**UNITED STATES**
**SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**

# Form 10-Q

(Mark One)

☑ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended June 30, 2014**

**OR**

o **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: 001-33609**

# SUCAMPO PHARMACEUTICALS, INC.

*(Exact name of registrant as specified in its charter)*

| **Title of each class** | **Name of each exchange on which registered** |
|---|---|
| Class A common stock, par value $0.01 | The NASDAQ Global Market |

| | |
|---|---|
| Delaware<br>*(State or other jurisdiction of incorporation or organization)* | 30-0520478<br>*(I.R.S. Employer Identification No.)* |
| 4520 East-West Highway, 3rd Floor<br>Bethesda, MD<br>*(Address of principal executive offices)* | 20814<br>*(Zip Code)* |

(301) 961-3400
*(Registrant's telephone number, including area code)*

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 o No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ☑ Yes o No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

| Large accelerated filer o | Accelerated filer ☑ | Non accelerated filer o (Do not check if a smaller reporting company) | Smaller reporting company o |
|---|---|---|---|

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). o Yes ☑ No

As of July 25, 2014, there were 44,293,899 shares of the registrant's class A common stock outstanding.

**Sucampo Pharmaceuticals, Inc.**

**Form 10-Q Index**

**PART I — FINANCIAL INFORMATION**

**Item 1.** ***Financial Statements***

**SUCAMPO PHARMACEUTICALS, INC.**
**Condensed Consolidated Balance Sheets (Unaudited)**
(In thousands of U.S. dollars, except share data)

| | June 30, 2014 | December 31, 2013 |
|---|---|---|
| **ASSETS:** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 53,532 | $ 44,102 |
| Investments, current | 14,017 | 16,003 |
| Product royalties receivable | 13,888 | 14,829 |
| Unbilled accounts receivable | 3 | 1 |
| Accounts receivable, net | 4,755 | 5,407 |
| Prepaid and income taxes receivable | 545 | 9 |
| Deferred tax assets, current | 1,988 | 2,028 |
| Deferred charge, current | 673 | 673 |
| Restricted cash, current | 26,129 | 26,115 |
| Inventory | 423 | 209 |
| Prepaid expenses and other current assets | 3,396 | 3,977 |
| Total current assets | 119,349 | 113,353 |
| Investments, non-current | 7,460 | 7,219 |
| Property and equipment, net | 979 | 1,156 |
| Intangible assets, net | 5,949 | 6,438 |
| Deferred tax assets, non-current | 1,275 | 1,212 |
| Deferred charge, non-current | 4,204 | 4,540 |
| Restricted cash, non-current | 2,471 | 2,471 |
| Other assets | 552 | 488 |
| Total assets | $ 142,239 | $ 136,877 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY:** | | |
| Current liabilities: | | |
| Accounts payable | $ 5,623 | $ 7,614 |
| Accrued expenses | 6,264 | 5,682 |
| Deferred revenue, current | 1,794 | 1,365 |
| Income tax payable | 35 | 701 |
| Notes payable, current | 27,790 | 26,892 |
| Other current liabilities | 1,013 | 358 |
| Total current liabilities | 42,519 | 42,612 |
| Notes payable, non-current | 21,741 | 25,828 |
| Deferred revenue, non-current | 5,824 | 6,169 |
| Deferred tax liability, non-current | 1,223 | 2,066 |
| Other liabilities | 1,559 | 1,233 |
| Total liabilities | 72,866 | 77,908 |
| Commitments and contingencies (Note 7) | | |
| Stockholders' equity: | | |
| Preferred stock, $0.01 par value; 5,000,000 shares authorized at June 30, 2014 and December 31, 2013; no shares issued and outstanding at June 30, 2014 and December 31, 2013 | - | - |
| Class A common stock, $0.01 par value; 270,000,000 shares authorized at June 30, 2014 and December 31, 2013; 44,293,899 and 43,315,749 shares issued and outstanding at June 30, 2014 and December 31, 2013, respectively | 442 | 432 |
| Class B common stock, $0.01 par value; 75,000,000 shares authorized at June 30, 2014 and December 31, 2013; no shares issued and outstanding at June 30, 2014 and December 31, 2013 | - | - |
| Additional paid-in capital | 80,377 | 72,109 |
| Accumulated other comprehensive income | 15,361 | 15,601 |
| Treasury stock, at cost; 524,792 and 524,792 shares | (2,313) | (2,313) |
| Accumulated deficit | (24,494) | (26,860) |
| Total stockholders' equity | 69,373 | 58,969 |
| Total liabilities and stockholders' equity | $ 142,239 | $ 136,877 |

The accompanying Notes are an integral part of these Condensed Consolidated Financial Statements.

**SUCAMPO PHARMACEUTICALS, INC.**
**Condensed Consolidated Statements of Operations and Comprehensive Income (Unaudited)**
(In thousands of U.S. dollars, except per share data)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Revenues: | | | | |
| Research and development revenue | $ 1,700 | $ 11,461 | $ 3,484 | $ 14,261 |
| Product royalty revenue | 13,888 | 12,000 | 27,389 | 23,677 |
| Product sales revenue | 7,543 | 3,399 | 13,855 | 5,616 |
| Co-promotion revenue | 723 | - | 1,085 | 61 |
| Contract and collaboration revenue | 215 | 163 | 417 | 327 |
| Total revenues | 24,069 | 27,023 | 46,230 | 43,942 |
| | | | | |
| Costs and expenses: | | | | |
| Costs of goods sold | 3,796 | 1,908 | 7,189 | 3,190 |
| Research and development | 4,252 | 4,425 | 9,387 | 10,054 |
| General and administrative | 8,197 | 5,968 | 15,454 | 13,195 |
| Selling and marketing | 4,013 | 4,553 | 7,660 | 9,942 |
| Total costs and expenses | 20,258 | 16,854 | 39,690 | 36,381 |
| | | | | |
| Income from operations | 3,811 | 10,169 | 6,540 | 7,561 |
| Non-operating income (expense): | | | | |
| Interest income | 23 | 23 | 80 | 42 |
| Interest expense | (392) | (493) | (792) | (988) |
| Other income (expense), net | (53) | 870 | (376) | 2,020 |
| Total non-operating income (expense), net | (422) | 400 | (1,088) | 1,074 |
| | | | | |
| Income before income taxes | 3,389 | 10,569 | 5,452 | 8,635 |
| Income tax provision | (1,779) | (4,324) | (3,086) | (5,466) |
| Net income | $ 1,610 | $ 6,245 | $ 2,366 | $ 3,169 |
| | | | | |
| Net income per share: | | | | |
| Basic | $ 0.04 | $ 0.15 | $ 0.05 | $ 0.08 |
| Diluted | $ 0.04 | $ 0.15 | $ 0.05 | $ 0.07 |
| Weighted average common shares outstanding: | | | | |
| Basic | 43,640 | 41,604 | 43,521 | 41,533 |
| Diluted | 43,640 | 42,868 | 43,609 | 42,597 |
| | | | | |
| Comprehensive income: | | | | |
| Net income | $ 1,610 | $ 6,245 | $ 2,366 | $ 3,169 |
| Other comprehensive income (loss): | | | | |
| Unrealized loss on investments, net of tax effect | (3) | (19) | 5 | (34) |
| Foreign currency translation | (126) | (186) | (245) | (134) |
| Comprehensive income | $ 1,481 | $ 6,040 | $ 2,126 | $ 3,001 |

The accompanying Notes are an integral part of these Condensed Consolidated Financial Statements.

**SUCAMPO PHARMACEUTICALS, INC.**
**Condensed Consolidated Statement of Changes in Stockholders' Equity (Unaudited)**
(In thousands of U.S. dollars, except share data)

| | Class A Common Stock | | Additional Paid-In | Accumulated Other Comprehensive | Treasury Stock | | Retained Earnings (Accumulated | Total Stockholders' |
|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Capital | Income (Loss) | Shares | Amount | Deficit) | Equity |
| Balance at December 31, 2013 | 43,315,749 | $ 432 | $ 72,109 | $ 15,601 | 524,792 | $ (2,313) | $ (26,860) | $ 58,969 |
| Employee stock option expense | - | - | 832 | - | - | - | - | 832 |
| Stock issued under exercise of stock options | 437,640 | 4 | 2,021 | - | - | - | - | 2,025 |
| Stock issued under employee stock purchase plan | 1,989 | - | 13 | - | - | - | - | 13 |
| Stock issued under "at-the-market" offering | 538,521 | 6 | 5,321 | - | - | - | - | 5,327 |
| Foreign currency translation | - | - | - | (245) | - | - | - | (245) |
| Unrealized loss on investments, net of tax effect | - | - | - | 5 | - | - | - | 5 |
| Windfall tax benefit from stock-based compensation | - | - | 81 | - | - | - | - | 81 |
| Net income | - | - | - | - | - | - | 2,366 | 2,366 |
| Balance at June 30, 2014 | 44,293,899 | $ 442 | $ 80,377 | $ 15,361 | 524,792 | $ (2,313) | $ (24,494) | $ 69,373 |

The accompanying Notes are an integral part of these Condensed Consolidated Financial Statements.

**SUCAMPO PHARMACEUTICALS, INC.**
**Condensed Consolidated Statements of Cash Flows (Unaudited)**
(In thousands of U.S. dollars)

| | Six Months Ended June 30, | |
|---|---|---|
| | **2014** | **2013** |
| Cash flows from operating activities: | | |
| Net income | $ 2,366 | $ 3,169 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 721 | 753 |
| Deferred tax provision | (792) | (988) |
| Deferred charge | 336 | 336 |
| Stock-based compensation | 832 | 1,012 |
| Amortization of premiums on investments | 50 | 53 |
| Unrealized currency translations | 320 | (702) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 652 | (2,256) |
| Unbilled accounts receivable | (2) | 732 |
| Product royalties receivable | 941 | 2,175 |
| Inventory | (211) | (4,832) |
| Prepaid and income taxes receivable and payable, net | (1,209) | 4,797 |
| Accounts payable | (2,006) | 294 |
| Accrued expenses | 548 | (3,993) |
| Deferred revenue | (1) | (2,777) |
| Accrued interest payable | (21) | (22) |
| Other assets and liabilities, net | 1,571 | (2,355) |
| Net cash provided by (used in) operating activities | 4,095 | (4,604) |
| Cash flows from investing activities: | | |
| Purchases of investments | (4,515) | (2,399) |
| Proceeds from the sales of investments | 1,700 | - |
| Maturities of investments | 4,500 | 5,060 |
| Purchases of property and equipment | (49) | (140) |
| Changes in restricted cash | - | (9,561) |
| Net cash provided by (used in) investing activities | 1,636 | (7,040) |
| Cash flows from financing activities: | | |
| Proceeds from notes payable | - | 10,600 |
| Repayment of notes payable | (3,906) | (3,725) |
| Proceeds from exercise of stock options | 2,025 | 1,539 |
| Proceeds from employee stock purchase plan | 13 | 11 |
| Proceeds from "at-the-market" stock issuance | 5,327 | - |
| Purchase of treasury stock | - | (336) |
| Windfall benefit from stock-based compensation | 81 | 318 |
| Net cash provided by financing activities | 3,540 | 8,407 |
| Effect of exchange rates on cash and cash equivalents | 159 | (1,497) |
| Net increase (decrease) in cash and cash equivalents | 9,430 | (4,734) |
| Cash and cash equivalents at beginning of period | 44,102 | 52,022 |
| Cash and cash equivalents at end of period | $ 53,532 | $ 47,288 |

The accompanying Notes are an integral part of these Condensed Consolidated Financial Statements.

## 1. Business Organization and Basis of Presentation

***Description of the Business***

Sucampo Pharmaceuticals, Inc., or the Company, is a global biopharmaceutical company focused on innovative research; discovery, development and commercialization of proprietary drugs to treat gastrointestinal, ophthalmic, neurologic, and oncology-based inflammatory disorders; and is also considering other potential therapeutic applications of the Company's drug technologies.

The Company currently generates revenue mainly from product royalties, development milestone payments, product sales and clinical development activities. The Company expects to continue to incur significant expenses for the next several years as the Company continues its research and development activities, seeks regulatory approvals and additional indications for approved products and other compounds, and seeks partnering opportunities for the approved products and compounds on a global basis.

In the United States, AMITIZA® (lubiprostone) is marketed for three gastrointestinal indications under the October 2004 collaboration and license agreement, or the Takeda Agreement, with Takeda Pharmaceutical Company Limited, or Takeda. These indications are chronic idiopathic constipation, or CIC, in adults, irritable bowel syndrome with constipation, or IBS-C, in adult women, and opioid-induced constipation, or OIC, in adults. Takeda also holds marketing rights to AMITIZA in Canada and has taken steps to file for regulatory approval in Canada. The Company is primarily responsible for clinical development activities under the Takeda Agreement, while Takeda is primarily responsible for the commercialization of AMITIZA in the United States and Canada. The Company and Takeda initiated commercial sales of AMITIZA in the United States for the treatment of CIC, IBS-C, and OIC in April 2006, May 2008 and May 2013, respectively.

In Japan, AMITIZA is marketed under a license, commercialization and supply agreement, or the Abbott Agreement, with Abbott Japan Co. Ltd., or Abbott, for the gastrointestinal indication of chronic constipation, or CC, excluding constipation caused by organic diseases. Abbott initiated commercial sales of AMITIZA in Japan for the treatment of CC in November 2012. In early December 2013, the two-week limitation on prescriptions, generally applied to all new approvals of products for the first year after reimbursement price approval by the Japanese government was removed. AMITIZA is Japan's only prescription medicine for CC.

In Switzerland, the Company is commercializing AMITIZA for CIC. The Company announced in February 2014 that the Bundesamt fur Gesundheit revised several reimbursement limitations with which AMITIZA was first approved for reimbursement and inclusion in the Specialitätenliste to allow all Swiss physicians to prescribe AMITIZA to patients who have failed previous treatments with at least two laxatives over a nine month period. In July 2014, the Company announced that Swissmedic, the Swiss Agency for Therapeutic Products, approved AMIITZA for the treatment of OIC in chronic, non-cancer adult patients.

In the United Kingdom, the Company is commercializing AMITIZA for CIC. In July 2014, the Company announced that the National Institute for Health and Care Excellence had published the technology appraisal guidance recommending of the use of AMITIZA in the treatment of CIC and associated symptoms in adults who have failed previous treatments with laxatives. The Company filed for the OIC indication in the United Kingdom and in March 2014, the Company received notification from Medicines and Healthcare Products Regulatory Agency, or MHRA, that the application was not approved. The Company is in continued discussion with MHRA exploring all available options. The Company will be seeking approval for AMITIZA for the CIC indication in other European Union countries following the Mutual Recognition Procedure.

The Company holds license agreements for RESCULA® (unoprostone isopropyl ophthalmic solution) 0.15% in the United States and Canada and the rest of the world, with the exception of Japan, Korea, Taiwan and the People's Republic of China. The Company is commercializing RESCULA for the lowering of intraocular pressure, or IOP, in patients with open-angle glaucoma or ocular hypertension. According to the U.S. approved product labeling, RESCULA may be used as a first-line agent or concomitantly with other topical ophthalmic drug products to lower intraocular pressure. RESCULA is a BK channel activator, which is different from other available IOP lowering agents.

The Company's other clinical development programs include the following:

*Lubiprostone Reformulation for Pediatric Functional Constipation*

As announced previously, Takeda has agreed to fund 100% of the costs for additional reformulation work for lubiprostone. Feasibility testing for this work is ongoing and is expected to be completed in the fourth quarter of 2014. If successful, the reformulation will enable future studies of lubiprostone in adults and younger children who may not be able to swallow the current soft gelatin capsule formulation. Currently, two of the four planned phase 3 studies for the pediatric functional constipation development program are ongoing, both of which are testing the current soft gelatin capsule formulation of lubiprostone in patients 6 to 17 years of age: a 12-week, randomized, placebo-controlled trial that initiated in December 2013 and a follow-on, long-term safety extension study that initiated in March 2014.

*Intravenous and Oral Ion Channel Activators for Lumbar Spinal Stenosis*

Two ion channel activators, in both the intravenous, or IV, and oral forms, are in clinical development for the treatment of lumbar spinal stenosis, or LSS. Positive top-line results from a phase 1b trial evaluating the safety and pharmacokinetics of the orally administered ion channel activator demonstrated the compound to be generally well-tolerated. This trial is expected to conclude in the third quarter of 2014. The Company plans to conduct an additional phase 2a trial in the second half of 2014 to evaluate the clinical effectiveness of the IV ion channel activator with LSS.

*Cobiprostone as an Oral Spray for Oral Mucositis*

The Company completed a phase 1b clinical trial for the target indication of prevention and/or treatment of oral mucositis. The results of the phase 1b trial showed that cobiprostone was well-tolerated and revealed low systemic exposure. The next phase of clinical development, a phase 2a trial, is expected to begin in the second half of 2014.

***Basis of Presentation***

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with generally accepted accounting principles in the United States of America, or GAAP, and the rules and regulations of the Securities and Exchange Commission, or SEC, for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements and should be read in conjunction with the Company's Consolidated Financial Statements as of and for the year ended December 31, 2013 included in the Company's Annual Report on Form 10-K, which was filed with the SEC on March 12, 2014. The financial information as of June 30, 2014 and for the three and six months ended June 30, 2014 and June 30, 2013 is unaudited. The year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP. In the opinion of the Company's management, all adjustments, consisting only of normal recurring adjustments or accruals, considered necessary for a fair statement of the results of these interim periods have been included. The results of the Company's operations for any interim period are not necessarily indicative of the results that may be expected for any other interim period or for a full fiscal year.

The Condensed Consolidated Financial Statements include the accounts of the Company and its wholly owned subsidiaries: Sucampo AG, or SAG, based in Zug, Switzerland, through which the Company conducts certain of its worldwide and European operations; Sucampo Pharma, Ltd., based in Tokyo and Osaka, Japan, through which the Company conducts its Asian operations; Sucampo Pharma Americas LLC, based in Bethesda, Maryland, through which the Company conducts its North and South American operations; and Sucampo Pharma Europe, Ltd., based in Oxford, United Kingdom. The Company liquidated Ambrent Investments S.à r.l., based in Luxembourg, at the end of 2013. All significant inter-company balances and transactions have been eliminated.

The preparation of financial statements in conformity with GAAP requires management to make estimates that affect the reported amounts of assets and liabilities at the date of the financial statements, disclosure of contingent assets and liabilities, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

***Revisions to Previously Issued Financial Statements***

The Company has revised the Condensed Consolidated Statements of Operations and Comprehensive Income for the three and six months ended June 30, 2013 to correct errors in the presentation of gross profit, other income and income taxes. As a result of this revision, gross profit will be removed as a sub-total and costs of goods sold will be disclosed as an operating cost under the heading "Costs and expenses". Gross profit was presented on the Condensed Consolidated Statements of Operations and Comprehensive Income beginning in the period ended December 31, 2012 and for periods ended March 31, June 30 and September 30, 2013.

In addition, the Company has revised the Condensed Consolidated Statements of Operations and Comprehensive Income for the three and six months ended June 30, 2013 and the Condensed Consolidated Balance Sheet as of December 31, 2013 to correct errors in the recognition of indirect taxes at its Swiss subsidiary. The errors affect the years ended December 31, 2012 and 2013 and the periods ended March 31, 2013, June 30, 2013, September 30, 2013 and March 31, 2014. During those periods, the Company overstated its indirect tax liability and understated net income.

The Company has also revised the Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2013 to correct errors in the classification of foreign exchange gains and losses in net cash used in operating activities, investing activities and the effect of exchange rates on cash and cash equivalents and the change in net income. The errors in classification affect the year ended December 31, 2013 and the periods ended September 30, 2013, June 30, 2013 and March 31, 2013. These errors have no effect on the balances of cash and cash equivalents.

The revisions were determined to not be material, individually or in the aggregate, to any previously issued financial statements. Accordingly, the Company will revise previously reported interim and annual periods in future filings. The following revisions have been made to the previously reported June 30, 2013 balances:

| | Presentation as of three months ended June 30, 2013 | | |
|---|---|---|---|
| (In thousands, except per share data) | As Previously Reported | Revision Adjustment | As Revised |
| Gross profit | $ 25,115 | $ (25,115) | $ - |
| Total costs and expenses | (14,946) | (1,908) | (16,854) |
| Other income (expense), net | 744 | 126 | 870 |
| Total non-operating income (expense), net | 274 | 126 | 400 |
| Income (loss) before income taxes | 10,443 | 126 | 10,569 |
| Net income | 6,119 | 126 | 6,245 |
| Net income per share: Diluted | 0.14 | 0.01 | 0.15 |
| Comprehensive income | 5,914 | 126 | 6,040 |

| | Presentation as of six months ended June 30, 2013 | | |
|---|---|---|---|
| (In thousands, except per share data) | As Previously Reported | Revision Adjustment | As Revised |
| Gross profit | $ 40,752 | $ (40,752) | $ - |
| Total costs and expenses | (33,191) | (3,190) | (36,381) |
| Other income (expense), net | 1,825 | 195 | 2,020 |
| Total non-operating income (expense), net | 879 | 195 | 1,074 |
| Income (loss) before income taxes | 8,440 | 195 | 8,635 |
| Net income | 2,974 | 195 | 3,169 |
| Net income per share: Basic | 0.07 | 0.01 | 0.08 |
| Comprehensive income | 2,806 | 195 | 3,001 |
| | | | |
| Net cash provided by (used in) operating activities | (5,902) | 1,298 | (4,604) |
| Net cash provided by (used in) investing activities | (7,506) | 466 | (7,040) |
| Effect of exchange rates on cash and cash equivalents | 267 | (1,764) | (1,497) |

| | Presentation as of December 31, 2013 | | |
|---|---|---|---|
| (In thousands) | As Previously Reported | Revision Adjustment | As Revised |
| Other assets | $ 584 | $ (96) | $ 488 |
| Total assets | 136,973 | (96) | 136,877 |
| Other liabilities | 2,150 | (917) | 1,233 |
| Total liabilities | 78,825 | (917) | 77,908 |
| Accumulated deficit | (27,681) | 821 | (26,860) |
| Total stockholders' equity | 58,148 | 821 | 58,969 |

## 2. Summary of Significant Accounting Policies

***Restricted Cash***

Restricted cash primarily represents collateral pledged to support a loan agreement with The Bank of Tokyo-Mitsubishi UFJ, Ltd., or the Tokyo-Mitsubishi Bank; a loan agreement with The Mizuho Bank, Ltd., or the Mizuho Bank; a loan agreement between Numab AG, or Numab, and Zurcher Kantonalbank, under which the Company serves as guarantor; and operating leases with certain financial institutions. Restricted cash totaled approximately $28.6 million at both June 30, 2014 and December 31, 2013.

***Certain Risks, Concentrations and Uncertainties***

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist of cash and cash equivalents, restricted cash, investments and receivables. The Company places its cash, cash equivalents and restricted cash with highly rated financial institutions and invests its excess cash in highly rated investments. As of June 30, 2014 and December 31, 2013, approximately $21.7 million, or 20.9%, and $16.4 million, or 17.1%, respectively, of the Company's cash, cash equivalents, restricted cash and investments were issued or insured by the United States government or United States government agencies. The Company has not experienced any losses on these accounts related to amounts in excess of insured limits.

Revenues from Takeda, an unrelated party, accounted for 68.1% and 87.3% of the Company's total revenues for the three months ended June 30, 2014 and 2013, respectively, and 69.6% and 87.1% for the six months ended June 30, 2014 and 2013, respectively. Accounts receivable, unbilled accounts receivable and product royalties receivable from Takeda accounted for 80.8% and 88.2% of the Company's total accounts receivable, unbilled accounts receivable and product royalties receivable at June 30, 2014 and December 31, 2013, respectively.

Revenues from another unrelated party, Abbott, accounted for 30.0% and 12.1% of the Company's total revenues for the three months ended June 30, 2014 and 2013, respectively, and 28.8% and 12.5% for the six months ended June 30, 2014 and 2013, respectively.

The Company depends significantly upon its collaborations with Takeda and Abbott, and its revenues may be adversely impacted if these relationships are disrupted.

***Fair Value of Financial Instruments***

The carrying amounts of the Company's financial instruments approximate their fair values based on their short maturities, independent valuations or internal assessments. The Company's financial instruments include cash and cash equivalents, restricted cash, current and non-current investments, receivables, accounts payable and accrued expenses. The carrying amounts of the notes payable at June 30, 2014 and December 31, 2013 were less than the estimated fair values (see Note 9 below).

***Accounts Receivable and Unbilled Accounts Receivable***

The Company's allowance for doubtful accounts related to certain disputed Takeda invoices totaled approximately $653,000 and $440,000 as of June 30, 2014 and December 31, 2013, respectively.

**3. Net Income per Share**

Basic net income per share is computed by dividing net income by the sum of the weighted average class A common shares outstanding. Diluted net income per share is computed by dividing net income by the weighted average common shares and potential dilutive common shares outstanding. Diluted net loss per share, when applicable, is computed by dividing net loss by the weighted average common shares outstanding without the impact of potential dilutive common shares outstanding because they would have an anti-dilutive impact on diluted net loss per share.

The computation of net income per share for the three and six months ended June 30, 2014 and 2013 is shown below:

| (In thousands, except per share data) | Three Months Ended June 30, 2014 | Three Months Ended June 30, 2013 | Six Months Ended June 30, 2014 | Six Months Ended June 30, 2013 |
|---|---|---|---|---|
| Basic net income per share: | | | | |
| Net income | $ 1,610 | $ 6,245 | $ 2,366 | $ 3,169 |
| Weighted average class A common shares outstanding | 43,640 | 41,604 | 43,521 | 41,533 |
| Basic net income per share | $ 0.04 | $ 0.15 | $ 0.05 | $ 0.08 |
| Diluted net income per share: | | | | |
| Net income | $ 1,610 | $ 6,245 | $ 2,366 | $ 3,169 |
| Weighted average class A common shares outstanding | 43,640 | 41,604 | 43,521 | 41,533 |
| Assumed exercise of stock options under the treasury stock method | - | 1,264 | 88 | 1,064 |
| | 43,640 | 42,868 | 43,609 | 42,597 |
| Diluted net income per share | $ 0.04 | $ 0.15 | $ 0.05 | $ 0.07 |

The following securities were excluded from the computation of diluted net income per share for the three and six months ended June 30, 2014 and 2013 as their effect would be anti-dilutive:

| (In thousands) | Three Months Ended June 30, 2014 | Three Months Ended June 30, 2013 | Six Months Ended June 30, 2014 | Six Months Ended June 30, 2013 |
|---|---|---|---|---|
| Employee stock options | 1,169 | 602 | 933 | 602 |

## 4. Current and Non-Current Investments

At June 30, 2014 and December 31, 2013, current and non-current available-for-sale investments consisted of the following securities:

| | June 30, 2014 | | | |
|---|---|---|---|---|
| **(In thousands)** | **Cost** | **Unrealized Gains** | **Unrealized Losses** | **Fair Value** |
| *Current:* | | | | |
| U.S. government securities | $ 1,000 | $ - | $ - | $ 1,000 |
| U.S. government agencies | 9,515 | 2 | - | 9,517 |
| Certificates of deposits | 3,500 | - | - | 3,500 |
| Corporate bonds | - | - | - | - |
| Total | $ 14,015 | $ 2 | $ - | $ 14,017 |
| | | | | |
| *Non-current:* | | | | |
| U.S. government agencies | $ 3,702 | $ - | $ (10) | $ 3,692 |
| Certificates of deposit | 2,750 | - | - | 2,750 |
| Corporate bonds | 1,022 | - | (4) | 1,018 |
| Total | $ 7,474 | $ - | $ (14) | $ 7,460 |

| | December 31, 2013 | | | |
|---|---|---|---|---|
| **(In thousands)** | **Cost** | **Unrealized Gains** | **Unrealized Losses** | **Fair Value** |
| *Current:* | | | | |
| U.S. government securities | $ 1,000 | $ - | $ - | $ 1,000 |
| U.S. government agencies | 9,048 | 3 | - | 9,051 |
| Certificates of deposit | 3,500 | - | - | 3,500 |
| Corporate bonds | 752 | - | - | 752 |
| Municipal securities | 1,700 | - | - | 1,700 |
| Total | $ 16,000 | $ 3 | $ - | $ 16,003 |
| | | | | |
| *Non-current:* | | | | |
| U.S. government agencies | $ 4,212 | $ - | $ (3) | $ 4,209 |
| Certificates of deposits | 2,500 | - | - | 2,500 |
| Corporate bonds | 511 | - | (1) | 510 |
| Total | $ 7,223 | $ - | $ (4) | $ 7,219 |

The Company performs fair value measurements in accordance with the Financial Accounting Standards Board's guidance for fair value measurements and disclosures, which defines fair value as the exchange price that would be received for selling an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. A fair value hierarchy is established which requires the Company to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The Company classifies its investments into the following categories based on the three levels of inputs used to measure fair value:

Level 1: quoted prices in active markets for identical assets or liabilities;
Level 2: inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; or
Level 3: unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The Company's assets measured at fair value on a recurring basis, including cash equivalents, which are subject to the fair value disclosure requirements, at June 30, 2014 and December 31, 2013, were as follows:

| June 30, 2014 (In thousands) | Fair Value Measurements at Reporting Date Using: Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
|---|---|---|---|---|
| U.S. government securities | $ - | $ 1,000 | $ - | $ 1,000 |
| U.S. government agencies | - | 13,208 | - | 13,208 |
| U.S. commercial paper | - | 7,949 | - | 7,949 |
| Certificates of deposit | - | 6,250 | - | 6,250 |
| Corporate bonds | - | 3,995 | - | 3,995 |
| Money market funds | 7,514 | - | - | 7,514 |
| Total assets measured at fair value | $ 7,514 | $ 32,402 | $ - | $ 39,916 |

| December 31, 2013 (In thousands) | Fair Value Measurements at Reporting Date Using: Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
|---|---|---|---|---|
| U.S. government securities | $ - | $ 1,000 | $ - | $ 1,000 |
| U.S. government agencies | - | 13,260 | - | 13,260 |
| U.S. commercial paper | - | 6,449 | - | 6,449 |
| Municipal securities | - | 1,700 | - | 1,700 |
| Certificates of deposit | - | 6,000 | - | 6,000 |
| Corporate bonds | - | 5,533 | - | 5,533 |
| Money market funds | 5,955 | - | - | 5,955 |
| Total assets measured at fair value | $ 5,955 | $ 33,942 | $ - | $ 39,897 |

If quoted prices in active markets for identical assets and liabilities are not available to determine fair value, then the Company uses quoted prices for similar assets and liabilities or inputs other than the quoted prices that are observable, either directly or indirectly. This pricing methodology applies to the Company's Level 2 investments.

## 5. Intangible Assets

In April 2009, the Company entered into an agreement with R-Tech Ueno, Ltd, or R-Tech, or the 2009 R-Tech Agreement, to license all patents and other intellectual property rights related to RESCULA for its U.S. Food and Drug Administration, or FDA, approved indication and any new indications for unoprostone isopropyl in the United States and Canada. A supplemental new drug application for RESCULA (unoprostone isopropyl ophthalmic solution) 0.15% for the lowering of IOP in patients with open-angle glaucoma or ocular hypertension was approved by the FDA in December 2012 and the Company began commercializing the product in February 2013.

Under the terms of the 2009 R-Tech Agreement, the Company has made upfront and milestone payments totaling $3.5 million and may be required to pay up to $5.0 million in additional milestone payments based on the achievement of specified development and commercialization goals. The Company allocated the acquisition cost between an intangible asset of $3.4 million and a non-current prepaid inventory of $85,000. The $3.4 million intangible asset is included in intangible assets, net in the accompanying Condensed Consolidated Balance Sheets as of June 30, 2014 and December 31, 2013. The non-current prepaid inventory of $85,000 was written-off during the quarter ended September 30, 2013. The cost of the intangible asset is being amortized over the 10-year life of the 2009 R-Tech Agreement, which the Company believes approximates the useful life of the underlying rights and data. Amortization expense was approximately $85,000 for each of the three months ended June 30, 2014 and 2013, and approximately $171,000 for each of the six months ended June 30, 2014 and 2013. The annual amortization expense will be approximately $341,000 through April 2019. The unamortized amount included in intangible assets was $1.6 million and $1.8 million at June 30, 2014 and December 31, 2013, respectively.

In March 2011, the Company entered into a license agreement with R-Tech for unoprostone isopropyl, or the 2011 R-Tech Agreement, expanding the Company's development and commercialization rights as well as its territories beyond their previously agreed territory of the United States and Canada to the rest of the world, with the exception of Japan, Korea, Taiwan and the People's Republic of China. The Company is currently evaluating the opportunities to obtain an appropriate label in the European Union and other European countries, and the timing of seeking reauthorization in those countries to commercialize unoprostone isopropyl.

Pursuant to the 2011 R-Tech Agreement, the Company has made payments to R-Tech of $6.0 million, which is reflected in intangible assets, net in the accompanying Condensed Consolidated Balance Sheets, and may be required to pay up to $100.0 million in additional milestone payments to R-Tech based on the achievement of specified development and commercialization goals. The Company will be responsible for all development, regulatory, and commercialization activities. The Company is amortizing the $6.0 million over the 10-year life of the 2011 R-Tech Agreement, which the Company believes approximates the useful life of the underlying rights and data. Amortization expense was approximately $153,000 for each of the three months ended June 30, 2014 and 2013, and approximately $307,000 for each of the six months ended June 30, 2014 and 2013. The annual amortization expense will be approximately $613,000 through March 2021. The unamortized amount included in intangible assets was $4.1 million and $4.4 million at June 30, 2014 and December 31, 2013, respectively.

The Company reviews intangible assets for impairment when events or changes in circumstances indicate that the carrying value of its intangible assets may not be recoverable. Impairment in the carrying value of an intangible asset is recognized whenever anticipated future undiscounted cash flows from an intangible asset are estimated to be less than its carrying value. There have been no impairment charges recorded during the three months ended June 30, 2014 and 2013 since there have been no indicators of impairment during those periods. If the Company's actual results, or the plans and estimates used in future impairment analyses, are lower than the original estimates used to assess the recoverability of these assets, the Company could incur future impairment charges.

## 6. Accrued Expenses

Accrued expenses consist of the following as of June 30, 2014 and December 31, 2013:

| (In thousands) | June 30, 2014 | December 31, 2013 |
|---|---|---|
| Research and development costs | $ 2,621 | $ 1,775 |
| Employee compensation | 1,778 | 2,531 |
| Selling and marketing costs | 310 | 584 |
| Legal service fees | 611 | 14 |
| Other accrued expenses | 944 | 778 |
| Total | $ 6,264 | $ 5,682 |

## 7. Commitments

***Operating Leases***

The Company leases office space in the United States, Switzerland and Japan under operating leases through 2018. Total future minimum, non-cancelable lease payments under operating leases are as follows as of June 30, 2014:

| (In thousands of U.S. dollars) | June 30, 2014 |
|---|---|
| 2014 | $ 713 |
| 2015 | 1,275 |
| 2016 | 1,306 |
| 2017 | 361 |
| 2018 | 220 |
| Total minimum lease payments | $ 3,875 |

Rent expense for all operating leases was approximately $345,000 and $343,000 for the three months ended June 30, 2014 and 2013, respectively, and $696,000 and $693,000 for the six months ended June 30, 2014 and 2013, respectively.

***Research and Development Costs***

The Company routinely enters into agreements with third-party contract research organizations to oversee clinical research and development studies provided on an outsourced basis, and to assist in other research and development activities. The Company generally is not contractually obligated to pay the third party if the service or reports are not provided. Total future estimated costs under these agreements as of June 30, 2014 were approximately $6.5 million.

***Numab Commitment***

In the event that Numab defaults under its loan with Zurcher Kantonalbank, the Company's maximum contingent liability under the Numab Agreement (see Note 8) is $2.5 million. As of June 30, 2014, the potential amount of payments in the event of Numab's default was $2.2 million. At June 30, 2014 and December 31, 2013, the Company had a recorded liability of $949,000 and $663,000, respectively, to meet a potential loan default by Numab.

## 8. Related Party Transactions

***R-Tech Ueno, Ltd.***

The Company recorded the following expenses for the three and six months ended June 30, 2014 and 2013 under all of its agreements with R-Tech, including the 2009 R-Tech Agreement, the 2011 R-Tech Agreement and various exclusive supply agreements with R-Tech:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| **(In thousands)** | **2014** | **2013** | **2014** | **2013** |
| Clinical supplies | $ 65 | $ 26 | $ 166 | $ 220 |
| Other research and development services | 21 | 64 | 31 | 106 |
| Commercial supplies | 4,080 | 2,896 | 7,626 | 4,733 |
| | $ 4,166 | $ 2,986 | $ 7,823 | $ 5,059 |

The following table summarizes the amounts included in deferred revenue resulting from the deferral of upfront payments relating to the exclusive supply agreements with R-Tech as of June 30, 2014 and December 31, 2013:

| **(In thousands)** | **June 30, 2014** | **December 31, 2013** |
|---|---|---|
| Deferred revenue, current | $ 268 | $ 477 |
| Deferred revenue, non-current | 4,856 | 4,925 |
| | $ 5,124 | $ 5,402 |

The Company recognized approximately $104,000 of revenue relating to its agreements with R-Tech for each of the three months ended June 30, 2014 and 2013, and $268,000 for each of the six months ended June 30, 2014 and 2013. Such revenue was recorded as contract and collaboration revenue in the accompanying Condensed Consolidated Statements of Operations and Comprehensive Income.

On July 15, 2014, the Company received an approval letter from the FDA to its prior approval supplement, or PAS, in response to FDA's review of the revised Drug Master File of R-Tech. The approval letter provides for the addition of Nitto Medic in Japan as a new production site for RESCULA. The Company has adequate supply of RESCULA to be able to supply the U.S. market into the first quarter of 2015.

***Numab AG***

In September 2011, the Company entered into a Loan Guarantee and Development Agreement, or the Numab Agreement, with Numab. On July 1, 2014, Numab became a related party of the Company as a result of the Company hiring as an executive officer an individual who holds an ownership interest in Numab. Under the terms of the Numab Agreement, the Company provided Numab with CHF 5.0 million as collateral and serves as guarantor for Numab on a loan from a third party, Zurcher Kantonalbank. During the first quarter of 2013, the collateral amount was reduced to CHF 2.2 million, or approximately $2.5 million as of June 30, 2014. As of June 30, 2014, Numab has utilized CHF 2.0 million of its loan facility, or approximately $2.2 million.

## 9. Notes Payable

In November 2010, the Company entered into a secured term loan agreement with the Tokyo-Mitsubishi Bank for ¥1,000,000,000, approximating $11.6 million as of the closing date. The loan renews every November. The interest rate at June 30, 2014 was 1.21%. The outstanding loan balances included in the accompanying Condensed Consolidated Balance Sheets were $9.9 million and $9.5 million as of June 30, 2014 and December 31, 2013, respectively. A deposit of $14.9 million with the Tokyo-Mitsubishi Bank collateralizing the loan bears annual interest of 0.25%.

In March 2013, the Company entered into a secured term loan agreement with the Mizuho Bank for ¥1,000,000,000, approximating $10.6 million as of the closing date. The interest rate at June 30, 2014 was 0.46%. The loan renews every March. The outstanding loan balances included in the accompanying Condensed Consolidated Balance Sheets were $9.9 million and $9.5 million as of June 30, 2014 and December 31, 2013, respectively. A deposit of $11.0 million with the Mizuho Bank collateralizing the loan bears annual interest of 0.30%.

In connection with the Company's acquisition of SAG in 2010, the Company issued a subordinated unsecured promissory note to each of the Ueno and Kuno Trusts. The interest rate beginning June 1, 2014 is 4.32%.

Due to changes in LIBOR rates, the Company has estimated the fair value of the notes payable as shown in the table below.

Notes payable at their fair value and carrying value consist of the following as of June 30, 2014 and December 31, 2013:

| | Fair Value | | Carrying Value | |
|---|---|---|---|---|
| | June 30, | December 31, | June 30, | December 31, |
| (In thousands) | 2014 | 2013 | 2014 | 2013 |
| Loan agreements | $ 19,724 | $ 19,008 | $ 19,724 | $ 19,008 |
| Promissory notes, Sellers of SAG | 30,984 | 34,889 | 29,807 | 33,712 |
| | $ 50,708 | $ 53,897 | $ 49,531 | $ 52,720 |
| | | | | |
| Notes payable, current | | | $ 27,790 | $ 26,892 |
| Notes payable, non-current | | | 21,741 | 25,828 |
| | | | $ 49,531 | $ 52,720 |

The Company's debt is subject to the fair value disclosure requirements as discussed in Note 4 above, and is classified as a Level 2 security.

## 10. Collaboration and License Agreements

***Abbott Agreement***

The following table summarizes the cash streams and related revenue recognized or deferred under the Abbott Agreements for the six months ended June 30, 2014:

| (In thousands) | Amount Deferred at December 31, 2013 | Cash Received for the Six Months Ended June 30, 2014 | Revenue Recognized for the Six Months Ended June 30, 2014 | Change in Accounts Receivable for the Six Months Ended June 30, 2014 | Foreign Currency Effects for the Six Months Ended June 30, 2014 | Amount Deferred at June 30, 2014 |
|---|---|---|---|---|---|---|
| *Collaboration revenue:* | | | | | | |
| Up-front payment associated with the Company's obligation to participate in joint committees | $ 555 | $ - | $ 20 | $ - | $ 21 | $ 556 |
| *Product sales revenue:* | $ - | $ 12,219 | $ 13,300 | $ 1,213 | $ (132) | $ - |

***Takeda Agreements***

The Company has received a total of $150.0 million in upfront and development milestone payments through June 30, 2014 under the Takeda Agreement. The Company is potentially entitled to receive additional development milestone and commercialization milestone payments under the Takeda Agreement, although there can be no assurance that the Company will receive any such payments.

The following table summarizes the cash streams and related revenue recognized or deferred under the Takeda Agreements for the six months ended June 30, 2014:

| (In thousands) | Amount Deferred at December 31, 2013 | Cash Received for the Six Months Ended June 30, 2014 | Revenue Recognized for the Six Months Ended June 30, 2014 | Change in Accounts Receivable for the Six Months Ended June 30, 2014* | Amount Deferred at June 30, 2014 |
|---|---|---|---|---|---|
| *Collaboration revenue:* | | | | | |
| Up-front payment associated with the Company's obligation to participate in joint committees | $ 1,029 | $ - | $ 74 | $ - | $ 955 |
| *Research and development revenue:* | | | | | |
| Reimbursement of research and development expenses | $ 419 | $ 5,765 | $ 3,484 | $ (355) | $ 2,345 |
| *Product royalty revenue* | $ - | $ 28,330 | $ 27,389 | $ (941) | - |
| *Co-promotion revenue* | $ - | $ 371 | $ 1,085 | $ 714 | - |

* Includes billed and unbilled accounts receivable.

**11. Stock Option Plans**

A summary of the employee stock option activity for the six months ended June 30, 2014 under the Company’s Amended and Restated 2001 Stock Incentive Plan, or the 2001 Stock Incentive Plan, is presented below:

| | Shares | Weighted Average Exercise Price Per Share | Weighted Average Remaining Contractual Term (Years) | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Options outstanding, December 31, 2013 | 146,200 | $ 10.00 | | |
| Options outstanding, June 30, 2014 | 146,200 | 10.00 | 1.53 | $ - |
| Options exercisable, June 30, 2014 | 146,200 | 10.00 | 1.53 | $ - |

A summary of the employee stock option activity for the six months ended June 30, 2014 under the Company's Amended and Restated 2006 Stock Incentive Plan is presented below:

| | Shares | Weighted Average Exercise Price Per Share | Weighted Average Remaining Contractual Term (Years) | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Options outstanding, December 31, 2013 | 2,513,063 | $ 5.03 | | |
| Options granted | 870,000 | 8.07 | | |
| Options exercised | (370,140) | 4.41 | | |
| Options forfeited | (90,984) | 4.42 | | |
| Options expired | (183,028) | 4.41 | | |
| Options outstanding, June 30, 2014 | 2,738,911 | 6.14 | 7.81 | $ 3,940,531 |
| Options exercisable, June 30, 2014 | 982,451 | 5.86 | 6.72 | $ 1,805,357 |

The weighted average grant date fair value of options granted during the six months ended June 30, 2014 and the year ended December 31, 2013 was $8.07 and $7.36, respectively. As of June 30, 2014, approximately $3.8 million of total unrecognized compensation costs, net of estimated forfeitures related to non-vested awards, are expected to be recognized over a weighted average period of 3.11 years.

A summary of the non-employee stock option activity for the six months ended June 30, 2014 under the Company's 2001 Stock Incentive Plan is presented below:

| | Shares | Weighted Average Exercise Price Per Share | Weighted Average Remaining Contractual Term (Years) | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Options outstanding, December 31, 2013 | 410,000 | $ 5.85 | | |
| Options exercised | (67,500) | 5.85 | | |
| Options outstanding, June 30, 2014 | 342,500 | 5.85 | 0.83 | $ 359,625 |
| Options exercisable, June 30, 2014 | 342,500 | 5.85 | 0.83 | $ 359,625 |

***Employee Stock Purchase Plan***

Under the Company's 2006 Employee Stock Purchase Plan, the Company received $7,839 and $6,126 upon the employees' purchase of 1,196 and 980 shares of class A common stock during the three months ended June 30, 2014 and 2013, respectively, and $13,226 and $10,997 upon the employees' purchase of 1,989 and 1,764 shares of class A common stock during the six months ended June 30, 2014 and 2013, respectively.

**12. Income Taxes**

For the three months ended June 30, 2014 and 2013, the Company recorded tax provisions of $1.8 million and $4.3 million, respectively. For the six months ended June 30, 2014 and 2013, the Company recorded tax provisions of $3.1 million and $5.5 million, respectively. The tax provision for the three and six months ended June 30, 2014 primarily pertained to the pre-tax income and losses generated by the Company's U.S., Japanese and Swiss subsidiaries. The tax provision for the three and six months ended June 30, 2013 primarily pertained to the pre-tax income generated by the Company's U.S. and Japanese subsidiaries.

The Company will continue to evaluate the need for a valuation allowance in foreign jurisdictions and may partially remove the valuation allowance of its foreign subsidiaries in 2014; any such release would have a positive impact on the results of operations.

*Uncertain Tax Positions*

The Company had an outstanding non-current income tax liability of approximately $971,000, including interest, for uncertain tax positions as of June 30, 2014. The amount represented the aggregate tax effect of differences between tax return positions and the amounts otherwise recognized in the Company's Condensed Consolidated Financial Statements. As of June 30, 2014, $971,000 is reflected as other liabilities in the accompanying Condensed Consolidated Balance Sheets. The liability for uncertain tax positions as of June 30, 2014 mainly pertained to the Company's interpretation of nexus in certain states related to revenue sourcing for state income tax purposes. During the three and six months ended June 30, 2014, the liability for income taxes has decreased approximately $81,000 and increased approximately $292,000, respectively. These changes in the liability are primarily related to the filing positions taken in various jurisdictions related to income tax nexus.

## 13. Segment Reporting

The following is a summary of financial information for the Company's reportable geographic segments:

| (In thousands) | Americas | Europe | Asia | Consolidated |
|---|---|---|---|---|
| **Three Months Ended June 30, 2014** | | | | |
| Research and development revenue | $ 1,700 | $ - | $ - | $ 1,700 |
| Product royalty revenue | 13,888 | - | - | 13,888 |
| Product sales revenue | 223 | 99 | 7,221 | 7,543 |
| Co-promotion revenue | 723 | - | - | 723 |
| Contract and collaboration revenue | 141 | 64 | 10 | 215 |
| Total revenues | 16,675 | 163 | 7,231 | 24,069 |
| Costs of goods sold | 146 | 14 | 3,636 | 3,796 |
| Research and development expenses | 2,243 | 1,223 | 786 | 4,252 |
| Depreciation and amortization | 186 | 166 | 8 | 360 |
| Other operating expenses | 8,839 | 2,500 | 511 | 11,850 |
| Income (loss) from operations | 5,261 | (3,740) | 2,290 | 3,811 |
| Interest income | 22 | 1 | - | 23 |
| Interest expense | (352) | - | (40) | (392) |
| Other non-operating expense, net | 5 | 942 | (1,000) | (53) |
| Income (loss) before income taxes | $ 4,936 | $ (2,797) | $ 1,250 | $ 3,389 |
| Capital expenditures | $ 4 | $ 2 | $ 2 | $ 8 |
| | | | | |
| **Three Months Ended June 30, 2013** | | | | |
| Research and development revenue | $ 11,461 | $ - | $ - | $ 11,461 |
| Product royalty revenue | 12,000 | - | - | 12,000 |
| Product sales revenue | 106 | 12 | 3,281 | 3,399 |
| Co-promotion revenue | - | - | - | - |
| Contract and collaboration revenue | 142 | 10 | 11 | 163 |
| Total revenues | 23,709 | 22 | 3,292 | 27,023 |
| Costs of goods sold | 53 | 3 | 1,852 | 1,908 |
| Research and development expenses | 1,304 | 1,941 | 1,180 | 4,425 |
| Depreciation and amortization | 112 | 251 | 9 | 372 |
| Other operating expenses | 8,159 | 1,130 | 860 | 10,149 |
| Income (loss) from operations | 14,081 | (3,303) | (609) | 10,169 |
| Interest income | 20 | 2 | 1 | 23 |
| Interest expense | - | (449) | (44) | (493) |
| Other non-operating expense, net | 1 | (72) | 941 | 870 |
| Income (loss) before income taxes | $ 14,102 | $ (3,822) | $ 289 | $ 10,569 |
| Capital expenditures | $ 17 | $ 3 | $ - | $ 20 |

| (In thousands) | Americas | Europe | Asia | Consolidated |
|---|---|---|---|---|
| **Six Months Ended June 30, 2014** | | | | |
| Research and development revenue | $ 3,484 | $ - | $ - | $ 3,484 |
| Product royalty revenue | 27,389 | - | - | 27,389 |
| Product sales revenue | 381 | 155 | 13,319 | 13,855 |
| Co-promotion revenue | 1,085 | - | - | 1,085 |
| Contract and collaboration revenue | 283 | 114 | 20 | 417 |
| Total revenues | 32,622 | 269 | 13,339 | 46,230 |
| Cost of goods sold | 296 | 39 | 6,854 | 7,189 |
| Research and development expenses | 4,832 | 2,635 | 1,920 | 9,387 |
| Depreciation and amortization | 374 | 332 | 15 | 721 |
| Other operating expenses | 16,680 | 4,734 | 979 | 22,393 |
| Income (loss) from operations | 10,440 | (7,471) | 3,571 | 6,540 |
| Interest income | 43 | 4 | 33 | 80 |
| Interest expense | (711) | - | (81) | (792) |
| Other non-operating expense, net | 2 | 990 | (1,368) | (376) |
| Income (loss) before income taxes | $ 9,774 | $ (6,477) | $ 2,155 | $ 5,452 |
| Capital expenditures | $ 45 | $ 2 | $ 2 | $ 49 |
| | | | | |
| **Six Months Ended June 30, 2013** | | | | |
| Research and development revenue | $ 14,261 | $ - | $ - | $ 14,261 |
| Product royalty revenue | 23,677 | - | - | 23,677 |
| Product sales revenue | 107 | 20 | 5,489 | 5,616 |
| Co-promotion revenue | 61 | - | - | 61 |
| Contract and collaboration revenue | 283 | 22 | 22 | 327 |
| Total revenues | 38,389 | 42 | 5,511 | 43,942 |
| Cost of goods sold | 76 | 8 | 3,106 | 3,190 |
| Research and development expenses | 2,586 | 4,612 | 2,856 | 10,054 |
| Depreciation and amortization | 234 | 501 | 18 | 753 |
| Other operating expenses | 18,476 | 1,728 | 2,180 | 22,384 |
| Income (loss) from operations | 17,017 | (6,807) | (2,649) | 7,561 |
| Interest income | 35 | 6 | 1 | 42 |
| Interest expense | - | (909) | (79) | (988) |
| Other non-operating expense, net | (15) | (264) | 2,299 | 2,020 |
| Income (loss) before income taxes | $ 17,037 | $ (7,974) | $ (428) | $ 8,635 |
| Capital expenditures | $ 31 | $ 106 | $ 3 | $ 140 |
| | | | | |
| **As of June 30, 2014** | | | | |
| Property and equipment, net | $ 711 | $ 99 | $ 169 | $ 979 |
| Identifiable assets, net of intercompany loans and investments | $ 106,622 | $ 17,855 | $ 17,762 | $ 142,239 |
| | | | | |
| **As of December 31, 2013** | | | | |
| Property and equipment, net | $ 869 | $ 112 | $ 175 | $ 1,156 |
| Identifiable assets, net of intercompany loans and investments | $ 95,350 | $ 23,843 | $ 17,684 | $ 136,877 |

**14. Subsequent Events**

On July 14, 2014, Abbott announced that it had entered into a definitive agreement with Mylan Inc., or Mylan, whereby Mylan will acquire Abbott's non-U.S. developed markets specialty and branded generics business in an all-stock transaction, which includes a portfolio of more than 100 specialty and branded generic pharmaceutical products in five major therapeutic areas (cardio/metabolic, gastrointestinal, anti-infective/respiratory, CNS/pain and women's and men's health) and several patent-protected, novel and/or hard-to-manufacture products. The Company believes that the Abbott Agreement is one of the assets that Abbott is selling as part of this transaction. The Company expects to have discussions with Mylan about its performance of the Abbott Agreement and does not anticipate any adverse impact to sales of AMITIZA in Japan.

On July 15, 2014, the Company received an approval letter to its PAS in response to FDA’s review of the revised Drug Master File of R-Tech. The approval letter provides for the addition of Nitto Medic in Japan as a new production site for RESCULA. The Company has adequate supply of RESCULA to be able to supply the U.S. market into the first quarter of 2015.

Scottish Medicines Consortium, or SMC, has advised us that in their final guidance that will be issued on August 11, 2014, that AMITIZA is not recommended for use with NHS Scotland. We intend to explore available options to address this guidance.

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

*This Quarterly Report on Form 10-Q contains forward-looking statements regarding Sucampo Pharmaceuticals, Inc., or the Company, we, us or our, and our business, financial condition, results of operations and prospects within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements include those that express plans, anticipation, intent, contingency, goals, targets or future development and/or otherwise are not statements of historical fact. These forward-looking statements are based on our current expectations and projections about future events and they are subject to risks and uncertainties known and unknown that could cause actual results and developments to differ materially from those expressed or implied in such statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified below, and those discussed in the section titled "Risk Factors" included elsewhere in this Quarterly Report Form 10-Q and in our other filings with the Securities and Exchange Commission, or the SEC, including our Annual Report on Form 10-K for the fiscal year ended December 31, 2013, which we filed with the SEC on March 12, 2014. You should also read the following discussion and analysis of our financial condition and results of operations in conjunction with our Consolidated Financial Statements as of and for the year ended December 31, 2013 included in our Annual Report on Form 10-K.*

**Overview**

We are a global biopharmaceutical company focused on innovative research, discovery, development and commercialization of proprietary drugs to treat gastrointestinal, ophthalmic, neurologic, and oncology-based inflammatory disorders, and we are also considering other potential therapeutic applications of our drug technologies.

We currently generate revenue mainly from product royalties, development milestone payments, product sales and clinical development activities. We expect to continue to incur significant expenses for the next several years as we continue our research and development activities, seek additional regulatory approvals and additional indications for approved products and other compounds, and seek partnering opportunities for the approved products and compounds on a global basis.

Our operations are conducted through subsidiaries based in the United States, Japan, Switzerland and the United Kingdom. Our reportable geographic segments are the Americas, Asia and Europe and we evaluate the performance of these segments based primarily on income (loss) from operations, as well as other factors that depend on the growth of these subsidiaries. Such measures include the progress of research and development activities, collaboration and licensing efforts, commercialization activities and other factors.

Drs. Ryuji Ueno and Sachiko Kuno have direct or indirect interests in our controlling stockholder, S&R Technology Holding, LLC, and are married to each other. Drs. Ueno and Kuno, together, directly or indirectly, own a majority of the stock of R-Tech Ueno, Ltd, or R-Tech, a pharmaceutical research, development and manufacturing company in Japan. R-Tech is responsible for the manufacture and supply of all of our drug products for commercial use and clinical development.

**Product Pipeline**

The table below summarizes the development status of lubiprostone, unoprostone isopropyl and several other product candidates. We currently hold all of the commercialization rights to the compounds in our product pipeline, other than for commercialization of AMITIZA in the United States, Canada and Japan, which is covered by our collaboration and license agreements with Takeda Pharmaceutical Company Limited, or Takeda, and Abbott Japan Co. Ltd., or Abbott, and other than for RESCULA in Japan, Korea, Taiwan and the People's Republic of China, or the R-Tech Territory. Commercialization of each product candidate may be implemented after successful completion of clinical studies and approval from appropriate governmental agencies.

| Product/Product Candidate | Target Indication | Development Phase | Next Milestone |
|---|---|---|---|
| Lubiprostone (AMITIZA ®) | Chronic idiopathic constipation (CIC) (adults of all ages) | Marketed in the U.S. | —— |
| | | Marketed in Switzerland | —— |
| | | Marketed in the U.K. Initiated mutual recognition process (MRP) for approval in other E.U. countries. | Consider seeking approval for AMITIZA in other E.U. countries following the MRP |
| | Irritable bowel syndrome with constipation (adult women) (IBS-C) | Marketed in the U.S. | Initiate phase 4 study on higher dosage and with additional male subjects |
| | Opioid-induced constipation (OIC) in patients with chronic non-cancer pain | Marketed in the U.S. and Switzerland | Discuss with MHRA regulatory options for obtaining OIC approval in the U.K. |
| | Chronic constipation | Marketed in Japan | —— |
| | Reformulation for lubiprostone | Phase 3 trial results available | Undertake additional formulation optimization work |
| | Pediatric functional constipation | Pivotal phase 3 initiated | Complete phase 3 program and file sNDA |
| Unoprostone Isopropyl (RESCULA ®) | Primary open angle glaucoma and ocular hypertension | Marketed in the U.S. | —— |
| | Glaucoma and ocular hypertension | —— | Updated label and reauthorization in the E.U. and Switzerland |
| | Retinitis pigmentosa | In phase 3 by development partner R-Tech Ueno. Orphan drug status obtained in the U.S. and E.U. | Meet with the U.S. and European regulators prior to the interim results of Japanese trial |
| **IV Ion Channel Activator** | Lumbar spinal stenosis | Phase 2a completed | Initiate additional phase 2a trial |
| **PO Ion Channel Activator** | Lumbar spinal stenosis | Phase 1b initiated | Complete phase 1b trial |
| **Cobiprostone** | Oral mucositis | Phase 1b completed | Initiate phase 2a trial |

**AMITIZA (lubiprostone)**

***United States***

In the United States, we began co-promoting AMITIZA for OIC in adults with chronic, non-cancer pain in the first quarter of 2014 with a contract sales force of approximately 40 sales representatives.

***Japan***

In Japan, the two-week limitation on prescriptions, generally applied to all new approvals of products for the first year after NHI reimbursement price approval, was removed in December 2013. AMITIZA is Japan's only prescription medicine for chronic constipation. On July 14, 2014, Abbott announced that it had entered into a definitive agreement with Mylan Inc. or Mylan whereby Mylan will acquire Abbott's non-U.S. developed markets specialty and branded generics business in an all-stock transaction, which includes a portfolio of more than 100 specialty and branded generic pharmaceutical products in five major therapeutic areas (cardio/metabolic, gastrointestinal, anti-infective/respiratory, CNS/pain and women's and men's health) and several patent-protected, novel and/or hard-to-manufacture products. We believe that under the license, commercialization and supply agreement, or the Abbott Agreement, which AMITIZA is marketed, is one of the assets Abbott has agreed to sell to Mylan as part of this transaction. We expect to have discussions with Mylan about its performance of the Abbott Agreement and do not anticipate any adverse impact to sales of AMITIZA in Japan in 2014.

***Europe***

In Switzerland, we announced in February 2014 that the Bundesamt fur Gesundheit revised several reimbursement limitations with which AMITIZA was first approved for reimbursement and inclusion in the Specialitätenliste to allow all Swiss physicians to prescribe AMITIZA to patients who have failed previous treatments with at least two laxatives over a nine month period. In July 2014, we announced that Swissmedic, the Swiss Agency for Therapeutic Products, approved AMIITZA for the treatment of OIC in chronic, non-cancer adult patients.

In the United Kingdom, we announced in July 2014 that the National Institute for Health and Care Excellence published the technology appraisal guidance recommending the use of AMITIZA in the treatment of CIC and associated symptoms in adults who have failed laxatives. We filed for the OIC indication in the United Kingdom and in March 2014, we received notification from Medicines and Healthcare Products Regulatory Agency, or MHRA, that the application was not approved. We are in continued discussion with MHRA exploring all available options. We will be seeking approval for AMITIZA for the CIC indication in other European Union countries following the Mutual Recognition Procedure.

***Other Global Markets***

We and Takeda are currently exploring the commercialization of AMITIZA in Canada. We have met with Health Canada to discuss the best ways to proceed with AMITIZA registration in Canada which we intend to file in the second half of 2014.

We continue to explore options to develop and commercialize lubiprostone in other geographic regions, including Latin America, Russia, the Middle East, the People's Republic of China and other Asian countries.

**RESCULA (unoprostone isopropyl)**

Under our 2009 and 2011 agreements with R-Tech, we hold the exclusive rights to commercialize and develop unoprostone isopropyl worldwide, excluding the R-Tech Territory, for its approved indication and all new ophthalmic indications developed by us. We are also evaluating the opportunities in the European Union and other European countries to commercialize unoprostone isopropyl there. We also seek to develop new formulations and we may consider using third party proprietary drug delivery technologies. We are exploring research programs with those third parties.

In the United States, RESCULA may be used as a first-line agent or concomitantly with other topical ophthalmic drug products to lower intraocular pressure, or IOP, according to the approved product labeling. RESCULA is a big potassium channel activator and has a different mechanism of action than other IOP lowering agents on the market. We currently promote RESCULA through a limited contract sales force.

**Our Other Clinical Development Programs**

**Lubiprostone**

*Liquid Reformulation for Pediatric Functional Constipation*

As announced previously, Takeda has agreed to fund 100% of the costs for additional reformulation work for lubiprostone. Feasibility testing for this work is ongoing and is expected to be completed in the fourth quarter of 2014. If successful, the reformulation will enable future studies of lubiprostone in adults and younger children who may not be able to swallow the current soft gelatin capsule formulation of lubiprostone. Currently, two of the four planned phase 3 studies for this pediatric functional constipation development program are ongoing, both of which are testing the current soft gelatin capsule formulation of lubiprostone in patients 6 to 17 years of age: a 12-week, randomized, placebo-controlled trial that initiated in December 2013 and a follow-on, long-term safety extension study that initiated in March.

**Intravenous and Oral Ion Channel Activators**

*Lumbar Spinal Stenosis*

Two ion channel activators, in both the intravenous, or IV, and oral forms, are in clinical development for the treatment of lumbar spinal stenosis, or LSS. Positive top-line results from a phase 1b trial evaluating the safety and pharmacokinetics, or PK, of the orally administered ion channel activator demonstrated the compound to be generally well-tolerated. This trial is expected to conclude in the third quarter of 2014. We plan to conduct an additional phase 2a study in the second half of 2014 to evaluate the clinical effectiveness of the IV ion channel activator with LSS.

**Cobiprostone**

*Oral Spray for Oral Mucositis*

Cobiprostone is in development for the target indication of prevention and/or treatment of oral mucositis. In the first quarter of 2014, we completed our phase 1b trial that evaluated the safety and PK of an oral spray formulation of cobiprostone. The results of the phase 1b trial showed that cobiprostone was well-tolerated overall and revealed low systematic exposure. The next phase of clinical development, a phase 2a trial, is expected to begin in the second half of 2014.

**Results of Operations**

***Comparison of three months ended June 30, 2014 and June 30, 2013***

***Revenues***

The following table summarizes our revenues:

| (In thousands) | Three Months Ended June 30, 2014 | 2013 |
|---|---|---|
| Research and development revenue | $ 1,700 | $ 11,461 |
| Product royalty revenue | 13,888 | 12,000 |
| Product sales revenue | 7,543 | 3,399 |
| Co-promotion revenue | 723 | - |
| Contract and collaboration revenue | 215 | 163 |
| Total | $ 24,069 | $ 27,023 |

Total revenues were $24.1 million for the three months ended June 30, 2014 compared to $27.0 million for the three months ended June 30, 2013, a decrease of $3.0 million or 10.9%.

*Research and development revenue*

Research and development revenue was $1.7 million for the three months ended June 30, 2014 compared to $11.4 million for the three months ended June 30, 2013, a decrease of $9.8 million or 85.2%. The decrease was primarily due to the 2013 receipt of the $10.0 million milestone payment from Takeda upon the first commercial sale of AMITIZA for OIC.

*Product royalty revenue*

Product royalty revenue represents royalty revenue earned on net sales of AMITIZA in the United States, as reported to us by our partner, Takeda. Product royalty revenue was $13.9 million for the three months ended June 30, 2014 compared to $12.0 million for the three months ended June 30, 2013, an increase of $1.9 million or 15.7%. The increase was primarily due to higher net sales of AMITIZA as reported by Takeda for royalty calculation purposes.

*Product sales revenue*

Product sales revenue represents drug product net sales of AMITIZA in Japan and Switzerland, and drug product net sales of RESCULA in the United States. Product sales revenue was $7.5 million for the three months ended June 30, 2014 compared to $3.4 million for the three months ended June 30, 2013, an increase of $4.1 million or 121.9%. The increase was primarily due to the increased volume of AMITIZA sales in Japan.

*Co-promotion revenue*

Co-promotion revenue represents reimbursements by Takeda of a portion of our co-promotion costs for our specialty sales force. Co-promotion revenue was $723,000 for the three months ended June 30, 2014 compared to nil for the three months ended June 30, 2013, an increase of $723,000. The increase resulted from our specialty sales force shifting back to co-promoting AMITIZA in 2014 after having shifted away from co-promoting AMITIZA in 2013.

***Costs of Goods Sold***

The following table summarizes our costs of goods sold expenses:

| (In thousands) | Three Months Ended June 30, 2014 | 2013 |
|---|---|---|
| Product purchases | $ 3,748 | $ 1,862 |
| Distribution | 48 | 46 |
| Total | $ 3,796 | $ 1,908 |

Total costs of goods sold for the three months ended June 30, 2014 were $3.8 million compared to $1.9 million for the three months ended June 30, 2013, an increase of $1.9 million or 99.0%. The increase was primarily due to the increased volume of AMITIZA sales in Japan.

***Research and Development Expenses***

The following table summarizes our research and development expenses:

| (In thousands) | Three Months Ended June 30, 2014 | 2013 |
|---|---|---|
| Direct costs: | | |
| Lubiprostone | $ 2,309 | $ 1,710 |
| Cobiprostone | 101 | 10 |
| Ion channel activators | 16 | 849 |
| Unoprostone isoproypl | 160 | 258 |
| 3608 | 415 | 202 |
| Other | 389 | 194 |
| Total | 3,390 | 3,223 |
| | | |
| Indirect costs | 862 | 1,202 |
| Total | $ 4,252 | $ 4,425 |

Total research and development expenses for the three months ended June 30, 2014 were $4.3 million compared to $4.4 million for the three months ended June 30, 2013, a decrease of $173,000 or 3.9%. The decrease was primarily due to lower costs associated with our LSS trials, partially offset by increased costs of our lubiprostone pediatric trial.

***General and Administrative Expenses***

The following table summarizes our general and administrative expenses:

| (In thousands) | Three Months Ended June 30, 2014 | 2013 |
|---|---|---|
| Salaries, benefits and related costs | $ 2,141 | $ 2,019 |
| Legal, consulting and other professional expenses | 3,484 | 1,207 |
| Stock option expense | 524 | 427 |
| Pharmacovigilance | 468 | 702 |
| Other expenses | 1,580 | 1,613 |
| Total | $ 8,197 | $ 5,968 |

General and administrative expenses were $8.2 million for the three months ended June 30, 2014, compared to $6.0 million for the three months ended June 30, 2013, an increase of $2.2 million or 37.3%. The increase was primarily due to a significant increase in legal fees incurred prosecuting a patent infringement lawsuit filed by us in February 2013.

***Selling and Marketing Expenses***

The following table summarizes our selling and marketing expenses:

| | Three Months Ended June 30, | |
|---|---|---|
| **(In thousands)** | **2014** | **2013** |
| Salaries, benefits and related costs | $ 674 | $ 1,732 |
| Consulting and other professional expenses | 1,652 | 1,077 |
| Stock option expense | 20 | 84 |
| Samples expense | 98 | 74 |
| Data purchases | 234 | 227 |
| Other expenses | 1,335 | 1,359 |
| Total | $ 4,013 | $ 4,553 |

Selling and marketing expenses were $4.0 million for the three months ended June 30, 2014, compared to $4.6 million for the three months ended June 30, 2013, a decrease of $540,000 or 11.9%. The decrease was primarily the result of the replacement of our in-house sales force in with a lower-cost contract sales force in 2014, partially offset by increased commercialization costs in Europe for AMITIZA.

***Non-Operating Income and Expense***

The following table summarizes our non-operating income and expense:

| | Three Months Ended June 30, | |
|---|---|---|
| **(In thousands)** | **2014** | **2013** |
| Interest income | $ 23 | $ 23 |
| Interest expense | (392) | (493) |
| Other income (expense), net | (53) | 870 |
| Total | $ (422) | $ 400 |

Interest income was $23,000 for each of the three months ended June 30, 2014 and 2013.

Interest expense was $392,000 for the three months ended June 30, 2014, compared to $493,000 for the three months ended June 30, 2013, a decrease of $101,000, or 20.5%, primarily due to lower principal balances.

Other income (expense), net was ($53,000) for the three months ended June 30, 2014, compared to $870,000 for the three months ended June 30, 2013, a decrease of $923,000, or 106.1%. The majority of the decrease related to the change from unrealized and non-cash foreign exchange gains in the prior year period, to unrealized and non-cash foreign exchange losses in the current year period.

***Income Taxes***

We recorded income tax provisions of $1.8 million and $4.3 million for the three months ended June 30, 2014 and 2013, respectively. The tax provision for the three months ended June 30, 2014 primarily pertains to the pre-tax income and losses generated by our U.S., Japanese and Swiss subsidiaries. The tax provision for the three months ended June 30, 2013 primarily pertained to the pre-tax income generated by our U.S. and Japanese subsidiaries.

***Comparison of six months ended June 30, 2014 and June 30, 2013***

***Revenues***

The following table summarizes our revenues:

| (In thousands) | Six Months Ended June 30, 2014 | 2013 |
|---|---|---|
| Research and development revenue | $ 3,484 | $ 14,261 |
| Product royalty revenue | 27,389 | 23,677 |
| Product sales revenue | 13,855 | 5,616 |
| Co-promotion revenue | 1,085 | 61 |
| Contract and collaboration revenue | 417 | 327 |
| Total | $ 46,230 | $ 43,942 |

Total revenues were $46.2 million for the six months ended June 30, 2014 compared to $43.9 million for the six months ended June 30, 2013, an increase of $2.3 million or 5.2%.

*Research and development revenue*

Research and development revenue was $3.5 million for the six months ended June 30, 2014 compared to $14.3 million for the six months ended June 30, 2013, a decrease of $10.8 million or 75.6%. The decrease was primarily due to the 2013 receipt of the $10.0 million milestone payment from Takeda upon the first commercial sale of AMITIZA for OIC.

*Product royalty revenue*

Product royalty revenue represents royalty revenue earned on net sales of AMITIZA in the United States, as reported to us by our partner, Takeda. Product royalty revenue was $27.4 million for the six months ended June 30, 2014 compared to $23.7 million for the six months ended June 30, 2013, an increase of $3.7 million or 15.7%. The increase was primarily due to higher net sales of AMITIZA as reported by Takeda for royalty calculation purposes.

*Product sales revenue*

Product sales revenue represents drug product net sales of AMITIZA in Japan and Switzerland, and drug product net sales of RESCULA in the United States. Product sales revenue was $13.9 million for the six months ended June 30, 2014 compared to $5.6 million for the six months ended June 30, 2013, an increase of $8.2 million or 146.7%. The increase was primarily due to the increased volume of AMITIZA sales in Japan.

*Co-promotion revenue*

Co-promotion revenue represents reimbursements by Takeda of a portion of our co-promotion costs for our specialty sales force. Co-promotion revenue was $1.1 million for the six months ended June 30, 2014 compared to $61,000 for the six months ended June 30, 2013, an increase of $1.0 million. The increase resulted from our specialty sales force shifting back to co-promoting AMITIZA in 2014 after having shifted away from co-promoting AMITIZA in 2013.

***Costs of Goods Sold***

The following table summarizes our costs of goods sold expenses:

| (In thousands) | Six Months Ended June 30, 2014 | 2013 |
|---|---|---|
| Product purchases | $ 7,077 | $ 3,122 |
| Distribution | 112 | 68 |
| Total | $ 7,189 | $ 3,190 |

Total costs of goods sold for the six months ended June 30, 2014 were $7.2 million compared to $3.2 million for the six months ended June 30, 2013, an increase of $4.0 million or 125.4%. The increase was primarily due to the increased volume of AMITIZA sales in Japan.

***Research and Development Expenses***

The following table summarizes our research and development expenses:

| (In thousands) | Six Months Ended June 30, 2014 | 2013 |
|---|---|---|
| Direct costs: | | |
| Lubiprostone | $ 4,743 | $ 3,775 |
| Cobiprostone | 678 | 352 |
| Ion channel activators | 139 | 1,695 |
| Unoprostone isoproypl | 435 | 694 |
| 3608 | 821 | 756 |
| Other | 858 | 1,002 |
| Total | 7,674 | 8,274 |
| | | |
| Indirect costs | 1,713 | 1,780 |
| Total | $ 9,387 | $ 10,054 |

Total research and development expenses for the six months ended June 30, 2014 were $9.4 million compared to $10.1 million for the six months ended June 30, 2013, a decrease of $667,000 or 6.6%. The decrease was primarily due to lower costs associated with our Lumbar Spinal Stenosis trials, partially offset by increased costs of our lubiprostone pediatric trial.

***General and Administrative Expenses***

The following table summarizes our general and administrative expenses:

| (In thousands) | Six Months Ended June 30, 2014 | 2013 |
|---|---|---|
| Salaries, benefits and related costs | $ 4,033 | $ 4,164 |
| Legal, consulting and other professional expenses | 6,876 | 3,252 |
| Stock option expense | 697 | 677 |
| Pharmacovigilance | 789 | 1,767 |
| Other expenses | 3,059 | 3,335 |
| Total | $ 15,454 | $ 13,195 |

General and administrative expenses were $15.5 million for the six months ended June 30, 2014, compared to $13.2 million for the six months ended June 30, 2013, an increase of $2.3 million or 17.1%. The increase is primarily due to a significant increase in legal fees incurred prosecuting a patent infringement lawsuit filed by us in February 2013.

***Selling and Marketing Expenses***

The following table summarizes our selling and marketing expenses:

| (In thousands) | Six Months Ended June 30, 2014 | 2013 |
|---|---|---|
| Salaries, benefits and related costs | $ 1,375 | $ 3,681 |
| Consulting and other professional expenses | 3,245 | 1,978 |
| Stock option expense | 43 | 141 |
| Samples expense | 140 | 844 |
| Data purchases | 449 | 501 |
| Other expenses | 2,408 | 2,797 |
| Total | $ 7,660 | $ 9,942 |

Selling and marketing expenses were $7.7 million for the six months ended June 30, 2014, compared to $9.9 million for the six months ended June 30, 2013, a decrease of $2.3 million or 23.0%. The decrease was primarily due to the replacement of our in-house sales force with a lower-cost contract sales force in 2014, partially offset by increased commercialization costs in Europe for AMITIZA.

***Non-Operating Income and Expense***

The following table summarizes our non-operating income and expense:

| (In thousands) | Six Months Ended June 30, 2014 | 2013 |
|---|---|---|
| Interest income | $ 80 | $ 42 |
| Interest expense | (792) | $ (988) |
| Other income (expense), net | (376) | $ 2,020 |
| Total | $ (1,088) | $ 1,074 |

Interest income was $80,000 for the six months ended June 30, 2014, compared to $42,000 for the six months ended June 30, 2013, an increase of $38,000, or 90.5%.

Interest expense was $792,000 for the six months ended June 30, 2014, compared to $988,000 for the six months ended June 30, 2013, a decrease of $196,000, or 19.8%, primarily due to lower principal balances.

Other income (expense), net was ($376,000) for the six months ended June 30, 2014, compared to $2.0 million for the six months ended June 30, 2013, a decrease of $2.4 million, or 118.6%. The majority of the decrease related to the change from unrealized and non-cash foreign exchange gains in the prior year period, to unrealized and non-cash foreign exchange losses in the current year period.

***Income Taxes***

We recorded income tax provisions of $3.1 million and $5.5 million for the six months ended June 30, 2014 and 2013, respectively. The tax provision for the six months ended June 30, 2014 primarily pertains to the pre-tax income and losses generated by our U.S., Japanese and Swiss subsidiaries. The tax provision for the six months ended June 30, 2013 primarily pertained to the pre-tax income generated by our U.S. and Japanese subsidiaries.

**Reportable Geographic Segments**

We have determined that we have three reportable segments based on our method of internal reporting, which disaggregates business by geographic location. These segments are the Americas, Europe and Asia. We evaluate the performance of these segments based primarily on income (loss) from operations, as well as other factors that depend on the growth of these geographies. Such measures include the progress of research and development activities, collaboration and licensing efforts, commercialization activities and other factors. The financial results of our segments reflect their varying stages of development. The following table summarizes the financial results and the identifiable assets of our reportable geographic segments:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| (in thousands) | 2014 | 2013 | 2014 | 2013 |
| **Americas** | | | | |
| Total revenues | $ 16,675 | $ 23,709 | $ 32,622 | $ 38,389 |
| Income before income taxes | 4,936 | 14,102 | 9,774 | 17,037 |
| **Europe** | | | | |
| Total revenues | 163 | 22 | 269 | 42 |
| Loss before income taxes | (2,797) | (3,822) | (6,477) | (7,974) |
| **Asia** | | | | |
| Total revenues | 7,231 | 3,292 | 13,339 | 5,511 |
| Income (loss) before income taxes | 1,250 | 289 | 2,155 | (428) |
| **Consolidated** | | | | |
| Total revenues | 24,069 | 27,023 | 46,230 | 43,942 |
| Income before income taxes | 3,389 | 10,569 | 5,452 | 8,635 |

| (in thousands) | June 30, 2014 | December 31, 2013 |
|---|---|---|
| **Identifiable assets** | | |
| Americas | $ 106,622 | $ 95,350 |
| Europe | 17,855 | 23,843 |
| Asia | 17,762 | 17,684 |
| Consolidated | 142,239 | 136,877 |

Our Americas segment recorded income before income taxes of $4.9 million and $14.1 million for the three months ended June 30, 2014 and 2013, respectively, a decrease of $9.2 million or 65.0%. For the six months ended June 30, 2014 and 2013, our Americas segment recorded income before income taxes of $9.8 and $17.0 million, respectively, a decrease of $7.3 million or 42.6%. The decreases in each period were primarily due to a $10.0 million milestone payment received in 2013.

Our Europe segment recorded a loss before income taxes of $2.8 million and $3.8 million for the three months ended June 30, 2014 and 2013, a decrease of $1.0 million or 26.8%. For the six months ended June 30, 2014 and 2013, our Europe segment recorded a loss before income taxes of $6.5 million and $8.0 million, respectively, a decrease of $1.5 million or 18.8%. The decreases in each period were primarily due to consumption tax revenue and increased commercialization costs for AMITIZA.

Our Asia segment recorded income before income taxes of $1.3 million and $289,000 for the three months ended June 30, 2014 and 2013, respectively, an increase of $1.0 million. For the six months ended June 30, 2014 and 2013, our Asia segment recorded income before income taxes of $2.2 million and loss before income taxes of $428,000, respectively, an increase of $2.6 million. The increases in each period were primarily due to increased product sales of AMITIZA.

**Financial Condition, Liquidity and Capital Resources**

***Financial Condition***

***Sources of Liquidity***

We finance our operations principally with cash generated from revenues, cash and cash equivalents on hand, and to a lesser extent, cash generated from the issuance and sale of our class A common stock through "at-the-market" equity offerings or through the exercise of employee stock options. Revenues generated from operations principally consist of a combination of upfront payments, milestone and royalty payments, product sales, and research and development expense reimbursements received from Takeda, Abbott and other parties.

Our cash, cash equivalents, restricted cash and investments consisted of the following as of June 30, 2014 and December 31, 2013:

| (In thousands) | June 30, 2014 | December 31, 2013 |
|---|---|---|
| Cash and cash equivalents | $ 53,532 | $ 44,102 |
| Restricted cash, current | 26,129 | 26,115 |
| Restricted cash, non-current | 2,471 | 2,471 |
| Investments, current | 14,017 | 16,003 |
| Investments, non-current | 7,460 | 7,219 |
| Total | $ 103,609 | $ 95,910 |

Our cash equivalents are deposits in operating accounts and highly liquid investments with an original maturity at time of purchase of 90 days or less.

As of June 30, 2014 and December 31, 2013, our restricted cash consisted primarily of the collateral pledged to support a loan agreement with The Bank of Tokyo-Mitsubishi UFJ, Ltd., a loan agreement with The Mizuho Bank, Ltd., or the Mizuho Bank, Numab's loan with Zurcher Kantonalbank and operating leases with certain financial institutions.

As of June 30, 2014, our current investments consisted of U.S. government securities, certificates of deposit, and corporate bonds that mature in one year or less.

***Cash Flows***

The following table summarizes our cash flows:

| (In thousands) | Six Months Ended June 30, 2014 | 2013 |
|---|---|---|
| Cash provided by (used in): | | |
| Operating activities | $ 4,095 | $ (4,604) |
| Investing activities | 1,636 | (7,040) |
| Financing activities | 3,540 | 8,407 |
| Effect of exchange rates | 159 | (1,497) |
| Net increase (decrease) in cash and cash equivalents | $ 9,430 | $ (4,734) |

***Six months ended June 30, 2014***

Net cash provided by operating activities of $4.1 million for the six months ended June 30, 2014 was primarily due to a net income of $2.4 million plus non-cash expenses totaling $1.5 million, decreases in receivables of $1.6 million, and offsetting increases in payables of $1.5 million.

Net cash provided by investing activities of $1.6 million for the six months ended June 30, 2014 was primarily due to proceeds from the sales of investments.

Net cash provided by financing activities of $3.5 million for the six months ended June 30, 2014 was realized through the issuance of Class A common stock through the "at-the-market" program totaling $5.3 million, exercised options totaling $2.0 million, offset by repayment of notes payable totaling $3.9 million.

The effect of exchange rates on the cash balances of currencies held in foreign denominations for six months ended June 30, 2014 was an increase of $159,000.

***Six Months Ended June 30, 2013***

Net cash used in operating activities was $4.6 million for the six months ended June 30, 2013. This reflected a net income of $3.2 million, an increase in accounts receivable of $2.3 million, an increase in inventory of $4.8 million as well as changes in other operating assets.

Net cash used in investing activities was $7.0 million for the six months ended June 30, 2013. This primarily reflected an increase in restricted cash associated with collateral pledged to support loan agreements, partially offset by our proceeds from the sales and maturities of investments.

Net cash provided by financing activities was $8.4 million for the six months ended June 30, 2013. This primarily reflected proceeds from a loan agreement with the Mizuho Bank, partially offset by a payment of $3.7 million on our notes payable and purchases under our stock repurchase program.

The effect of exchange rates on the cash balances of currencies held in foreign denominations for six months ended June 30, 2013 was an increase of $1.5 million.

***Off-Balance Sheet Arrangements***

As of June 30, 2014, we did not have any off-balance sheet arrangements, as such term is defined in Item 303(a)(4) of Regulation S-K under the Securities Act of 1933, as amended.

***Funding Requirements***

We may need substantial amounts of capital to continue growing our business. We may require this capital, among other things, to fund:

- our share of the on-going development program of AMITIZA in the United States;
- the development of RESCULA in the United States and Europe;
- development, regulatory and marketing efforts in Europe and Asia for lubiprostone;
- development and regulatory activities for unoprostone isopropyl in the United States and Canada and other countries excluding the R-Tech Territory;
- development, marketing and manufacturing activities at Sucampo AG;
- activities to resolve our on-going legal matters;
- the costs involved in obtaining and maintaining proprietary protection for our products, technology and know-how, including litigation costs and the results of such litigation;
- research and development activities for other prostone compounds, including cobiprostone, and other ion channel openers;
- other business development activities, including partnerships, alliances and investments in, or acquisitions of, other businesses, products and technologies, and the integration of such acquisitions;
- the expansion of our commercialization activities including the purchase of inventory;
- the continuing purchase of shares of our class A common stock up to $5.0 million pursuant to the repurchase program, which may be increased up to $10.0 million as previously approved by our Board of Directors; and
- the payment of principal and interest under our loan note obligations.

The timing of these funding requirements is difficult to predict due to many factors, including the outcomes of our preclinical and clinical research and development programs and when those outcomes are determined, the timing of obtaining regulatory approvals and the presence and status of competing products. Our capital needs may exceed the capital available from our future operations, collaborative and licensing arrangements and existing liquid assets. Our future capital requirements and liquidity will depend on many factors, including, but not limited to:

- the cost and time involved to pursue our research and development programs;
- our ability to establish collaborative arrangements and to enter into licensing agreements and contractual arrangements with others; and
- any future change in our business strategy.

To the extent that our capital resources may be insufficient to meet our future capital requirements, we may need to finance our future cash needs through at-the-market offerings, public or private equity offerings, debt financings or corporate collaboration and licensing arrangements. Additional equity or debt financing, grants or corporate collaboration and licensing arrangements may not be available on acceptable terms, if at all. If adequate funds are not available, we may be required to delay, reduce the scope of or eliminate our research and development programs, reduce our planned commercialization efforts or obtain funds through arrangements with collaborators or others that may require us to relinquish rights to certain product candidates that we might otherwise seek to develop or commercialize independently. In addition, any future equity funding would dilute the ownership of our stockholders.

At June 30, 2014, based upon our current business plan, we believe we have sufficient liquidity for the next 12 months.

***Effects of Foreign Currency***

We currently incur a portion of our operating expenses in Switzerland, Japan and the United Kingdom. The reporting currency for our Condensed Consolidated Financial Statements is United States dollars. As such, the results of our operations could be adversely affected by changes in exchange rates either due to transaction losses, which are recognized in the statement of operations, or translation losses, which are recognized in comprehensive income. We currently do not hedge foreign exchange rate exposure via derivative instruments.

**Item 3.** ***Quantitative and Qualitative Disclosures About Market Risk.***

Our market risks during the three months ended June 30, 2014 have not materially changed from those discussed in Part II, Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2013, which was filed with the SEC on March 12, 2014.

***Foreign Currency Exchange Rate Risk***

We are subject to foreign exchange rate risk for revenues and expenses denominated in foreign currencies. Foreign exchange rate risk arises from the fluctuation of foreign exchange rates and the degree of volatility of these rates relative to the United States dollar. We do not currently hedge our foreign currency transactions.

***Interest Rate Risk***

Our exposure to market risks associated with changes in interest rates relates primarily to the increase or decrease in the amount of interest income earned on our investment portfolio. We ensure the safety and preservation of invested funds by attempting to limit default risk, market risk and reinvestment risk. We attempt to mitigate default risk by investing in investment grade securities. A hypothetical one percentage point decline in interest rates would not have materially affected the fair value of our interest-sensitive financial instruments as of June 30, 2014.

We do not use derivative financial instruments for trading or speculative purposes. However, we regularly invest excess cash in overnight repurchase agreements that are subject to changes in short-term interest rates. We believe that the market risk arising from holding these financial instruments is minimal.

***Credit Risk***

Our exposure to credit risk consists of cash and cash equivalents, restricted cash, investments and receivables. We place our cash, cash equivalents and restricted cash with what we believe to be highly rated financial institutions and invest the excess cash in highly rated investments. As of June 30, 2014 and December 31, 2013, approximately 20.9% and 17.1%, respectively, of our cash, cash equivalents, restricted cash and investments are issued or insured by the federal government or government agencies. We have not experienced any losses on these accounts related to amounts in excess of insured limits.

**Item 4.** ***Controls and Procedures.***

**a) Evaluation of Disclosure Controls and Procedures**

Our management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, performed an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act), as of June 30, 2014. In designing and evaluating such controls, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives, and management necessarily applies its judgment in evaluating the benefits of possible controls and procedures relative to their costs. Based upon the evaluation we carried out, our Chief Executive Officer and Chief Financial Officer have concluded that, as of June 30, 2014, our disclosure controls and procedures were effective to provide reasonable assurance that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act , is recorded, processed, summarized and reported within the time periods specified under the applicable rules and forms of the SEC, and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

**b) Changes in Internal Control Over Financial Reporting**

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended June 30, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## Part II — OTHER INFORMATION

**Item 1.** ***Legal Proceedings.***

On January 2, 2013, we received a first Notice Letter and on January 25, 2013, we received a second Notice Letter from Anchen and Par regarding their filing of an Abbreviated New Drug Application with the FDA to market a generic version of AMITIZA oral capsules, 8 mcg and 24 mcg. On February 8 2013, we announced that we, along with R-Tech and Takeda, had filed a patent infringement lawsuit in the United States District Court for the District of Delaware against Anchen and Par. The lawsuit claims infringement of seven patents that are listed in the FDA's Orange Book and that are scheduled to expire between 2020 and 2027. Following the claim construction hearing, or *Markman* hearing, that was held at the end of March, the District Court's issued a ruling adopting our claim construction of one term in two of the patents-in-suit, and the parties' agreed construction to two additional terms in three other patents-in-suit. We have also substantially completed the written discovery phase and have begun the oral depositions phase of the litigation.

**Item 1A.** ***Risk Factors.***

Our business is subject to certain risks and events that, if they occur, could adversely affect our financial condition and results of operations and the trading price of our common stock. For a discussion of these risks, please refer to the "Risk Factors" section of our Annual Report on Form 10-K for the fiscal year ended December 31, 2013, filed by us with the SEC on March 12, 2014. There have not been any material changes from the risk factors as previously disclosed in our Form 10-K for the fiscal year ended December 31, 2013.

**Item 2.** ***Unregistered Sales of Equity Securities and Use of Proceeds.***

(a) None.
(b) Not applicable.
(c) None.

**Item 3.** ***Defaults Upon Senior Securities.***

(a) None.
(b) None.

**Item 4.** ***Mine Safety Disclosures.***

None.

**Item 5.** ***Other Information.***

(a) On July 14, 2014, Abbott announced that it had entered into a definitive agreement with Mylan whereby Mylan will acquire Abbott's non-U.S. developed markets specialty and branded generics business in an all-stock transaction, which includes a portfolio of more than 100 specialty and branded generic pharmaceutical products in five major therapeutic areas (cardio/metabolic, gastrointestinal, anti-infective/respiratory, CNS/pain and women's and men's health) and several patent-protected, novel and/or hard-to-manufacture products. We believe that the Abbott Agreement is one of the assets that Abbott is selling as part of this transaction. We expect to have discussions with Mylan about its performance of the Abbott Agreement and do not anticipate any adverse impact to sales of AMITIZA in Japan.

On July 15, 2014, we received an approval letter to its PAS in response to FDA's review of the revised Drug Master File of R-Tech. The approval letter provides for the addition of Nitto Medic in Japan as a new production site for RESCULA. We have adequate supply of RESCULA to be able to supply the U.S. market into the first quarter of 2015.

Scottish Medicines Consortium, or SMC, has advised us that in their final guidance that will be issued on August 11, 2014, that AMITIZA is not recommended for use with NHS Scotland. We intend to explore available options to address this guidance.

(b) None.

**Item 6.** ***Exhibits***

| Exhibit Number | Description | Reference |
|---|---|---|
| 3.1 | Certificate of Incorporation | Exhibit 3.1 to the Company's Current Report on Form 8-K (filed December 29, 2008) |
| 3.2 | Certificate of Amendment to Certificate of Incorporation | Exhibit 3.2 to the Company's Current Report on Form 8-K (filed December 29, 2008) |
| 3.3 | Amended and Restated Bylaws | Exhibit 3.1 to the Company's Current Report on Form 8-K (filed August 2, 2013) |
| 4.1 | Specimen Stock Certificate evidencing the shares of class A common stock | Exhibit 4.1 to Registration Statement No. 333-135133, Amendment No. 5 (filed February 1, 2007) |
| 31.1 | Certification of Principal Executive Officer pursuant to Rules 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended | Included herewith |
| 31.2 | Certification of Principal Financial Officer pursuant to Rules 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended | Included herewith |
| 32.1 | Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. This Certification accompanies this report and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed for purposes of §18 of the Securities Exchange Act of 1934, as amended. | Included herewith |
| 32.1 | Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. This Certification accompanies this report and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed for purposes of §18 of the Securities Exchange Act of 1934, as amended. | Included herewith |
| 101.[INS]† | XBRL Instance Document | Included herewith |
| 101.[SCH]† | XBRL Taxonomy Extension Schema Document | Included herewith |
| 101.[CAL]† | XBRL Taxonomy Extension Calculation Linkbase Document | Included herewith |
| 101.[LAB]† | XBRL Taxonomy Extension Label Linkbase Document | Included herewith |
| 101.[PRE]† | XBRL Taxonomy Extension Presentation Linkbase Document | Included herewith |

† Attached as Exhibit 101 to this report are documents formatted in XBRL (Extensible Business Reporting Language). Users of this data are advised that, pursuant to Rule 406T of Regulation S-T, the interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is otherwise not subject to liability under these sections.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Sucampo Pharmaceuticals, Inc.

August 6, 2014 By: /s/ PETER GREENLEAF
Peter Greenleaf
Chief Executive Officer
(Principal Executive Officer)

August 6, 2014 By: /s/ CARY J. CLAIBORNE
Cary J. Claiborne
Chief Financial Officer
(Principal Financial Officer)

**Sucampo Pharmaceuticals, Inc.**
**Exhibit Index**

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**EXHIBIT 31.1**

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER**
**PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Peter Greenleaf, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Sucampo Pharmaceuticals, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15(d)-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(F)) for the registrant and have:

   (a) designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrants fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   (a) all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 6, 2014

/s/ Peter Greenleaf
Peter Greenleaf
Chief Executive Officer
(Principal Executive Officer)

**EXHIBIT 31.2**

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER**
**PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Cary J. Claiborne, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Sucampo Pharmaceuticals, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15(d)-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(F)) for the registrant and have:

   (a) designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrants fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   (a) all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 6, 2014

/s/ CARY J. CLAIBORNE
Cary J. Claiborne
(Principal Financial Officer)

**EXHIBIT 32.1**

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), the undersigned officer of Sucampo Pharmaceuticals, Inc. (the "Company") certifies to the best of his knowledge that:

(1) The Quarterly Report on Form 10-Q for the quarter ended June 30, 2014 of the Company (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 6, 2014

/s/ Peter Greenleaf
Peter Greenleaf
Chief Executive Officer
(Principal Executive Officer)

**EXHIBIT 32.2**

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), the undersigned officer of Sucampo Pharmaceuticals, Inc. (the "Company") certifies to the best of his knowledge that:

(1) The Quarterly Report on Form 10-Q for the quarter ended June 30, 2014 of the Company (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 6, 2014

/s/ CARY J. CLAIBORNE
Cary J. Claiborne
(Principal Financial Officer)