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 quarterly period ended June 30, 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: 1-11824

ZONAGEN, INC.
(Exact Name of Small Business Issuer as Specified in its Charter)

Delaware	76-0233274
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification No.)

2408 Timberloch Place, Suite B-4
The Woodlands, Texas 77380
(Address of principal executive office)

(713) 367-5892
(Issuer's Telephone Number, Including Area Code)

Check whether the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 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

As of July 30, 1996 there were outstanding 4,996,469 shares of Common Stock, par value $.001 per share, of the issuer.

ZONAGEN, INC.
(A development stage company)

For the Quarter Ended June 30, 1996

INDEX

Page

Part I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

The following unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all necessary adjustments (which include only normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the periods ended June 30, 1996 are not necessarily indicative of the results that may be expected for the year ended December 31, 1996. For further information, refer to the financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 1995.

ZONAGEN, INC.
(A development stage company)

CONSOLIDATED BALANCE SHEETS

ASSETS	June 30 1996 (Unaudited)	December 31 1995
Current Assets		
Cash and cash equivalents	$ 2,339,500	$ 4,189,858
Accounts receivable	318,904	327,975
Accrued interest receivable	8,754	20,185
Product inventory	244,330	230,380
Deposits and other current assets	222,926	49,047

Total Current Assets	3,134,414	4,817,445
Lab equipment, furniture and leasehold improvements, net of accumulated depreciation and amortization of $647,997 and $601,792, respectively	288,203	233,315
Excess of cost over fair value of tangible assets acquired, net of accumulated amortization of $341,329 and $240,845, respectively	1,108,080	1,153,939
Other assets, net of accumulated amortization of $87,649 and $67,532, respectively	733,333	446,856
	$ 5,264,030	$ 6,651,555

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities		
Accounts payable	$ 1,196,281	$ 660,673
Accrued expenses	492,324	499,631
Notes payable	13,525	--
Total Current Liabilities	1,702,130	1,160,304
Long term notes payable	91,801	66,125
Commitments and Contingencies		
Stockholders' Equity		
Undesignated Preferred Stock, $.001 par value, 5,000,000 shares authorized, none issued and outstanding	--	--
Series A Preferred Stock, $.001 par value, 700,000 shares authorized, 300,884 and 504,850 shares issued and outstanding, respectively	300	505
Common Stock, $.001 par value, 20,000,000 shares authorized, 4,925,725 and 4,098,124 shares issued and outstanding, respectively	4,926	4,098
Additional paid-in capital	23,639,978	22,473,074
Deferred compensation	(148,985)	(112,500)
Deficit accumulated during the development stage	(20,026,120)	(16,940,051)
	3,470,099	5,425,126
	$ 5,264,030	$ 6,651,555

The accompanying notes are an integral part of these consolidated financial statements.

ZONAGEN, INC.
(A development stage company)

CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended		Six Months Ended		From Inception (August 20, 1987) to
	June 30, 1996	June 30, 1995	June 30, 1996	June 30, 1995	June 30, 1996
Revenues					
Product Sales	$ 640,437	$ 683,607	$ 1,379,777	$ 1,541,170	$ 5,019,056
Licensing Fee	--	--	--	--	250,000
Interest Income	35,986	15,505	87,088	41,225	708,881
Total Revenues	676,423	699,112	1,466,865	1,582,395	5,977,937
Costs and Expenses					
Cost of Products Sold	438,756	537,882	956,115	1,161,547	3,688,284
Research and Development	1,090,00	590,979	2,253,263	1,295,804	13,084,999
Sales, General and Administrative	628,057	475,607	1,235,391	1,099,050	8,123,117
Interest Expense & Financing Costs and amortization of intangibles	54,581	57,688	108,165	115,336	744,274
Total Costs & Expenses	2,211,394	1,662,156	4,552,934	3,671,737	25,640,674
	(1,534,971)	(963,044)	(3,086,069)	(2,089,342)	(19,662,737)
Loss from Discontinued Operations	--	--	--	--	(288,104)
Loss on Disposal	--	--	--	--	(75,279)
Net Loss	$(1,534,971)	$ (963,044)	$(3,086,069)	$(2,089,342)	$(20,026,120)
Loss Per Common and Common Equivalent Share:					
From Continuing Operations	$ (0.32)	$(0.25)	$(0.66)	$(0.55)	
Discontinued Operations	--	--	--	--	
Net Loss	$ (0.32)	$(0.25)	$ 0.66)	$(0.55)	
Weighted Average Common and Common Equivalent Shares	4,857,549	3,838,734	4,644,966	3,832,372	

The accompanying notes are an integral part of these consolidated financial statements.

ZONAGEN, INC.
(A development stage company)

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,		From Inception (August 20, 1987) through
	1996	1995	1996	1995	June 30, 1996
Operating Activities					
Net Loss	$(1,534,971)	$ (963,044)	$(3,086,069)	$(2,089,342)	$(20,026,120)
Loss on disposal of discontinued operations	--	--	--	--	75,279
Adjustments to reconcile net loss to net cash used in operating activities					
Financing costs	--	--	--	--	315,984
Depreciation and amortization	87,701	85,283	168,806	169,989	1,029,442
Options granted	238,804	9,375	264,638	94,734	339,658
Series B Preferred Stock issued for consulting services	--	--	--	--	17,999
Changes in operating assets and liabilities (net effects of purchase of businesses in 1988 and 1994):					--
(Increase) decrease in receivables	171,080	121,950	20,502	163,334	(13,567)
(Increase) decrease in inventory	426	(2,749)	(13,950)	(79,008)	37,198
(Increase) decrease in prepaid expenses and other current assets	(122,432)	(2,234)	(173,879)	(9,169)	(190,587)
(Decrease) increase in accounts payable and accrued expenses	300,875	151,802	528,302	258,344	1,443,605
Net cash used in operating activities	(858,517)	(599,617)	(2,291,650)	(1,491,118)	(16,971,109)
Investing Activities					

Capital expenditures	(31,088)	(8,417)	(101,093)	(14,841)	(829,455)
Purchase of technology rights and other assets	(341,141)	(59,524)	(363,219)	(85,394)	(830,590)
Cash acquired in purchase of FTI	--	--	--	--	2,695
Proceeds from sales of subsidiary, less $12,345 for operating losses during 1990 phase-out period	--	--	--	--	137,646
Increase in net assets held for disposal	--	--	--	--	(212,925)
Net cash used in investing activities	(372,229)	(67,941)	(464,312)	(100,235)	(1,732,629)
Financing Activities					
Proceeds from issuance of Common Stock	--	923	866,403	13,939	10,538,616
Proceeds from issuance of Preferred Stock	--	--	--	--	9,320,962
Proceeds from issuance of notes payable	39,625	--	39,625	--	2,878,306
Principal payments on notes payable	(424)	(125,000)	(424)	(125,000)	(1,694,646)
Net cash provided by financing activities	39,201	(124,077)	905,604	(111,061)	21,043,238
Net increase (decrease) in cash and cash equivalent	(1,191,545)	(791,635)	(1,850,358)	(1,702,414)	2,339,500
Cash and cash equivalents at beginning of period	3,531,045	1,536,991	4,189,858	2,447,770	--
Cash and cash equivalents at end of period	$ 2,339,500	$ 745,356	$ 2,339,500	$ 745,356	$ 2,339,500

The accompanying notes are an integral part of these consolidated financial statements.

ZONAGEN, INC.
(A Development Stage Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 1996
(Unaudited)

NOTE 1 -- ORGANIZATION AND OPERATIONS

Zonagen, Inc. (the "Company") was organized on August 20, 1987 ("Inception") and is engaged in the development of technologies targeting conditions or diseases associated with the human reproductive system. These technologies include the development of products for the oral treatment of male impotency ("VASOMAX(TM)"), alleviation of urological diseases such as benign prosthetic hyperplasia ("BPH") and prostate cancer, and the treatment of female conditions such as endometriosis. The Company is also active in the research of improved methodologies to enhance fertility as well as new approaches to contraception and prophylaxis of sexually transmitted disease. The Company currently has sales through its subsidiary, Fertility Technologies, Inc. ("FTI"), a marketing and distribution organization focused on obstetrics/gynecology and fertility specialists. The Company's goal is to become a leader in the area of human reproductive healthcare management by providing a full array of innovative products and services. The Company's growth strategy is to develop products based on its own research as well as in-licensing existing and late stage development products and technologies focused in the area of human reproductive healthcare. From Inception through June 30, 1996, the Company has been primarily engaged in research and development and is still in a development stage.

The Company requires substantial capital for research, product development and market development activities. The ability of the Company to successfully develop, manufacture and market its proprietary products is dependent upon many factors. The Company's business is subject to significant risks consistent with biotechnology companies that are developing products for human therapeutic use. These risks include, but are not limited to, uncertainties regarding research and development, access to capital, obtaining and enforcing patents, receiving regulatory approval and competition with other biotechnology and pharmaceutical companies. Other than through FTI, the Company has not generated revenues from operations nor is there any assurance of significant revenues in the future.

The Company has incurred losses since its inception in 1987 and

expects to continue to incur losses for the next several years. The Company previously anticipated that its existing capital resources would be sufficient to fund its research and development activities through 1996 at approximately the same level as 1995, including the initiation of Phase III clinical development of VASOMAX(TM). Management's previous plans indicated that if the Phase III clinical development of VASOMAX(TM) was accelerated, the Company would be required to secure additional capital, as the capital requirements of Phase III clinical trials are significantly greater than that of Phase II clinical trials. On July 31, 1996, the Board of Directors authorized management, based on encouraging early data from the Company's current in-process clinical trial in Mexico and existing competition, to accelerate the Phase III clinical development of VASOMAX(TM) prior to obtaining additional financing. As the Company's existing capital resources will not be sufficient to fund this accelerated activity through 1996, management's new plans and projections raise substantial doubt about the Company's ability to continue as a going concern absent securing additional financing. Although the unaudited financial statements for the six months ended June 30, 1996 have not been audited or reviewed by the Company's independent public

accountants, they have informed the Company that if the conditions described above continue to exist at the time of their audit of the financial statements for the year ended December 31, 1996, their report on those statements will include an explanatory fourth paragraph because of the substantial doubt about the Company's ability to continue as a going concern.

The Company is currently in negotiations to license European rights to VASOMAX(TM) for up-front and milestone payments and future royalties and is also pursuing other funding options, including a private placement. The unavailability of such financing could delay or prevent the development and marketing of some or all of the Company's proposed products or cause the Company to cease operations. There can be no assurance that the Company will be successful in obtaining additional capital in amounts sufficient to continue to fund its operations and product development. The Company can make no assurance that even if additional funds are secured, that it will receive approval from the Food and Drug Administration (FDA) to continue development of VASOMAX(TM). In addition, even if such approval is received, there can be no assurance that VASOMAX(TM) will ever be approved by the FDA for commercialization or that the Company can secure funds necessary to commercialize this technology or that it will have the ability to commercialize this technology.

There can be no assurance that the Company will be able to obtain financing on favorable terms in the public or private capital markets in the foreseeable future. The Company is attempting to develop additional corporate collaborations, but has not entered into any letters of intent or agreements in principal with respect to any collaborations. There can be no assurance that the Company will be able to consummate any corporate collaborations on terms favorable to the Company or at all. The failure or inability of the Company to obtain additional financing on acceptable terms would have a material adverse effect on the Company.

NOTE 2 -- STOCKHOLDERS' EQUITY

Preferred Stock

Through June 30, 1996, 297,966 shares of Series A Preferred Stock had been converted into 821,969 shares of Common Stock. As of June 30, 1996, 300,884 shares of Series A Preferred Stock were outstanding and convertible into 830,018 shares of Common Stock.

Common Stock

During the first quarter of 1996 the Company issued an aggregate 16,500 shares of Common Stock to an employee, a consultant and a former board member for the exercise of stock options for total proceeds of $68,200 at prices ranging from $0.43 to $5.88 per share.

On January 12, 1996 the Company issued 5,000 shares of Common Stock to a consultant as compensation for services through June 1996. At that date, the Company's stock was trading at $9.875 per share. As a result, the Company has recorded this transaction as deferred compensation and will record an expense of approximately $49,000 on a pro rata basis over the service period.

On April 13, 1996, the Company issued 19,512 shares of unregistered Common Stock to Gamogen, Inc. ("Gamogen") for the second and final purchase payment relating to the original Assignment Agreement entered into on April 13, 1994 in order to retain the rights for the Company's treatment for male impotency, VASOMAX(TM). The Common Stock issued by the Company is included in other assets and is amortized over an estimated expected life of 17 years.

Warrants

During the first quarter of 1996, 219,776 warrants were exercised for total proceeds of $798,000.

During the second quarter of 1996, 4,186 shares of Common Stock were issued in exchange for a cashless exercise of a warrant originally issued with the Company's private placement closed in October 1995.

NOTE 3 -- AGREEMENTS

On June 7, 1996, Fertility Technologies, Inc. ("FTI"), the Company's wholly owned subsidiary, purchased all of the assets of Zygotek Systems, Inc. ("Zygotek"), a Massachusetts-based company that manufactures and distributes proprietary products and distributes products manufactured by others to diagnose and facilitate the treatment of reproductive disorders. The purchase price consisted of a lump sum payment of $15,000 at the time of closing and the execution of two notes payable. The first note payable is for $17,179 payable in 36 monthly installments at an interest rate of 8%. The second note payable is for $22,446 payable in 30 monthly installments at an interest rate of 11%. The Company accounted for this transaction as a purchase. The excess of consideration paid over the estimated fair value of tangible assets acquired has been recorded as "excess of cost over fair value of tangible assets acquired."

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. The Company's actual results could differ materially from those discussed here.

Description of Business

Zonagen, Inc. (the "Company") was organized on August 20, 1987 ("Inception") and is engaged in the development of technologies targeting conditions or diseases associated with the human reproductive system. These technologies include the development of products for the oral treatment of male impotency ("VASOMAX(TM)"), alleviation of urological diseases such as benign prostatic hyperplasia and prostate cancer, and the treatment of female conditions such as endometriosis. The Company is also active in the research of improved methodologies to enhance fertility as well as new approaches to contraception and prophylaxis of sexually transmitted disease. The Company currently has sales through its subsidiary, Fertility Technologies, Inc. ("FTI"), a marketing and distribution organization focused on obstetrics/gynecology and fertility specialists. The Company's goal is to become a leader in the area of human reproductive healthcare management by providing a full array of innovative products and services. The Company's growth strategy is to develop products based on its own research as well as in-licensing existing and late stage development products and technologies focused in the area of human reproductive healthcare. From Inception through June 30, 1996, the Company has been primarily engaged in research and development and is still in a development stage.

The Company has implemented certain changes in the way that its administrative function is handled by consolidating the administration requirements of its subsidiary, FTI with its corporate headquarters. These changes occurred primarily in the quarter ended June 30, 1996. Included in this change was the reduction of rental space and approximate two year lease extension of its East coast rental office and the elimination of a second rental property on the West coast whose lease expired in the first quarter of 1996. In addition, the Company expanded its existing corporate rental space to accommodate the administrative consolidation and extended the lease on this space for approximately three years.

RESULTS OF OPERATIONS

Three Months Ended June 30, 1996 and 1995

Product sales were generated through the Company's wholly owned subsidiary, FTI. Revenue from product sales for the quarter ended June 30, 1996 was $640,000, a 6% decrease from $684,000 for the same period in the previous fiscal year. This decrease was primarily due to a change in the relationship with a manufacturer from a distribution relationship whereby FTI recognized 100% of revenue and related cost of goods sold to a sales agent relationship whereby only commissions are recognized.

Interest income was $36,000 for the quarter ended June 30, 1996, an increase of $20,000, or 132%, from $16,000 for the same period in the previous fiscal year. This increase was due to the

Company carrying higher average cash balances resulting from the sale of Series A Preferred Stock in the fourth quarter of 1995 and exercise of stock warrants and stock options in the first quarter of 1996.

Cost of sales as a percentage of sales for the quarter ended June 30, 1996 was 69% as compared to the same period in the previous year of 79%. This decrease is primarily due to the elimination of certain less profitable products and the change in the relationship of a specific product line with a manufacturer from a distribution relationship whereby FTI recognized 100% of revenue and related cost of goods sold to a sales agent relationship whereby only commissions are recognized.

Research and development expenses increased by $499,000 or 84% to $1,090,000 in the second quarter of 1996 compared with $591,000 for the same period in the prior fiscal year. This increase is primarily due to expenses associated with the clinical development of VASOMAX(TM) and associated expenses with the manufacturing development of phentolamine, the active ingredient in VASOMAX(TM) , the Company's oral treatment for male impotency.

Sales, general and administrative expenses increased by $152,000, or 32%, in the second quarter of 1996 to $628,000 as compared to $476,000 in the

second quarter of 1995. In an effort to increase efficiency and reduce future administrative operating expenses the Company consolidated the administrative functions of its subsidiary FTI into its corporate headquarters. In addition, the Company reduced the office space of FTI by approximately 67% in Massachusetts and closed its sales office in California. The expenses associated with the consolidation, such as moving, breaking a lease, brokers fees, etc., are included in the operating expenses for the quarter ended June 30, 1996. In addition, the Company engaged a new public/investor relations firm during the first quarter of 1996 and increased its spending on these activities during the first six months of 1996 as compared to the same period in the prior fiscal year. During the first quarter ended March 31, 1996 the Company also hired a Vice President of Corporate Development to be responsible for the operations of its subsidiary, FTI.

Interest expense, financing costs and amortization of intangibles decreased from $58,000 in the second quarter of 1995 to $55,000 in the second quarter of 1996. Interest expense relates to the debt assumed through the acquisition of FTI by Zonagen.

Six Months Ended June 30, 1996 and 1995

Product sales for the six months ended June 30, 1996 were $1,380,000, a 10% decrease from $1,541,000 for the same period in the previous fiscal year. This decrease was primarily due to a change in the relationship with a manufacturer from a distribution relationship whereby FTI recognized 100% of revenue and related cost of goods sold to a sales agent relationship whereby only commissions are recognized.

Interest income was $87,000 for the six months ended June 30, 1996, an increase of $46,000, or 111%, from $41,000 for the same period in the previous fiscal year. This increase was due to the Company carrying higher average cash balances resulting from the sale of Series A Preferred Stock in the fourth quarter of 1995 and exercise of stock warrants and stock options in the first quarter of 1996.

Cost of sales as a percentage of product sales for the first six months ended June 30, 1996 was 69% as compared to the similar period in the previous year of 75%. This decrease is primarily due to the elimination of certain less profitable products and the change in the relationship of a specific product line

with the manufacturer from a distribution relationship whereby FTI recognized 100% of revenue and related cost of goods sold to a sales agent relationship whereby only commissions are recognized.

Research and development expenses increased by $957,000 or 74% to $2,253,000 for the six months ended June 30, 1996 compared with $1,296,000 for the same period in the prior fiscal year. This increase is primarily due to expenses associated with the clinical development and manufacturing development of phentolamine, the active ingredient in VASOMAX(TM) .

Sales, general and administrative expenses increased by $136,000, or 12%, from $1,099,000 in the first six months ended June 30, 1995 to $1,235,000 for the same period in 1996. This increase was primarily due to the administrative consolidation which was completed in the second quarter ended June 30, 1996, the increase in public/investor relations activities and the hiring of a Vice President of Corporate Development.

Interest expense, financing costs and amortization of intangibles decreased from $115,000 in the first six months of 1995 to $108,000 for the same period in 1996. Interest expense relates to the debt assumed through the acquisition of FTI by Zonagen.

LIQUIDITY AND CAPITAL RESOURCES

Net cash for operating activities for the three months ended June 30, 1996 was $859,000 compared to $600,000 for the three months ended June 30, 1995, and for the six month period was $2,292,000 compared to $1,491,000 for the same

period in the prior year. The Company had cash and cash equivalents of $2,339,000 at June 30, 1996. The increased use of cash for the six months ended June 30, 1996 was primarily due to the increase in expenses related to the clinical development of the Company's oral treatment for male impotency and capital expenditures of approximately $101,000 for tenant improvements to 3,600 square feet of additional space that the Company leased in March 1996 and additional research and administrative equipment purchases.

The Company has incurred losses since its inception in 1987 and expects to continue to incur losses for the next several years. The Company previously anticipated that its existing capital resources would be sufficient to fund its research and development activities through 1996 at approximately the same level as 1995, including the initiation of Phase III clinical development of VASOMAX(TM). Management's previous plans indicated that if the Phase III clinical development of VASOMAX(TM) was accelerated, the Company would be required to secure additional capital, as the capital requirements of Phase III clinical trials are significantly greater than that of Phase II clinical trials. On July 31, 1996, the Board of Directors authorized management, based on encouraging early data from the Company's current in-process clinical trials in Mexico and current competition, to accelerate the Phase III clinical development of VASOMAX(TM) prior to obtaining additional financing. As the Company's existing capital resources will not be sufficient to fund this accelerated activity through 1996, management's new plans and projections raise substantial doubt about the Company's ability to continue as a going concern absent securing additional financing. Although the unaudited financial statements for the six months ended June 30, 1996 have not been audited or reviewed by the Company's independent public accountants, they have informed the company that if the conditions described above continue to exist at the time of their audit of the financial statements for the year ended December 31, 1996, their report on those statements will include an explanatory fourth paragraph because of the substantial doubt about the Company's ability to continue as a going concern.

The Company is currently in negotiations to license European rights to VASOMAX(TM) for up-front and milestone payments and future royalties and is also pursuing other funding options, including a private placement. The unavailability of such financing could delay or prevent the development and marketing of some or all of the Company's proposed products or cause the Company to cease operations. There can be no assurance that the Company will be successful in obtaining additional capital in amounts sufficient to continue to fund its operations and product development. The Company can make no assurance that even if additional funds are secured, that it will receive approval from the Food and Drug Administration (FDA) to continue development of VASOMAX(TM). In addition, even if such approval is received, there can be no assurance that VASOMAX(TM) will ever be approved by the FDA for commercialization or that the Company can secure funds necessary to commercialize this technology or that it will have the ability to commercialize this technology.

There can be no assurance that the Company will be able to obtain financing on favorable terms in the public or private capital markets in the foreseeable future. The Company is attempting to develop additional corporate collaborations, but has not entered into any letters of intent or agreements in principal with respect to any collaborations. There can be no assurance that the Company will be able to consummate any corporate collaborations on terms favorable to the Company or at all. The failure or inability of the Company to obtain additional financing on acceptable terms would have a material adverse effect on the Company.

During the first quarter of 1996 the Company received $798,000 from the exercise of stock warrants for 219,776 shares of Common Stock and $68,200 from the exercise of stock options for 16,500 shares of Common Stock.

Current liabilities were $1,702,000 at June 30, 1996 compared with $1,160,000 at December 31, 1995. This increase of $542,000 is primarily due to accrued expenses associated with the development of VASOMAX(TM).

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The words "anticipate," "believe," "expect," "estimate," "project" and similar expressions are intended to identify forward-looking statements. Such statements are subject to certain risks, uncertainties and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, believed, expected, estimated or projected. For additional discussion of such risks, uncertainties and assumptions, see "Item 1. Business - Patents and Proprietary Information," "- Manufacturing Plans," "- Competition," "- Governmental Regulations" and "Item 3. Legal Proceedings" included in the Company's Annual Report on Form 10-K for the year ended December 31, 1995, as amended, and "- Liquidity and Capital Resources" included elsewhere in this report.

ZONAGEN, INC.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On May 16, 1994, Dr. Bonita Sue Dunbar ("Dunbar") filed in the 270th District Court of Harris County, Texas, naming Baylor College of Medicine ("BCM"), BCM Technologies, Inc. ("BCMT"), Fulbright and Jaworski, The Woodlands Venture Capital Company ("Woodlands"), and Zonagen as defendants (collectively the "Defendants"). Dunbar is a cellular and molecular biologist who has been employed by BCM as a teacher and research scientist since 1981. During the course of her employment at BCM, Dunbar developed technologies relating to the use of certain recombinant zona pellucida peptides that were assigned to Zonagen. Dunbar claimed, among other things, that her assignment of the patent rights was induced by statutory and constructive fraud and a civil conspiracy on the part of the Defendants, seeking damages and rescission of the assignment. Dunbar also included a separate claim against Zonagen alleging that Zonagen had converted certain of her endometriosis research, seeking unspecified damages in connection with this conversion claim.

BCM, BCMT, Fulbright & Jaworski, and Woodlands filed motions for summary judgement on all of Dunbar's claims and received a favorable ruling from the Court. Zonagen filed a motion for partial summary judgement on all of Dunbar's claims with the exception of the conversion claim and received a favorable ruling from the Court. As a result of these rulings, Dunbar is unable to rescind the assignment, and is left only with her conversion claim. The conversion claim has been severed from the remainder of the lawsuit and abated pending Dunbar's appeal of the Court's Orders granting Defendants' motions for summary judgement. Dunbar's appeal of the Court's order granting Defendants' motions for summary judgement has been perfected. Dunbar's appellate brief is expected during the month of August, 1996. The Company believes the conversion claim is groundless.

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

On June 19, 1996, the Company held its annual meeting of stockholders in The Woodlands, Texas and submitted the following matters to a vote of the stockholders: (i) the election of the six directors listed below, and (ii) to consider and act on such other business as may properly be presented at the meeting.

ELECTION OF DIRECTORS

The following nominees were elected as the Company's Directors until the next annual meeting of stockholders, with the following numbers of shares voting in favor of or abstaining from the election of such persons:

Name of Nominee	Voted For	Votes Against	Withheld
Martin P. Sutter	3,827,178	-0-	12,120
Joseph S. Podolski	3,826,978	-0	12,320
David B. McWilliams	3,827,178	-0-	12,120
Steven Blasnik	3,827,178	-0-	12,120
David W. Ortlieb	3,827,178	-0-	12,120
Allan D. Rudzik	3,826,978	-0-	12,320

Item 6. Exhibits and Reports on Form 8-K

a. Exhibits

None.

b. Reports on Form 8-K

None.

ZONAGEN, INC.

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ZONAGEN, INC.

Date: August 1, 1996

By: /s/ Joseph S. Podolski
Joseph S. Podolski
President and
Chief Executive Officer
(Principal Executive Officer)

Date: August 1, 1996

By: /s/ Louis Ploth
Louis Ploth
Vice President of Business
Development and Chief
Financial Officer
(Principal Financial and
Accounting Officer)

ZONAGEN, INC.
INDEX TO EXHIBITS

Exhibit Number	Identification of Exhibits	Sequentially Numbered Page
11.1	Statement regarding computation of net loss per share	18
27.1	Financial Data Schedule	

EXHIBIT 11.1

STATEMENT REGARDING COMPUTATION OF NET LOSS PER SHARE

Three Months Ended
June 30, 1996

Net Loss		Weighted Average Shares Outstanding		Loss per Share
$1,534,971	divided by	4,857,549	equals	$0.32

Six Months Ended
June 30, 1996

Net Loss		Weighted Average Shares Outstanding		Loss per Share
$3,086,069	divided by	4,644,966	equals	$0.66

WARNING: THE EDGAR SYSTEM ENCOUNTERED ERROR(S) WHILE PROCESSING THIS SCHEDULE.

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This schedule contains summary fiancial information extracted from the consolidated balance sheets and consolidated statements of operations found on pages (4) and (5) on the company's Form 10-Q for the year-to-date, and is qualified in its entirety by reference to such financial statements.
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