# 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 September 30, 2007**

**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)*

| **Delaware** | **13-3929237** |
|---|---|
| *(State or other jurisdiction of incorporation or organization)* | *(I.R.S. employer identification no.)* |
| **4520 East-West Highway, Suite 300 Bethesda, MD 20814** | **(301) 961-3400** |
| *(Address of principal executive offices, including zip code)* | *(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 ☑ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. Please see definition of "accelerated and large accelerated filer in Rule 12b-2 of the Exchange Act. Large Accelerated Filer o Accelerated Filer o Non-Accelerated Filer ☑

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

As of November 14, 2007, there were 15,538,518 shares of the registrant's class A common stock outstanding and 26,191,050 shares of the registrant's class B common stock outstanding.

**Sucampo Pharmaceuticals, Inc.**

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## PART I — FINANCIAL INFORMATION

**Item 1.** ***Condensed Consolidated Financial Statements (Unaudited)***

### SUCAMPO PHARMACEUTICALS, INC.

### Condensed Consolidated Balance Sheets

(In thousands, except share data)

| | September 30, 2007 (Unaudited) | December 31, 2006 |
|---|---|---|
| **ASSETS:** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 29,228 | $ 22,481 |
| Short-term investments | 60,451 | 29,399 |
| Accounts receivable | 4,394 | 1,537 |
| Product royalties receivable | 6,998 | 2,029 |
| Income taxes receivable | 2,180 | 2,355 |
| Deferred tax assets, net | 15 | 1,612 |
| Prepaid income taxes | 933 | — |
| Prepaid expenses and other current assets | 1,672 | 536 |
| Total current assets | 105,871 | 59,949 |
| Restricted cash | 220 | 213 |
| Property and equipment, net | 2,258 | 343 |
| Deferred tax assets — noncurrent, net | 473 | 3,289 |
| Deposits and other assets | 177 | 3,290 |
| Total assets | $ 108,999 | $ 67,084 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY:** | | |
| Current liabilities: | | |
| Accounts payable | $ 4,347 | $ 2,391 |
| Accrued expenses | 6,563 | 5,410 |
| Deferred revenue — current | 580 | 11,517 |
| Other current liabilities | — | 8 |
| Total current liabilities | 11,490 | 19,326 |
| Deferred revenue, net of current portion | 8,768 | 9,192 |
| Other liabilities | 1,712 | 33 |
| Total liabilities | 21,970 | 28,551 |
| Commitments (Note 8) | | |
| Stockholders' equity: | | |
| Series A convertible preferred stock, $0.01 par value; no shares authorized at September 30, 2007 and 10,000 shares authorized at December 31, 2006; no shares issued and outstanding at September 30, 2007 (unaudited) and 3,780 shares issued and outstanding at December 31, 2006 | — | 20,288 |
| Class A common stock, $0.01 par value; 75,000,000 shares authorized; 15,538,518 shares issued and outstanding at September 30, 2007 (unaudited) and 8,799,385 shares issued and outstanding at December 31, 2006 | 155 | 88 |
| Class B common stock, $0.01 par value; 75,000,000 shares authorized; 26,191,050 shares issued and outstanding at September 30, 2007 (unaudited) and December 31, 2006 | 262 | 262 |
| Additional paid-in capital | 96,142 | 41,555 |
| Accumulated other comprehensive loss | (89) | (294) |
| Accumulated deficit | (9,441) | (23,366) |
| Total stockholders' equity | 87,029 | 38,533 |
| Total liabilities and stockholders' equity | $ 108,999 | $ 67,084 |

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

**SUCAMPO PHARMACEUTICALS, INC.**

**Condensed Consolidated Statements of Operations and Comprehensive (Loss) Income (Unaudited)**

(In thousands, except per share data)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 (Restated) |
| Revenues: | | | | |
| Research and development revenue | $ 4,652 | $ 6,759 | $52,105 | $ 38,900 |
| Contract revenue | — | — | — | 1,500 |
| Collaboration revenue | 37 | 37 | 110 | 110 |
| Contract revenue — related parties | 114 | 129 | 344 | 263 |
| Product royalty revenue | 6,998 | 79 | 18,869 | 4,563 |
| Co-promotion revenue | 1,051 | 1,290 | 3,318 | 2,558 |
| Total revenues | 12,852 | 8,294 | 74,746 | 47,894 |
| Operating expenses: | | | | |
| Research and development | 6,760 | 2,810 | 20,054 | 12,355 |
| General and administrative | 3,028 | 2,778 | 19,664 | 10,978 |
| Selling and marketing | 2,695 | 3,068 | 9,652 | 7,073 |
| Milestone royalties — related parties | — | — | 1,500 | 1,250 |
| Product royalties — related parties | 1,244 | 14 | 3,354 | 981 |
| Total operating expenses | 13,727 | 8,670 | 54,224 | 32,637 |
| (Loss) income from operations | (875) | (376) | 20,522 | 15,257 |
| Non-operating income (expense): | | | | |
| Interest income | 780 | 436 | 1,575 | 1,403 |
| Interest expense | (4) | (4) | (8) | (84) |
| Other (expense) income, net | (224) | 26 | (184) | 288 |
| Total non-operating income, net | 552 | 458 | 1,383 | 1,607 |
| (Loss) income before income taxes | (323) | 82 | 21,905 | 16,864 |
| Income tax provision | (151) | — | (7,980) | — |
| Net (loss) income | $ (474) | $ 82 | $13,925 | $ 16,864 |
| Net (loss) income per share (Note 4): | | | | |
| Basic net (loss) income per share | $ (0.01) | $ 0.00 | $ 0.38 | $ 0.49 |
| Diluted net (loss) income per share | $ (0.01) | $ 0.00 | $ 0.38 | $ 0.49 |
| Weighted average common shares outstanding — basic | 39,312 | 34,986 | 36,447 | 34,172 |
| Weighted average common shares outstanding — diluted | 39,312 | 35,303 | 36,835 | 34,489 |
| Comprehensive (loss) income: | | | | |
| Net (loss) income | $ (474) | $ 82 | $13,925 | $ 16,864 |
| Other comprehensive income (loss): | | | | |
| Foreign currency translation | 281 | (13) | 205 | (200) |
| Comprehensive (loss) income | $ (193) | $ 69 | $14,130 | $ 16,664 |

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

**SUCAMPO PHARMACEUTICALS, INC.**

**Condensed Consolidated Statement of Changes in Stockholders' Equity**
(In thousands, except share data)

| | Series A Convertible Preferred Stock | | Class A Common Stock | | Class B Common Stock | | Additional Paid-In Capital | Accumulated Other Comprehensive Loss | Accumulated Deficit | Stockholders' Equity |
|---|---|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | Shares | Amount | | | | |
| Balance at December 31, 2006 | 3,780 | $ 20,288 | 8,799,385 | $ 88 | 26,191,050 | $ 262 | $ 41,555 | $ (294) | $ (23,366) | $ 38,533 |
| Stock-based compensation (unaudited) | — | — | 401,133 | 4 | — | — | 6,140 | — | — | 6,144 |
| Issuance of 3,125,000 shares of class A common stock at $11.50 per share, net of offering costs incurred in 2007 (unaudited) | — | — | 3,125,000 | 31 | — | — | 31,310 | — | — | 31,341 |
| Reclassification of offering costs incurred and capitalized in 2006 (unaudited) | — | — | — | — | — | — | (3,119) | — | — | (3,119) |
| Conversion of series A preferred stock to class A common stock (unaudited) | (3,780) | (20,288) | 3,213,000 | 32 | — | — | 20,256 | — | — | — |
| Foreign currency translation (unaudited) | — | — | — | — | — | — | — | 205 | — | 205 |
| Net income (unaudited) | — | — | — | — | — | — | — | — | 13,925 | 13,925 |
| Balance at September 30, 2007 (unaudited) | — | $ — | 15,538,518 | $ 155 | 26,191,050 | $ 262 | $ 96,142 | $ (89) | $ (9,441) | $ 87,029 |

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)

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2007 | 2006 (Restated) |
| Cash flows from operating activities: | | |
| Net income | $ 13,925 | $ 16,864 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 153 | 50 |
| Loss on disposal of property and equipment | 63 | — |
| Deferred tax provision | 4,413 | — |
| Stock-based compensation | 6,144 | 2,983 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (2,831) | (1,303) |
| Product royalties receivable | (4,969) | (61) |
| Prepaid income taxes | (933) | — |
| Prepaid expenses and other current assets | (1,136) | (499) |
| Deposits and other assets | — | (84) |
| Accounts payable | 1,951 | 515 |
| Accrued expenses | 1,145 | 2,204 |
| Income taxes payable and receivable, net | 174 | (3,146) |
| Deferred revenue | (11,376) | (19,169) |
| Other liabilities | 1,685 | (1,440) |
| Net cash provided by (used in) operating activities | 8,408 | (3,086) |
| Cash flows from investing activities: | | |
| Investments in restricted cash | (8) | — |
| Purchases of short-term investments | (86,847) | (656) |
| Proceeds from the sales and maturities of short-term investments | 55,795 | 25 |
| Purchases of property and equipment | (2,128) | (106) |
| Net cash used in investing activities | (33,188) | (737) |
| Cash flows from financing activities: | | |
| Issuance of common stock, net of offering costs | 31,341 | 23,898 |
| Payments of IPO costs | — | (2,376) |
| Issuance of notes payable — related parties | — | 1,200 |
| Payments on notes payable — related parties | — | (4,754) |
| Net cash provided by financing activities | 31,341 | 17,968 |
| Effect of exchange rates on cash and cash equivalents | 186 | (82) |
| Net increase in cash and cash equivalents | 6,747 | 14,063 |
| Cash and cash equivalents at beginning of period | 22,481 | 17,436 |
| Cash and cash equivalents at end of period | $ 29,228 | $ 31,499 |

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. (SPI), was incorporated in the State of Delaware on December 5, 1996 and is headquartered in Bethesda, Maryland. On May 23, 2006, SPI's Board of Directors approved a transaction to have SPI acquire the capital stock of its affiliated European and Asian operating companies, Sucampo Pharma Europe, Ltd. (SPE) and Sucampo Pharma, Ltd. (SPL). On September 28, 2006, SPI completed this reorganization transaction and acquired the capital stock of SPE and SPL. The reorganization was accounted for at historical cost as of the earliest period presented as a merger of companies under common control. Hereinafter, SPI, SPE and SPL are referred to collectively as the "Company." The Company is a specialty pharmaceutical company focused on the discovery, development and commercialization of proprietary drugs based on prostone technology.

The Company is a member of a group of affiliated companies (Affiliates) in which the Company's founders and controlling stockholders own directly or indirectly the majority holdings. Currently, one of the Company's founders is a member of some of the Affiliates' Boards and serves as the Chief Executive Officer and Chief Scientific Officer of the Company (see Note 9).

In January 2006, the Company received marketing approval from the U.S. Food and Drug Administration (FDA) for its first product, AMITIZA® (lubiprostone), to treat chronic idiopathic constipation in adults. Commercialization of AMITIZA began in April 2006 throughout the United States.

### *Basis of Presentation*

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles and the rules and regulations of the Securities and Exchange Commission (SEC) for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles 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, 2006 included in the Company's Registration Statement on Form S-1, as amended (Registration No. 333-135133), which was declared effective by the SEC on August 2, 2007. The financial information as of September 30, 2007 and for the three and nine months ended September 30, 2007 and September 30, 2006, respectively, is unaudited. In the opinion of 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 SPI and its wholly-owned subsidiaries. All significant inter-company balances and transactions have been eliminated.

Certain prior year amounts have been reclassified to conform to current year presentation.

### *Initial Public Offering*

In August 2007, the Company consummated its initial public offering, consisting of 3,125,000 shares of class A common stock sold by the Company and 625,000 shares sold by a stockholder of the Company, at a public offering price of $11.50 per share, resulting in gross proceeds to the Company of approximately $35.9 million. After deducting payment of underwriters discounts, commissions, and expenses of the offering, including costs of $3.1 million incurred in 2006, the Company raised net proceeds of $28.2 million. In connection with the initial public offering, the Company implemented an 8.5-to-one stock split of the Company's common stock in the form of a stock dividend. This stock dividend was effective July 12, 2007. All historical common stock and per share common stock information has been retroactively restated to reflect this stock split. Historical preferred stock

information has not been changed except to reflect the modification of the conversion ratio to 850-to-one, after giving effect to this stock split. In connection with this stock split, the Company amended its certificate of incorporation to increase the authorized number of shares of class A common stock to 75,000,000 and the authorized number of shares of class B common stock to 75,000,000. Upon consummation of the initial public offering, all shares of the Company's series A Preferred Stock were converted into an aggregate of 3,213,000 shares of class A common stock.

***Capital Resources***

The Company has a limited operating history and its expected activities will necessitate significant uses of working capital throughout 2007 and beyond. The Company's working capital requirements will depend on many factors, including the successful sales of AMITIZA, research and development efforts to develop new products, payments received under contractual agreements with other parties, the status of competitive products and market acceptance of the Company's new products by physicians and patients. The Company plans to continue financing operations in part with cash received from its initial public offering and from its joint collaboration and license agreement and the supplemental agreement entered into with Takeda Pharmaceutical Company Limited (Takeda) (see Note 10).

**2. Restatement of Previously Issued Condensed Consolidated Financial Statements**

The Company has restated its previously issued condensed consolidated financial statements and related footnotes for the nine months ended September 30, 2006, as set forth in these condensed consolidated financial statements. The Company has restated its condensed consolidated financial statements to correct an error in accounting for the revenue recognition of the collaboration and license agreements with Takeda. All amounts in these condensed consolidated financial statements have been updated to reflect this restatement.

***Description of Error***

The Company identified an error at its operating company in the United States. This error originated in the fourth quarter of 2004 and continued throughout 2005 and part of 2006. The identification of this error occurred as a result of the Company evaluating its assumptions under Emerging Issues Task Force (EITF) No. 00-21, *"Revenue Arrangements with Multiple Deliverables"* (EITF 00-21), in accounting for arrangements with multiple deliverables that require significant judgment and estimates.

The Company reassessed whether each of its required deliverables under the 16-year joint collaboration and license agreement with Takeda (Takeda Agreement) (see Note 10), which was executed in October 2004, had value to Takeda on a stand-alone basis and whether there is objective and reliable evidence of the fair value of each of those deliverables. This reassessment determined that the previous assessment of a single unit of accounting for the deliverables under the Takeda Agreement was not appropriate. In addition, the Company determined that the substantive milestone method was not appropriate to account for the cash payments received from Takeda related to the Company completing these required deliverables and a time-based model, which is amortized over the performance period of the development, would be more appropriate to account for such cash payments from Takeda. Accordingly, in the restated condensed consolidated financial statements for the nine months ended September 30, 2006, the Company reduced the milestone revenue and increased research and development revenue. As a result, total revenues increased by approximately $9.3 million for the nine months ended September 30, 2006.

The following table presents the effects of the restatement adjustments on the affected line items in the previously reported condensed consolidated statements of operations and comprehensive income for the nine months ended September 30, 2006. The restatement adjustments did not affect the overall cash (used in) provided by operating, investing or financing activities or the effect of exchange rates on cash and cash equivalents in the condensed consolidated statements of cash flows for nine months ended September 30, 2006.

**Impact on Condensed Consolidated Statement of Operations and Comprehensive Income Items**

| | Nine Months Ended September 30, 2006 | | |
|---|---|---|---|
| **(In thousands, except per share data)** | **As Reported** | **Adjustment** | **Restatement** |
| Milestone revenue | $ 20,000 | $ (20,000) | $ — |
| Research and development revenue | 9,057 | 29,843 | 38,900 |
| Contract revenue | 2,428 | (928) | 1,500 |
| Collaboration revenue | — | 110 | 110 |
| Co-promotion revenue | 2,267 | 291 | 2,558 |
| Total revenues | 38,578 | 9,316 | 47,894 |
| General and administrative expenses | 11,061 | (83) | 10,978 |
| Selling and marketing expenses | 6,746 | 327 | 7,073 |
| Income from operations | 6,186 | 9,071 | 15,257 |
| Income before income taxes | 7,793 | 9,071 | 16,864 |
| Net income | 7,793 | 9,071 | 16,864 |
| Basic net income per share | 0.23 | 0.26 | 0.49 |
| Diluted net income per share | 0.23 | 0.26 | 0.49 |
| Comprehensive income | 7,593 | 9,071 | 16,664 |

## 3. Summary of Significant Accounting Policies

***Short-term Investments***

Short-term investments consist entirely of auction rate securities and a money market account. The Company's investments in these securities are classified as available-for-sale securities under Statement of Financial Accounting Standards (SFAS) No. 115, *"Accounting for Certain Investments in Debt and Equity Securities"* (SFAS 115). Although the auction rate securities have variable interest rates which typically reset every 7 to 35 days, they have long-term contractual maturities, spanning from March 1, 2022 to October 1, 2041, which is why they are not classified as cash equivalents. These investments are classified within current assets because the Company has the ability and the intent to liquidate these securities if needed within a short-term time period. These available-for-sale securities are accounted for at fair market value and unrealized gains and losses on these securities, if any, are included in accumulated other comprehensive loss in stockholders' equity. Interest and dividend income is recorded when earned and included in interest income. Premiums and discounts, if any, on short-term investments are amortized or accreted to maturity and included in interest income. The Company uses the specific identification method in computing realized gains and losses on sale of short-term investments.

***Product Royalties Receivable***

Product royalties receivable represents amounts due from Takeda for the Company's royalties on sales of AMITIZA, which are based on reports obtained directly from Takeda.

***Prepaid Expenses and Other Current Assets***

Prepaid expenses and other current assets include costs incurred for the Company's operations. As of September 30, 2007, the Company had prepaid approximately $416,000 in directors and officers insurance, approximately $450,000 in commercial expenditures and approximately $378,000 in research and development costs.

***Deposits and Other Assets***

At December 31, 2006, the Company was uncertain of when the initial public offering would be completed; therefore, the Company capitalized costs of $3.1 million associated with its initial public offering and recorded the costs as other assets. Upon the completion of the initial public offering in August 2007, the Company reclassified these costs to "Additional paid-in capital" at the closing date of the offering.

***Revenue Recognition***

*Collaboration and License Agreements*

The Company's primary sources of revenue include up-front payments, development milestone payments, reimbursements of development and co-promotion costs and product royalties. The Company recognizes revenue from these sources in accordance with Staff Accounting Bulletin (SAB) No. 104, *"Revenue Recognition"* (SAB 104), EITF No. 99-19, *"Reporting Revenue Gross as a Principal Versus Net as an Agent"* (EITF 99-19), and EITF No. 00-21. The application of EITF 00-21 requires subjective analysis and requires management to make estimates and assumptions about whether deliverables within multiple-element arrangements are separate units of accounting and to determine the fair value to be allocated to each unit of accounting.

Based on the guidance of EITF 99-19, the Company has determined that it is acting as a principal under the Takeda Agreement and, as such, records these amounts as collaboration revenue and research and development revenue.

Reimbursements of co-promotion costs for the Company's sales force efforts and reimbursements of miscellaneous marketing costs under the Takeda supplemental agreement, which was executed in February 2006 (Supplemental Agreement) (see Note 10), are recognized as revenue as the related costs are incurred and Takeda becomes contractually obligated to pay the amounts. Based on the guidance of EITF 99-19, the Company has determined that it is acting as a principal as it relates to these activities under the Supplemental Agreement and, as such, records reimbursements of these amounts as co-promotion revenue.

Royalties from licensees are based on third-party sales of licensed products and are recorded on the accrual basis when earned in accordance with contractual terms when third-party results are reliably measurable, collectability is reasonably assured and all other revenue recognition criteria are met. Because of the lack of historical data regarding sales returns, royalty payments related to the portion of sales by Takeda that are subject to a right of return are not reported as revenue until the period of right of return lapses.

***Milestone Royalties — Related Parties***

The milestone royalties — related parties represent royalties to be paid to Sucampo AG (SAG), a company organized in Switzerland, affiliated through common ownership. The milestone royalty is 5% of milestone payments received under any sublicensing agreements for AMITIZA. In addition, for each indication for AMITIZA for which there is regulatory approval, the Company must pay a $250,000 milestone. Milestone royalties — related parties are expensed as incurred immediately when the related milestone payments are due from Takeda. The Company did not incur such expenses during the three months ended September 30, 2007 and 2006. For the nine months ended September 30, 2007 and 2006, the Company expensed and paid $1.5 million and $1.3 million in milestone royalties, respectively.

***Product Royalties — Related Parties***

Product royalties — related parties represent the Company's obligation to SAG for 3.2% of net sales for AMITIZA and are expensed as incurred. The Company expensed approximately $1.2 million and $14,000 in product royalties for the three months ended September 30, 2007 and 2006, respectively. For the nine months ended September 30, 2007 and 2006, the Company expensed approximately $3.4 million and $1.0 million in product royalties, respectively. The Company has recorded a corresponding liability of approximately $1.2 million and $361,000 as "Accrued expenses" as of September 30, 2007 and December 31, 2006, respectively.

***Employee Stock-Based Compensation***

The Company accounts for employee stock-based compensation expenses in accordance with the fair value recognition provisions of SFAS No. 123R, *"Share-Based Payment"* (SFAS 123R), which requires the measurement and recognition of compensation expense for all share-based payments made to employees and directors be based on estimated fair values.

As employee stock-based compensation expense recognized in the condensed consolidated statements of operations for the three and nine months ended September 30, 2007 and 2006 is based upon awards expected to ultimately vest, it has been reduced for estimated forfeitures. SFAS 123R requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

The Company recognizes employee stock-based compensation expense under SFAS 123R for its fixed awards with pro-rata vesting based on a straight-line basis.

The Company recorded a cumulative out-of-period adjustment of approximately $358,000 during the nine months ended September 30, 2007 to reduce an overstatement of additional paid-in capital and general and administrative expenses that had been recorded as of and for the year ended December 31, 2006 in connection with certain employee stock options awarded in 2006. The error resulted from applying the incorrect contractual term for certain employee stock options. The impacts of this adjustment were not material to the consolidated financial statements for the year ended December 31, 2006, for the corresponding interim periods or for the period in which it was recorded, as the adjustment consisted of insignificant amounts related to each of the quarterly reporting periods dating back to the quarter ended June 30, 2006.

The employee stock-based compensation expense under SFAS 123R recorded in the Company's condensed consolidated statements of operations and comprehensive (loss) income for three and nine months ended September 30, 2007 and 2006 was as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| (In thousands) | 2007 | 2006 | 2007 | 2006 (Restated) |
| Selling and marketing expense | $ 54 | $104 | $ 154 | $ 489 |
| General and administrative expense | 19 | 225 | 236 | 2,494 |
| Founders' stock-based awards (Note 9) | — | — | 6,112 | — |
| Cumulative out-of-period adjustment | — | — | (358) | — |
| Employee stock-based compensation expense included in operating expenses | $ 73 | $329 | $6,144 | $ 2,983 |

***Income Taxes***

The Company accounts for income taxes under the liability method in accordance with provisions of SFAS No. 109, *"Accounting for Income Taxes"* (SFAS 109), which requires companies to account for deferred

income taxes using the asset and liability method. Under the asset and liability method, current income tax provision or benefit is the amount of income taxes expected to be payable or refundable for the current year. A deferred income tax asset or liability is recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and tax credits and loss carryforwards. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Tax rate changes are reflected in income during the period such changes are enacted. Changes in ownership may limit the amount of net operating loss carryforwards that can be utilized in the future to offset taxable income.

The Company accounts for its interim tax provision using Accounting Principles Board (APB) Opinion No. 28, *"Interim Financial Reporting"* (APB 28). Under APB 28, the interim tax provision is calculated based on the Company's projected annual effective tax rate.

***Accounting for the Uncertainty of Income Taxes***

On January 1, 2007, the Company adopted Financial Accounting Standards Board (FASB) Interpretation (FIN) No. 48, *"Accounting for Uncertainty in Income Taxes"* (FIN 48). FIN 48 prescribes a recognition threshold that a tax position is required to meet before being recognized in the financial statements and provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition issues. The adoption of FIN 48 did not have a significant impact on the Company's condensed consolidated financial statements.

The Company conducts business in the U.S., Japan and the United Kingdom and is subject to tax in those jurisdictions. As a result of its business activities, the Company files tax returns that are subject to examination by the respective federal, state, local and foreign tax authorities. For income tax returns filed by the Company, the Company is no longer subject to U.S. federal, state and local, or foreign income tax examination by tax authorities for years before 2003, although carryforward tax attributes that were generated prior to 2003 may still be adjusted upon examination by tax authorities if they either have been or will be utilized. The Company has not received any communications by taxing authorities that cause it to believe it is currently under examination by the tax authorities in any of the jurisdictions in which it operates.

The Company recognizes interest and penalties accrued related to unrecognized tax benefits as a component of income tax provision. For the three and nine months ended September 30, 2007, there have been no interest and penalties recorded as a component of income tax provision.

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

The Company's product candidates under development require approval from the FDA or other international regulatory agencies prior to commercial sales. For those product candidates that have not yet been approved by the FDA or international regulatory agencies, there can be no assurance the products will receive the necessary approval. If the Company is denied approval or approval is delayed, it may have a material adverse impact on the Company.

The Company's product competes in a rapidly changing, highly competitive market, which is characterized by advances in scientific discovery, changes in customer requirements, evolving regulatory requirements and developing industry standards. Any failure by the Company to anticipate or to respond adequately to scientific developments in its industry, changes in customer requirements or changes in regulatory requirements or industry standards, or any significant delays in the development or introduction of products or services could have a material adverse effect on the Company's business, operating results and future cash flows.

Revenues from one unrelated party, Takeda, accounted for 99%, 98%, 100% and 99% of the Company's total revenues for the three months ended September 30, 2007 and 2006 and the nine months ended September 30, 2007 and 2006, respectively. Accounts receivable and product royalties receivable from one unrelated party, Takeda,

accounted for $11.2 million (98%) and $3.5 million (99%) of the Company's accounts and product royalty receivables at September 30, 2007 and December 31, 2006, respectively.

***Segment Information***

Management has determined that the Company has three reportable segments, which are based on its method of internal reporting, which disaggregates its business by geographical location. The Company's reportable segments are the United States, Europe and Japan (see Note 13).

***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

***Recent Accounting Pronouncements***

In September 2006, the FASB Staff issued FASB Statement No. 157, *"Fair Value Measurements"* (SFAS 157), which addresses how companies should measure fair value when they are required to use a fair value measure for recognition or disclosure purposes under generally accepted accounting principles. The Company will be required to adopt SFAS 157 for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company is assessing SFAS 157 and its impact on the Company's future consolidated financial statements.

In February 2007, the FASB Staff issued FASB Statement No. 159, *"The Fair Value Option for Financial Assets and Financial Liabilities"* (SFAS 159), which provides entities with the opportunity to measure certain financial instruments at fair value. The Company will be required to adopt SFAS 159 for the fiscal years beginning after November 15, 2007. The Company is assessing SFAS 159 and its impact on the Company's future consolidated financial statements.

In June 2007, the EITF issued EITF No. 07-3, *"Accounting for Nonrefundable Advance Payments for Goods or Services to Be Used in Future Research and Development Activities"* (EITF 07-3), which provides guidance to research and development companies on how to account for the nonrefundable portion of an advance payment made for research and development activities. The Company will be required to adopt EITF 07-3 for the year beginning after December 15, 2007. The Company is currently assessing EITF 07-3 and does not expect a material impact on its future condensed consolidated financial statements upon its adoption.

**4. (Loss) Earnings per Share**

***Historical***

Basic net (loss) income per share is computed by dividing net (loss) income by the sum of the weighted average class A and B 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 is computed by dividing net loss by the weighted average common shares outstanding.

***Computation of (Loss) Earnings per Share***

The computation of historical and diluted net (loss) income per share for the three and nine months ended September 30, 2007 and 2006 is shown below:

| (In thousands, except per share data) | Three Months Ended September 30, 2007 | Three Months Ended September 30, 2006 | Nine Months Ended September 30, 2007 | Nine Months Ended September 30, 2006 (Restated) |
|---|---|---|---|---|
| Basic net (loss) income per share: | | | | |
| Net (loss) income | $ (474) | $ 82 | $13,925 | $ 16,864 |
| Weighted average class A and B common shares outstanding | 37,252 | 34,986 | 35,753 | 34,172 |
| Conversion of series A preferred stock to class A common shares outstanding | 2,060 | — | 694 | — |
| | 39,312 | 34,986 | 36,447 | 34,172 |
| Basic net (loss) income per share | $ (0.01) | $ 0.00 | $ 0.38 | $ 0.49 |
| Diluted net (loss) income per share: | | | | |
| Net (loss) income | $ (474) | $ 82 | $13,925 | $ 16,864 |
| Weighted average class A and B common shares outstanding for diluted net (loss) income per share | 39,312 | 34,986 | 36,447 | 34,172 |
| Assumed exercise of stock options under the treasury stock method | — | 317 | 388 | 317 |
| | 39,312 | 35,303 | 36,835 | 34,489 |
| Diluted net (loss) income per share | $ (0.01) | $ 0.00 | $ 0.38 | $ 0.49 |

For the periods listed above, the potentially dilutive securities used in the calculations of diluted historical net income per share as of September 30, 2007 and 2006 are as follows:

| | September 30, 2007 | September 30, 2006 |
|---|---|---|
| Series A preferred stock | — | 3,780 |
| Employee stock options | 640,900 | 863,600 |
| Non-employee stock options | 510,000 | 510,000 |

Each share of series A preferred stock was converted into 850 shares of class A common stock in connection with the initial public offering, which was completed in August 2007.

## 5. Property and Equipment

Property and equipment consists of the following as of:

| (In thousands) | September 30, 2007 | December 31, 2006 |
|---|---|---|
| Computer and office machines | $ 946 | $ 587 |
| Furniture and fixtures | 333 | 290 |
| Leasehold improvements | 1,270 | 69 |
| Total cost | 2,549 | 946 |
| Less: accumulated depreciation and amortization | (291) | (603) |
| | $ 2,258 | $ 343 |

Depreciation and amortization expense for the three months ended September 30, 2007 and 2006 was $90,000 and $17,000, respectively, and for the nine months ended September 30, 2007 and 2006 was $153,000 and $50,000, respectively.

Leasehold improvements are amortized over the shorter of ten years or the life of the lease. The leasehold improvements as of September 30, 2007 are related to tenant improvements to the Company's new headquarters in Bethesda, MD, which the Company relocated to in July 2007.

## 6. Accrued Expenses

Accrued expenses consist of the following as of:

| (In thousands) | September 30, 2007 | December 31, 2006 |
|---|---|---|
| Research and development costs | $ 2,689 | $ 2,460 |
| Selling and marketing costs | 632 | 986 |
| Employee compensation | 1,454 | 1,238 |
| Legal service fees | 92 | 213 |
| Royalty liability — related party | 1,244 | 361 |
| Other expenses | 452 | 152 |
| | $ 6,563 | $ 5,410 |

## 7. Other Liabilities

Other liabilities consist of the following as of:

| (In thousands) | September 30, 2007 | December 31, 2006 |
|---|---|---|
| Deferred leasehold incentive | $ 1,109 | $ — |
| Lease liability | 347 | 33 |
| Lease loss liability (Note 8) | 251 | — |
| Other liabilities | 5 | — |
| | $ 1,712 | $ 33 |

In July 2007, the Company relocated to new offices (see Note 8). Under the terms of the new lease, the Company received $1.1 million in associated leasehold incentives. The Company is amortizing these incentives over the term of the lease using the straight-line method.

## 8. Commitments

### *Operating Leases*

The Company leases office space in the United States, United Kingdom and Japan under operating leases through 2017. The leases require the Company to make certain non-cancelable lease payments until expiration. Total future minimum lease payments under operating leases are $10.3 million as of September 30, 2007.

Rent expense for all operating leases was approximately $288,000 and $137,000 for the three months ended September 30, 2007 and 2006, respectively, and approximately $751,000 and $403,000 for the nine months ended September 30, 2007 and 2006, respectively.

The Company is party to a non-cancelable operating lease agreement for office space in the United States, which expires in November 2009. The Company vacated these premises in July 2007 to relocate to a new leased facility. According to SFAS No. 146, *"Accounting for Costs Associated with Exit or Disposal Activities"* (SFAS 146), a liability for costs that will continue to be incurred under a lease for its remaining term without economic benefit to the Company shall be recognized and measured when the Company ceases using the right conveyed by the lease, reduced by estimated sublease rentals that could be reasonably obtained. In accordance with SFAS 146, the Company recorded non-cash charges relating to the abandonment of its former office of approximately $310,000 during the three and nine months ended September 30, 2007. This is reflected in "General and administrative expenses" in the accompanying condensed consolidated statement of operations and comprehensive (loss) income.

### *Research and Development Costs*

The Company routinely enters into several agreements with third-party contract research organizations (CROs) to oversee clinical research and development studies provided on an outsourced basis. The Company generally is not contractually obligated to pay the CRO if the service or reports are not provided. Total future estimated costs under these agreements as of September 30, 2007 are $27.1 million.

## 9. Other Liabilities — Related Parties

On June 19, 2007, the Compensation Committee of the Company's Board of Directors authorized a one-time stock and cash award to each of the Company's founders. These awards were granted and fully vested on June 29, 2007 when the founders agreed to their terms, but were not to be settled until the earlier of the completion of the initial public offering or December 31, 2007. In August 2007, the awards were settled upon the completion of the initial public offering. The Compensation Committee intended for these awards to compensate the founders for the lost value of stock options that had been granted to them in 2001 and 2002 and had been understood by them to have ten-year terms, but which had expired in 2006 and early 2007 as a result of the terms of the 2001 Stock Incentive Plan. The expired options would have entitled the founders to purchase an aggregate of 578,000 shares of class A common stock at a price of $0.21 per share and 136,000 shares at a price of $2.95 per share.

Upon their settlement at the completion of the initial public offering, these stock and cash awards had an aggregate value equal to the difference between the value of the shares that could have been purchased under each of the expired options, determined on the basis of the public offering price per share of $11.50, and the respective aggregate exercise prices for such shares as provided in the option agreements.

These awards consisted of a combination of cash and shares of class A common stock. Of the aggregate value of each award, 40% was payable in cash and 60% in stock. For purposes of determining the number of shares of

class A common stock to be issued in connection with each award, the stock was valued on the basis of the $11.50 public offering price per share in the initial public offering.

The estimated fair value of these awards, totaling $10.2 million on grant date, was based on using the Black-Scholes pricing model, as allowed under SFAS 123R. For the six months ended June 30, 2007, the Company recorded $10.2 million of general and administrative expense for these awards, of which $4.1 million was recorded as "Other liabilities — related parties" for the cash settlement portion and $6.1 million as "Additional paid-in capital" for the stock settlement portion. The liability portion of the awards was adjusted based upon the final cash settlement amount, but the equity portion was fixed upon the grant date.

When the initial public offering was completed in August 2007, the awards were settled and 401,133 shares of class A common stock were issued to the founders. In addition, as a result of the lower public offering price compared to the estimated public offering price at June 30, 2007, the Company recorded an adjustment of $1.0 million to reduce the amount of expense and related liability for the cash portion of the awards, which was paid to the founders.

## 10. Collaboration and License Agreements

The following table summarizes the cash streams and related revenue recognition under the Takeda Agreement and the Supplemental Agreement, which are described in more detail below:

| (In thousands) | Amount Deferred at December 31, 2006 | Cash Received for the Nine Months Ended September 30, 2007 | Revenue Recognized for the Nine Months Ended September 30, 2007 | Amount Deferred at September 30, 2007 |
|---|---|---|---|---|
| *Collaboration revenue:* | | | | |
| Up-front payment associated with our obligation to participate in joint committees with Takeda | $ 2,058 | $ — | $ 110 | $ 1,948 |
| *Research and development revenue:* | | | | |
| Up-front payment — remainder | $ 1,977 | $ — | $ 1,977 | $ — |
| Development milestones | 5,609 | 30,000 | 35,609 | — |
| Reimbursement of research and development expenses | 3,365 | 7,379 | 14,519 | — |
| Total | $ 10,951 | $ 37,379 | $ 52,105 | $ — |

| | Accounts Receivable at December 31, 2006 | | | Accounts Receivable at September 30, 2007 |
|---|---|---|---|---|
| *Product royalty revenue* | $ 2,029 | $13,900 | $18,869 | $ 6,998 |
| *Co-promotion revenue* | $ 708 | $ 3,648 | $ 3,318 | $ 378 |
| *Research and development revenue:* | | | | |
| Development milestone | $ — | $30,000 | $30,000 | $ — |
| Reimbursement of research and development expenses | $ — | $ 7,379 | $11,154 | $ 3,775 |

On October 29, 2004, the Company entered into the Takeda Agreement to exclusively co-develop, commercialize and sell products that contain lubiprostone for gastroenterology indications in the United States and Canada. Payments to the Company under the Takeda Agreement include a non-refundable up-front payment, non-refundable development and commercial milestone payments, reimbursement of certain development and co-promotion costs and royalties.

- The Company granted Takeda an exclusive license of lubiprostone to co-develop, commercialize, and sell products for gastroenterology indications in the United States and Canada. There are no defined contractual cash flows within the Takeda Agreement for the grant of this license, but the Company did receive a non-refundable up-front payment of $20.0 million upon executing the Takeda Agreement. The license was granted to Takeda on October 29, 2004 and will expire when the Takeda Agreement expires or is terminated. After commercial launch, Takeda has paid and will pay the Company pre-determined royalties on net revenues on a quarterly basis for the products sold by Takeda during the term of the Takeda Agreement. The level of royalties is tiered based on the net sales recognized by Takeda. Royalty payments, which the Company began to earn in April 2006 and receive in July 2006, will cease when the Takeda Agreement is terminated and all cash payments due to the Company are paid. The Company has recorded product royalty revenue of approximately $7.0 million and $79,000 for the three months ended September 30, 2007 and 2006, respectively, and $18.9 million and $4.6 million for the nine months ended September 30, 2007 and 2006, respectively. This revenue is recorded as product royalty revenue in the condensed consolidated statements of operations and comprehensive (loss) income.
- The Company participates in the following committees, along with Takeda: Joint Steering Committee, Joint Development Committee, Joint Commercialization Committee and Joint Manufacturing Committee. There are no separate cash flows identified within the Takeda Agreement associated with the participation by the Company in these committees. There is no defined performance period for this obligation, but the performance period will not exceed the term of the Takeda Agreement. The Company expects its participation on all committees to continue throughout the term of the Takeda Agreement, except for the Joint Development Committee, which will continue until development work is complete.
- The Company has provided development work necessary for an NDA submission to the FDA for the treatment of chronic idiopathic constipation and irritable bowel syndrome with constipation, or IBS-C, indications. Takeda funded the initial $30.0 million of development costs, the Company was obligated to fund the first $20.0 million in excess of the initial $30.0 million funded by Takeda and the two parties were to equally share any required development costs in excess of $50.0 million. Although there was no defined performance period for this development work, the period to perform the work would not exceed the term of the Takeda Agreement. In January 2006, the Company received approval for its NDA for AMITIZA to treat chronic idiopathic constipation and completed and submitted the supplemental NDA for IBS-C to the FDA in June 2007.

As a result of its reassessment of the deliverables under the Takeda Agreement (see Note 2), the Company determined there were four separate units of accounting as of the inception of the Takeda Agreement. The Company has assessed these required deliverables under the guidance of EITF 00-21 to determine which deliverables are considered separate units of accounting.

The Company determined that there were four separate units of accounting when the Takeda Agreement was executed — (1) participation in the Joint Steering Committee, (2) participation in the Joint Manufacturing Committee, (3) participation in the Joint Commercialization Committee and (4) the combined requirement of the development work of chronic idiopathic constipation and IBS-C and participation in the Joint Development Committee.

Upon receipt of the $20.0 million up-front payment, the Company deferred approximately $2.4 million to be recognized using the time-based model over the performance period of the participation in these meetings. During

the three months ended September 30, 2007 and 2006, the Company recognized approximately $37,000 of this deferred amount as collaboration revenue on the condensed consolidated statements of operations and comprehensive income and $110,000 of this deferred amount as collaboration revenue during the nine months ended September 30, 2007 and 2006. The related deferred revenue as of September 30, 2007 was approximately $1.9 million.

Since the execution of the Takeda Agreement through December 31, 2006, the Company deferred the residual amount of the $20.0 million up-front payment totaling approximately $17.6 million, development milestone payments received totaling $50.0 million, and reimbursement of the initial $30.0 million of research and development costs for the development of AMITIZA for chronic idiopathic constipation and IBS-C indications. These deferred amounts were applied towards the unit of accounting combining the participation in the Joint Development Committee and the development of chronic idiopathic constipation and IBS-C and are being recognized over the performance period of developing the chronic idiopathic constipation and IBS-C NDA submissions. During the nine months ended September 30, 2007 and 2006, the Company recognized approximately $11.0 million and $38.3 million, respectively, of these deferred amounts as research and development revenue in the condensed consolidated statements of operations and comprehensive (loss) income. There was no related deferred revenue as of September 30, 2007. In June 2007, the Company recognized, in full, $30.0 million from Takeda upon the filing of the supplemental NDA for AMITIZA to treat IBS-C as the Company had completed its development.

The Company incurred research and development costs for this development work of approximately $726,000, $2.7 million, $13.6 million and $7.5 million for the three months ended September 30, 2007 and 2006 and for the nine months ended September 30, 2007 and 2006, respectively.

On February 1, 2006, the Company entered into the Supplemental Agreement with Takeda, which amended the responsibilities of both the Company and Takeda for the co-promotion of AMITIZA and clarified the responsibilities and funding arrangements for other marketing services to be performed by both parties.

Upon execution of the Supplemental Agreement, the Company was required to complete several deliverables, which Takeda was responsible to fund. The following are the required deliverables of the Company, along with the related contractual cash flows from Takeda and the associated obligations and performance period of the Company, under the Supplemental Agreement:

- The Company is obligated to co-promote AMITIZA with Takeda by employing a sales force of approximately 38 representatives to supplement Takeda's sales activities. Takeda is obligated to reimburse the Company a specified amount per day per sales force representative, but such reimbursements shall not exceed certain pre-defined amounts. The term of this reimbursement arrangement ceases five years following the first date that the Company deployed sales representatives, which was in April 2006. The Company has recognized approximately $1.1 million and $1.3 million of revenues for the three months ended September 30, 2007 and 2006, respectively, and approximately $3.3 million and $2.6 million of revenues for the nine months ended September 30, 2007 and 2006, respectively, reflecting these co-promotion reimbursements, which is recorded as co-promotion revenue in the condensed consolidated statements of operations and comprehensive income.
- The Company is obligated to perform miscellaneous marketing activities for AMITIZA, the majority of which would be reimbursed by Takeda. There is no defined performance period, but the performance period would not extend beyond January 31, 2007. The Company has recorded no reimbursements of miscellaneous costs for the three months ended September 30, 2007 but has recorded $130,000, $158,000 and $291,000, of reimbursements of miscellaneous costs for the three months ended September 30, 2006 and for the nine months ended September 30, 2007 and 2006, respectively. These amounts are recorded as co-promotion revenue in the condensed consolidated statements of operations and comprehensive income

The Company views the deliverables under the Supplemental Agreement as economically independent of those in the original Takeda Agreement.

The Company has assessed these required deliverables under the guidance of EITF 00-21 to determine which deliverables are considered separate units of accounting. The Company was able to determine that its sales force miscellaneous marketing activities are treated as separate units of accounting. The Company is recognizing the cost reimbursements received for these deliverables as co-promotion revenues when services are performed and the reimbursement payments are due under the Supplemental Agreement. For the three months ended September 30, 2007 and 2006 and for the nine months ended September 30, 2007 and 2006, the Company recognized approximately $1.1 million, $1.3 million, $3.3 million and $2.6 million, respectively, of co-promotion revenue for its sales force efforts and approximately $0, $130,000, $158,000 and $291,000, respectively, for its miscellaneous marketing efforts.

During the quarter ended June 30, 2006, the Joint Commercialization Committee granted approval for the Company and Takeda to begin three new studies related to funding arrangements discussed in both the Takeda Agreement and the Supplemental Agreement. The following are the three additional deliverables of the Company, along with the related contractual cash flows from Takeda and the associated obligations and performance period of the Company, when the three studies were agreed upon:

- The Company is obligated to perform studies in connection with changes to labeling for chronic idiopathic constipation. Takeda is obligated to fund 70% of the labeling studies and the Company is obligated to fund the remaining 30%. There is no defined performance period, but the performance period will not exceed the term of the Takeda Agreement. The Company initiated the first labeling study for chronic idiopathic constipation in August 2006, which is expected to be completed in January 2008.
- The Company is obligated to perform studies in work for the development of an additional indication for opioid-induced bowel dysfunction. Takeda is obligated to fund all development work up to a maximum aggregate of $50.0 million for each additional indication and $20.0 million for each new formulation. If development costs exceed these amounts, Takeda and the Company shall equally share such excess costs. There is no defined performance period, but the performance period will not exceed the term of the Takeda Agreement. The Company initiated work on the first additional indication for AMITIZA in July 2006, which is estimated to be completed in June 2009 and is expected to exceed $50.0 million in development costs.
- The Company is obligated to perform all development work necessary for Phase IV studies, for which Takeda is obligated to fund all development work. There is no defined performance period, but the performance period will not exceed the term of the Supplemental Agreement. The Company began work on a Phase IV study for chronic idiopathic constipation in August 2006, which is estimated to be completed in June 2008.

The Company has assessed these required deliverables under the guidance of EITF 00-21 to determine which deliverables are considered separate units of accounting. As a result of the Company and Takeda agreeing to perform and fund these studies simultaneously, the Company determined that there is no objective and reliable evidence to determine the fair value for each of the studies. Accordingly, the Company has combined these three required deliverables as a single unit of accounting. All cash payments from Takeda related to these three deliverables will be deferred upon receipt and recognized over the entire period to complete the three studies using the time-based model. The estimated completion date is June 2009. During the three months ended September 30, 2007 and 2006 and the nine months ended September 30, 2007 and 2006, the Company recognized approximately $4.7 million, $0 million, $11.0 million and $0 million related to these three deliverables as research and development revenue on the condensed consolidated statements of operations and comprehensive (loss) income, respectively.

## 11. Stock Option Plan

A summary of the activity under the Company's 2001 Stock Incentive Plan is presented below for the nine months ended September 30, 2007:

| (In thousands, except share and per-share data) | Shares | Weighted Average Exercise Price per Share | Aggregate Intrinsic Value |
|---|---|---|---|
| Options outstanding, December 31, 2006 | 826,200 | $ 9.02 | $ 958 |
| Options forfeited | (25,925) | 10.00 | |
| Options expired | (159,375) | 3.98 | |
| Options outstanding, September 30, 2007 | 640,900 | 10.24 | $ 328 |
| Options exercisable at December 31, 2006 | 518,075 | 8.37 | $ 958 |
| Options exercisable at September 30, 2007 | 538,900 | 10.28 | $ 251 |

As of September 30, 2007, approximately $407,000 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 4.73 years.

On October 18, 2007, the Company's Board of Directors approved an amendment to the 2006 Stock Incentive Plan (the Plan). The Plan includes an "evergreen" provision by which the number of shares of the Company's class A common stock available for issuance under the Plan increases automatically on the first day of each calendar year by a number equal to 5% of the aggregate number of shares of the Company's class A common stock and class B common stock outstanding on such date, or such lesser number as the Board of Directors may determine. As amended, the Plan will provide that the number of shares of class A common stock included in each annual increase will be 500,000, or such lesser number as the Board of Directors may determine. The Board of Directors also determined that the amount of the increase in the shares available for issuance under the Plan as of January 1, 2008, pursuant to the "evergreen" provision, would be zero.

Under the Company's 2001 Stock Incentive Plan, as of September 30, 2007, there are 510,000 non-employee stock options outstanding and exercisable with a weighted average exercise price per share of $5.85.

## 12. Income Taxes

For the three months ended September 30, 2007 and 2006, the Company's consolidated effective tax rate was 46.7% and 0%, respectively. For the nine months ended September 30, 2007 and 2006, the Company's consolidated effective tax rate was 36.4% and 0%, respectively. The increase in the effective tax rate for the three months and nine months ended September 30, 2007 from the three months and nine months ended September 30, 2006 was due to the utilization of U.S. deferred tax assets and an increase in current tax expense resulting from the income earned in the current period for the Company's U.S. operations. The utilization of the Company's U.S. deferred tax assets for the three months ended September 30, 2006 was offset by a corresponding release of the Company's valuation allowance, which resulted in a 0% effective tax rate. As of September 30, 2007, the Company's remaining valuation allowance against its U.S. deferred tax assets was $8.6 million.

As required under Accounting Principles Board Opinion No. 28, *"Interim Financial Reporting"*, the Company has estimated its annual effective tax rate for the full fiscal year 2007 and 2006 and applied that rate to its income before income taxes in determining its income tax provision for the interim periods.

## 13. Segment Reporting

The Company has determined that it has three reportable geographic segments based on the Company's method of internal reporting, which disaggregates business by geographic location. These segments are the United States, Europe and Japan. The Company evaluates performance of these segments based on income from operations. The reportable segments have historically derived their revenue from joint collaboration and strategic alliance agreements. Transactions between the segments consist primarily of loans and the provision of research and development services by the European and Japanese entities to the domestic entity. Following is a summary of financial information by reportable geographic segment.

| (In thousands) | United States | Europe | Japan | Intercompany Eliminations | Consolidated |
|---|---|---|---|---|---|
| **Three Months Ended September 30, 2007** | | | | | |
| Research and development revenue | $ 4,652 | $ — | $ — | $ — | $ 4,652 |
| Contract revenue — related parties | 105 | — | 219 | (210) | 114 |
| Collaboration revenue | 37 | — | — | — | 37 |
| Product royalty revenue | 6,998 | — | — | — | 6,998 |
| Co-promotion revenue | 1,051 | — | — | — | 1,051 |
| Total revenues | 12,843 | — | 219 | (210) | 12,852 |
| Depreciation and amortization | 85 | 1 | 7 | — | 93 |
| Other operating expenses | 12,587 | 520 | 737 | (210) | 13,634 |
| Income (loss) from operations | 171 | (521) | (525) | — | (875) |
| Interest income | 782 | — | 3 | (5) | 780 |
| Interest expense | (4) | — | (5) | 5 | (4) |
| Other non-operating expense, net | (65) | (16) | (143) | — | (224) |
| Income (loss) before income taxes | $ 884 | $ (537) | $ (670) | $ — | $ (323) |
| Capital expenditures | $ 788 | $ — | $ — | $ — | $ 788 |
| **Three Months Ended September 30, 2006** | | | | | |
| Research and development revenue | $ 6,759 | $ — | $ — | $ — | $ 6,759 |
| Contract revenue — related parties | 104 | — | 25 | — | 129 |
| Collaboration revenue | 37 | — | — | — | 37 |
| Product royalty revenue | 79 | — | — | — | 79 |
| Co-promotion revenue | 1,290 | — | — | — | 1,290 |
| Total revenues | 8,269 | — | 25 | — | 8,294 |
| Depreciation and amortization | 12 | 2 | 1 | — | 15 |
| Other operating expenses | 8,527 | 83 | 45 | — | 8,655 |
| Loss from operations | (270) | (85) | (21) | — | (376) |
| Interest income | 432 | 1 | 3 | — | 436 |
| Interest expense | (4) | — | — | — | (4) |
| Other non-operating (expense) income, net | (3) | 20 | 9 | — | 26 |
| Income (loss) before income taxes | $ 155 | $ (64) | $ (9) | $ — | $ 82 |
| Capital expenditures | $ 106 | $ — | $ — | $ — | $ 106 |

| (In thousands) | United States | Europe | Japan | Intercompany Eliminations | Consolidated |
|---|---|---|---|---|---|
| **Nine Months Ended September 30, 2007** | | | | | |
| Research and development revenue | $ 52,105 | $ — | $ — | $ — | $ 52,105 |
| Contract revenue — related parties | 314 | — | 660 | (630) | 344 |
| Collaboration revenue | 110 | — | — | — | 110 |
| Product royalty revenue | 18,869 | — | — | — | 18,869 |
| Co-promotion revenue | 3,318 | — | — | — | 3,318 |
| Total revenues | 74,716 | — | 660 | (630) | 74,746 |
| Depreciation and amortization | 143 | 1 | 9 | — | 153 |
| Other operating expenses | 52,201 | 829 | 1,671 | (630) | 54,071 |
| Income (loss) from operations | 22,372 | (830) | (1,020) | — | 20,522 |
| Interest income | 1,573 | — | 7 | (5) | 1,575 |
| Interest expense | (8) | — | (5) | 5 | (8) |
| Other non-operating expense, net | (56) | (25) | (103) | — | (184) |
| Income (loss) before income taxes | $ 23,881 | $ (855) | $ (1,121) | $ — | $ 21,905 |
| Capital expenditures | $ 2,128 | $ — | $ — | $ — | $ 2,128 |
| **Nine Months Ended September 30, 2006** | | | | | |
| Research and development revenue (restated) | $ 38,900 | $ — | $ — | $ — | $ 38,900 |
| Contract revenue (restated) | — | 1,500 | — | — | 1,500 |
| Contract revenue — related parties | 209 | — | 54 | — | 263 |
| Collaboration revenue (restated) | 110 | — | — | — | 110 |
| Product royalty revenue | 4,563 | — | — | — | 4,563 |
| Co-promotion revenue (restated) | 2,558 | — | — | — | 2,558 |
| Total revenues (restated) | 46,340 | 1,500 | 54 | — | 47,894 |
| Depreciation and amortization | 42 | 1 | 7 | — | 50 |
| Other operating expenses (restated) | 32,105 | 342 | 140 | — | 32,587 |
| Income (loss) from operations (restated) | 14,193 | 1,157 | (93) | — | 15,257 |
| Interest income | 1,398 | 1 | 4 | — | 1,403 |
| Interest expense | (12) | (43) | (29) | — | (84) |
| Other non-operating income, net | 31 | 71 | 186 | — | 288 |
| Income before income taxes | $ 15,610 | $ 1,186 | $ 68 | $ — | $ 16,864 |
| Capital expenditures | $ 106 | $ — | $ — | $ — | $ 106 |
| **As of September 30, 2007** | | | | | |
| Property and equipment, net | $ 2,174 | $ — | $ 84 | $ — | $ 2,258 |
| Identifiable assets | $ 112,149 | $ 541 | $ 2,499 | $ (6,190) | $ 108,999 |
| **As of December 31, 2006** | | | | | |
| Property and equipment, net | $ 253 | $ 2 | $ 88 | $ — | $ 343 |
| Identifiable assets | $ 68,943 | $ 496 | $ 2,544 | $ (4,899) | $ 67,084 |

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

This Report on Form 10-Q contains forward-looking statements regarding us 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. You should 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, 2006 included in our Registration Statement on Form S-1, as amended (Registration No. 333-135133), which was declared effective by the Securities and Exchange Commission on August 2, 2007.

**Restatement of Previously Issued Condensed Consolidated Financial Statements**

We have restated our previously issued condensed consolidated financial statements and related footnotes for the nine months ended September 30, 2006. This was done to correct an error in accounting for the revenue recognition of our collaboration and license agreement and related agreements with Takeda Pharmaceutical Company Limited, or Takeda. All amounts in this discussion and analysis have been updated to reflect this restatement. For additional information regarding this restatement, see Note 2 to our condensed consolidated financial statements.

The error we corrected in the restatement originated in the fourth quarter of 2004 and continued throughout 2005 and part of 2006. The identification of this error occurred as a result of our reevaluation of the assumptions we used under Emerging Issues Task Force, or EITF, Issue No. 00-21, *"Revenue Arrangements with Multiple Deliverables"*, or EITF 00-21, in accounting for arrangements with multiple deliverables that require significant judgment and estimates.

During the preparation of our annual financial statements, we reassessed the stand-alone value to Takeda of the deliverables under our joint collaboration and license agreement with Takeda, at the time we became obliged to make such deliverables, by examining objective and reliable evidence of the fair value of the undelivered items. As a result of this reassessment, we determined that the previous application of a single unit of accounting for the deliverables from the joint collaboration and license agreement with Takeda was not appropriate. In addition, we determined that the substantive milestone method of revenue recognition we had been using was not appropriate to account for the cash payments received from Takeda related to our completion of these required deliverables and that a time-based model, which is amortized over the performance period of the development, would be more appropriate to account for these cash payments. Accordingly, in the restated condensed consolidated financial statements for the nine months ended September 30, 2006, we reduced the milestone revenue and increased research and development revenue. Total revenue increased by $9.3 million for the nine months ended September 30, 2006.

All data included in this discussion and analysis for the nine months ended September 30, 2006 are derived from our restated financial statements for those periods. The financial statements for the three months ended September 30, 2006 have not been previously issued and have not been restated.

**Overview**

We are a specialty pharmaceutical company focused on the discovery, development and commercialization of proprietary drugs based on prostones, a class of compounds derived from functional fatty acids that occur naturally in the human body. In January 2006, we received marketing approval from the U.S. Food and Drug Administration, or FDA, for our first product, AMITIZA, for the treatment of chronic idiopathic constipation in adults.

We are party to a collaboration and license agreement with Takeda, or the Takeda Agreement, to jointly develop and commercialize AMITIZA for chronic idiopathic constipation, irritable bowel syndrome with constipation, or IBS-C, opioid-induced bowel dysfunction, or OBD, and other gastrointestinal indications in the United States and Canada. We have the right to co-promote AMITIZA along with Takeda in these markets. We and

Takeda initiated commercial sales of AMITIZA in the United States for the treatment of chronic idiopathic constipation in adults in April 2006. Under the Takeda Agreement, Takeda records all product revenue and we receive a royalty on product revenue for such sales.

We first generated product royalty revenue for commercial sales of AMITIZA in the second quarter of 2006. Since inception, we have periodically incurred operating losses and, as of September 30, 2007, we had an accumulated deficit of $9.4 million. We recognized net income of $13.9 million for the nine months ended September 30, 2007 and $16.9 million for the nine months ended September 30, 2006. Historically, we have generated losses resulting principally from costs incurred in our research and development programs and from our general and administrative expenses. We expect to continue to incur significant and increasing expenses for the next several years as we continue to expand our research and development activities, seek regulatory approvals for additional indications for AMITIZA and for other compounds as they are developed and augment our sales and marketing capabilities. Whether we are able to sustain profitability will depend upon our ability to generate revenues and receive payments under our contracts with Takeda or similar arrangements in the future that exceed these expenses. In the near term, our ability to generate product revenues will depend primarily on the successful commercialization and continued development of additional indications for AMITIZA.

We hold an exclusive worldwide royalty-bearing license from Sucampo AG, an affiliate, to develop and commercialize AMITIZA and all other prostone compounds covered by patents and patent applications held by Sucampo AG. We are obligated to assign to Sucampo AG all patentable improvements that we make in the field of prostones, which Sucampo AG is obligated in turn to license back to us on an exclusive basis. If we have not committed specified development efforts to any prostone compound other than AMITIZA, SPI-8811 (cobiprostone) and SPI-017 by the end of a specified period, which ends on the later of June 30, 2011 or the date upon which Drs. Kuno and Ueno, our founders, no longer control our company, then the commercial rights to that compound will revert to Sucampo AG, subject to a 15-month extension in the case of any compound that we designate in good faith as planned for development within that extension period.

**Our Clinical Development Programs**

We are developing AMITIZA and our other prostone compounds for the treatment of a broad range of diseases. The most advanced of these programs are:

- *AMITIZA (lubiprostone).* In connection with our marketing approval for AMITIZA for the treatment of chronic idiopathic constipation in adults, we committed to the FDA to conduct post-marketing studies to evaluate the safety of the product in pediatric patients, in patients with renal impairment and in patients with hepatic impairment. We initiated these studies in January 2007. In addition, we are developing AMITIZA to treat IBS-C and OBD. We recently completed two pivotal Phase III clinical trials of AMITIZA for the treatment of IBS-C and a follow-on safety study to assess the long-term use of AMITIZA as a treatment for this indication. Based on the results of these trials, we are seeking marketing approval for AMITIZA for the treatment of this indication and submitted a supplement to our existing new drug application, or sNDA, for AMITIZA in June 2007. In addition, we commenced Phase III pivotal clinical trials of AMITIZA for the treatment of OBD in the third quarter of 2007. Our collaboration and co-promotion arrangement with Takeda also covers these additional indications for AMITIZA.
- *SPI-8811 (cobiprostone).* We are developing orally administered cobiprostone to treat various gastrointestinal and liver disorders, including non-steroidal anti-inflammatory drug, or NSAID, induced ulcers, portal hypertension, non-alcoholic fatty liver disease and gastrointestinal disorders associated with cystic fibrosis. We also are planning to develop an inhaled formulation of cobiprostone for the treatment of respiratory symptoms of cystic fibrosis and chronic obstructive pulmonary disease. Our near term focus is on the development of cobiprostone as a treatment for NSAID-induced ulcers. We have completed Phase I clinical trials of cobiprostone in healthy volunteers and commenced a Phase II clinical trial of this product candidate for the treatment of NSAID-induced ulcers in the third quarter of 2007. We also plan to commence a Phase II proof-of-concept study of cobiprostone in patients with portal hypertension in the fourth quarter of 2007.

- *SPI-017.* We are developing SPI-017 to treat vascular disease and central nervous system disorders. We are initially focused on developing an intravenous formulation of this product candidate for the treatment of peripheral arterial disease. We also are developing an oral formulation of SPI-017 for the treatment of Alzheimer's disease. We plan to commence Phase I clinical trials of the intravenous formulation of SPI-017 in 2008.

**Founders' Awards**

On June 19, 2007, the Compensation Committee of our board of directors authorized a one-time stock and cash award to each of our founders. These awards were granted on June 29, 2007 when the founders agreed to their terms and settled on August 2, 2007 upon the effectiveness of our initial public offering. The Compensation Committee intended for these awards to compensate the founders for the lost value of stock options that had been granted to them in 2001 and 2002 and had been understood by them to have ten-year terms, but which had expired in 2006 and early 2007 as a result of the terms of our 2001 stock incentive plan. The expired options would have entitled the founders to purchase an aggregate of 578,000 shares of class A common stock at a price of $0.21 per share and 136,000 shares at a price of $2.95 per share. These awards were fully vested at the grant date.

Upon the completion of the initial public offering, these stock and cash awards had an aggregate value equal to the difference between the value of the shares that could have been purchased under each of the expired options, determined on the basis of the public offering price per share of $11.50 in the initial public offering, and the respective aggregate exercise prices for such shares as provided in the option agreements.

These awards consisted of a combination of cash and shares of class A common stock. Of the aggregate value of each award, 40% was payable in cash and 60% in stock. For purposes of determining the number of shares of class A common stock to be issued in connection with each award, the stock was valued on the basis of the public offering price per share in the initial public offering.

The estimated fair value of these founders' awards, totaling $10.2 million on grant date, was based on using the Black-Scholes pricing model, as allowed under Statement of Financial Accounting Standard (SFAS) No. 123R, *"Share-Based Payment"* (SFAS 123R). For the six months ended June 30, 2007, we recorded $10.2 million of general and administrative expense for these awards, of which $4.1 million was recorded as "Other liabilities — related parties" for the cash settlement portion and $6.1 million as "Additional paid-in capital" for the stock settlement portion. The liability portion of the awards would then be adjusted based upon the final cash settlement amount, but the equity portion was fixed upon the grant date.

When the initial public offering was completed in August 2007, the awards were settled and 401,133 shares of class A common stock were issued to the founders. In addition, as a result of the lower public offering price compared to the estimated public offering price at June 30, 2007, we recorded an adjustment of $1.0 million to reduce the amount of expense and related liability cash portion of the awards, which was paid to the founders.

**Results of Operations**

***Comparison of three months ended September 30, 2007 and September 30, 2006***

***Revenues***

The following table summarizes our revenues for the three months ended September 30, 2007 and 2006:

| (In thousands) | Three Months Ended September 30, 2007 | 2006 |
|---|---|---|
| Research and development revenue | $ 4,652 | $6,759 |
| Collaboration revenue | 37 | 37 |
| Contract revenue — related parties | 114 | 129 |
| Product royalty revenue | 6,998 | 79 |
| Co-promotion revenue | 1,051 | 1,290 |
| Total | $12,852 | $8,294 |

Total revenues were $12.9 million for the three months ended September 30, 2007 compared to $8.3 million for the three months ended September 30, 2006, an increase of $4.6 million. This increase was primarily due to the $6.9 million increase in product royalty revenue from sales of AMITIZA, partially offset by a $2.1 million decrease in research and development revenue.

Research and development revenue was $4.7 million for the three months ended September 30, 2007 compared to $6.8 million for the three months ended September 30, 2006, a decrease of $2.1 million. This decrease was primarily due to our completion of the development of AMITIZA to treat chronic idiopathic constipation and IBS-C, which was completed June 30, 2007 and the recognition as revenue of payments previously received from Takeda. We recognized our revenue for this development work ratably over the estimated performance period associated with the development of AMITIZA and it was completely recognized before the commencement of the quarter ended September 30, 2007.

The specific revenue streams associated with research and development revenue for the three months ended September 30, 2007 were as follows:

- We began to perform services and receive payments from Takeda during the third quarter of 2006 for the following three deliverables: post-marketing studies to evaluate the safety of AMITIZA in patients with renal impairment and patients with hepatic impairment, Phase IV clinical trials of AMITIZA for the treatment of chronic idiopathic constipation in pediatric patients and clinical trials of AMITIZA for the treatment of OBD. Total research and development revenue associated with these three deliverables for the three months ended September 30, 2007 was $4.7 million. During the three months ended September 30, 2007, we enrolled our first patient in a Phase III study of lubiprostone for the treatment of OBD.

The specific revenue streams associated with research and development revenue for the three months ended September 30, 2006 were as follows:

- In March and May 2005, we received development milestone payments from Takeda totaling $30.0 million related to our efforts to develop AMITIZA. We recognized these payments as research and development revenue ratably over the performance period, which was completed in June 2007, resulting in $2.0 million of research and development revenue for the three months ended September 30, 2006 and no research and development revenue for the three months ended September 30, 2007 after the performance period was completed.
- In January 2006, we received a $20.0 million development milestone payment from Takeda related to our efforts to develop AMITIZA, which we recognized as research and development revenue ratably over the performance period, resulting in $1.3 million of research and development revenue for the three months ended September 30, 2006.

- We have received a total of $30.0 million of reimbursement payments for research and development costs from Takeda related to our efforts to develop AMITIZA, which we recognized as research and development revenue ratably over the performance period, resulting in $2.0 million for the three months ended September 30, 2006.
- In October 2004, we received an up-front payment of $20.0 million from Takeda, of which $17.6 million was associated with the development of AMITIZA. This amount was recognized ratably over the estimated performance period, resulting in $1.2 million for the three months ended September 30, 2006.

We began to recognize product royalty payments from Takeda as revenue in the second quarter of 2006 following the product launch of AMITIZA. For the three months ended September 30, 2007, we recognized $7.0 million of product royalty revenue compared to $79,000 for the three months ended September 30, 2006. This increase reflects the higher market penetration of AMITIZA in the U.S. market, which was the result of several factors, including the increase of our sales force and Takeda's sales force and the withdrawal of Zelnorm, a competing product.

We began to receive reimbursement from Takeda of costs for our sales force in the second quarter of 2006 following the product launch of AMITIZA. For the three months ended September 30, 2007 and 2006, we recognized $1.1 million and $1.3 million, respectively, of co-promotion revenues for reimbursement of sales force costs.

***Research and Development Expenses***

Research and development expenses represent costs incurred in connection with the in-licensing of our compounds, clinical trials, activities associated with regulatory filings and manufacturing efforts. Currently, we outsource our clinical trials to independent contract research organizations in order to minimize our overhead. We expense our research and development costs as incurred.

Total research and development expenses for the three months ended September 30, 2007 were $6.8 million compared to $2.8 million for the three months ended September 30, 2006, an increase of $4.0 million. In the three months ended September 30, 2006, our research and development expenses were primarily those associated with the ongoing Phase III clinical trials of AMITIZA for the treatment of irritable bowel syndrome with constipation. In the three months ended September 30, 2007, our research and development expenses were primarily those associated with the end of the IBS-C trial; the initiation of post-marketing studies of AMITIZA to evaluate its safety in pediatric patients, in patients with renal impairment and in patients with hepatic impairment; the initiation of Phase III clinical trials for OBD; and the initiation of a Phase II clinical trial for the treatment and prevention of NSAID-induced ulcers.

We consider the continued development of our product pipeline crucial to our success, and we anticipate that our research and development costs will continue to increase as we advance our research and development activities associated with our product candidates.

***General and Administrative Expenses***

General and administrative expenses consist primarily of expenses for salaries and related personnel costs and expenses for corporate activities.

The following table summarizes our general and administrative expenses for the three months ended September 30, 2007 and 2006:

| (In thousands) | Three Months Ended September 30, 2007 | 2006 |
|---|---|---|
| Salaries, benefits and related costs | $ 1,513 | $1,187 |
| Legal and consulting expenses | 638 | 576 |
| Stock-based compensation | 20 | 226 |
| Founders' stock-based award | (1,000) | — |
| Lease loss | 310 | — |
| Other operating expenses | 1,547 | 789 |
| Total | $ 3,028 | $2,778 |

General and administrative expenses were $3.0 million for the three months ended September 30, 2007 compared to $2.8 million for the three months ended September 30, 2006, an increase of $250,000. This increase was primarily due to an increase in operational headcount, rent for additional leased office space and lease loss related to the abandonment of our former office in Bethesda, MD, offset by the adjustment to the founders' stock-based award at the time we completed our initial public offering and a decline in stock-based compensation expense.

***Selling and Marketing Expenses***

Selling and marketing expenses represent costs we incur to co-promote AMITIZA and other selling and marketing expenses, including costs for market research and analysis, marketing and promotional materials, product samples and other costs.

Selling and marketing expenses were $2.7 million for the three months ended September 30, 2007 compared to $3.1 million for the three months ended September 30, 2006, a decrease of $373,000. This decrease was primarily due to the termination of our agreement with Ventiv Commercial Services, LLC, our contracted sales organization, as we internalized the sales force.

***Milestone Royalties to Related Parties***

Milestone royalties to related parties reflect the 5% we are obligated to pay to Sucampo AG with respect to any development milestone payments we earn from Takeda. In the three months ended September 30, 2007 and 2006, we did not incur any milestone royalty obligations because we did not earn any milestone payments from Takeda during either period.

***Product Royalties to Related Parties***

Product royalties to related parties represent our obligation to pay Sucampo AG a royalty of 3.2% of net sales of AMITIZA. The product royalties that we pay to Sucampo AG are based on total product net sales, whether by us or a sublicensee, and not on amounts actually received by us. We began to incur product royalty expenses for net sales of AMITIZA in the second quarter of 2006 following the product launch of AMITIZA. In the three months ended September 30, 2007, we expensed $1.2 million in product royalties to related parties compared to $14,000 for the three months ended September 30, 2006.

***Income Taxes***

As required under Accounting Principles Board Opinion No. 28, *"Interim Financial Reporting"*, or APB No. 28, we have estimated our annual effective tax rate for the full fiscal years 2007 and 2006 and applied that rate to our income before income taxes in determining our provision for income taxes for the three months ended September 30, 2007 and 2006, respectively. For the three months ended September 30, 2007 and 2006, our

consolidated effective tax rate was 46.7% and 0%, respectively. The increase in the effective tax rate for the three months ended September 30, 2007 from the three months ended September 30, 2006 was due to an increase in tax expense resulting from the income earned in the current period for our U.S. operations. The utilization of our U.S. deferred tax assets for the three months ended September 30, 2006 was offset by a corresponding release of our valuation allowance, which resulted in a 0% effective tax rate. As of September 30, 2007, our remaining valuation allowance against our U.S. deferred tax assets was $8.6 million.

***Comparison of nine months ended September 30, 2007 and September 30, 2006***

***Revenues***

The following table summarizes our revenues for the nine months ended September 30, 2007 and 2006:

| | Nine Months Ended September 30, | |
|---|---|---|
| **(In thousands)** | **2007** | **2006 (restated)** |
| Research and development revenue | $52,105 | $38,900 |
| Contract revenue | — | 1,500 |
| Collaboration revenue | 110 | 110 |
| Contract revenue — related parties | 344 | 263 |
| Product royalty revenue | 18,869 | 4,563 |
| Co-promotion revenue | 3,318 | 2,558 |
| Total | $74,746 | $47,894 |

Total revenues were $74.7 million for the nine months ended September 30, 2007 compared to $47.9 million (restated) for the nine months ended September 30, 2006, an increase of $26.8 million. This increase was primarily due to the recognition of $30.0 million of research and development revenue in connection with a research and development milestone payment earned from Takeda upon the filing of the sNDA for AMITIZA to treat IBS-C in June 2007. This increase also reflected a $14.3 million increase in product royalty revenue from sales of AMITIZA.

Research and development revenue was $52.1 million for the nine months ended September 30, 2007 compared to $38.9 million (restated) for the nine months ended September 30, 2006, an increase of $13.2 million. This increase was primarily due to the recognition of the $30.0 million research and development milestone payment for the completion of our development of AMITIZA to treat chronic idiopathic constipation and IBS-C and the recognition of payments previously received from Takeda. We recognize our revenue for this development work ratably over the estimated performance period associated with the development of AMITIZA, which was completed in June 2007. Excluding this milestone, we had a $16.8 million decrease in research and development revenue primarily due to a $14.2 million decrease in the recognition of deferred revenue for six months in 2007 compared to nine months in 2006.

The following table summarizes the cash streams and related revenue recognition under the Takeda Agreement and the Supplemental Agreement, which are described in more detail below:

| (In thousands) | Amount Deferred at December 31, 2006 | Cash Received for the Nine Months Ended September 30, 2007 | Revenue Recognized for the Nine Months Ended September 30, 2007 | Amount Deferred at September 30, 2007 |
|---|---|---|---|---|
| *Collaboration revenue:* | | | | |
| Up-front payment associated with our obligation to participate in joint committees with Takeda | $ 2,058 | $ — | $ 110 | $ 1,948 |
| *Research and development revenue:* | | | | |
| Up-front payment — remainder | $ 1,977 | $ — | $ 1,977 | $ — |
| Development milestones | 5,609 | 30,000 | 35,609 | — |
| Reimbursement of research and development expenses | 3,365 | 7,379 | 14,519 | — |
| Total | $ 10,951 | $ 37,379 | $ 52,105 | $ — |

| | Accounts Receivable at December 31, 2006 | | | Accounts Receivable at September 30, 2007 |
|---|---|---|---|---|
| *Product royalty revenue* | $ 2,029 | $ 13,900 | $ 18,869 | $ 6,998 |
| *Co-promotion revenue* | $ 708 | $ 3,648 | $ 3,318 | $ 378 |
| *Research and development revenue:* | | | | |
| Development milestone | $ — | $ 30,000 | $ 30,000 | $ — |
| Reimbursement of research and development expenses | $ — | $ 7,379 | $ 11,154 | $ 3,775 |

The specific revenue streams associated with research and development revenue for the nine months ended September 30, 2007 and 2006 were as follows:

- In October 2004, we received an up-front payment of $20.0 million from Takeda, of which $17.6 million was associated with the development of AMITIZA. This amount was recognized ratably over the estimated performance period, resulting in $2.0 million and $5.0 million of research and development revenue for the nine months ended September 30, 2007 and 2006, respectively. The smaller amount of revenue recognized for the nine months ended September 30, 2007 is a result of our determination in June 2006 to extend the estimated completion of the development period to June 2007.
- In March and May 2005, we received development milestone payments from Takeda totaling $30.0 million related to our efforts to develop AMITIZA. We recognized these payments as research and development revenue ratably over the performance period, resulting in $3.4 million of research and development revenue for the nine months ended September 30, 2007 and $8.5 million for the nine months ended September 30, 2006. The smaller amount of revenue recognized for the nine months ended September 30, 2007 is a result of our determinations in June 2006 to extend the estimated completion of the development period to June 2007.
- In January 2006, we received a $20.0 million development milestone payment from Takeda related to our efforts to develop AMITIZA, which we recognized as research and development revenue ratably over the performance period, resulting in $2.2 million of research and development revenue for the nine months ended September 30, 2007 and $16.4 million for the nine months ended September 30, 2006. We recognized a significant portion of this milestone payment in the three months ended March 31, 2006, the quarter in which it was received, reflecting the fact that we were then well into the estimated development period. The smaller amount of revenue for the nine months ended September 30, 2007 also reflects our determinations, subsequent to our receipt of this payment, to extend the estimated completion in June 2006 of the development period to June 2007.

- Since inception of our agreement with Takeda, we have received a total of $30.0 million of reimbursement payments for research and development costs from Takeda related to our efforts to develop AMITIZA, which we recognized as research and development revenue ratably over the performance period, resulting in $3.4 million of research and development revenue for the nine months ended September 30, 2007 and $8.5 million for the nine months ended September 30, 2006. The smaller amount of revenue recognized for the nine months ended September 30, 2007 is a result of our determination in June 2006 to extend the estimated completion of the development period to June 2007.
- We also began to perform services and receive payments from Takeda during the third quarter of 2006 for the following three deliverables: post-marketing studies to evaluate the safety of AMITIZA in patients with renal impairment and patients with hepatic impairment, Phase IV clinical trials of AMITIZA for the treatment of chronic idiopathic constipation in pediatric patients and clinical trials of AMITIZA for the treatment of OBD. Total research and development revenue associated with these three deliverables for the nine months ended September 30, 2007 and 2006 was $11.0 million and $1.1 million, respectively.

We had no contract revenue for the nine months ended September 30, 2007 compared to $1.5 million (restated) for the nine months ended September 30, 2006. Contract revenue represents amounts released from previously deferred revenue that we recognized upon the expiration in January 2006 of the option we had previously granted to Takeda for joint development and commercialization rights for AMITIZA in Europe, Africa and the Middle East.

We began to recognize product royalty payments from Takeda as revenue in the second quarter of 2006 following the product launch of AMITIZA. For the nine months ended September 30, 2007, we recognized $18.9 million of product royalty revenue compared to $4.6 million for the nine months ended September 30, 2006.

We began to receive reimbursement of costs for our sales force in the second quarter of 2006 following the product launch of AMITIZA. For the nine months ended September 30, 2007, we recognized $3.3 million of co-promotion revenues, of which approximately $158,000 was for reimbursement of costs for miscellaneous marketing activities and approximately $3.2 million was for reimbursement of sales force costs. For the nine months ended September 30, 2006, we recorded $2.6 million (restated) as co-promotion revenues, of which approximately $291,000 was for reimbursement of costs for miscellaneous marketing activities and $2.3 million was for reimbursement of sales force costs.

***Research and Development Expenses***

Total research and development expenses for the nine months ended September 30, 2007 were $20.1 million compared to $12.4 million for the nine months ended September 30, 2006, an increase of $7.7 million. The higher costs in 2007 reflect the significant research and development expenses incurred by us during that period in connection with the filing of the sNDA for the treatment of IBS-C; the initiation of post-marketing safety studies in pediatric patients, in patients with renal impairment and in patients with hepatic impairment; the initiation of Phase III studies for OBD; and the initiation of a Phase II study of NSAID-induced ulcers. In 2006, our research and development expenses were primarily those associated with the ongoing Phase III clinical trials of AMITIZA for the treatment of IBS-C. In the quarter ended September 30, 2007, we enrolled our first patient in a Phase III study for OBD, which we expect to be completed in the second quarter of 2009. We also enrolled our first patient in a multi-center Phase II study of NSAID-induced ulcers.

***General and Administrative Expenses***

The following summarizes our general and administrative expenses for the nine months ended September 30, 2007 and 2006:

| (In thousands) | Nine Months Ended September 30, 2007 | 2006 (restated) |
|---|---|---|
| Salaries, benefits and related costs | $ 4,756 | $ 3,986 |
| Legal and consulting expenses | 2,005 | 2,407 |
| Stock-based compensation | (122) | 2,494 |
| Founders' stock-based awards | 9,187 | — |
| Lease loss | 310 | — |
| Other operating expenses | 3,528 | 2,091 |
| Total | $19,664 | $10,978 |

General and administrative expenses were $19.7 million for the nine months ended September 30, 2007 compared to $11.0 million (restated) for the nine months ended September 30, 2006, an increase of $8.7 million. This increase was due primarily to the founders' stock-based award of $9.2 million granted in June 2007, offset in part by the decline in stock-based compensation expenses from the $2.5 million recorded in the prior year. This increase also reflected increases in operational headcount, rent for additional leased office space and lease loss related to the abandonment of our former office in Bethesda, MD.

We recorded a cumulative out-of-period adjustment of approximately $358,000 during the nine months ended September 30, 2007 to reduce an overstatement of additional paid-in capital and general administrative expenses that had been recorded as of and for the year ended December 31, 2006 in connection with certain employee stock options awarded in 2006. The error resulted from applying the incorrect contractual term for certain employee stock options. The impacts of this adjustment were not material to the consolidated financial statements for the year ended December 31, 2006, for the corresponding interim periods or for the period in which it was recorded, as the adjustment consisted of insignificant amounts related to each of the quarterly reporting periods dating back to the quarter ended September 30, 2006.

***Selling and Marketing Expenses***

Selling and marketing expenses were $9.7 million for the nine months ended September 30, 2007 compared to $7.1 million (restated) for the nine months ended September 30, 2006, an increase of $2.6 million. This increase was due to increased costs for market research and analysis, marketing and promotional materials, product samples and other costs, for nine months in 2007 compared to six months in 2006.

***Milestone Royalties to Related Parties***

Milestone royalties to related parties were $1.5 million and $1.3 million for the nine months ended September 30, 2007 and 2006, respectively. These royalties were paid to Sucampo AG, reflecting the 5% we owed them for the $30.0 million development milestone earned from Takeda during that period. The milestone royalties to related parties of $1.3 million for the nine months ended September 30, 2006 were paid to Sucampo AG reflecting the 5% we owed them for the $20.0 million development milestone payment we received from Takeda during that period, and a $250,000 milestone payment for regulatory approval of AMITIZA.

***Product Royalties to Related Parties***

We began to incur product royalty expenses for net sales of AMITIZA in the second quarter of 2006 following the product launch of AMITIZA. In the nine months ended September 30, 2007, we expensed $3.4 million in product royalties to related parties compared to $981,000 for the nine months ended September 30, 2006.

***Income Taxes***

As required under APB No. 28, we have estimated our annual effective tax rate for the full fiscal years 2007 and 2006 and applied that rate to our income before income taxes in determining our provision for income taxes for the nine months ended September 30, 2007 and 2006. For the nine months ended September 30, 2007 and 2006, our consolidated effective tax rate was 36.4% and 0%, respectively. The increase in the effective tax rate for the nine months ended September 30, 2007 from the nine months ended September 30, 2006 was due to the utilization of U.S. deferred tax assets and an increase in current tax expense resulting from the income earned in the current period. The utilization of our U.S. deferred tax assets for the nine months ended September 30, 2006 was offset by a corresponding release of our valuation allowance, which resulted in a 0% effective tax rate. As of September 30, 2007, our remaining valuation allowance against our U.S. deferred tax assets was $8.6 million.

**Reportable Geographic Segments**

We have determined that we have three reportable geographic segments based on our method of internal reporting, which disaggregates business by geographic location. These segments are the United States, Europe and Japan. We evaluate the performance of these segments on the basis of income from operations. The following is a summary of financial information by reportable segment.

| (In thousands) | United States | Europe | Japan | Intercompany Eliminations | Consolidated |
|---|---|---|---|---|---|
| **Three Months Ended September 30, 2007** | | | | | |
| Total revenues | $ 12,843 | $ — | $ 219 | $ (210) | $ 12,852 |
| Income (loss) from operations | 171 | (521) | (525) | — | (875) |
| Income (loss) before income taxes | 884 | (537) | (670) | — | (323) |
| Identifiable assets (end of period) | 112,149 | 541 | 2,499 | (6,190) | 108,999 |
| **Three Months Ended September 30, 2006** | | | | | |
| Total revenues | $ 8,269 | $ — | $ 25 | $ — | $ 8,294 |
| Loss from operations | (270) | (85) | (21) | — | (376) |
| Income (loss) before income taxes | 154 | (64) | (8) | — | 82 |
| **Nine Months Ended September 30, 2007** | | | | | |
| Total revenues | $ 74,716 | $ — | $ 660 | $ (630) | $ 74,746 |
| Income (loss) from operations | 22,372 | (830) | (1,020) | — | 20,522 |
| Income (loss) before income taxes | 23,881 | (855) | (1,121) | — | 21,905 |
| Identifiable assets (end of period) | 112,149 | 541 | 2,499 | (6,190) | 108,999 |
| **Nine Months Ended September 30, 2006** | | | | | |
| Total revenues (restated) | $ 46,340 | $1,500 | $ 54 | $ — | $ 47,894 |
| Income (loss) from operations (restated) | 14,193 | 1,157 | (93) | — | 15,257 |
| Income before income taxes (restated) | 15,609 | 1,186 | 69 | — | 16,864 |

**Liquidity and Capital Resources**

***Sources of Liquidity***

We require cash principally to meet our operating expenses. We have financed our operations since inception with a combination of private placements of equity securities, our initial public offering, up-front and milestone payments received from Takeda and R-Tech Ueno, Ltd., or R-Tech, an affiliate, and research and development expense reimbursements from Takeda. From inception through September 30, 2007, we had raised net proceeds of $55.3 million from private equity financings and net proceeds of $28.2 million from our initial public offering in August 2007. From inception through September 30, 2007, we had also received an aggregate of $140.5 million in up-front, milestone, option and expense reimbursement payments from third parties. We operated profitably in the nine months ended September 30, 2007 and 2006, principally as a result of the development milestones and product royalties that we earned from Takeda. As of September 30, 2007, we had cash and cash equivalents and short-term investments of $89.7 million.

***Cash Flows***

The following table summarizes our cash flows for the nine months ended September 30, 2007 and 2006:

| (In thousands) | Nine Months Ended September 30, 2007 | 2006 |
|---|---|---|
| Cash provided by (used in): | | |
| Operating activities | $ 8,408 | $ (3,086) |
| Investing activities | (33,188) | (737) |
| Financing activities | 31,341 | 17,968 |
| Effect of exchange rates | 186 | (82) |
| Net increase in cash and cash equivalents | $ 6,747 | $14,063 |

***Nine months ended September 30, 2007***

Net cash provided by operating activities was $8.4 million for the nine months ended September 30, 2007. This reflected net income of $13.9 million offset by an increase in product royalties receivable of $5.0 million and in accounts receivable of $7.8 million and a decrease in deferred revenue of $11.4 million. The decrease in deferred revenue primarily related to the amortization of deferred research and development revenue over the performance period of the development of AMITIZA.

Net cash used in investing activities was $33.2 million for the nine months ended September 30, 2007. This primarily reflected our purchases of short-term investments and purchases of property and equipment associated with the move of our offices in the United States in July 2007 offset by proceeds from the sale of short-term investments.

Net cash provided by financing activities was $31.3 million for the nine months ended September 30, 2007. This reflected the net proceeds from the issuance of common stock in our initial public offering, which was consummated in August 2007, of which the Company had prepaid $3.1 million of offering expenses prior to 2007.

***Nine months ended September 30, 2006***

Net cash used in operating activities was $3.1 million for the nine months ended September 30, 2006. This reflected net income of $16.9 million (restated), which included a non-cash charge of $3.0 million of stock-based compensation expense. We also had a decrease in deferred revenue of $19.2 million (restated). The decrease in deferred revenue primarily related to the amortization of deferred research and development revenue over the performance period of the development of AMITIZA.

Net cash used in investing activities was $737,000 for the nine months ended September 30, 2006. This reflected our purchases of auction rate securities and property and equipment, offset in part by proceeds received from sales and maturities of auction rate securities.

Net cash provided by financing activities was $18.0 million for the nine months ended September 30, 2006. This reflected $23.9 million in net proceeds raised in a private placement sale of 2,398,759 shares of class A common stock, $1.2 million in funds received from borrowings under related party debt instruments, $2.4 million of payments incurred for our completed initial public offering and $4.8 million of repayments under related party debt instruments.

***Funding Requirements***

We believe that our existing cash and internally generated funds will be sufficient to enable us to fund our operations at least through the third quarter of 2008.

We will need substantial amounts of capital to continue growing our business. We will require this capital to:

- fund our 30% share of the two post-marketing studies of AMITIZA to evaluate its safety in patients with renal impairment and patients with hepatic impairment;
- fund regulatory efforts by Sucampo Europe and Sucampo Japan for AMITIZA and cobiprostone;
- fund development and regulatory activities for cobiprostone and SPI-017;
- fund research and development activities for prostone compounds other than AMITIZA, cobiprostone and SPI-017;
- fund the expansion of our commercialization activities in the United States and the initiation of commercialization efforts in non-U.S. markets; and
- fund costs for capital expenditures to support the growth of our business.

The timing of these funding requirements is difficult to predict due to many factors, including the outcomes of our 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 revenue from AMITIZA;
- the future expenditures we may incur to increase revenue from AMITIZA;
- the cost and time involved to progress 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 public or private equity offerings, debt financings or corporate collaboration and licensing arrangements. Except for research and development funding and the future potential milestone payments of $110.0 million from Takeda, we do not currently have any commitments for future external funding.

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 may dilute the ownership of our equity investors.

**Off Balance Sheet Arrangements**

We do not have any off-balance sheet arrangements or relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities.

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

Our international sales generally are denominated in United States Dollars, and are, therefore, not exposed to changes in foreign currency exchange rates.

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.

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 since we have minimal debt. We ensure the safety and preservation of invested funds by limiting default risks, market risk and reinvestment risk. We mitigate default risk by investing in investment grade securities. A hypothetical 100 basis point adverse move in interest rates along the entire interest rate yield curve would not have materially affected the fair value of our interest sensitive financial instruments as of September 30, 2007.

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

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

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) of the Securities Exchange Act of 1934, as amended) as of September 30, 2007. Based upon this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of September 30, 2007, our disclosure controls and procedures were effective to provide reasonable assurance that the information required to be disclosed is recorded, processed, summarized and reported within the time periods specified under applicable rules of the Securities and Exchange Commission and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

**b) Remediation of Previous Material Weakness**

Management has concluded that sufficient controls and processes were implemented in the first two quarters of 2007 to remediate the material weakness of maintaining effective controls over the preparation, review, and presentation of the financial information prepared in accordance with U.S. generally accepted accounting principles reflecting Sucampo Europe and Sucampo Japan operations. Previously, effective controls were not designed and in place to adequately review, analyze and monitor these affiliates' financial information, nor did we have a standard reporting format for these affiliates, accounting procedures and policies manuals, formally documented controls and procedures or a formal process to review and analyze financial information for these affiliates. We have implemented the following entity level controls and processes:

- implemented a formal review of monthly reporting packages that requires each subsidiary to provide detailed financial data, including identification of significant transactions;
- implemented formal written processes to facilitate the consolidation activities; and
- implemented formal procedures for foreign currency translation and US generally accepted accounting principals reporting.

As our business changes and grows, we expect the process of improving our internal controls will require us to continue to expend significant resources to design, implement and maintain a system of internal controls that is adequate to satisfy our reporting obligations as a public company. There can be no assurance that any future action we take will be successful. We will continue to evaluate the effectiveness of our disclosure controls and procedures and internal control over financial reporting on an on-going basis.

**c) Changes in Internal Controls Over Financial Reporting**

There were no changes in our internal control over financial reporting during the three months ended September 30, 2007 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## Part II — OTHER INFORMATION

### Item 1. *Legal Proceedings*

We are not currently a party to any legal proceedings the negative outcome of which would have a material adverse effect on our business, financial condition or results of operations.

### Item 1A. *Risk Factors*

We do not believe there have been material changes to the risk factors affecting our business that we included in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 and our Registration Statement on Form S-1, as amended (Registration No. 333-135133).

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

***Use of Proceeds from Initial Public Offering of Class A Common Stock***

In August 2007, we completed an initial public offering of class A common stock pursuant to a Registration Statement on Form S-1 (Registration No. 333-135133) which the SEC declared effective on August 2, 2007. Pursuant to the registration statement, we registered the offering and sale of an aggregate of 4,312,500 shares of our class A common stock, of which 3,125,000 shares were sold by us and 625,000 shares were sold by a selling stockholder, at a price of $11.50 per share. S&R Technology Holdings, LLC, or S&R, which is wholly-owned by our founders, Drs. Kuno and Ueno, granted to the underwriters an option to purchase an additional 562,500 shares of our class A common stock at the initial public offering price of $11.50 per share to cover over-allotments, if any. The initial closing of the offering occurred on August 2, 2007. The underwriters exercised their over-allotment option and purchased an additional 562,500 shares of class A common stock from S&R on August 29, 2007. We did not receive any proceeds from the sale of these shares by S&R. The managing underwriters for the offering were Cowen and Company, LLC, CIBC World Markets Corp. and Leerink Swann & Co., Inc.

We raised a total of $35.9 million in gross proceeds from the initial public offering, or approximately $28.2 million in net proceeds after deducting underwriting discounts and commissions of $3.0 million and other offering expenses of approximately $4.7 million. The selling stockholder received a total of approximately $7.2 million in gross proceeds from the initial public offering, or approximately $6.7 million of net proceeds after deducting the underwriting discounts. S&R received a total of approximately $6.5 million in gross proceeds from the initial public offering, or approximately $6.0 million of net proceeds after deducting the underwriting discounts.

We have not used any of the net proceeds from the offering to make payments, directly or indirectly, to any director or officer of ours, or any of their associates, to any person owning 10% or more of our common stock or to any affiliate of ours, and none of the expenses we incurred in connection with the offering or the underwriting discounts and commissions were paid, directly or indirectly, to any such persons. We did, however, contemporaneously with the closing of our initial public offering, make payments of approximately $3.1 million in the aggregate to Ryuji Ueno, a director, officer and 10% stockholder, and Sachiko Kuno, a 10% stockholder, in settlement of special stock and cash awards that had been made to them in June 2007.

We have invested the net proceeds from the offering in short-term, investment grade, interest-bearing instruments. There has been no material change in our planned use of the balance of the net proceeds from the offering as described in our final prospectus filed with the SEC pursuant to Rule 424(b) under the Securities Act.

### Item 4. *Submission of Matters to a Vote of Security Holders*

None.

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

**(a) Exhibits**

| Exhibits | Description |
|---|---|
| 10.1 | Indemnification Agreement, dated as of October 18, 2007, between the Registrant and Anthony C. Celeste |
| 10.2 | Amended and Restated 2006 Stock Incentive Plan |
| 31.1 | Certification of the Principal Executive Officer, as required by Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | Certification of the Principal Financial Officer, as required by Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1 | Certification of the Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 32.1 | Certification of the Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

**SIGNATURES**

Pursuant to the requirements of the Securities and 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.

By: /s/ Ryuji Ueno
Ryuji Ueno, M.D., Ph.D., Ph.D.
Chief Executive Officer, Chief Scientific Officer and
Chair of the Board of Directors
November 14, 2007 (Principal Executive Officer)

By: /s/ Ronald W. Kaiser
Ronald W. Kaiser
Chief Financial Officer
November 14, 2007 (Principal Financial Officer)

By: /s/ Mariam E. Morris
Mariam E. Morris
Chief Accounting Officer
November 14, 2007 (Principal Accounting Officer)

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

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| 32.1 | Certification of the Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

**Exhibit 10.1**

**INDEMNIFICATION AGREEMENT**

**INDEMNIFICATION AGREEMENT** (this "*Agreement*") dated as of **October 18, 2007** by and between Sucampo Pharmaceuticals, Inc. (the "*Company*"), a Delaware corporation, and Anthony C. Celeste ("*Indemnitee*"):

**WHEREAS**, competent persons are reluctant to serve a corporation as a director or in another capacity unless they are provided with adequate protection through insurance or adequate indemnification against inordinate risks of claims and actions against them arising out of their service to and activities on behalf of corporations;

**WHEREAS**, the Board of Directors of the Company has determined that the ability to attract and retain such persons is in the best interests of the Company's stockholders and that the Company should act to assure such persons that there will be increased certainty of such protection in the future; and

**WHEREAS**, it is reasonable, prudent and necessary for the Company contractually to obligate itself to indemnify such persons to the fullest extent permitted by applicable law so that they will serve or continue to serve the Company free from undue concern that they will not be so indemnified; and

**WHEREAS**, Indemnitee is willing to serve, continue to serve and to take on additional service for or on behalf of the Company on the condition that Indemnitee be so indemnified;

**NOW, THEREFORE**, in consideration of the premises, the mutual agreements herein set forth below and other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties agree as follows:

1. Definitions. For purposes of this Agreement the following terms shall have the meanings set forth below:

(a) "*Board*" shall mean the Board of Directors of the Company.

(b) "*Change of Control*" shall mean any of the following events:

(i) Unless approved by the affirmative vote of at least two-thirds of those members of the Board who are in office immediately prior to the event(s) and who are not employees of the Company:

(A) the merger or consolidation of the Company with, or the sale of all or substantially all of the assets of the Company to, any person or entity or group of associated persons or entities; or

(B) the acquisition of direct or indirect beneficial ownership in the aggregate of securities of the Company representing twenty percent (20%) or more of the total combined voting power of the Company's then

issued and outstanding securities by any person or entity, or group of associated persons or entities acting in concert, not affiliated (within the meaning of the Securities Act of 1933) with the Company as of the date of this Agreement; or

(C) approval by the stockholders of the Company of any plan or proposal for the liquidation or dissolution of the Company; or

(ii) A change in the composition of the Board at any time during any consecutive 24-month period such that the "Continuing Directors" cease for any reason to constitute at least a seventy percent (70%) majority of the Board. For purposes of this clause (ii), "Continuing Directors" means those members of the Board who either:

(A) were members of the Board at the beginning of such consecutive 24-month period; or

(B) were elected by, or on the nomination or recommendation of, at least a two-thirds majority (consisting of at least five directors) of the then-existing Board.

(c) "*Corporate Status*" describes the status of a person who is or was a director, officer, employee, agent or fiduciary of the Company or of any other corporation, partnership, joint venture, trust, employee benefit plan or other enterprise which such person is or was serving at the express written request of the Company.

(d) "*Disinterested Director*" means a director of the Company who is not and was not a party to the Proceeding in respect of which indemnification is sought by Indemnitee.

(e) "*Enterprise*" shall mean the Company and any other corporation, partnership, joint venture, trust, employee benefit plan or other enterprise of which Indemnitee is or was serving at the express written request of the Company as a director, officer, employee, agent or fiduciary.

(f) "*Expenses*" shall include all reasonable attorneys' fees, retainers, court costs, transcript costs, fees of experts, witness fees, travel expenses, duplicating costs, printing and binding costs, telephone charges, postage, delivery service fees, and all other disbursements or expenses of the types customarily incurred in connection with prosecuting, defending, preparing to prosecute or defend, investigating, being or preparing to be a witness in a Proceeding.

(g) "*Good Faith*" shall mean Indemnitee having acted in good faith and in a manner Indemnitee reasonably believed to be in or not opposed to the best interests of the Company, and, with respect to any criminal Proceeding, having had no reasonable cause to believe Indemnitee's conduct was unlawful.

(h) "*Independent Counsel*" means a law firm, or a member of a law firm, that is experienced in matters of corporation law and neither presently is, nor in the past five years has been, retained to represent: (i) the Company or Indemnitee in any matter material to either such party or (ii) any other party to the Proceeding giving rise to a claim for indemnification hereunder. Notwithstanding the foregoing, the term "*Independent Counsel*" shall not include any person who, under the applicable standards of professional conduct then prevailing, would have a conflict of interest in representing either the Company or Indemnitee in an action to determine Indemnitee's rights under this Agreement.

(i) "*Proceeding*" includes any action, suit, arbitration, alternate dispute resolution mechanism, investigation, administrative hearing or any other actual, threatened or completed proceeding whether civil, criminal, administrative or investigative, other than one initiated by Indemnitee. For purposes of the foregoing sentence, a "*Proceeding*" shall not be deemed to have been initiated by Indemnitee where Indemnitee seeks pursuant to Section 9 of this Agreement to enforce Indemnitee's rights under this Agreement.

2. Term of Agreement. This Agreement shall continue until and terminate upon the later of: (a) 10 years after the date that Indemnitee has ceased to serve as a director, officer, employee, agent or fiduciary of the Company or of any other corporation, partnership, joint venture, trust, employee benefit plan or other enterprise which Indemnitee served at the express written request of the Company or (b) the final termination of all pending Proceedings in respect of which Indemnitee is granted rights of indemnification or advancement of expenses hereunder and of any proceeding commenced by Indemnitee pursuant to Section 9 of this Agreement relating thereto. In addition, no legal action shall be brought and no cause of action shall be asserted by or in the right of the Company against Indemnitee, Indemnitee's estate, spouse, heirs, executors or personal or legal representatives after the expiration of five (5) years from the date of accrual of such cause of action, and any claim or cause of action of the Company shall be extinguished and deemed released unless asserted by the timely filing of a legal action within such five (5) year period; PROVIDED, HOWEVER, that if any shorter period of limitations is otherwise applicable to any such cause of action, such shorter period shall govern.

3. Services by Indemnitee, Notice of Proceedings.

(a) Services. Indemnitee agrees to serve as a director of the Company. Indemnitee may at any time and for any reason resign from such position (subject to any other contractual obligation or any obligation imposed by operation of law).

(b) Notice of Proceeding. Indemnitee agrees promptly to notify the Company in writing upon being served with any summons, citation, subpoena, complaint, indictment, information or other document relating to any Proceeding or matter that may be subject to indemnification or advancement of Expenses covered hereunder.

4. Indemnification.

(a) In General. In connection with any Proceeding, the Company shall indemnify and advance Expenses to Indemnitee as provided in this Agreement and to the fullest extent permitted by applicable law in effect on the date hereof and to such greater extent as applicable law may thereafter from time to time permit.

(b) Proceedings Other Than Proceedings by or in the Right of the Company. Indemnitee shall be entitled to the rights of indemnification provided in this Section 4(b) if, by reason of Indemnitee's Corporate Status, Indemnitee is, or is threatened to be made, a party to any Proceeding, other than a Proceeding by or in the right of the Company. Indemnitee shall be indemnified against Expenses, judgments, penalties, fines and amounts paid in settlements actually and reasonably incurred by Indemnitee or on Indemnitee's behalf in connection with such Proceeding or any claim, issue or matter therein, if Indemnitee acted in Good Faith including without limitation, any and all losses, claims, damages, expenses and liabilities, joint or several (including any investigation, legal and other expenses incurred in connection with, and any amount paid in settlement of, any action, suit, proceeding or any claim asserted) under the Securities Act of 1933, the Securities Exchange Act of 1934, as amended (the "Exchange Act of 1934") or other federal or state statutory law or regulation, at common law or otherwise or which relate directly or indirectly to the registration, purchase, sale or ownership of any securities of the Company or to any fiduciary obligation owed with respect thereto or as a direct or indirect result of any Proceeding or any claim, issue or matter therein made by any stockholder of the Company against Indemnitee and arising out of or related to any round of financing of the Company (including but not limited to Proceedings or any claims, issues or matters therein regarding non-participation, or non-pro rata participation, in such round by such stockholder), or made by a third party against Indemnitee based on any misstatement or omission of a material fact by the Company in violation of any duty of disclosure imposed on the Company by federal or state securities or common laws.

(c) Proceedings by or in the Right of the Company. Indemnitee shall be entitled to the rights of indemnification provided in this Section 4(c) if, by reason of Indemnitee's Corporate Status, Indemnitee is or is threatened to be made a party to any Proceeding brought by or in the right of the Company to procure a judgment in its favor. Indemnitee shall be indemnified against Expenses, judgments, penalties and amounts paid in settlement, actually and reasonably incurred by Indemnitee or on Indemnitee's behalf in connection with such Proceeding if Indemnitee acted in Good Faith. Notwithstanding the foregoing, no such indemnification shall be made in respect of any claim, issue or matter in such Proceeding as to which Indemnitee shall have been adjudged to be liable to the Company if applicable law prohibits such indemnification; *provided*, *however*, that, if applicable law so permits, indemnification shall nevertheless be made by the Company in such event if and only to the extent that the Court of Chancery of the State of Delaware, or the court in which such Proceeding shall have been brought or is pending, shall determine.

(d) Indemnification of a Party Who is Wholly or Partly Successful. Notwithstanding any other provision of this Agreement, to the extent that Indemnitee is, by reason of Indemnitee's Corporate Status, a party to and is successful, on the merits or otherwise, in any Proceeding, Indemnitee shall be indemnified to the maximum extent permitted by law against all Expenses, judgments, penalties, fines and amounts paid in settlement, actually and reasonably incurred by Indemnitee or on Indemnitee's behalf in connection therewith. If Indemnitee is not wholly successful in such Proceeding but is successful, on the merits or otherwise, as to one or more but less than all claims, issues or matters in such Proceeding, the Company shall indemnify Indemnitee to the maximum extent permitted by law, against all Expenses, judgments, penalties, fines and amounts paid in settlement, actually and reasonably incurred by Indemnitee or on Indemnitee's behalf in connection with each successfully resolved claim, issue or matter. For purposes of this Section 4(d) and without limitation, the termination of any claim, issue or matter in such a Proceeding by dismissal, with or without prejudice, shall be deemed to be a successful result as to such claim, issue or matter, so long as there has been no finding (either adjudicated or pursuant to Section 6) that Indemnitee did not act in Good Faith.

(e) Indemnification for Expenses of a Witness. Notwithstanding any other provision of this Agreement, to the extent that Indemnitee is, by reason of Indemnitee's Corporate Status, a witness in any Proceeding, Indemnitee shall be indemnified against all Expenses actually and reasonably incurred by Indemnitee or on Indemnitee's behalf in connection therewith.

(f) Assumption of Defense and Settlement. Notwithstanding any other provision of this Agreement, with respect to any such Proceeding as to which the Indemnitee gives notice to the Company of the commencement thereof:

(1) the Company will be entitled to participate therein at its own expense;

(2) the Company, jointly with any other indemnifying party similarly notified, shall be entitled to assume the defense thereof, with counsel satisfactory to the Indemnitee. If the Company assumes the defense of the Indemnitee, it shall notify the Indemnitee, and after the Indemnitee receives such notice, the Company shall not be liable to the Indemnitee under this Agreement for any Expenses incurred by the Indemnitee after the date such notice was received. The Indemnitee shall be entitled to employ Indemnitee's own counsel at Indemnitee's own expense. Nevertheless, the Company shall pay for Indemnitee's own counsel if (1) the Company agrees to do the same, (2) the Indemnitee shall have reasonably concluded that there may be a conflict of interest between the Company and the Indemnitee regarding the defense of such action, or (3) the Company shall not in fact have employed counsel to assume the defense of the Proceeding. The Company shall not be entitled to assume the defense of any Proceeding brought by or on behalf of the Company or as to which the Indemnitee shall have reasonably concluded that there may be a conflict of interest between the Company and the Indemnitee regarding the defense of such Proceeding; and

(3) the Company shall not be liable to the Indemnitee under this Agreement for any amounts paid in settlement of any Proceeding unless the Company consents to such settlement. The Company shall not settle any Proceeding in any manner that would impose any penalty or limitation on the Indemnitee without the Indemnitee's written consent. Neither the Company nor the Indemnitee will unreasonably withhold their consent to any proposed settlement.

(g) Contribution.

(1) Notwithstanding any other provision of this Agreement, if the indemnification provided for in this Section 4 for any reason is held by a court of competent jurisdiction to be unavailable to Indemnitee in respect of any losses, claims, damages, expenses or liabilities referred to therein, then the Company, in lieu of indemnifying Indemnitee thereunder, shall contribute to the amount paid or payable by Indemnitee as a result of such losses, claims, damages, expenses or liabilities

(A) in such proportion as is appropriate to reflect the relative benefits received by the Company and Indemnitee; or

(B) if the allocation provided by clause (A) above is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (A) above but also the relative fault of the Company and Indemnitee in connection with the action or inaction which resulted in such losses, claims, damages, expenses or liabilities, as well as any other relevant equitable considerations.

(2) In connection with the registration of the Company's securities, the relative benefits received by the Company and Indemnitee shall be deemed to be in the same respective proportions that the net proceeds from the offering (before deducting expenses) received by the Company and Indemnitee, in each case as set forth in the table on the cover page of the applicable prospectus, bear to the aggregate public offering price of the securities so offered. The relative fault of the Company and Indemnitee shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company or Indemnitee and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The Company and Indemnitee agree that it would not be just and equitable if contribution pursuant to this Section 4(g) were determined by pro rata or per capita allocation or by any other method of allocation which does not take account of the equitable considerations referred to in the immediately preceding paragraph.

(3) In connection with the registration of the Company's securities, in no event shall Indemnitee be required to contribute any amount under this Section 4(g) in excess of the lesser of:

(A) that proportion of the total of such losses, claims, damages or liabilities indemnified against equal to the proportion of the total securities sold under such registration statement which is being sold by Indemnitee; or

(B) the proceeds received by Indemnitee from its sale of securities under such registration statement.

(4) Persons found guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act of 1933) shall only be entitled to contribution from any person who was found guilty of such fraudulent misrepresentation.

5. Exceptions

Any other provision herein to the contrary notwithstanding, the Company shall not be obligated pursuant to the terms of this Agreement:

(a) Claims Under Section 16(b). To indemnify Indemnitee for expenses and the payment of profits arising from the purchase and sale by Indemnitee of securities in violation of Section 16(b) of the Exchange Act of 1934 or any similar successor statute; or

(b) Unlawful Indemnification. To indemnify Indemnitee if a final decision by a court having jurisdiction in the matter shall determine that such indemnification is not lawful.

6. Advancement of Expenses. Notwithstanding any provision to the contrary in Section 7, the Company shall advance all reasonable Expenses which, by reason of Indemnitee's Corporate Status, were incurred by or on behalf of Indemnitee in connection with any Proceeding, within 20 days after the receipt by the Company of a statement or statements from Indemnitee requesting such advance or advances, whether prior to or after final disposition of such Proceeding. Such statement or statements shall reasonably evidence the Expenses incurred by Indemnitee and shall be preceded or accompanied by an undertaking by or on behalf of Indemnitee to repay any Expenses if it shall ultimately be determined that Indemnitee is not entitled to be indemnified against such Expenses. Any advance and undertakings to repay pursuant to this Section 6 shall be unsecured and interest free.

7. Procedures for Determination of Entitlement to Indemnification.

(a) Initial Request. To obtain indemnification under this Agreement, Indemnitee shall submit to the Company a written request, including therein or therewith such documentation and information as is reasonably available to Indemnitee and is reasonably necessary to determine whether and to what extent Indemnitee is entitled to

indemnification. The Secretary of the Company shall promptly advise the Board in writing that Indemnitee has requested indemnification.

(b) Method of Determination. A determination (if required by applicable law) with respect to Indemnitee's entitlement to indemnification shall be made as follows:

(1) if a Change in Control has occurred, unless Indemnitee shall request in writing that such determination be made in accordance with clause (2) of this Section 7(b), the determination shall be made by Independent Counsel in a written opinion to the Board, a copy of which shall be delivered to Indemnitee;

(2) if a Change of Control has not occurred, the determination shall be made by the Board by a majority vote of Disinterested Directors, even though less than a quorum. In the event that there are no Disinterested Directors or if such Disinterested Directors so direct, the determination shall be made by Independent Counsel in a written opinion to the Board, a copy of which shall be delivered to Indemnitee.

(c) Selection, Payment, Discharge, of Independent Counsel. In the event the determination of entitlement to indemnification is to be made by Independent Counsel pursuant to Section 7(b) of this Agreement, the Independent Counsel shall be selected, paid and discharged in the following manner:

(1) If a Change of Control has not occurred, the Independent Counsel shall be selected by the Board, and the Company shall give written notice to Indemnitee advising Indemnitee of the identity of the Independent Counsel so selected.

(2) If a Change of Control has occurred, the Independent Counsel shall be selected by Indemnitee (unless Indemnitee shall request that such selection be made by the Board, in which event clause (1) of this Section 7(c) shall apply), and Indemnitee shall give written notice to the Company advising it of the identity of the Independent Counsel so selected.

(3) Following the initial selection described in clauses (1) and (2) of this Section 7(c), Indemnitee or the Company, as the case may be, may, within seven days after such written notice of selection has been given, deliver to the other party a written objection to such selection. Such objection may be asserted only on the ground that the Independent Counsel so selected does not meet the requirements of "Independent Counsel" as defined in this Agreement, and the objection shall set forth with particularity the factual basis of such assertion. Absent a proper and timely objection, the person so selected shall act as Independent Counsel. If such written objection is made, the Independent Counsel so selected may not serve as Independent Counsel unless and until a court has determined that such objection is without merit.

(4) Either the Company or Indemnitee may petition any court of competent jurisdiction if the parties have been unable to agree on the selection of

Independent Counsel within 20 days after submission by Indemnitee of a written request for indemnification pursuant to Section 7(a) of this Agreement. Such petition may request a determination whether an objection to the party's selection is without merit and/or seek the appointment as Independent Counsel of a person selected by the Court or by such other person as the Court shall designate. A person so appointed shall act as Independent Counsel under Section 7(b) of this Agreement.

(5) The Company shall pay any and all reasonable fees and expenses of Independent Counsel incurred by such Independent Counsel in connection with acting pursuant to this Agreement, and the Company shall pay all reasonable fees and expenses incident to the procedures of this Section 7(c), regardless of the manner in which such Independent Counsel was selected or appointed.

(6) Upon the due commencement of any judicial proceeding or arbitration pursuant to Section 9(c) of this Agreement, Independent Counsel shall be discharged and relieved of any further responsibility in such capacity (subject to the applicable standards of professional conduct then prevailing).

(d) Cooperation. Indemnitee shall cooperate with the person, persons or entity making the determination with respect to Indemnitee's entitlement to indemnification under this Agreement, including providing to such person, persons or entity upon reasonable advance request any documentation or information which is not privileged or otherwise protected from disclosure and which is reasonably available to Indemnitee and reasonably necessary to such determination. Any costs or expenses (including attorneys' fees and disbursements) incurred by Indemnitee in so cooperating with the person, persons or entity making such determination shall be borne by the Company (irrespective of the determination as to Indemnitee's entitlement to indemnification) and the Company hereby indemnifies and agrees to hold Indemnitee harmless therefrom.

(e) Payment. If it is determined that Indemnitee is entitled to indemnification, payment to Indemnitee shall be made within 10 days after such determination.

8. Presumptions and Effect of Certain Proceedings.

(a) Burden of Proof. In making a determination with respect to entitlement to Indemnification hereunder, the person or persons or entity making such determination shall presume that Indemnitee is entitled to indemnification under this Agreement if Indemnitee has submitted a request for indemnification in accordance with Section 7(a), and the Company shall have the burden of proof to overcome that presumption in connection with the making by any person, persons or entity of any determination contrary to that presumption.

(b) Effect of Other Proceedings. The termination of any Proceeding or of any claim, issue or matter therein, by judgment, order, settlement or conviction, or upon a plea of *nolo contendere* or its equivalent, shall not (except as otherwise expressly

provided in this Agreement) of itself adversely affect the right of Indemnitee to indemnification or create a presumption that Indemnitee did not act in Good Faith.

(c) Reliance as Safe Harbor. For purposes of any determination of Good Faith, Indemnitee shall be deemed to have acted in Good Faith if Indemnitee's action is based on the records or books of account of the Enterprise, including financial statements, or on information supplied to Indemnitee by the officers of the Enterprise in the course of their duties, or on the advice of legal counsel for the Enterprise or on information or records given or reports made to the Enterprise by an independent certified public accountant or by an appraiser or other expert selected with reasonable care by the Enterprise. The provisions of this Section 8(c) shall not be deemed to be exclusive or to limit in any way the other circumstances in which the Indemnitee may be deemed to have met the applicable standard of conduct set forth in this Agreement.

(d) Actions of Others. The knowledge and/or actions, or failure to act, of any director, officer, agent or employee of the Enterprise shall not be imputed to Indemnitee for purposes of determining the right to indemnification under this Agreement.

9. Remedies of Indemnitee.

(a) Application. This Section 9 shall apply in the event of a Dispute. For purposes of this article, "Dispute" shall mean any of the following events:

(1) a determination is made pursuant to Section 7 of this Agreement that Indemnitee is not entitled to indemnification under this Agreement;

(2) advancement of Expenses is not timely made pursuant to Section 6 of this Agreement;

(3) if the determination of entitlement to be made pursuant to Section 7(b) of this Agreement is to be made by the Board and the Board has not made such determination within 60 days after receipt by the Company of the request for indemnification;

(4) if the determination of entitlement to be made pursuant to Section 7(b) of this Agreement is to be made by Independent Counsel and Independent Counsel has not made such determination within 90 days after receipt by the Company of the request for indemnification;

(5) payment of indemnification is not made pursuant to Section 4(e) of this Agreement within 10 days after receipt by the Company of a written request therefor; or

(6) payment of indemnification is not made within 10 days after a determination has been made that Indemnitee is entitled to indemnification or such determination is deemed to have been made pursuant to Section 7 of this Agreement.

(b) Adjudication. In the event of a Dispute, Indemnitee shall be entitled to an adjudication in an appropriate court in the State of Delaware, or in any other court of competent jurisdiction, of Indemnitee's entitlement to such indemnification or advancement of Expenses. Alternatively, Indemnitee, at Indemnitee's option, may seek an award in arbitration to be conducted by a single arbitrator pursuant to the rules of the American Arbitration Association. Indemnitee shall commence such proceeding seeking an adjudication or an award in arbitration within 180 days following the date on which Indemnitee first has the right to commence such proceeding pursuant to this Section 9(b). The Company shall not oppose Indemnitee's right to seek any such adjudication or award in arbitration.

(c) De Novo Review. In the event that a determination shall have been made pursuant to Section 7 of this Agreement that Indemnitee is not entitled to indemnification, any judicial proceeding or arbitration commenced pursuant to this Section 9 shall be conducted in all respects as a *de novo* trial, or arbitration, on the merits, and Indemnitee shall not be prejudiced by reason of that adverse determination. In any such proceeding or arbitration, the Company shall have the burden of proving that Indemnitee is not entitled to indemnification or advancement of Expenses, as the case may be.

(d) Company Bound. If a determination shall have been made or deemed to have been made pursuant to Section 7 of this Agreement that Indemnitee is entitled to indemnification, the Company shall be bound by such determination in any judicial proceeding or arbitration absent (i) a misstatement by Indemnitee of a material fact, or an omission of a material fact necessary to make Indemnitee's statement not materially misleading in connection with the request for indemnification or (ii) a prohibition of such indemnification under applicable law.

(e) Procedures Valid. The Company shall be precluded from asserting in any judicial proceeding or arbitration commenced pursuant to this Section 9 that the procedures and presumptions of this Agreement are not valid, binding and enforceable and shall stipulate in any such court or before any such arbitrator that the Company is bound by all of the provisions of this Agreement.

(f) Expenses of Adjudication. In the event that Indemnitee, pursuant to this Section 9, seeks a judicial adjudication of or an award in arbitration to enforce Indemnitee's rights under, or to recover damages for breach of, this Agreement, Indemnitee shall be entitled to recover from the Company, and shall be indemnified by the Company against, any and all expenses (of the types described in the definition of Expenses in this Agreement) actually and reasonably incurred by Indemnitee in such adjudication or arbitration, but only if Indemnitee prevails therein. If it shall be determined in such adjudication or arbitration that Indemnitee is entitled to receive part but not all of the indemnification or advancement of expenses sought, the expenses incurred by Indemnitee in connection with such adjudication or arbitration shall be appropriately prorated.

10. Non-exclusivity, Insurance, Subrogation.

(a) Non-Exclusivity. The rights of indemnification and to receive advancement of Expenses as provided by this Agreement shall not be deemed exclusive of any other rights to which Indemnitee may at any time be entitled under applicable law, the Certificate of Incorporation, the Bylaws, any agreement, a vote of stockholders or a resolution of directors, or otherwise. No amendment, alteration, rescission or replacement of this Agreement or any provision hereof shall be effective as to Indemnitee with respect to any action taken or omitted by such Indemnitee in Indemnitee's Corporate Status prior to such amendment, alteration, rescission or replacement.

(b) Insurance. The Company may maintain an insurance policy or policies against liability arising out of this Agreement or otherwise.

(c) Subrogation. In the event of any payment under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of Indemnitee, who shall execute all papers required and take all action necessary to secure such rights, including execution of such documents as are necessary to enable the Company to bring suit to enforce such rights.

(d) No Duplicative Payment. The Company shall not be liable under this Agreement to make any payment of amounts otherwise indemnifiable hereunder if and to the extent that Indemnitee has otherwise actually received such payment under any insurance policy, contract, agreement or otherwise.

11. Miscellaneous Provisions.

(a) Entire Agreement. This Agreement contains the entire understanding between the parties hereto with respect to the subject matter hereof and supersedes any prior understandings, agreements or representations, written or oral, relating to the subject matter hereof.

(b) Counterparts. This Agreement may be executed in separate counterparts, each of which will be an original and all of which taken together shall constitute one and the same agreement, and any party hereto may execute this Agreement by signing any such counterpart.

(c) Severability. Whenever possible, each provision of this Agreement shall be interpreted in such a manner as to be effective and valid under applicable law, but if any provision of this Agreement is held to be invalid, illegal or unenforceable under any applicable law or rule, the validity, legality and enforceability of the other provision of this Agreement will not be affected or impaired thereby.

(d) Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective heirs, personal representatives and successors and assigns.

(e) Modification, Amendment, Waiver or Termination. No provision of this Agreement may be modified, amended, waived or terminated except by an instrument in writing signed by the parties to this Agreement. No course of dealing between the parties will modify, amend, waive or terminate any provision of this Agreement or any rights or obligations of any party under or by reason of this Agreement.

(f) Notices. All notices, consents, requests, instructions, approvals or other communications provided for herein shall be in writing and delivered by personal delivery, overnight courier, mail, electronic facsimile or e-mail addressed to the receiving party at the address set forth herein. All such communications shall be effective when received.

If to the Company:

Ryuji Ueno, M.D., Ph.D., Ph.D.
Chief Executive Officer, Chief Scientific Officer and
Chair of the Board of Directors
c/o Sucampo Pharmaceuticals, Inc.
4520 East-West Highway
Suite 300
Bethesda, MD 20814

If to the Indemnitee:

_____

_____

_____

Any party may change the address set forth above by notice to each other party given as provided herein.

(g) Headings. The headings and any table of contents contained in this Agreement are for reference purposes only and shall not in any way affect the meaning or interpretation of this Agreement.

(h) Governing Law. **ALL MATTERS RELATING TO THE INTERPRETATION, CONSTRUCTION, VALIDITY AND ENFORCEMENT OF THIS AGREEMENT SHALL BE GOVERNED BY THE INTERNAL LAWS OF THE STATE OF DELAWARE, WITHOUT GIVING EFFECT TO ANY CHOICE OF LAW PROVISIONS THEREOF.**

(i) Third-Party Benefit. Nothing in this Agreement, express or implied, is intended to confer upon any other person any rights, remedies, obligations or liabilities of any nature whatsoever.

(j) Jurisdiction and Venue. **THIS AGREEMENT MAY BE ENFORCED IN ANY FEDERAL COURT OR STATE COURT SITTING IN DELAWARE, AND EACH PARTY CONSENTS TO THE JURISDICTION AND VENUE OF ANY SUCH COURT AND WAIVES ANY ARGUMENT THAT VENUE IN SUCH FORUM IS NOT CONVENIENT. IF ANY PARTY COMMENCES ANY ACTION UNDER ANY TORT OR CONTRACT THEORY ARISING DIRECTLY OR INDIRECTLY FROM THE RELATIONSHIP CREATED BY THIS AGREEMENT IN ANOTHER JURISDICTION OR VENUE, ANY OTHER PARTY TO THIS AGREEMENT SHALL HAVE THE OPTION OF TRANSFERRING THE CASE TO THE ABOVE-DESCRIBED VENUE OR JURISDICTION OR, IF SUCH TRANSFER CANNOT BE ACCOMPLISHED, TO HAVE SUCH CASE DISMISSED WITHOUT PREJUDICE.**

(k) Remedies. The parties agree that money damages may not be an adequate remedy for any breach of the provisions of this Agreement and that any party may, in its discretion, apply to any court of law or equity of competent jurisdiction for specific performance and injunctive relief in order to enforce or prevent any violations this Agreement, and any party against whom such proceeding is brought hereby waives the claim or defense that such party has an adequate remedy at law and agrees not to raise the defense that the other party has an adequate remedy at law.

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**IN WITNESS WHEREOF**, the parties hereto have executed this Agreement as of the date set forth in the first paragraph.

SUCAMPO PHARMACEUTICALS, INC.

By: /s/ KEI S. TOLLIVER

Name: Kei S. Tolliver

Its: Secretary

ANTHONY C. CELESTE

/s/ Anthony C. Celeste
Indemnitee

**EXHIBIT 10.2**

**SUCAMPO PHARMACEUTICALS, INC.**

**AMENDED AND RESTATED**
**2006 STOCK INCENTIVE PLAN**

1. Purpose

The purpose of this 2006 Stock Incentive Plan (the "Plan") of Sucampo Pharmaceuticals, Inc., a Delaware corporation (the "Company"), is to advance the interests of the Company's stockholders by enhancing the Company's ability to attract, retain and motivate persons who are expected to make important contributions to the Company and by providing such persons with equity ownership opportunities and performance-based incentives that are intended to better align their interests with those of the Company's stockholders. Except where the context otherwise requires, the term "Company" shall include any of the Company's present or future parent or subsidiary corporations as defined in Sections 424(e) or (f) of the Internal Revenue Code of 1986, as amended, and any regulations promulgated thereunder (the "Code") and any other business venture (including, without limitation, joint venture or limited liability company) in which the Company has a controlling interest, as determined by the Board of Directors of the Company (the "Board").

2. Eligibility

All of the Company's employees, officers, directors, consultants and advisors are eligible to receive options, stock appreciation rights, restricted stock, restricted stock units and other stock-based awards (each, an "Award") under the Plan. Each person who receives an Award under the Plan is deemed a "Participant".

3. Administration and Delegation

(a) Administration by Board of Directors. The Plan will be administered by the Board. The Board shall have authority to grant Awards and to adopt, amend and repeal such administrative rules, guidelines and practices relating to the Plan as it shall deem advisable. The Board may correct any defect, supply any omission or reconcile any inconsistency in the Plan or any Award in the manner and to the extent it shall deem expedient to carry the Plan into effect and it shall be the sole and final judge of such expediency. All decisions by the Board shall be made in the Board's sole discretion and shall be final and binding on all persons having or claiming any interest in the Plan or in any Award. No director or person acting pursuant to the authority delegated by the Board shall be liable for any action or determination relating to or under the Plan made in good faith.

(b) Appointment of Committees. To the extent permitted by applicable law, the Board may delegate any or all of its powers under the Plan to one or more committees or subcommittees of the Board (a "Committee"). All references in the Plan to the "Board" shall mean the Board or a Committee of the Board or the officers referred to in Section 3(c) to the extent that the Board's powers or authority under the Plan have been delegated to such Committee or officers.

(c) Delegation to Officers. To the extent permitted by applicable law, the Board may delegate to one or more officers of the Company the power to grant Awards to employees or officers of the Company or any of its present or future subsidiary corporations and to exercise such other powers

under the Plan as the Board may determine, provided that the Board shall fix the terms of the Awards to be granted by such officers (including the exercise price of such Awards, which may include a formula by which the exercise price will be determined) and the maximum number of shares subject to Awards that the officers may grant; provided further, however, that no officer shall be authorized to grant Awards to any "executive officer" of the Company (as defined by Rule 3b-7 under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) or to any "officer" of the Company (as defined by Rule 16a-1 under the Exchange Act).

4. Stock Available for Awards

(a) Number of Shares. Subject to adjustment under Section 9, Awards may be made under the Plan for up to the number of shares of class A common stock, $0.01 par value per share, of the Company (the "Class A Common Stock") that is equal to the sum of:

(1) 8,500,000 shares; plus

(2) an annual increase to be added on the first day of each calendar year during the period beginning with January 1, 2008 and ending with January 1, 2016 equal to the lesser of (i) 500,000 shares or (ii) an amount determined by the Board.

If any Award expires or is terminated, surrendered or canceled without having been fully exercised or is forfeited in whole or in part (including as the result of shares of Class A Common Stock subject to such Award being repurchased by the Company at the original issuance price pursuant to a contractual repurchase right) or results in any Class A Common Stock not being issued, the unused Class A Common Stock covered by such Award shall again be available for the grant of Awards under the Plan. Further, shares of Class A Common Stock tendered to the Company by a Participant to exercise an Award shall be added to the number of shares of Class A Common Stock available for the grant of Awards under the Plan. However, in the case of Incentive Stock Options (as hereinafter defined), the foregoing provisions shall be subject to any limitations under the Code. Shares issued under the Plan may consist in whole or in part of authorized but unissued shares or treasury shares.

(b) Per-Participant Limit. Subject to adjustment under Section 9, for Awards granted after the Class A Common Stock is registered under the Exchange Act, the maximum number of shares of Class A Common Stock with respect to which Awards may be granted to any Participant under the Plan shall be 4,250,000 per calendar year. For purposes of the foregoing limit, the combination of an Option in tandem with an SAR (as each is hereafter defined) shall be treated as a single Award. The per-Participant limit described in this Section 4(b) shall be construed and applied consistently with Section 162(m) of the Code or any successor provision thereto, and the regulations thereunder ("Section 162(m)").

5. Stock Options

(a) General. The Board may grant options to purchase Class A Common Stock (each, an "Option") and determine the number of shares of Class A Common Stock to be covered by each Option, the exercise price of each Option and the conditions and limitations applicable to the exercise of each Option, including conditions relating to applicable federal or state securities laws, as it considers necessary or advisable. An Option which is not intended to be an Incentive Stock Option (as hereinafter defined) shall be designated a "Nonstatutory Stock Option".

(b) Incentive Stock Options. An Option that the Board intends to be an "incentive stock option" as defined in Section 422 of the Code (an "Incentive Stock Option") shall only be granted to employees of the Company, any of the Company's present or future parent or subsidiary corporations as defined in Sections 424(e) or (f) of the Code, and any other entities the employees of which are eligible to receive Incentive Stock Options under the Code, and shall be subject to and shall be construed consistently with the requirements of Section 422 of the Code. The Company shall have no liability to a Participant, or any other party, if an Option (or any part thereof) that is intended to be an Incentive Stock Option is not an Incentive Stock Option or for any action taken by the Board pursuant to Section 10(f), including without limitation the conversion of an Incentive Stock Option to a Nonstatutory Stock Option.

(c) Exercise Price. The Board shall establish the exercise price of each Option and specify such exercise price in the applicable option agreement.

(d) Duration of Options. Each Option shall be exercisable at such times and subject to such terms and conditions as the Board may specify in the applicable option agreement.

(e) Exercise of Option. Options may be exercised by delivery to the Company of a written notice of exercise signed by the proper person or by any other form of notice (including electronic notice) approved by the Board together with payment in full as specified in Section 5(f) for the number of shares for which the Option is exercised. Shares of Class A Common Stock subject to the Option will be delivered by the Company following exercise either as soon as practicable or, subject to such conditions as the Board shall specify, on a deferred basis (with the Company's obligation to be evidenced by an instrument providing for future delivery of the deferred shares at the time or times specified by the Board).

(f) Payment Upon Exercise. Class A Common Stock purchased upon the exercise of an Option granted under the Plan shall be paid for as follows:

(1) in cash or by check, payable to the order of the Company;

(2) except as the Board may otherwise provide in an option agreement, by (i) delivery of an irrevocable and unconditional undertaking by a creditworthy broker to deliver promptly to the Company sufficient funds to pay the exercise price and any required tax withholding or (ii) delivery by the Participant to the Company of a copy of irrevocable and unconditional instructions to a creditworthy broker to deliver promptly to the Company cash or a check sufficient to pay the exercise price and any required tax withholding;

(3) when the Class A Common Stock is registered under the Exchange Act, by delivery of shares of Class A Common Stock owned by the Participant valued at their fair market value as determined by (or in a manner approved by) the Board ("Fair Market Value"), provided (i) such method of payment is then permitted under applicable law, (ii) such Class A Common Stock, if acquired directly from the Company, was owned by the Participant for such minimum period of time, if any, as may be established by the Board in its discretion and (iii) such Class A Common Stock is not subject to any repurchase, forfeiture, unfulfilled vesting or other similar requirements;

(4) by payment of such other lawful consideration as the Board may determine; or

(5) by any combination of the above permitted forms of payment.

(g) Substitute Options. In connection with a merger or consolidation of an entity with the Company or the acquisition by the Company of property or stock of an entity, the Board may grant Options in substitution for any options or other stock or stock-based awards granted by such entity or an affiliate thereof. Substitute Options may be granted on such terms as the Board deems appropriate in the circumstances, notwithstanding any limitations on Options contained in the other sections of this Section 5 or in Section 2. Substitute Options shall not count against the overall share limit set forth in Section 4(a), except as may be required by reason of Section 422 and related provisions of the Code.

6. Stock Appreciation Rights.

(a) General. A Stock Appreciation Right, or SAR, is an Award entitling the holder, upon exercise, to receive an amount of Class A Common Stock or cash or a combination thereof (such form to be determined by the Board) determined by reference to appreciation, from and after the date of grant, in the fair market value of a share of Class A Common Stock. The date as of which such appreciation or other measure is determined shall be the exercise date.

(b) Grants. Stock Appreciation Rights may be granted in tandem with, or independently of, Options granted under the Plan.

(1) Tandem Awards. When Stock Appreciation Rights are expressly granted in tandem with Options, (i) the Stock Appreciation Right will be exercisable only at such time or times, and to the extent, that the related Option is exercisable (except to the extent designated by the Board in connection with a Reorganization Event and will be exercisable in accordance with the procedure required for exercise of the related Option; (ii) the Stock Appreciation Right will terminate and no longer be exercisable upon the termination or exercise of the related Option, except to the extent designated by the Board in connection with a Reorganization Event and except that a Stock Appreciation Right granted with respect to less than the full number of shares covered by an Option will not be reduced until the number of shares as to which the related Option has been exercised or has terminated exceeds the number of shares not covered by the Stock Appreciation Right; (iii) the Option will terminate and no longer be exercisable upon the exercise of the related Stock Appreciation Right; and (iv) the Stock Appreciation Right will be transferable only with the related Option.

(2) Independent SARs. A Stock Appreciation Right not expressly granted in tandem with an Option will become exercisable at such time or times, and on such conditions, as the Board may specify in the SAR Award.

(c) Exercise. Stock Appreciation Rights may be exercised by delivery to the Company of a written notice of exercise signed by the proper person or by any other form of notice (including electronic notice) approved by the Board, together with any other documents required by the Board.

7. Restricted Stock; Restricted Stock Units.

(a) General. The Board may grant Awards entitling recipients to acquire shares of Class A Common Stock ("Restricted Stock"), subject to the right of the Company to repurchase all or part of such shares at their issue price or other stated or formula price (or to require forfeiture of such shares if issued at no cost) from the recipient in the event that conditions specified by the Board in the applicable Award are not satisfied prior to the end of the applicable restriction period or periods established by the Board for such Award. Instead of granting Awards for Restricted Stock, the Board may grant Awards entitling the recipient to receive shares of Class A Common Stock to be delivered at the time such shares

of Class A Common Stock vest ("Restricted Stock Units") (Restricted Stock and Restricted Stock Units are each referred to herein as a "Restricted Stock Award").

(b) Terms and Conditions. The Board shall determine the terms and conditions of a Restricted Stock Award, including the conditions for repurchase (or forfeiture) and the issue price, if any.

(c) Stock Certificates. Any stock certificates issued in respect of a Restricted Stock Award shall be registered in the name of the Participant and, unless otherwise determined by the Board, deposited by the Participant, together with a stock power endorsed in blank, with the Company (or its designee). At the expiration of the applicable restriction periods, the Company (or such designee) shall deliver the certificates no longer subject to such restrictions to the Participant or if the Participant has died, to the beneficiary designated, in a manner determined by the Board, by a Participant to receive amounts due or exercise rights of the Participant in the event of the Participant's death (the "Designated Beneficiary"). In the absence of an effective designation by a Participant, "Designated Beneficiary" shall mean the Participant's estate.

8. Other Stock-Based Awards

Other Awards of shares of Class A Common Stock, and other Awards that are valued in whole or in part by reference to, or are otherwise based on, shares of Class A Common Stock or other property, may be granted hereunder to Participants ("Other Stock Unit Awards"), including without limitation Awards entitling recipients to receive shares of Class A Common Stock to be delivered in the future. Such Other Stock Unit Awards shall also be available as a form of payment in the settlement of other Awards granted under the Plan or as payment in lieu of compensation to which a Participant is otherwise entitled. Other Stock Unit Awards may be paid in shares of Class A Common Stock or cash, as the Board shall determine. Subject to the provisions of the Plan, the Board shall determine the conditions of each Other Stock Unit Award, including any purchase price applicable thereto.

9. Adjustments for Changes in Common Stock and Certain Other Events.

(a) Changes in Capitalization. In the event of any stock split, reverse stock split, stock dividend, recapitalization, combination of shares, reclassification of shares, spin-off or other similar change in capitalization or event, or any distribution to holders of Class A Common Stock other than an ordinary cash dividend, (i) the number and class of securities available under this Plan, including the number of shares described in 4(a)(1) and (4)(a)(2)(i), (ii) the per-Participant limit set forth in Section 4(b), (iii) the number and class of securities and exercise price per share of each outstanding Option, (iv) the share- and per-share provisions of each Stock Appreciation Right, (v) the repurchase price per share subject to each outstanding Restricted Stock Award, and (vi) the share- and per-share-related provisions of each outstanding Other Stock Unit Award, shall be appropriately adjusted by the Company (or substituted Awards may be made, if applicable) to the extent determined by the Board.

(b) Reorganization Events

(1) Definition. A "Reorganization Event" shall mean: (a) any merger or consolidation of the Company with or into another entity as a result of which all of the Class A Common Stock of the Company is converted into or exchanged for the right to receive cash, securities or other property or is cancelled, (b) any exchange of all of the Class A Common Stock of the Company for cash,

securities or other property pursuant to a share exchange transaction or (c) any liquidation or dissolution of the Company.

(2) Consequences of a Reorganization Event on Awards Other than Restricted Stock Awards. In connection with a Reorganization Event, the Board shall take any one or more of the following actions as to all or any outstanding Awards on such terms as the Board determines: (i) provide that Awards shall be assumed, or substantially equivalent Awards shall be substituted, by the acquiring or succeeding corporation (or an affiliate thereof), (ii) upon written notice to a Participant, provide that the Participant's unexercised Options or other unexercised Awards shall become exercisable in full and will terminate immediately prior to the consummation of such Reorganization Event unless exercised by the Participant within a specified period following the date of such notice, (iii) provide that outstanding Awards shall become realizable or deliverable, or restrictions applicable to an Award shall lapse, in whole or in part prior to or upon such Reorganization Event, (iv) in the event of a Reorganization Event under the terms of which holders of Class A Common Stock will receive upon consummation thereof a cash payment for each share surrendered in the Reorganization Event (the "Acquisition Price"), make or provide for a cash payment to a Participant equal to (A) the Acquisition Price times the number of shares of Class A Common Stock subject to the Participant's Options or other Awards (to the extent the exercise price does not exceed the Acquisition Price) minus (B) the aggregate exercise price of all such outstanding Options or other Awards, in exchange for the termination of such Options or other Awards, (v) provide that, in connection with a liquidation or dissolution of the Company, Awards shall convert into the right to receive liquidation proceeds (if applicable, net of the exercise price thereof) and (vi) any combination of the foregoing.

For purposes of clause (i) above, an Option shall be considered assumed if, following consummation of the Reorganization Event, the Option confers the right to purchase, for each share of Class A Common Stock subject to the Option immediately prior to the consummation of the Reorganization Event, the consideration (whether cash, securities or other property) received as a result of the Reorganization Event by holders of Class A Common Stock for each share of Class A Common Stock held immediately prior to the consummation of the Reorganization Event (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding shares of Class A Common Stock); provided, however, that if the consideration received as a result of the Reorganization Event is not solely common stock of the acquiring or succeeding corporation (or an affiliate thereof), the Company may, with the consent of the acquiring or succeeding corporation, provide for the consideration to be received upon the exercise of Options to consist solely of common stock of the acquiring or succeeding corporation (or an affiliate thereof) equivalent in value (as determined by the Board) to the per share consideration received by holders of outstanding shares of Class A Common Stock as a result of the Reorganization Event.

To the extent all or any portion of an Option becomes exercisable solely as a result of clause (ii) above, the Board may provide that upon exercise of such Option the Participant shall receive shares subject to a right of repurchase by the Company or its successor at the Option exercise price; such repurchase right (x) shall lapse at the same rate as the Option would have become exercisable under its terms and (y) shall not apply to any shares subject to the Option that were exercisable under its terms without regard to clause (ii) above.

(3) Consequences of a Reorganization Event on Restricted Stock Awards. Upon the occurrence of a Reorganization Event other than a liquidation or dissolution of the Company, the repurchase and other rights of the Company under each outstanding Restricted Stock Award shall inure

to the benefit of the Company's successor and shall apply to the cash, securities or other property which the Class A Common Stock was converted into or exchanged for pursuant to such Reorganization Event in the same manner and to the same extent as they applied to the Class A Common Stock subject to such Restricted Stock Award. Upon the occurrence of a Reorganization Event involving the liquidation or dissolution of the Company, except to the extent specifically provided to the contrary in the instrument evidencing any Restricted Stock Award or any other agreement between a Participant and the Company, all restrictions and conditions on all Restricted Stock Awards then outstanding shall automatically be deemed terminated or satisfied.

10. General Provisions Applicable to Awards

(a) Transferability of Awards. Except as the Board may otherwise determine or provide in an Award, Awards shall not be sold, assigned, transferred, pledged or otherwise encumbered by the person to whom they are granted, either voluntarily or by operation of law, except by will or the laws of descent and distribution or, other than in the case of an Incentive Stock Option, pursuant to a qualified domestic relations order, and, during the life of the Participant, shall be exercisable only by the Participant. References to a Participant, to the extent relevant in the context, shall include references to authorized transferees.

(b) Documentation. Each Award shall be evidenced in such form (written, electronic or otherwise) as the Board shall determine. Each Award may contain terms and conditions in addition to those set forth in the Plan.

(c) Board Discretion. Except as otherwise provided by the Plan, each Award may be made alone or in addition or in relation to any other Award. The terms of each Award need not be identical, and the Board need not treat Participants uniformly.

(d) Termination of Status. The Board shall determine the effect on an Award of the disability, death, retirement, authorized leave of absence or other change in the employment or other status of a Participant and the extent to which, and the period during which, the Participant, or the Participant's legal representative, conservator, guardian or Designated Beneficiary, may exercise rights under the Award.

(e) Withholding. Each Participant shall pay to the Company, or make provision satisfactory to the Company for payment of, any taxes required by law to be withheld in connection with an Award to such Participant. Except as the Board may otherwise provide in an Award, for so long as the Class A Common Stock is registered under the Exchange Act, Participants may satisfy such tax obligations in whole or in part by delivery of shares of Class A Common Stock, including shares retained from the Award creating the tax obligation, valued at their Fair Market Value; provided, however, except as otherwise provided by the Board, that the total tax withholding where stock is being used to satisfy such tax obligations cannot exceed the Company's minimum statutory withholding obligations (based on minimum statutory withholding rates for federal and state tax purposes, including payroll taxes, that are applicable to such supplemental taxable income). Shares surrendered to satisfy tax withholding requirements cannot be subject to any repurchase, forfeiture, unfulfilled vesting or other similar requirements. The Company may, to the extent permitted by law, deduct any such tax obligations from any payment of any kind otherwise due to a Participant.

(f) Amendment of Award. The Board may amend, modify or terminate any outstanding Award, including but not limited to, substituting therefor another Award of the same or a different type,

changing the date of exercise or realization, and converting an Incentive Stock Option to a Nonstatutory Stock Option, provided that the Participant's consent to such action shall be required unless the Board determines that the action, taking into account any related action, would not materially and adversely affect the Participant.

(g) Conditions on Delivery of Stock. The Company will not be obligated to deliver any shares of Class A Common Stock pursuant to the Plan or to remove restrictions from shares previously delivered under the Plan until (i) all conditions of the Award have been met or removed to the satisfaction of the Company, (ii) in the opinion of the Company's counsel, all other legal matters in connection with the issuance and delivery of such shares have been satisfied, including any applicable securities laws and any applicable stock exchange or stock market rules and regulations, and (iii) the Participant has executed and delivered to the Company such representations or agreements as the Company may consider appropriate to satisfy the requirements of any applicable laws, rules or regulations.

(h) Acceleration. The Board may at any time provide that any Award shall become immediately exercisable in full or in part, free of some or all restrictions or conditions, or otherwise realizable in full or in part, as the case may be.

11. Miscellaneous

(a) No Right To Employment or Other Status. No person shall have any claim or right to be granted an Award, and the grant of an Award shall not be construed as giving a Participant the right to continued employment or any other relationship with the Company. The Company expressly reserves the right at any time to dismiss or otherwise terminate its relationship with a Participant free from any liability or claim under the Plan, except as expressly provided in the applicable Award.

(b) No Rights As Stockholder. Subject to the provisions of the applicable Award, no Participant or Designated Beneficiary shall have any rights as a stockholder with respect to any shares of Class A Common Stock to be distributed with respect to an Award until becoming the record holder of such shares. Notwithstanding the foregoing, in the event the Company effects a split of the Class A Common Stock by means of a stock dividend and the exercise price of and the number of shares subject to such Option are adjusted as of the date of the distribution of the dividend (rather than as of the record date for such dividend), then an optionee who exercises an Option between the record date and the distribution date for such stock dividend shall be entitled to receive, on the distribution date, the stock dividend with respect to the shares of Class A Common Stock acquired upon such Option exercise, notwithstanding the fact that such shares were not outstanding as of the close of business on the record date for such stock dividend.

(c) Effective Date and Term of Plan. The Plan shall become effective on the date on which it is adopted by the Board. No Awards shall be granted under the Plan after the completion of 10 years from the earlier of (i) the date on which the Plan was adopted by the Board or (ii) the date the Plan was approved by the Company's stockholders, but Awards previously granted may extend beyond that date.

(d) Amendment of Plan. The Board may amend, suspend or terminate the Plan or any portion thereof at any time provided that no amendment requiring stockholder approval under any applicable legal, regulatory or listing requirement shall become effective until such stockholder approval is obtained.

(e) Authorization of Sub-Plans. The Board may from time to time establish one or more sub-plans under the Plan for purposes of satisfying applicable blue sky, securities or tax laws of various jurisdictions. The Board shall establish such sub-plans by adopting supplements to this Plan containing (i) such limitations on the Board's discretion under the Plan as the Board deems necessary or desirable or (ii) such additional terms and conditions not otherwise inconsistent with the Plan as the Board shall deem necessary or desirable. All supplements adopted by the Board shall be deemed to be part of the Plan, but each supplement shall apply only to Participants within the affected jurisdiction and the Company shall not be required to provide copies of any supplement to Participants in any jurisdiction which is not the subject of such supplement.

(f) Compliance with Code Section 409A. No Award shall provide for deferral of compensation that does not comply with Section 409A of the Code, unless the Board, at the time of grant, specifically provides that the Award is not intended to comply with Section 409A of the Code.

(g) Governing Law. The provisions of the Plan and all Awards made hereunder shall be governed by and interpreted in accordance with the laws of the State of Delaware, excluding choice-of-law principles of the law of such state that would require the application of the laws of a jurisdiction other than such state.

Approved by the Board of Directors on June 5, 2006

Approved by the stockholders on September 5, 2006

Amended and restated by the Board of Directors on October 18, 2007 (among other things, to reflect the 8.5-to-one stock split in July 2007)

**EXHIBIT 31.1**

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

I, Ryuji Ueno, 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)) 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) [paragraph omitted in accordance with SEC Release 34-47986];

   (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: November 14, 2007

/s/ RYUJI UENO
Ryuji Ueno, M.D., Ph.D., Ph.D.
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, Ronald W. Kaiser, 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)) 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) [paragraph omitted in accordance with SEC Release 34-47986];

   (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: November 14, 2007

/s/ RONALD W. KAISER
Ronald W. Kaiser
Chief Financial Officer
(Principal Financial Officer)

**EXHIBIT 32.1**

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER PURSUANT TO 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 September 30, 2007 of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in that Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 14, 2007

/s/ RYUJI UENO

Ryuji Ueno, M.D., Ph.D., Ph.D.
Chief Executive Officer
(Principal Executive Officer)

**EXHIBIT 32.2**

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER PURSUANT TO 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 September 30, 2007 of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in that Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 14, 2007

/s/ RONALD W. KAISER
Ronald W. Kaiser
Chief Financial Officer
(Principal Financial Officer)