

SECURITIES AND EXCHANGE COMMISSION
 WASHINGTON, DC 20549
 FORM 10-Q

X Quarterly report pursuant to Section 13 or 15(d) of the Securities

 Exchange Act of 1934 for the quarterly period ended September 30, 1996.

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 O-8092

OXIS INTERNATIONAL, INC.

A Delaware corporation
 I.R.S. Employer Identification No. 94-1620407
 6040 N. Cutter Circle, Suite 317
 Portland, OR 97217
 Telephone: (503) 283-3911

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 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.

YES X NO

At September 30, 1996, the issuer had outstanding the indicated number of shares of common stock: 13,314,896

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

<TABLE>
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	Three months ended September 30		Nine months ended September 30	
	1996	1995	1996	1995
	<C>	<C>	<C>	<C>
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Revenues:				
Product sales	\$ 1,396,000	\$ 1,024,000	\$ 3,933,000	\$ 4,164,000
Royalties and license fees	6,000	74,000	64,000	146,000
Total revenues	1,402,000	1,098,000	3,997,000	4,310,000
Cost and expenses:				
Cost of sales	967,000	735,000	2,544,000	2,593,000
Research and development	1,258,000	1,025,000	3,619,000	3,044,000
Selling, general and administrative	621,000	827,000	2,247,000	2,318,000
Purchased in-process technology	--	3,329,000	--	3,329,000

Total costs and expenses	2,846,000	5,916,000	8,410,000	11,284,000
Operating loss	(1,444,000)	(4,818,000)	(4,413,000)	(6,974,000)
Interest income	12,000	16,000	33,000	36,000
Interest expense	(7,000)	(29,000)	(124,000)	(112,000)
Net loss	\$(1,439,000)	\$(4,831,000)	\$(4,504,000)	\$(7,050,000)
Net loss per share	\$(.11)	\$(.41)	\$(.36)	\$(.68)
Weighted average number of shares used in computation	13,301,037	11,858,200	12,546,092	10,426,071

</TABLE>

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CONSOLIDATED BALANCE SHEETS

<TABLE>

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	September 30, 1996	December 31, 1995
	(unaudited)	
ASSETS	<C>	<C>
Current assets:		
Cash and cash equivalents	\$ 140,000	\$ 727,000
Accounts receivable	1,039,000	823,000
Inventories	605,000	953,000
Prepaid and other	206,000	262,000
Total current assets	1,990,000	2,765,000
Property and equipment, net	1,357,000	1,092,000
Assets under capital leases, net	445,000	1,198,000
Technology for developed products and custom assays, net	3,961,000	4,498,000
Other assets	293,000	317,000
Total assets	\$8,046,000	\$9,870,000

</TABLE>

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CONSOLIDATED BALANCE SHEETS

<TABLE>

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	September 30, 1996	December 31, 1995
	(Unaudited)	
LIABILITIES AND SHAREHOLDERS' EQUITY	<C>	<C>
Current liabilities:		
Notes payable	\$ 288,000	\$ 1,616,000
Accounts payable	1,612,000	1,182,000
Customer deposits	256,000	250,000
Accrued liabilities	630,000	903,000
Current portion of capital lease obligations	151,000	283,000
Total current liabilities	2,937,000	4,234,000

Capital lease obligations and other	9,000	77,000
8% convertible subordinated debentures	--	1,255,000
Shareholders' equity:		
Preferred stock - \$.01 par value; 15,000,000 shares authorized:		
Series B - 642,583 shares issued and outstanding (liquidation preference of \$1,500,000)	6,000	6,000
Series C - 1,697,157 shares issued and outstanding	17,000	--
Series D - 2,000 shares issued and outstanding	--	--
Common stock - \$.50 par value; 40,000,000 shares authorized; 13,314,896 shares issued and outstanding		
Additional paid in capital	29,993,000	25,210,000
Accumulated deficit	(31,534,000)	(27,031,000)
Accumulated translation adjustments	(40,000)	57,000
	-----	-----
Total shareholders' equity	5,100,000	4,304,000
	-----	-----
Total liabilities and shareholders' equity	\$ 8,046,000	\$ 9,870,000
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</TABLE>

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CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

<TABLE>

<CAPTION>

	Nine Months Ended September 30,	
	1996	1995
	<C>	<C>
Cash flows from operating activities:		
Net loss	\$(4,504,000)	\$(7,050,000)
Adjustments to reconcile net loss to cash provided by (used for) operating activities:		
Depreciation and amortization	1,013,000	1,024,000
Purchased in-process technology	--	3,329,000
Changes in assets and liabilities:		
Accounts receivable	(216,000)	(393,000)
Inventories	348,000	79,000
Other current assets	56,000	246,000
Accounts payable	430,000	(476,000)
Customer deposits	6,000	(866,000)
Accrued liabilities	(141,000)	48,000
	-----	-----
Net cash used for operating activities	(3,008,000)	(4,059,000)
Cash flows from investing activities:		
Redemption of certificates of deposit	--	496,000
Purchases of equipment	(54,000)	(45,000)
Acquisition and stock issuance costs	--	(506,000)
Cash of business acquired	--	73,000
Other, net	55,000	(113,000)
	-----	-----
Net cash provided by investing activities	1,000	(95,000)
Cash flows from financing activities:		
Proceeds from issuance of short-term notes	65,000	1,366,000
Proceeds from issuance of stock, net of related cost	3,181,000	3,538,000
Repayment of short-term borrowings	(627,000)	(340,000)
Repayment of long-term debt and capital lease obligations	(199,000)	(338,000)
	-----	-----
Net cash provided by financing activities	2,420,000	4,226,000

Net increase (decrease) in cash and cash equivalents	(587,000)	72,000
Cash and cash equivalents - beginning of period	727,000	936,000
Cash and cash equivalents - end of period	\$ 140,000	\$ 1,008,000

</TABLE>

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CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. FINANCIAL STATEMENTS AND CONDENSED NOTES

The unaudited consolidated financial statements, which have been prepared in accordance with the instructions to Form 10-Q, do not include all of the information and notes required by generally accepted accounting principles for complete financial statements. All adjustments considered necessary by management for a fair presentation have been included. Operating results for interim periods are not necessarily indicative of the results that may be expected for the full year.

An annual report (Form 10-K) has been filed with the Securities and Exchange Commission ("Commission") for the year ended December 31, 1995. That report contains, among other information, a description of the business of OXIS International, Inc. ("OXIS" or the "Company"), audited financial statements, notes to the financial statements, the report of the independent auditors and management's discussion and analysis of results of operations and financial condition. Readers of this report are presumed to be familiar with that annual report.

The functional currency of OXIS International S.A. ("OXIS S.A"), the Company's foreign subsidiary, is the French franc. OXIS S.A.'s assets and liabilities are translated using the exchange rate at the end of the period. Its statement of operations is translated at the average exchange rate during the period. Gains or losses resulting from foreign currency translation are accumulated as a separate component of shareholders' equity.

2. BASIS OF PRESENTATION

These financial statements have been prepared on a going concern basis which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company has incurred losses in each of the last three years, and for the nine months ended September 30, 1996. As of September 30, 1996, the Company's current liabilities exceeded its current assets by \$947,000. These and other factors indicate that the Company may be unable to continue as a going concern. The Company's continuation as a going concern is contingent upon its ability to obtain additional financing, and to generate revenue and cash flow to meet its obligations on a timely basis. These financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that may be necessary should the Company be unable to continue as a going concern.

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The Company is currently seeking additional capital through another private placement of equity securities. If the Company is unable to raise additional capital during the remainder of 1996, it intends to curtail its operations through the reduction of personnel and facility costs and by slowing its research and development efforts. If the Company were unable to sufficiently curtail its costs in such a situation, it might be forced to seek protection of the courts through reorganization, bankruptcy or insolvency proceedings.

3. INVENTORIES

Inventories are stated at the lower of cost or market. Cost has been determined by using the first-in, first-out and specific identification

methods. Inventories at September 30, 1996 and December 31, 1995, consisted of the following:

<TABLE>
<CAPTION>

	September 30, 1996	December 31, 1995
<S>	<C>	<C>
Raw materials	\$171,000	\$173,000
Work in process	202,000	354,000
Finished goods	232,000	426,000
	-----	-----
Total	\$605,000	\$953,000
	-----	-----

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4. SHAREHOLDERS' EQUITY

During the first six months of 1996, the Company issued 1,125,590 shares of its Series C Preferred Stock for cash of \$1,463,000. In addition, in May 1996, the Company issued 648,490 shares of its Series C Preferred Stock in exchange for the cancellation of \$766,000 principal plus accrued interest of \$77,000 on 8% notes payable to former shareholders of the Company's French subsidiary. Each share of Series C Preferred Stock is initially convertible into one share of the Company's common stock at the option of the holder at any time. After six months following the closing of the sales of Series C Preferred Stock, the conversion ratio may be adjusted under certain circumstances, and after eight months following the closing, the Company has the right to automatically convert the Series C Preferred Stock into common stock under certain circumstances. Each share of Series C Preferred Stock is entitled to the number of votes equal to 1.30 divided by the average closing bid price of the Company's common stock during the fifteen consecutive trading days immediately prior to the date such shares of Series C Preferred Stock were purchased.

In May 1996, the Company issued 2,000 shares of its Series D Preferred Stock and warrants to purchase 810,126 shares of common stock for cash of \$2,000,000. The Series D Preferred Stock entitles the holder thereof to convert its shares into a number of shares of common stock determined by dividing the stated value of the Series D Preferred Stock (i.e., \$1,000 per share), plus a premium in the amount of 8% per annum of the stated value from

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the date of issuance, by a conversion price equal to the lesser of (i) \$2.30 and (ii) a percentage (ranging from 100% on or before June 24, 1996 to 75% after August 3, 1996) of the average of the closing bid prices for shares of common stock for the five trading days immediately prior to conversion, but limited to a maximum of 2,424,884 shares of common stock.

In June 1996, \$1,255,000 principal plus accrued interest of \$58,000 on the Company's 8% convertible subordinated debentures were converted into 1,050,217 shares of common stock.

5. STOCK OPTIONS

The Company has a stock incentive plan under which 2,200,000 shares of the Company's common stock are reserved for issuance. The plan permits granting stock options to acquire shares of the Company's common stock, awarding stock bonuses of the Company's common stock, and granting stock appreciation rights. During the nine months ended September 30, 1996, options to purchase 642,500 shares at exercise prices of \$1.56 - \$2.28125 have been issued under the plan. As of September 30, 1996, the Company had options outstanding to purchase 973,000 shares of the Company's common stock under this plan. As of September 30, 1996, options to purchase 637,826 shares of the Company's common stock at exercise prices of \$1.56 - \$3.50 per share were exercisable.

6. CONVERTIBLE TERM NOTES

Subsequent to September 30, 1996, the Company sold \$1,000,000 of secured convertible term notes with warrants to two of the Company's current shareholders. The notes bear interest at 10% per annum, are due in June 1997, and are initially convertible into common stock at a price of \$1.4125 per share. The warrants issued entitle the holders to purchase up to 300,000 shares of common stock, initially at an exercise price of \$1.58125 per share. The conversion rate of the convertible term notes and the exercise price of the warrants are subject to change under certain circumstances.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

The Company's working capital position has improved during the first nine months of 1996. At December 31, 1995, the Company had a working capital deficit of \$1,469,000. As of September 30, 1996, the Company's working capital deficit had been reduced to \$947,000. The improvement in working capital during the nine-month period resulted primarily from the issuance of stock for cash (net proceeds of \$3,181,000) and redemption of short-term notes and accrued interest of \$843,000 in exchange for Series C Preferred Stock, offset by the net loss for the nine months (\$3,491,000, excluding depreciation and amortization).

The Company's cash and cash equivalents decreased during the nine-month period - from \$727,000 as of December 31, 1995 to \$140,000 as of September 30, 1996.

The Company expects to continue to report losses in the near term as the level of expenses is expected to continue to exceed revenues. The Company must raise additional capital during the remainder of 1996. Although the Company has continued to raise additional funds through private placements (described below), it cannot predict the source, terms, amount, form, and/or availability of additional capital to fund its operations to the end of the current year. Failure to raise such additional capital would cause the Company to severely curtail or cease operations. For more information concerning the Company's ability to continue as a going concern, see Note 2 to the consolidated financial statements.

While the Company believes that its new products and technologies show considerable promise, its ability to realize significant revenues therefrom is dependent, in part, upon the Company's success in developing business alliances with biotechnology and/or pharmaceutical companies that have the required resources to develop and market certain of these products. There is no assurance that the Company's effort to develop such business alliances will be successful.

During the first nine months of 1996, the Company has raised approximately \$3,200,000 cash through the sale of its Series C and Series D Preferred Stock. In addition, in October 1996, the Company raised an additional \$1,000,000 through the sale of convertible term notes with warrants. The Company expects that additional capital will be required during 1996 to continue operating in accordance with its current plans. However, no assurances can be given that the Company will successfully raise the needed capital, or that if it is able to raise the needed capital, it will do so on favorable terms and conditions. If the Company is unable to raise additional capital during the remainder of 1996, it would endeavor to extend its ability to continue in business through the reduction of personnel and facility costs, by slowing its research and development efforts, and by reducing other operating costs; however, no assurances can be given that it will be able to do so.

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RESULTS OF OPERATIONS - THREE MONTHS ENDED SEPTEMBER 30, 1996 COMPARED WITH THREE MONTHS ENDED SEPTEMBER 30, 1995

REVENUES

The Company's product sales for the quarter ended September 30, 1996 were \$1,396,000, a 36% increase over sales of \$1,024,000 for the third quarter of 1995. The increase in sales resulted from an increase in the quantity of bulk

bSOD sold in the third quarter of 1996 as compared to the third quarter of 1995 (an increase of \$418,000).

COSTS AND EXPENSES

Cost of sales as a percentage of sales decreased from 72% for the quarter ended September 30, 1995 to 69% for the quarter ended September 30, 1996. The decrease in cost of sales as a percentage of sales resulted primarily from the increase in bulk bSOD sales which generally have a lower cost than the Company's other products.

Research and development expenses increased by \$233,000, from \$1,025,000 in the third quarter of 1995 to \$1,258,000 in the third quarter of 1996. This increase in research and development expenses is the result of increased expenditures relating to preclinical development work on the Company's lead therapeutics program (glutathione peroxidase mimics) of approximately \$353,000, offset by a cost reduction of approximately \$160,000 from the closure of the Company's Mountain View, California facility in the fourth quarter of 1995.

Selling, general and administrative expenses decreased by \$206,000, from \$827,000 in the third quarter of 1995 to \$621,000 in the third quarter of 1996. In the third quarter of 1996 all of the Company's manufacturing operations were consolidated in the United States and the French subsidiary became a research facility. In connection with this restructuring, two administrative positions have been eliminated and certain other costs which were previously charged to administrative expenses are now being classified as research and development costs. The administrative costs of the Company's French subsidiary decreased \$124,000 in the third quarter of 1996 as compared to the third quarter of 1995. Other reductions in the third quarter of 1996 as compared to the third quarter of 1995 included a \$37,000 decrease in legal fees, a reduction of \$39,000 in amortization of deferred financing costs relating to the Company's 8% convertible subordinated debentures which were converted to common stock in June 1996, and costs relating to the Company's annual shareholder meeting and solicitation of proxies (approximately \$25,000) incurred in the third quarter of 1995, but incurred in the second quarter of 1996.

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NET LOSS

The Company's net loss decreased by \$3,392,000, from \$4,831,000 (\$.41 per share) for the third quarter of 1995 to \$1,439,000 (\$.11 per share) for the third quarter of 1996. The net loss for the third quarter of 1995 includes a charge of \$3,329,000 for the effect of purchased in-process technology relating to the acquisition of Therox Pharmaceuticals, Inc. ("Therox") in July 1995. Excluding the charge for purchased in-process technology, the net loss for the third quarter of 1995 would have been \$1,502,000 (\$.13 per share).

RESULTS OF OPERATIONS - NINE MONTHS ENDED SEPTEMBER 30, 1996 COMPARED WITH NINE MONTHS ENDED SEPTEMBER 30, 1995

REVENUES

The Company's product sales for the first nine months of 1996 were \$3,933,000, compared to \$4,164,000 for the corresponding period in 1995, a decrease of \$231,000. The decrease is composed of decreases in sales of Palosein (\$93,000) and other products (\$335,000), offset by increases in sales of bulk bSOD (\$153,000) and research assays (\$48,000).

Bulk bSOD sales in 1995 included a \$948,000 sale to Sanofi Winthrop Inc. No further sales of bSOD to Sanofi Winthrop Inc. are expected. Sales of bSOD to the Company's Spanish distributor increased during the first nine months of 1996 as compared to the 1995 levels.

The decrease in Palosein sales is attributable primarily to a reduction in the volume of Palosein export sales and a reduction of purchases by domestic distributors in the first half of 1996 caused by an increase in purchases by those distributors during a promotional campaign in the fourth quarter of 1995. The reduction in sales of other products is due primarily to the completion of a contract in early 1996.

COSTS AND EXPENSES

Cost of sales as a percent of product sales increased from 62% in the first nine months of 1995 to 65% in the first nine months of 1996. Cost of sales in both the first nine months of 1995 and 1996 include \$552,000 in amortization of purchase adjustments relating to 1994 business acquisitions. Excluding such amortization, cost of sales would have been 51% of product sales for the first nine months of 1995 and 49% for the first nine months of 1996.

Research and development expenses increased by \$575,000, from \$3,044,000 for the first nine months of 1995 to \$3,619,000 for the first nine months of 1996. Increases in research and development expenses included increased expenses relating to preclinical development work and a Phase I clinical trial on the Company's lead therapeutics program (\$789,000)

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and costs of the former Therox operations (\$295,000). In May 1996, the Company closed the laboratory in Malvern, Pennsylvania formerly occupied by Therox. Increases in research and development expenses were offset by a reduction in costs of approximately \$598,000 resulting from the closure of the Company's Mountain View, California facility in the fourth quarter of 1995.

Selling, general and administrative expenses decreased from \$2,318,000 for the first nine months of 1995 to \$2,247,000 for the first nine months of 1996, a decrease of \$71,000. This decrease is primarily due to the reduction in administrative costs of the French subsidiary in the third quarter.

NET LOSS

The Company's loss for the first nine months of 1996 was \$4,504,000 (\$.36 per share) compared to a loss of \$7,050,000 (\$.68 per share) for the first nine months of 1995. The net loss for the first nine months of 1995 includes a charge of \$3,329,000 for the effect of purchased in-process technology relating to the acquisition of Therox in July 1995. Excluding the charge for purchased in-process technology, the net loss for the first nine months would have been \$3,721,000 (\$.36 per share).

Excluding the charge for purchased in-process technology, the net loss increased by \$783,000 for the first nine months of 1996 as compared to the first nine months of 1995. The major factors contributing to this increase were a \$182,000 reduction in profit margins on product sales and the increase of \$575,000 in research and development expenses.

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PART II. OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

(a) Exhibits - See Exhibit Index on page 14.

SIGNATURE

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.

OXIS International, Inc.

November 11, 1996 By /s/ Anna D. Barker

Anna D. Barker
President and Chief Executive Officer

November 11, 1996 By /s/ Jon S. Pitcher

Jon S. Pitcher
Chief Financial Officer

EXHIBIT INDEX

<TABLE>	<CAPTION>	Exhibit	Description of Document	Page	Number
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27(A)		</TABLE>	Financial data schedule		_____

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