernst & Young LLP as independent auditors of the Company for its fiscal year ending December 31, 2001, 240,790 shares voted against and 32,059 shares abstained. The amendments to the Company's 2000 Stock Option Plan were approved by the Company's stockholders by a vote of 2,608,907 shares for, 2,094,784 shares against, and 63,131 shares abstained.

Item 6. EXHIBITS AND REPORTS ON FORM 8-K

The Company filed a Report 8-K on April 27, 2001 to announce that Richard A. Eisner was dismissed as the Company's independent auditor. The firm of Ernst & Young was elected as the Company's independent auditors.

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: August 14, 2001 /s/ Joan H. Gillett

Joan H. Gillett, C.P.A.
Vice President/Controller
Principal Accounting Officer