UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q

(Mark One)
[X] Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the period ended October 31, 1997
OR
[ ] Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from __________ to _________

Commission file number 0-20772

CYPROS PHARMACEUTICAL CORPORATION
(Exact name of registrant as specified in its charter)

California	33-0476164
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2714 Loker Avenue West
Carlsbad, California 92008
(Address of principal executive offices)(Zip Code)

Registrant's telephone number,
including area code:(760) 929-9500

Indicate by mark whether the Registrant (1) has filed all reports required to be filed by Section 13 of 15(d) of the Securities Exchange Act 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
[X] YES [ ] NO

As of December 12, 1997, the Registrant had 15,475,118 shares of Common Stock, no par value, outstanding.

CAPTION>

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* No information provided due to inapplicability of item.

PART I.
Item 1. Financial Statements
Cypros Pharmaceutical Corporation
Balance Sheets

Assets	October 31, 1997 (Unaudited)	July 31, 1997 (Note)
Current assets:		
Cash and cash equivalents	$ 2,743,054	$5,101,710
Short-term investments, held to maturity	9,719,764	9,465,561
Accounts receivable	381,730	355,425
Inventories	85,236	93,177
Other current assets	25,822	75,038
Total current assets	12,955,606	15,090,911
Property, equipment and leasehold improvements, net	626,336	675,686
Purchased technology, net	4,836,528	5,060,875
Deferred financing costs, net	72,438	259,127
Licenses and patents, net	186,238	162,592
Other assets	80,632	95,525
Total assets	$ 18,757,778	$21,344,716
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable	$ 322,992	$ 365,386
Accrued compensation	152,730	121,605
Other accrued liabilities	107,617	131,800
Purchased asset obligations	-	1,272,000
Current portion of long-term debt	16,547	41,367
Current portion of capital lease obligations	102,518	106,206
Total current liabilities	702,404	2,038,364
Capital lease obligations	126,147	148,787
Deferred rent	130,795	104,196
Mandatorily convertible notes	1,114,400	4,027,461
Shareholders' equity:		
Common stock, 30,000,000 shares authorized, 14,521,121 and 13,650,405 shares issued and and outstanding as of October 31, 1997 and July 31,1997,respectively	35,356,234	32,344,793
Deferred compensation	(122,938)	(161,950)
Accumulated deficit	(18,549,264)	(17,156,935)
Total shareholders' equity	16,684,032	15,025,908
Totalliabilities and shareholders'equity	$18,757,778	$21,344,716

Note: The balance sheet at July 31, 1997 has been derived from the audited financial statements at that date but but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

See accompanying notes.

Cypros Pharmaceutical Corporation

Statements of Operations
(Unaudited)

	Three Months Ended October 31, 1997	1996
Net sales	$ 771,417	$ 367,131
Cost of sales	167,944	105,122
Gross Profit	603,473	262,009
Operating expenses:		
Sales and marketing	356,696	162,456
General and administrative	701,740	621,510
Clinical testing and regulatory	456,902	339,135
Research and development	252,973	215,401
Depreciation and amortization	300,431	187,887
Total operating expenses	2,068,742	1,526,389
Loss from operations	(1,465,269)	(1,264,380)
Research grant income	25,037	47,400
Interest and other income, net	234,592	284,496
Amortization of discount and costs on mandatorily convertible notes	(186,689)	(676,515)
Net loss	$ (1,392,329)	$ (1,608,999)
Net loss per share	$ (0.10)	$ (0.14)
Shares used in computing net loss per share	14,024,710	11,613,748

See accompanying notes.

Cypros Pharmaceutical Corporation
Statements of Cash Flows
(Unaudited)

	Three Months Ended October 31 1997	1996
Operating activities		
Net Loss	$(1,392,329)	$(1,608,999)
Adjustments to reconcile net loss to net cash used in operating activities:		
Amortization of deferred compensation	137,392	74,272
Depreciation and amortization	301,822	187,886
Amortization of discount and costs on mandatorily convertible notes	186,689	676,515
Deferred rent	26,599	2,053
Changes in operating assets and liabilities, net of effects from acquisitions:		
Accounts receivable	(26,305)	(30,229)
Inventories	7,941	(2,331)
Other current assets	49,216	36,798
Accounts payable	(42,394)	(5,493)
Accrued liabilities	(65,058)	(116,345)
Net cash flows used in operating activities	(816,427)	(785,873)
Investing activities		
Short-term investments	(254,203)	(1,574,086)
Installment payment for purchased technology	(1,200,000)	(200,000)
Purchase of property, equipment and leasehold improvements	(15,661)	(12,513)
Increase in licenses and patents	(36,110)	(14,172)

Decrease in other assets	14,893	4,701
Net cash flows used in investing activities	(1,491,081)	(1,796,070)
Financing activities		
Repayments of long-term debt	(26,328)	(24,820)
Repayments of capital leases/ obligations	(24,820)	(19,248)
Net cash flows used by financing activities	(51,148)	(44,068)
Decrease in cash and cash equivalents	(2,358,656)	(2,626,011)
Cash and cash equivalents at beginning of period	5,101,710	8,306,752
Cash and cash equivalents at end of period	$2,743,054	$5,680,741
Supplemental disclosures of cash flow information:		
Cash paid for interest	$103,887	$12,723
Noncash investing and financing activities:		
Equipment financed under capital leases	$ -	$79,992
Notes converted to common stock	$2,913,061	$ -

See accompanying notes

CYPROS PHARMACEUTICAL CORPORATION

NOTES TO FINANCIAL STATEMENTS

1. Organization and Summary of Significant Accounting Policies

Organization and Business Activity

Cypros Pharmaceutical Corporation (the "Company") is engaged in the development and marketing of acute-care, hospital-based products. The Company is currently marketing three products, Ethamolin, Glofil and Inulin, and developing two drugs, CPC-111 and Ceresine (formerly CPC-211). The Company's pre-clinical and clinical development programs focus on cytoprotective drugs designed to reduce ischemia (low blood flow) induced tissue damage in acute-care settings. The Company expects to be in late-phase clinical trials with CPC-111 and Ceresine in 1998.

Basis of Presentation

The unaudited financial statements for the three months ended October 31, 1997 and 1996 have been prepared on the same basis as the Company's audited financial statements for the year ended July 31, 1997 and reflect all adjustments (consisting only of normal recurring accruals) which are, in the opinion of management, necessary for the fair presentation of the results of the interim periods presented. Results for the interim periods are not necessarily indicative of the results for the entire year.

For more complete financial information, these financial statements should be read in conjunction with the audited financial statements and the related notes thereto for the year ended July 31, 1997 included in the Company's Annual Report on Form 10-K.

The Company has experienced significant quarterly fluctuations in operating results and increases in expenses and losses since inception and it expects these fluctuations, expenses and losses will continue.

Inventory

Inventory is stated at the lower of cost (first-in, first-out method) or market and is comprised of raw materials of $10,326 and finished goods of $74,910.

Revenue Recognition

Revenues from product sales of Ethamolin and whole vials of Glofil and Inulin are recognized upon shipment. Revenues from Glofil unit sales are recognized upon receipt by the Company of monthly sales reports from its third-party distributor. The Company is not obligated to accept returns of products sold that have reached their expiration date.

Net Loss Per Share

Net loss per share is computed using the weighted average number of common shares outstanding during the periods.

Reclassifications

Certain previously reported amounts have been reclassified to conform with the 1997 presentation.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and disclosures made in the accompanying notes to the financial statements. Actual results could differ from those estimates.

2. Subsequent Events

On November 3, 1997, the Company's Redeemable Class B Warrants trading on the Nasdaq National Market System under the symbol "CYPRZ" expired. Prior to expiration, 856,026 of them were exercised into the same number of shares of the Company's Common Stock at an exercise price of $5.50 each and the Company raised $4.7 million in new capital.

On November 25, 1997, the Company acquired a license to the New Drug Application and a 510(k) application for Sildimac and Medimac, two burn and wound care products, and two U.S. patents on a proprietary drug delivery technology known as "DIMAC" for future royalties and other considerations from Enquay, Inc. In addition, the Company purchased various items of equipment necessary to manufacture products using the DIMAC controlled release technology. The purchase price for the equipment is payable in installments with the post-closing installments evidenced by a promissory note, whose principal and interest is secured by a security interest. The Company expects to launch one or both of Sildimac and Medimac in 1998.

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

Except for the historical information contained herein, the following discussion contains forward-looking statements that involve risks and uncertainties, including statements regarding the period of time during which the Company's existing capital resources and income from various sources will be adequate to satisfy its capital requirements. The Company's actual results could differ materially from those discussed herein. Factors that could cause or contribute to such differences include but are not limited to, those discussed in this section, as well as in the sections entitled "Business", "Licenses", "Manufacturing", "Sales and Marketing", "Competition", "Government Regulation", "Patents and Proprietary Rights" of the Company's Annual Report (Form 10-K) for the fiscal year ended July 31, 1997 and those discussed in the S-3 Registration Statement File No. 333-25661 filed with U.S. Securities and Exchange Commission, as well as those discussed in any documents incorporated by reference herein or therein..

The Company was founded in 1990, commenced its research and development activities in 1991, completed an initial public offering (the "IPO") in November 1992, commenced clinical trials in December 1994, acquired two FDA-cleared products, Glofil and Inulin in August 1995, and acquired a third FDA-cleared product, Ethamolin, in November 1996. The Company has sustained an accumulated deficit of $18,549,264 from inception through October 31, 1997. As the Company will not have significant positive net operating cash flow for the next few years and the Company's research and development, clinical testing and regulatory, sales and marketing and general and administrative expenses during these years will be substantial and increasing, the Company expects to incur increasing losses for the foreseeable future.

Results of Operations

During the fiscal quarter ended October 31, 1997, the Company sustained a loss of $1,392,329 (or $.10 per share) compared to a loss of $1,608,999 (or $.14 per share) for the prior-year quarter. Because of the introduction of Ethamolin to the Company's product portfolio, sales, gross profit and gross profit margin for the current quarter were $771,417, $603,473 and 78.2%, respectively, a 110.1%, 130.3% and 9.7% increase over the $367,131, $262,009 and 71.3% reported, respectively, in the prior-year quarter. Sales and marketing expense increased by 120% to $356,696 in the current quarter from $162,456 in the prior-year quarter due to increased payroll and commission expense related to additional sales and marketing personnel, their travel and related expense and increased promotional expense.

General and administrative expense increased by 12.9% to $701,740 in the current quarter from $621,510 in the prior-year quarter with decreases in investment banking fees and deferred compensation amortization being offset by increases in investor relations expense, securities fees and legal fees.

Clinical testing and regulatory expense increased by 34.7% to $456,902 in the current quarter from $339,135 in the prior-year quarter, principally as a result of increased site costs and use of data input and management, statistical and other consultants to accelerate, finish and report on the Company's various Phase II clinical trials.

Depreciation and amortization expense increased by 59.9% to $300,431 from $187,887 in the prior-year quarter as a result of the expense related to the amortization of the Ethamolin purchased technology.

Net interest and other income for the current quarter decreased by 17.5% to $234,592 in the current quarter from $284,496 in the prior-year quarter, as rental revenue from the sublease of the Company's former executive offices was offset by lower interest income from the Company's investment portfolio and increased interest expense from the accrual of the interest on the $1,200,000 promissory note issued to Schwarz Pharma as part of the Ethamolin acquisition (the "Schwarz Note").

Amortization of discount and costs on mandatorily convertible notes (the "Notes") decreased 72.5% to $186,689 in the current quarter from $676,515 in the prior-year quarter principally as a result of the fact that the amortization charges on the Notes were allocated over the lock-up periods for the Noteholders which began on the date of closing of the transactions in April and July 1996 and ended on the first possible conversion dates which ranged from January 1997 to July 1997. Thus, all of the amortization charges were taken by fiscal year end 1997, and the current quarter's amortization is completely financing costs.

The financing costs of the Notes are amortized as Notes are converted in proportion to the percentage of outstanding Notes converted but no less than on a straight-line basis over the three-year maturity of the Notes. At the end of the current quarter only $72,438 of these costs remained to be amortized.

During the quarter, $2,913,061 in principal amount of the Notes was exercised into 870,716 shares of Common Stock and $1,114,400 in principal amount remained.

Liquidity and Capital Resources

The Company has principally funded its activities to date through its initial public offering ("IPO") in November 1992, which raised $5,951,000, subsequent exercises of its Redeemable Class A Warrants in 1994 and early 1995, which raised $10,497,000, exercises by the underwriter of the IPO of its unit purchase options (and the Redeemable Class A Warrants within such options), which raised $1,681,000, three private placements of mandatorily convertible notes during April and July 1996, which raised net proceeds of $7,458,000, and a private placement of Common Stock to the President and Fellows of Harvard College and another institutional investor during March 1997, which raised net proceeds of $4,715,000.

At October 31, 1997, the Company had cash, cash equivalents and short-term investments of $12,462,818 compared to $14,567,271 at July 31, 1997. At October 31, 1997, working capital was $12,253,202 compared to $13,052,547 at July 31, 1997. The decline in both balance sheet items was principally due to the payment of the Schwarz Note during the current quarter.

The Company expects that its cash needs will increase significantly in future periods due to expansion of research and development programs, increased clinical testing activity, growth of administrative, clinical and laboratory staff and expansion of facilities to accommodate increased numbers of employees. The Company's management believes that the Company's working capital will be sufficient to fund the operations of the Company for more than two years dependent, in part, on the timing of the commencement of each phase of the clinical trials on CPC-111 and Ceresine and the funding priorities that it gives its various research programs, the results of clinical tests and research programs; competing technological and market developments; the time and costs involved in obtaining regulatory approvals and in obtaining, maintaining and enforcing patents; the cost of product acquisitions and their resulting cash flows and other factors.

The Company is funding a significant portion of its operating expenses through cash flow from product sales, but expects to seek additional funds through exercises of its currently outstanding options, public or private equity financings, collaborations or from other sources. There can be no assurance that additional funds can be obtained on desirable terms or at all. The Company may seek to raise additional capital whenever conditions in the financial markets are favorable, even if the Company does not have an immediate need for additional cash at that time.

Part II.

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits.

The following exhibit is required to be filed by Item 601 of Regulation S-K.

Exhibit Number	Description
10.1	Employment Agreement dated December 6, 1997 between the Registrant and Zofia E. Dziewanowska, M.D., Ph.D.

(b) Reports on Form 8-K.
None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Carlsbad, County of San Diego, State of California, on the 12th day of December, 1997.

CYPROS PHARMACEUTICAL CORPORATION

By /s/ Paul J. Marangos
- ---------------------------
Paul J. Marangos
Chairman of the Board,

President and Chief Executive Officer

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

Exhibit Index

Exhibit Number	Description	Page
10.1	Employment Agreement dated December 6, 1997 between the Registrant and Zofia E. Dziewanowska,M.D., Ph.D.	13

Exhitit 10.1

EMPLOYMENT AGREEMENT

between
CYPROS PHARMACEUTICAL CORPORATION,
a California Corporation
and
Zofia Dziewanowska, M.D., Ph.D.
December 6, 1997

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EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (this "Agreement") is made and entered into effective as of December 6, 1997 by and between Cypros Pharmaceutical Corporation, a California corporation (the "Company"), and Zofia Dziewanowska, M.D., Ph.D., ("Executive"). The Company and Executive are hereinafter collectively referred to as the "Parties", and individually referred to as "Party".

RECITALS:

A. The Company desires to hire Executive as an executive with the Company.

B. The Executive desires to be employed by the Company pursuant to an employment agreement with the Company and the Compensation Committee of the Board of Directors of the Company has determined that it is in the best interests of the Company to award such an agreement to Executive.

AGREEMENT:

In consideration of the foregoing premises and the mutual covenants herein contained, and for other good and valuable consideration, the Parties, intending to be legally bound, agree as follows:

1. Employment.

1. 1. The Company hereby employs Executive, and Executive hereby accepts employment by the Company, upon the terms and conditions set forth in this Agreement.

1.2. Executive shall be the Senior Vice President, Drug Development and Regulatory Affairs of the Company and shall serve in such other capacity or capacities as the President and/or the Board of Directors of the Company may from time to time prescribe.

1.3. Executive shall do and perform all services, acts or things necessary or advisable to manage and conduct the business of the Company, provided, however, that at all times during his employment Executive shall be subject to the direction and policies from time to time established by the Board of Directors of the Company.

1.4. Unless the Parties otherwise agree in writing, during the term of this Agreement, Executive shall perform the services she is required to perform pursuant to this Agreement at the Company's offices, located at 2714 Loker Avenue West, Carlsbad, Califomia, 92008, or at any other place at which the Company maintains an office; provided, however, that the Company may from time to time require Executive to travel temporarily to other locations in connection with the Company's business.

2. Loyal and Conscientious Performance: Noncompetition.

2.1. During her employment by the Company, Executive shall devote her full energies, interest, abilities and productive time to the proper and efficient performance of his duties under this Agreement.

2.2. During the term of this Agreement, Executive shall not engage in competition with the Company, either directly or indirectly, in any manner or capacity, as adviser, principal, agent, partner, officer, director, employee, member of any association or otherwise, in any phase of the business of developing, manufacturing and marketing medical products which are in the same field of use or which otherwise compete with the products or proposed products of the Company. Ownership by Executive, as a passive investment, of less than one percent (1%) of the outstanding shares of capital stock of any corporation with one or more classes of its capital stock listed on a national securities exchange or publicly traded in the over-the-counter market shall not constitute a breach of this paragraph.

3. Term of Employment.

3.1. Subject to earlier termination as provided in this Agreement, Executive shall be employed pursuant to the terms of this Agreement for a term beginning December 6, 1997 and expiring at midnight on December 5, 2000. After the expiration of such term, this Agreement shall continue from month to month in the absence of written notice to the contrary from either Party to the other.

4. Compensation of Executive

4.1. During the term of this Agreement, the Company shall pay Executive a salary (the "Base Salary") of One Hundred Eighty-Five Thousand Dollars ($185,000) per year, payable in regular periodic payments in accordance with Company policy. Such salary shall be prorated for any partial year of employment on the basis of a 365-day fiscal year.

4.2. Executive's compensation may be changed from time to time by mutual agreement of Executive and the Board of Directors of the Company.

4.3. Executive's performance shall be reviewed by the Board of Directors of the Company on a periodic basis (but not less than once in each fiscal year during the term of this Agreement) and the Board may in its sole discretion, award such bonuses to Executive as shall be appropriate or desirable based on Executive's performance.

4.4. All of Executive's compensation shall be subject to customary withholding taxes and any other employment taxes as are commonly required to be collected or withheld by the Company.

4.5. The Company will also convert the stock option previously granted to Executive during her status as a consultant to the Company into an incentive stock option. Such option shall be subject to a stock option agreement in the form approved by the Board of Directors. Any such option shall be subject to a vesting schedule as described in the employee stock option agreement. Further, if Executive leaves the employment of the Company for any reason within one year of the date of the commencement of her employment, then she will lose the vesting of any stock options vested to the date of termination. If Executive leaves thereafter, she will have 90 days to exercise those options which have vested.

In addition, upon the enrollment of the first patient in a Phase III trial of either CPC-111 or Ceresine, the Company will award Executive a bonus equal to 26,250 options (with the same terms as above except for the exercise price, which will be equal to 100% of the bid on the date of such enrollment).

4.6. Executive shall be eligible to participate in and be covered by any vacation, pension and profit sharing, life insurance, accident insurance, health insurance, hospitalization, disability, medical reimbursement or other plan(s) maintained from time to time by the Company
for its employees.

5. Termination.

5.1. The Company may terminate Executive's employment under this Agreement "for cause" by delivery of written notice to Executive specifying the cause or causes relied upon for such termination. Grounds for the Company to terminate this Agreement "for cause" shall be limited to the occurrence of any of the following events:

5.1.1. Executive's engaging or in any manner participating in any activity which is competitive with or intentionally injurious to the Company or which violates any provision of Section 7 of this Agreement;

5.1.2. Executive's commission of any fraud against the Company or use or appropriation for her personal use or benefit of any funds or properties of the Company not authorized by the Board of Directors to be so used or appropriated;

5.1.3. Executive's conviction of any crime involving moral turpitude; or

5.1.4. Executive willfully breaches or habitually neglects duties she is required to perform after written demand for the performance of such duties is made by the Chief Executive Officer of the Company, provided that Executive shall be given a thirty (30) day opportunity to cure any such claim hereunder pursuant to a written notice by the Chief Executive Officer. In the case of any termination under this paragraph, the Company will have no liability or responsibility to Executive for salary, bonus or any other employee benefits.

The Company may also terminate Executive's employment without cause upon delivery of written notice. In such case, Executive shall be entitled to receive Base Salary and other accrued benefits including continued vesting of Executive's stock for a period of six (6) months from the date of termination specified in the written notice.

Any notice of termination given pursuant to this Section 5.1 shall effect termination as of the date specified in such notice or, in the event no such date is specified, on the last day of the month in which such notice is delivered or deemed delivered as provided in Section 9 below.

5.2. The parties may mutually agree at any time to terminate this Agreement upon such terms and conditions as may be agreed upon in writing.

5.3. This Agreement shall terminate without notice upon the date of Executive's death or the date when Executive becomes "completely disabled" as that term is defined in Section 6.2.

6. Death or Disability During Term of Employment.

6.1. Upon termination of Executive's employment pursuant to Section 5.3, Executive or her estate or personal representative, as the case may be, shall be entitled to receive Executive's Base Salary for a period of three (3) months following the date of death or the date when Executive becomes completely disabled, unless the Company has equivalent life insurance or disability insurance in place.

6.2. The term "completely disabled" as used in this Agreement shall mean the inability of Executive to perform her duties under this Agreement because she has become permanently disabled within the meaning of any policy of disability income insurance covering employees of the Company then in force. In the event the Company has no policy of disability income insurance covering employees of the Company in force when Executive becomes disabled, the term "completely disabled" shall mean the inability of Executive to perform her duties under this Agreement by reason of any incapacity, physical or mental, which the Board of Directors of the Company, based upon medical advice or an opinion provided by a licensed physician acceptable to the Board of Directors of the Company, determines to have incapacitated Executive from satisfactorily performing all of her usual services for the Company during the foreseeable future. Based upon such medical advice or opinion, the action of the Board of Directors of the Company shall be, final and binding and the date such action is taken shall be the date of such complete disability for purposes of this Agreement.

7. Confidential Information: Executive's Duties Upon Termination.

7.1. Executive recognizes that her employment with the Company will involve contact with information of substantial value to the Company, which is not old and generally known in the trade, and which gives the Company an advantage over its competitors who do not know or use it, including but not limited to, techniques, designs, drawings, processes, inventions, developments, equipment, prototypes, sales and customer information, and business and financial information relating to the business, products, practices and techniques of the Company, (hereinafter referred to as "Confidential Information"). Executive will at all times regard and preserve as confidential such Confidential Information obtained by Executive from whatever source and will not, either during her employment with the Company or thereafter, publish or disclose any part of such Confidential Information in any manner at any time, or use the same except on behalf of the Company, without the prior written consent of the Company. Further, both during Executive's employment and thereafter, Executive will refrain from any acts or omissions that would reduce the value of such Confidential Information to the Company.

7.2. Executive will promptly disclose in writing to the official designated by the Company to receive such disclosures, complete information concerning each and every invention, discovery, improvement, device, design, apparatus, practice, process, method or product (hereinafter referred to as "Inventions"), whether Executive considers them patentable or not, made, developed, perfected, devised, conceived or first reduced to practice by Executive, either solely or in collaboration with others, during the period of Executive's employment by the Company and up to and including a period of twelve (12) months after termination of Executive's employment with the Company, whether or not during regular working hours, relating either directly or indirectly to the business, products, practices or techniques of the Company, or to the Company's actual or demonstrably anticipated research or development, or resulting from any work performed by Executive for the Company.

7.3. Executive hereby agrees that any and all of said Inventions made, developed, perfected, devised, conceived or reduced to practice by Executive during the period of Executive's employment by the Company, and any other Inventions made, developed, perfected, devised, conceived or reduced to practice by Executive during said period of twelve (12) months after termination of Executives employment with the Company, if based upon the Confidential Information of the Company, relating either directly or indirectly to the business, products, practices or techniques of the Company or the Company's actual or demonstrably anticipated research or development, or resulting from any work performed by Executive for the Company, are the sole property of the Company, and Executive hereby assigns and agrees to assign to the Company, its successors and assigns, any and all of Executive's right, title and interest in and to any and all of said Inventions, and any patent applications or Letters Patent thereon.

This Agreement shall not apply to any Inventions which qualify fully under the provisions of Section 2870 of the California Labor Code, as amended from time to time. Executive understands that Section 2870 provides that no assignment is required of any Invention for which no equipment, supplies, facilities, or trade secret information of the Company was used and which was developed entirely on Executive's own time without using any of the Company's equipment, supplies, facilities, or trade secret information, except for those Inventions that either:

(i) relate at the time of conception or reduction to practice of the invention to the Company's business, or actual or demonstrably anticipated research or development of the Company;

or

(ii) result from any work performed by Executive for the Company.

7.4. Nothing in this Agreement shal1 limit or be construed to limit Executive's right to use or publish information which (a) was in the public domain before Executive's employment commenced, (b) was known to Executive free from any claim of other third parties before Executive's employment, (c) was developed or acquired independently by the Executive, or (d) becomes public knowledge without breach by Executive of any obligations of confidence to the Company.

7.5. Executive will, at any time during her employment or thereafter, upon request and without further compensation therefor, but at no expense to Executive, do all lawful acts including the execution of papers and oaths and the giving of testimony, that in the opinion of the Company, its successors and assigns, may be necessary or desirable for obtaining, sustaining, reissuing, or enforcing Letters Patent in the United States and throughout the world for any and all of said Inventions, and for perfecting, recording, and maintaining the title of the Company, its successors and assigns, to the Inventions, and to any patent applications made and any Letters Patent granted for the Inventions in the United States and throughout the world.

7.6. Executive will keep complete, accurate and authentic accounts, notes, data, and records of any and all of the Inventions in the manner and form requested by the Company. Such accounts, notes, data and records, including all copies thereof, shall be the property of the Company, and, upon its request, Executive will promptly surrender the same to it, or if not previously surrendered, Executive will promptly surrender the same to the Company at the conclusion of his employment.

7.7. Executive agrees that she will also surrender to the Company, at its request, or at the conclusion of her employment, all accounts, notes, data, sketches, drawings and other documents and records, and all material and physical items of any kind, including all reproductions and copies thereof, that relate in any way to the business, products, practices or techniques of the Company or contain Confidential Information, whether created by Executive, or which come into Executive's possession by reason of Executive's employment with the Company, and Executive agrees further that all. of the foregoing are the property of the Company.

7.8. Executive agrees that she will not disclose to the Company or induce the Company to use any invention or confidential information belonging to any third party.

7.9. Executive understands that the Company may enter into agreements or arrangements that may be subject to laws and regulations which impose obligations, restrictions and limitations on it with respect to Inventions and patents which may be acquired by it or which may be conceived or developed by employees, consultants or other agents rendering services to it. Executive agrees that she shall be bound by all such obligations, restrictions and limitations applicable to any said invention conceived or developed by Executive during the period of her employment with the Company and shall take any and all further action which may be required to discharge such obligations and to comply with such restrictions and limitations.

7.10. Executive will exercise reasonable care, consistent with good business judgment, to preserve in good working order subject to reasonable wear and tear from authorized usage, and to prevent loss of any equipment, instruments or accessories of the Company in Executive's custody for the purpose of making demonstrations, implementing trials, carrying out development work, or otherwise conducting the business of the Company. Upon request, Executive will promptly surrender the same to the Company at the conclusion of Executive's employment with the Company, or if not surrendered, Executive will account to the Company to its reasonable satisfaction as to the present location of all such instruments or accessories giving the business purpose of their placement at such location. At the conclusion of Executive's employment with the Company, Executive agrees to return such instruments or accessories to the Company or to account for the same to the Company's reasonable satisfaction.

7.11. Executive affirms that she has no agreement with any other party that would preclude her compliance with her obligations under this Agreement as set forth above.

7.12. At the conclusion of her employment with the Company, Executive agrees to give a written statement to the company certifying that she has complied with her obligations under this Section 7 as set forth above and acknowledging her continuing obligations to disclose Inventions, to do certain lawful acts relating to United States and foreign Letters Patent on the Inventions, and to preserve as confidential and refrain from using the Company's Confidential Information.

8. Assignment and Binding Effect.

8.1. This Agreement shall be binding upon and inure to the benefit of Executive and Executive's heirs, executors, administrators and legal representatives. Neither this Agreement nor any rights or obligations under this Agreement shall be assignable by Executive. This Agreement shall be binding upon and inure to the benefit of the Company and its successors, assigns and legal representatives.

9. Notices.

9.1. All notices or demands of any kind required or permitted to be given by the Company or Executive under this Agreement shall be given in writing and shall be personally delivered (and receipted for) or mailed by certified mail, return receipt requested, postage prepaid, addressed as follows:

(i) If to the Company:

Chief Executive Officer
Cypros Pharmaceutical Corporation
2714 Loker Avenue West
Carlsbad, CA 92008

(ii) If to Executive:

Zofia Dziewanowska, M.D., Ph.D.
765 Bonair Place
La Jolla, CA 92037

Any such written notice shall be deemed received when personally delivered or three (3) days after its deposit in the United States mail as specified above. Either Party may change its address for notices by giving notice to the other Party in the manner specified in this section.

10. Choice of Law.

10.1. This Agreement is made in San Diego, California. This Agreement shall be construed and interpreted in accordance with the laws of the State of California.

11. Integration.

11.1. This Agreement contains the entire agreement of the parties relating to the subject matter of this Agreement, and supersedes all prior oral and written employment agreements or arrangements between the Parties.

12. Amendment.

12.1. This Agreement cannot be amended or modified except by a written agreement signed by Executive and the Company.

13. Waiver.

13.1. No term, covenant or condition of this Agreement or any breach thereof shall be deemed waived, except with the written consent of the Party against whom the waiver is claimed, and any waiver of any such term, covenant, condition or breach shall not be deemed to be a waiver of any preceding or succeeding breach of the same or any other term, covenant, condition or breach.

14. Severability.

14. 1. The unenforceability, invalidity or illegality of any provision of this Agreement shall not render any other provision of this Agreement unenforceable, invalid or illegal.

15. Interpretation: Construction.

15.1. The headings set forth in this Agreement are for convenience of reference only and shall not be used in interpreting this Agreement. This Agreement has been drafted by legal counsel representing the Company, but Executive has been encouraged, and has had the opportunity to consult with, her own independent counsel and tax advisors with respect to the terms of this Agreement. The Parties acknowledge that each Party and its counsel has reviewed and revised, or had an opportunity to review and revise, this Agreement, and the normal rule of construction to the effect that any ambiguities are to be resolved against the drafting party shall not be employed in the interpretation of this Agreement.

16. Representations and Warranties

16.1. Executive represents and, warrants that she is not restricted or prohibited, contractually or otherwise, from entering into and performing each of the terms and covenants contained in this Agreement, and that his execution and performance of this Agreement will not violate or breach any other agreement between Executive and any other person or entity.

IN WITNESS WHEREOF, the Parties have executed this Agreement as of the date first above written.

The Company:
Cypros Pharmaceutical Corporation,
a California corporation

By: /s/ Paul J. Marangos
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Paul J. Marangos
President and Chief Executive Officer

Executive:

/s/ Zofia Dziewanowska
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Zofia Dziewanowska, M.D., Ph.D.

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JUL-31-1997
OCT-31-1997
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